

# CHAPTER I

## INTRODUCTION

### 1.1 Background of the Study

According to the general tax provisions and procedures of Law Article 1 number 1 tax is a mandatory contribution to the country owed by an entity or individual that is coercive. Taxation is also a legal requirement for all taxpayers to contribute because it is one of the most important sources of revenue for the government, which is used for government spending, state development, and state expenses in order for national development to be successful. The tax object is separated into two categories namely income tax and value added tax. Both of the tax has difference in rules and methods which is in income tax basically it is charged directly to the end consumer while value added tax is charged directly to the relevant parties.

Indonesia empowers the taxpayers with trust and responsibility in completing their duties with the system called as self-assessment system. This system allows the taxpayers to do the calculation and to determine the total of tax they should prepared to the tax office based on the Indonesia tax provisions.

Due to changes of the system, tax reformation is meant to enhance the system and provide a new solution to problems that have occurred or will occur in the future as a result of the changes that have occurred. However, the lack of understanding or information on the part of the taxpayers regarding the taxation

procedure will be a possibility of an error in the tax computation or reporting. Therefore, every taxpayer must be familiar or must have a basic knowledge regarding with the fundamentals of tax law in order to appropriately calculate the amount of tax owed to the government.

Apart from tax regulations, the government also provides tax incentives for certain business sectors, which may help to the company to allocate the burden on taxpayers by resolving the arising issue in the calculation due to potential errors in tax calculation, payment, and reporting, which can be discovered through conducting a tax review. Thus, conducting a tax review is the first step in determining the final outcome also to find out whether the company has fulfilled their obligations of the entity income tax payable in accordance with general provisions and tax procedures.

Tax Review is an activity that examines all existing tax obligations in the firm and the implementation of those obligations in the areas of computation, withholding, payment, settlement, and reporting in order to assess the company tax compliance. Tax Review often carried out by internal parties but it can also be carried out by external parties with a better grasp of proper taxation processes.

Taxpayers are first given insight or evaluation through review their activities on the fulfillment of tax duties before preparing the annual tax return because tax review assists is to reduce the numerous errors or inaccuracies that may happen during the implementation of tax checked by the tax authorities. Furthermore, for the conclusion of each year the implementation of tax review is trying to assess the taxpayer compliance with their tax duties.

On the other hand, it will be used as a guideline for assessing the execution of taxation processes to determine whether the company has made any mistakes or making an adjustments with the applicable tax rules that happened because of the new laws and regulations that published by the government. The company ignorance in the form of under or over resulted in losses. It can be reduced by improving awareness of the terms of the tax rules, eliminating miscalculations, and arranging the bookkeeping together with any of the supporting idea. In fulfilling, the requirements and procedures the auditors have the rights to audit the accountability of the taxpayer data to avoid tax fraud to actualize an independent and fair country (Minister of Finance, 2013).



**Figure 1.1 Tax Revenue (2015-2020)**

Source: *Laporan Keuangan Kementerian Keuangan (2020)*

The state budget tends to grow for each of the year, implying that the government requires extra state revenue, including the one that comes from

income taxes. The states greatest revenue comes from taxes charged by the state with the total earnings from that tax itself had been a significant sector. As a result, in this case the income from taxes plays a critical role in development and as a source of revenue for the government.

According to the previous research conducted by I kadek Agus Setiawan & Putu Ery Setiawan (2018) at PT. KBIC, The computation performed by the tax authorities and value added taxes on PT. KBIC shows the difference in the turnover was Rp. 64,569,597,009 is due to the taxpayer not reporting the business circulation on value added tax on the other values set by the minister of finance in the form of delivery services provided by the company to customers, but there is still a difference of Rp. 376,420,983 after doing the tax review, which can be recognized as an accidental mistake made by the taxpayer and will be further corrected in the Annual Tax Return form 1771.

Putu Ari Putri Saridewi and Naniek Noviari (2017) did research at Hotel X. The result shown that after doing the tax review there are some distinctions between corporate income tax and tax provisions. According to the firm, the income tax was owing in the amount of Rp. 58,536,828 while under the tax regulations the income tax was Rp. 93,090,970. The Company has a Rp. 34,554,142 differences in underpayment, which is related to the number of fiscal corrections. According to the firm, the positive fiscal corrections were Rp. 56,855,787, while the negative corrections were Rp. 4,231,468. The amount of positive fiscal adjustment due to taxation provisions was Rp. 288,236,057, whereas the amount of negative fiscal correction was Rp. 4,231,468. The

difference arises when the firm uses other costs that cannot be utilized to lower the gross income as a reduction in gross income.

This research will involve an assessment of calculation and charges that will indicate the company whether or not has perform in an appropriate way to fulfil the obligations as a taxpayer. The reason of choose this company is also due to its active business affairs. Therefore, the writer is interested to implement a tax review in honest and transparent way based on the tax provisions.

Considering the problem that the company is facing, the writer is interested to conduct a tax review in this study with the title of **“Entity Income Tax Review at PT Andalas Citra Elektrindo”**.

## **1.2 Problem Formulation**

Based on the background study, the problem formulation of the research question would be describing about “How is the implementation of Income Tax at PT Andalas Citra Elektrindo?”

## **1.3 Research Focus**

Due to the time and resource limitations, the research would only focus on Entity Income tax calculation at PT Andalas Citra Elektrindo for year 2020.

## **1.4 Objective of the Research**

The purpose of this objective research is to analyse the further implementation of the entity income tax review at PT Andalas Citra Elektrindo and also to identify the company obligation to fulfil the basis taxation.

## **1.5 Benefit of the Research**

### **1.5.1 Theoretical Benefit**

The Research is expected to be useful in gaining theoretical benefit in order to conducting a useful insight by conducting tax review on the entity income tax to theoretically evaluate the taxation as the obligation of the company. Hence, the research can be served as a reference for future used in similar topic.

### **1.5.1 Practical Benefit**

Practically the Research is expected to minimize the risk of the administrative penalty and used to improve the writer understanding in the appropriate method on the entity income tax. So, through this research it will help the company to re-evaluate their income statement in conducting the tax review.

