

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Taxes are fundamental and important for the country, even taxes become the key to success in funding the state budget in the future. Therefore, efforts to increase state revenue from the tax sector slowly release Indonesia's dependence from abroad and turn to the ability of the nation itself.

Taxes are the largest source of domestic income used to finance government spending and development. This is stated in the State Budget (APBN) where the main income comes from taxes. The increase in state revenue is caused by an increase in the amount of government expenditure in the framework of state financing. The taxation system in Indonesia which is managed by the Directorate General of Taxes is a government agency under the Ministry of Finance with the aim of increasing tax revenue by reforming the application of a more modern taxation system. The following is the percentage of tax revenue from the state budget in the past five years:

Table 1.1 Percentage of Tax Revenue/APBN 2015-2019

No	Year	In Trillion		Percentage TAX/APBN
		Tax	APBN	
1	2015	1.240,4	1.793,6	69%
2	2016	1.285,0	1.822,5	71%
3	2017	1.472,7	1.750,3	84%

4	2018	1.618,1	1.894,7	85%
5	2019	1.786,4	2.165,1	83%

Source: kemenkeu.go.id, 2020

Based on the data above, it can be concluded that taxation has an important role as the main source of state revenue so that the state should maximize efforts to increase tax revenue. The effort made by the government to maximize tax revenue is to carry out tax reforms by conducting a self-assessment system where the system has been in effect since 1984. The self-assessment system is a system that gives full trust to taxpayers (WP) to calculate, pay and report their own obligations taxation to the tax authorities (online-pajak.com, 2020).

According to Law Number 28 Year 2007 Article 1 as the third amendment above Law Number 6 of 1983 concerning General Provisions and Procedures Taxation, tax is a mandatory contribution to the country owed by individuals or a body which is compelling based on the Act, by not getting direct compensation and used for the purposes of the state for the maximum prosperity of the people.

Based on the above regulations and data, tax compliance, especially for individual taxpayer, is needed by Indonesia. In general, indicators such as tax ratio and tax effort are often used in measuring the performance of tax revenues which are indirectly related to the level of taxpayer compliance in a jurisdiction. However, the indicator that is often used to describe tax non-compliance more precisely (direct) is the tax gap. This indicator is calculated based on the difference between potential tax revenue in accordance with applicable regulations and the actual tax revenue collected (news.ddtc.co.id, 2020). The problem of tax avoidance in the last

twelve years has come to surface and received the attention of international tax authorities. The trigger of the global crisis in 2008, caused the countries to find difficulties in finding sources of income as the only way is by boosting tax revenue. But the obstacles faced at that time was the practice of tax planning by multinational companies is very aggressive so that companies only pay a little tax (Suparman, 2017).

Tax Gap is defined as the difference between the amount of tax that theoretically must be paid to the state and the amount of tax that was actually paid. Tax Gap is a very useful measurement tool to find out how big the number or value and behavior of taxpayers in terms of tax non-compliance (bppk.kemenkeu.go.id, 2020) While tax ratio is the ratio of tax revenue to gross domestic product (GDP). GDP coverage includes consumer spending, government spending, investment and net exports. The existence of a tax ratio provides an overview of the taxation conditions and assesses the capacity of a country's taxation system (online-pajak.com, 2020).

According to Dahlan Muhammad (2020), one of the government's steps in improving tax compliance is the enactment of provisions regarding automatic exchange of financial information. Information exchange regulations for tax purposes as stipulated in Law Number 9 of 2017 are important matters both for international and domestic commitments. In addition, this legal instrument can be used by the Directorate General of Taxes to obtain information not only for exchange purposes but also to increase tax revenue and tax compliance.

According to James and Alley (2019) in Dahlan Muhammad (2020), the definition of tax compliance as follows:

The definition of tax compliance in its most simple form is related to the degree which taxpayer complies with the tax law. However, like many such concepts, the meaning of compliance can be seen almost as continuum of definition and on to even more comprehensive version relating to the taxpayer decision to conform to the wider objectives of society as reflected in the tax policy.

Based on this understanding, the conception of tax compliance does not only refer to compliance with tax laws, but can be seen more broadly regarding the tax policies taken and their effects in society.

According to James and Alley (1999) in Dahlan Muhammad (2020), tax compliance is what the state assumes is legally owed by taxpayers, but the state and taxpayers do not necessarily share the same interpretation. The extent to which taxpayers dispute the meaning of the tax law can depend on a number of things, including their basic willingness to comply with a tax system.

Based on several understandings of tax compliance above, it can be concluded that many factors will impact taxpayer compliance in fulfilling tax obligations.

According to Maciejovsky, Schwarzenberger and Kircler (2011) in Nur Farida Liyana (2018), reveal that the possibility of examination the taxpayer has a very strong relationship closely with taxpayer compliance. They find that increasing the odds of inspection will improve compliance behavior tax. In addition, the taxpayer will comply, knowing that they will be fined if they break the tax rules.

Examination can be carried out on taxpayers on the fulfillment of their tax obligations. Examination is a series of activities to collect and process data, information, or evidence which are carried out objectively and professionally based on an examination standard. The purpose of the examination is to test the compliance with tax obligations (pajak.go.id, 2020).

According to Arum (2012) in Elfin Siamena et al., (2017), explained sanction is an action in the form of punishment given to someone who breaks the rules. Tax sanctions are imposed on the taxpayer not obedient in fulfilling their taxation (Rohmawati and Rasmini, 2012 in Elfin Siamena et al., 2017). Tax sanctions have an important role in providing lessons for tax violators not to underestimate tax regulations and to be compliant in paying taxes. Imposition of tax sanctions on taxpayers can lead to the fulfillment of tax obligations by taxpayers so that it can increase taxpayer compliance itself (Widowati, 2014 in Elfin Siamena et al., 2017).

According to Winardi (2011) in Dewi et al., (2020), tax incentives in the form of exemption from taxation is the most common form. This type of incentive gives taxpayers the right not to be charged tax within a certain period determined by the government. But needed caution in considering the provision of these incentives. The second type of incentive is a reduction in the tax base. This type of incentive is usually given in the form of various costs that can be deducted from taxable income. In general, costs that can be deducted may be deducted more than it should have been. This type of incentive can be found in the form of double deductions, investment allowances, and loss carry forwards. The third type of

incentives is in the form of a reduction in the tax rate from the generally accepted rate to the specifically regulated by the government. This incentive is most often found in income taxes. For example, reducing corporate income tax rates or withholding tax rates. The last type of incentive is tax deferral. This type is given to the obligatory taxes so that taxpayers can defer tax payments until a time certain. The government provides tax incentive to increase taxpayers' compliance. Tax incentives are only given to compliant taxpayers. In order to improve tax compliance, taxpayers must fulfill their tax obligations to take advantage of tax incentive.

Taxes are very important for the state. People are required to comply with tax payments. Tax examination, tax sanctions and tax incentives can improve tax compliance. The selection of Taxpayer at Tax Office Pratama Medan Barat is based on Head of The Regional Tax Office of the North Sumatera, Eddi Wahyudi visited Tax Office Pratama Medan Barat on March 25, 2021 and aimed to discuss the strategy to increase tax revenue and tax compliance. In this case, researcher want to be a part of a strategy to increase tax revenue and taxpayer compliance. Therefore, the researcher identifies the variables that impact tax compliance quantitatively. Based on the conditions that have been described, providing motivation for research and analysis of several factors that impact individual taxpayer compliance in the form of a thesis with the title “The Impact of Tax Examination, Tax Sanction and Tax Incentive towards The Individual Taxpayer Compliance at KPP Pratama Medan Barat.”

1.2 Problem Limitation

The writer makes problem limitation as follows:

1. The research object is individual taxpayer at Tax Office Medan Barat.
2. The independent variables are tax examination, tax sanction, and tax incentive.
3. The dependent variable is taxpayer compliance.
4. The research period is year 2021.

1.3 Problem Formulation

Problem formulation in this research are as follows:

1. Does the tax examination partially impact the taxpayer compliance at Tax Office (KPP) Pratama Medan Barat?
2. Does the tax sanction partially impact the taxpayer compliance at Tax Office (KPP) Pratama Medan Barat?
3. Does the tax incentive partially impact the taxpayer compliance at Tax Office (KPP) Pratama Medan Barat?
4. Do the tax examination, tax sanction and tax incentive simultaneously impact the taxpayer compliance at Tax Office (KPP) Pratama Medan Barat?

1.4 Objective of the Research

The objective of doing this research is as follows:

1. To analyze the partial impact of tax examination towards taxpayer compliance at KPP Pratama Medan Barat.

2. To analyze the partial impact of tax sanction towards taxpayer compliance at KPP Pratama Medan Barat.
3. To analyze the partial impact of tax incentive towards taxpayer compliance at KPP Pratama Medan Barat.
4. To analyze the simultaneous impact of tax examination, tax sanction and tax incentive towards taxpayer compliance at KPP Pratama Medan Barat.

1.5 Benefit of the Research

This research is expected to be useful for all interested parties and besides, this research can give benefit:

1.5.1 Theoretical Benefit

1. For the writer, this research is used to add the understanding in the field of taxation about tax examination, tax sanction, and tax incentive in fulfilling taxpayer obligation.
2. For the tax office, this research will give insights and knowledge about the importance of tax examination, tax sanction and tax incentive towards tax compliance.
3. For the government, this research is used to analyze the appropriate percentage of how significant the relationship among tax examination, tax sanction, tax incentive and tax compliance.

1.5.2 Practical Benefit

Practical benefits of the research are as follow:

1. Provide an overview of the implementation of tax examination, tax sanction, and tax incentive towards tax compliance.
2. Providing knowledge to every tax office in Indonesia about the importance of implementing tax examination, tax sanction, tax incentive and can be used as a guide in carrying out control the compliance of the taxpayer.
3. Used as research information material and it is hoped that the results of this study can be useful as additional knowledge in the context of further research development and can be used as additional references relating to the subject matter and variables used.

