

# CHAPTER I

## INTRODUCTION

### 1.1 Background of the Study

Tax is a form of community contribution to the country. Every country has its taxation regulations. The tax is used by the government in financing development for the benefit of all people. The tax has an important role as a source of state income and a stimulus for economic growth. Through taxes, the government can use it to fund the construction of infrastructure, public facilities, and solve various economic problems. Because of the important role of tax, citizens should understand the importance of tax.

In Indonesia, the government implements a self-assessment system where taxpayers are given the confidence to calculate, report and pay their taxes. In this system, there is an active role of each taxpayer in fulfilling tax obligations. Although taxpayers are given confidence in calculating and reporting taxes, government still do monitoring in tax through Directorate General of Taxation (DGT). This institution is obliged to carry out inspection and application of tax sanctions to avoid fraud committed by taxpayers. Thus, it can be seen from the implementation of this system, the aspect of compliance is the most fundamental thing in this taxation system.

The government continues to encourage Indonesian taxpayers to comply with their tax obligations. This is because the tax ratio in Indonesia continues to decrease every year and never reaches the target. The decrease in the tax ratio certainly has an impact on state income from the tax sector. It means that the decrease in the tax ratio indicates that there is a potential of tax collection does not go into the state treasury. The following is Indonesia's tax ratio in the last 10 years:



**Figure 1.1 Indonesian Tax Ratio 2011-2020**

Source: Writer (2021)

From the graph above, it can be seen that the tax ratio continues to decline. This downward trend occurred for 10 years. The biggest gap in tax ratio reduction is in 2020 by 1.79%. Even in 2020, Indonesia's tax ratio is below 10%. The largest decrease in the tax ratio in 2020 is due to economic pressures arising from the Covid-19 pandemic. The impact of this pandemic is not only on the tax ratio but also on the realization of tax revenues.

In North Sumatra, only 6 tax offices achieved the target as mentioned by the Ministry of Finance Sri Mulyani Indrawati regarding tax service offices that reached the target in 2020 in December 2020. According to Redaksi PajakOnline (2020), Sri Mulyani Indrawati said the tax offices that have achieved the target of tax revenue were Medan Madya tax office (104.05%), Medan Barat tax office (100.62%), Rantau Prapat tax office (105.96%), Tebing Tinggi tax office (104.41%), Balige tax office (104.12%), and Padang Sidempuan tax office (102.28%). There are still many other tax offices that have not reached the tax revenue target. From this, it can be seen that there are still many sectors of tax collection that have not been maximized and also taxpayers who are not complying with tax.

This decrease in the tax ratio will have an impact on tax income where this tax income is important for state expenditure. Especially in the Covid-19 pandemic, the government is experiencing considerable expenditure. A lot of funds are spent on hospitals, handling Covid-19, vaccines, incentives and much more. Tax is one of the large state cash inflows. If tax income continues to decline and does not reach the target, then this will certainly make state expenditure to be greater than state income. This will harm the country's economy and the country's debt will increase.

The Directorate General of Taxation must continue to increase tax revenue by exploring all existing potential to achieve the tax targets. Many efforts are made by the Directorate General of Taxation such as issuing letters of reprimand, tax facilities via online, sanctions and much more. Even though these efforts have been done by the Directorate General of Taxation to increase tax revenue and

compliance, in reality, there are taxpayers who have not complied. This is motivated by the lack of awareness of taxpayers. This tax awareness must arise from the taxpayer itself. The awareness in taxpayers influenced by the level of education, motivation and level of income. The lack of understanding of taxes, motivation to fulfill tax obligations and income of taxpayers in general can influence the condition of taxpayer compliance.

Based on the background above, the researcher is interested in researching how the influence of education level, motivation and income level on tax compliance in KPP Pratama Medan Belawan.

## **1.2 Problem Limitation**

For this research can be more focused and detailed due to the broad scope of the research and the limitations of the researcher's ability, this research is limited to the issue of tax compliance, the level of education, motivation and the level of income where the object to be researched is the individual taxpayers who are registered in KPP Pratama Medan Belawan.

## **1.3 Problem Formulation**

Based on the background and limitation of the problem, the formulation of the problem in this research are:

- 1) Does the level of education influence the compliance of individual taxpayers who are registered in KPP Pratama Medan Belawan?

- 2) Does the motivation influence the compliance of individual taxpayers who are registered in KPP Pratama Medan Belawan?
- 3) Does the level of income influence the compliance of individual taxpayers who are registered in KPP Pratama Medan Belawan?

#### **1.4 Objective of the Research**

Through the formulation of the problem, the objectives of this research are:

- 1) To know the influence of level of education on the compliance of individual taxpayers registered in KPP Pratama Medan Belawan
- 2) To know the influence of motivation on the compliance of individual taxpayers who are registered in KPP Pratama Medan Belawan
- 3) To know the influence of level of income on the compliance of individual taxpayers registered in KPP Pratama Medan Belawan

#### **1.5 Benefit of the Research**

This research is expected to be beneficial for various parties. These can be separated into two kinds of benefits, which are:

##### **1.5.1 Theoretical Benefit**

Theoretically, this research is expected to be able to add insight into the taxation knowledge, especially regarding the issue of education level, motivation and income level to the compliance of individual taxpayers who registered in KPP Pratama Medan Belawan for readers and researchers. And

information on this research can be a reference for other researchers with similar topics or research object.

### **1.5.2 Practical Benefit**

Practically, this research is expected to benefit various parties such as:

1) **Researcher**

Through this research, it can be useful for increasing taxation knowledge and also knowledge about the application of taxation theory that has been learned during lectures in real life in society.

2) **Tax authorities such as tax offices and other government authorities**

Through this research, it can be useful as a material consideration and advice for the tax office in terms of implementing policies and efforts to improve tax compliance.

3) **Public**

Through this research, it can be useful as a source of information and insight about the importance of tax compliance so that tax realization targets can be achieved and infrastructure development can run smoothly.