

# CHAPTER I

## INTRODUCTION

### 1.1 Background of the Study

Tax is the main source of income and is to finance national development to improve welfare (Pujiwidodo, 2016). Tax is a citizen's obligation, which is a form of devotion to a country whose reciprocity cannot be felt directly by the taxpayer and is coercive. At present, the role of taxes as one of the backbones of state revenue is very important because taxes are the main source of government funding and development. The dominance of tax as the source of revenue is a natural thing because the number of natural resources is limited, tax as a source of income has an unlimited age, particularly with the increasing population causes tax to be a major alternative in state revenue (Savilla et al., 2018).

Taxes are vital, and it also keeps up with the citizens' social and economic life development and the country. The insistence for improvements, fundamental changes and increased revenue in every strand of taxation is the reason for tax reform from time to time (Kilapong et al., 2016). Tax revenue can be maximized by expanding the tax base, improving the tax administration system and tax policies. Therefore, the tax revenue can be optimally collected by sustaining the principle of social justice and giving the best service to the taxpayers.

**Table 1.1 Indonesia's Tax Revenue 2017-2020**

Year	Target	Realization	Percentage
2017	1735.8 T	1396.6 T	80.40%
2018	1894.65 T	1662.94 T	87.77%
2019	1786.31 T	1312.4 T	72.02%
2020	1.198,8 T	1019.56 T	85.65%

Source: <https://www.kemenkeu.go.id/publikasi/apbn-kita/>

From the table above, it is shown that the amount of tax revenue generated is not maximized. It can be concluded that many taxpayers is not complying to the tax regulation in fulfilling their obligation as the citizen of Indonesia.

In accordance with the times and the existence of multiple demands in taxation, such as improving the increase in revenue, raising awareness and compliance of taxpayers, and various other fundamental changes, tax reform is carried out. Tax reform begins with the improvement of tax administration policies and systems so that tax revenue can be carried out optimally.

Tax reform is marked by the establishment of the vision of the Directorate General of Taxes, which is to become a model of community service that carries out world-class tax management systems and management that are trusted and proud of the community (Rahayu & Lingga, 2016). In addition, the Directorate General of Taxes also stipulates a fiscal mission, one of which is to collect domestic revenue from the tax sector that is able to support the independence of government financing based on tax laws with a high level of effectiveness and efficiency. Policy reforms are carried out through amending the Taxation Law, namely Law No.28 of 2007 concerning General Provisions and Tax Procedures.

Tax reform, which is a priority that concerns the modernizing of tax administration. Tax collection as a source of state funds can be optimized by implementing a Modernizing tax administration system (Sofiyana et al., 2016).

Furthermore, it can increase the apparatus of the Directorate General of Tax's value by improving the ability to oversee the implementation of taxation policies in accordance with the Good Governance. By executing a modern tax administration system backed up with the best quality of human resource, the principles of Good Governance are based on transparency, accountability, responsiveness, independence, and fairness. (Zuhdi et al., 2019)

“In order to optimized tax income for the country, it requires taxpayers awareness to comply with their obligations” (Utari et al., 2020, p.35). Tax payers that comply do not mean that they must pay a large amount of tax and report the tax through the annual tax report, but it is mandatory for taxpayers to understand and to fulfill their own tax obligation. Understanding the tax law and the honesty of taxpayers to report and fulfill their tax obligation can reflect the taxpayer's awareness. Increasing the knowledge of the citizens regarding the tax law through education can bring a positive impact on taxpayer's awareness to fulfill their obligation. (Siamena et al., 2017).

The increment in taxpayer compliance will increase when the tax revenue service office can provide tax services as desired by the taxpayer. According to Komala et al., (2017) in Putri et al., (2020), Tax authorities should be able to assist, manage and prepare all tax relating needs that are required by the taxpayers in the process of fulfilling their tax obligations. Problems like the lack of human resources made longer queues when taxpayers are trying to fulfill their obligation.

According to Pandiangan (2008) in Sofiyana et al., (2016), tax administration reformation programs and activities are manifested in the

implementation of a modernizing tax administration system that has specific features, including an organizational structure based on the improvement of service and function for each taxpayer through the formation of an account representative and protest centre to help with taxpayers complaints. Also, The modernizing tax administration system contains the latest technology advances, together with the development of Taxation Information System (SIP), which originally centred on the functional approach to the Integrated Tax Administration System (SAPT), which is managed by the management system in a workflow system with several office automation modules and multiple e-system type of services such as e-SPT, e-Filing, e-Payment, Taxpayer's Account, e-Registration, and e-Counselling.

Modernizing of taxation is not only the responsibility of the Directorate General of Taxation but also the responsibility of the community as a taxpayer by increasing compliance in paying taxes. In reality, taxpayers have a behavioural tendency to do tax non-compliance because, basically, no one likes to pay taxes. The reality in the field, taxpayers who tend to commit non-compliance is tax-free workers because the tax service office can not directly detect a large amount of tax paid and only depends on the honesty of free workers in filling the SPT form.

Tax compliance is also affected by the taxpayer's perspective, which is the perception of taxpayers regarding the tax sanction. General provisions and procedures for taxation regulations are regulated in the law, including tax penalties. For a law to be obeyed, there should always be a sanction, for there is cause and effect on every action. Breaking the law by disobeying could affect the taxpayers to pay sanctions or, worse, to be sent to jail. In essence, Tax sanction

implementation can help taxpayers to comply in fulfilling their tax obligation since there is the heavy sanction for those who illegally attempt on doing foul play (Pujiwidodo, 2016; Siamena et al., 2017).

The tax office is a government institution that has the main task to conduct taxation matters as tax contributions can fund the development and welfare of Indonesian citizens. The vision is to organize a modern administration system that is both efficient and effective, also trusted by the public due to its competence (Kilapong et al., 2016). The mission is to accumulate Tax revenue based on the Tax regulation by realizing the independence of financing the state budget through an ideal Tax Administration system.

Refining the quality of human resources, especially employees in the Tax Office, needs to be done to accomplish the vision and mission itself, as well as improve the quality of public services provided. To be able to create quality human resources in providing public services must also be strengthened by a fair work mechanism and provide opportunities for each party to compete in providing good services to the community.

As had happened lately, there is a lot of news about the existence of unscrupulous tax officers who misuse people's taxes. Also, a lot of taxpayers feels that there are obstacles in the servicing process that are provided by tax authorities, such as, slow services, unfriendly officers, long queue, lack of facility, and bad environment that causes many complains that increases the unwillingness on taxpayers to fulfill their tax obligations, the impact in which is the growth of taxpayers disobedience (Kilapong et al., 2016).

Based on the description above, the researcher is motivated to do research entitled: “The effect of modernizing administration system, tax sanction and service quality towards the taxpayer compliance at the tax office (KPP) Medan Timur” in another side, Tax is an important source of income for the country, and the government have to maximize the tax income by making the taxpayers comply in fulfilling their tax obligation.

Through Tax office, government collect and administrate tax revenue from taxpayers. The tax office (*KPP*) *Pratama Medan Timur* is one of the Medan Tax offices that has yet to realize the amount of tax revenue targeted.

**Table 1.2 Tax Revenue in KPP Pratama Medan Timur**

Year	Target	Realization
2015	1,446,540,218,000.00	1,055,902,822,175.00
2016	1,305,273,822,000.00	1,663,091,909,930.00
2017	1,514,131,370,000.00	1,323,276,040,452.00
2018	1.614.158.552.000	1,421,026,523,451.00
2019	1,190,128,519,000.00	1,112,566,272,770.00
2020	1,082,222,000,000.00	943,908,451,758.00

Source: KPP Pratama Medan Timur

The table above shows the amount of tax that is generated from *KPP Pratama Medan Timur*. The amount targeted and the amount received is still not balanced meaning that many of taxpayer from *KPP Pratama Medan Timur* is not aware of fulfilling their obligation as Indonesia citizen. Whether if it is a lack of knowledge or being indifferent to the law, many factors may reason on their decision on complying. This has become the government’s duty in order to make the taxpayers comply by understanding better the taxpayer’s reason. This can be through the amount of service quality given or it could be the amount of tax sanction to create obedience or by increasing the efficiency on serving the taxpayers using technology.

## 1.2 Problem Limitation

To narrow the research, this research is limited to the effect of modernizing tax administration system, tax sanction and service quality towards the taxpayer compliance.

## 1.3 Problem Formulation

Based on the background of the problem that has been described, the problem formulation in this study is:

1. Does the Modernizing tax administration system partially affect the tax compliance at the Tax office (*KPP*) *Pratama Medan Timur*?
2. Does Tax sanction partially affect the tax compliance at the Tax office (*KPP*) *Pratama Medan Timur*?
3. Does Service Quality partially affect the tax compliance at the Tax office (*KPP*) *Pratama Medan Timur*?
4. Does the modernizing tax administration system, tax sanction and service quality simultaneously affect the taxpayer compliance at the Tax office (*KPP*) *Pratama Medan Timur*?

## 1.4 Objective of the Research

Based on the above problem formulation, the objectives of this study are as follows:

1. To determine the effect of modernizing the administration system on taxpayer compliance at the Tax office (*KPP*) *Pratama Medan Timur*.

2. To determine the effect of the tax sanction on taxpayer compliance at the Tax office (*KPP Pratama Medan Timur*).
3. To determine the effect of the service quality on taxpayer compliance at the Tax office (*KPP Pratama Medan Timur*).
4. To determine the effect of modernizing the administration system, tax sanction and service quality on taxpayer compliance at the Tax office (*KPP Pratama Medan Timur*).

## **1.5 Benefit of the Research**

### **1.5.1 Theoretical Benefit**

The results of this study are hoped to increase knowledge and contribute to the development of knowledge relating to economics, especially modernizing administration system, tax sanction, service quality and taxpayer compliance of Tax service office. In addition, this research is hoped to be useful as a reference source for further research. Furthermore, for other researchers, it can be used as material for comparison.

### **1.5.2 Practical Benefit**

This research is useful for those who want to apply it to their life. Such as:

1. Tax office (*KPP Pratama Medan Timur*)

This research can help tax authorities to identify what factor and how much does the factor affects of taxpayers compliance to help the country to generate more tax income.



## 2. Taxpayers

This research will be able to voice the taxpayer's opinion for the government to understand taxpayers better in order to provide the best facility to accommodate. And to state out better what is the main reason why there is still a lot of taxpayers that are unwilling to obey the tax law.

