

CHAPTER 1

INTRODUCTION

1.1 Background of the Study

World history Sunday, November 17, 2019 went down in because the first case of Covid-19 was identified in the body of a 55-year-old man in Wuhan, China. Since then, the spread of Covid-19 has increased rapidly and precisely on March 2, 2020, the first case of the Covid-19 virus was found in Indonesia. Then on March 11, 2020, the World Health Organization (WHO) declared the spread of the Covid-19 virus a global pandemic.

Since the spread of the Covid-19 virus was declared a pandemic, one by one countries in the world began to impose restrictions on entry and exit between countries and regions or most known as lockdown. Since then, everything stop due to the lockdown, such as malls, stores, restaurants, cafes, and even schools and offices are all closed.

Gross Domestic Product (GDP) is one of the methods to measure national income. One of the main factor that affect Gross Domestic Product (GDP) is government which the main income for government is tax. Due to the pandemic and the lockdown, the GDP of Indonesia has decreased significantly as shown in the following table.

Table 1.1 Indonesia's GDP 2019-2020

	2019 (before pandemic) in trillion Rupiah	2020 (after pandemic) in trillion Rupiah
GDP	1,119	1,058

Source : World Bank (2021)

Table 1.2 Indonesia's GDP Growth 2019-2020

	2019 (before pandemic)	2020 (after pandemic)
GDP	5.018%	-2.07%

Source : World Bank (2021)

However, it is very unfortunate that there are still many Indonesian people who do not understand and how important taxes are to the state. Not only that, many people are not happy with taxes. Whereas in fact they only do not understand how tax attribute to their benefits. Due to this reason, early tax education is very important so that the younger generation in the future can further improve tax compliance and also to fortify the younger generation from the stereotypes of society.

It is not simple to raise tax awareness. Being conscious entails not only learning, but comprehending more. The nation's young generations must be instilled with a tax-conscious culture from an early age. The Directorate General of Taxes has prepared education on the principles of tax awareness for the younger generation in order to build a tax conscious generation. The programmed is called as *Inklusi*

Kesadaran Pajak (The Inclusion of Tax Awareness). This initiative is a week-long series of tax literacy activities for all levels of education, from elementary school to tertiary education.

Directorate General of Tax aims to change the way people pay taxes in Indonesia through Tax Awareness Inclusion. In the past, paying taxes was viewed as a form of coercion. Directorate General of Tax is currently working to change this mindset so that people are proud of paying taxes as a means of service to the state. Directorate General of Tax takes a long time to instill tax awareness principles in the tax-conscious generation. The Tax Awareness Inclusion Program is expected to run until 2045, with its primary goal being to create a generation of citizens who are proud to pay taxes.

One of the reasons is because the younger generation is the future taxpayer and the leader of the future. Therefore, even though in the past, taxation education was lacking or even not instilled in children from an early age, nowadays tax education must be instilled in children from an early age so that tax problems that occur now are unlikely to occur again in the future.

In accordance of the national data that is gotten from Minister of Finance on 2021, the program that government to increase the tax awareness in society in order to increase the individual tax compliance seems succeeded, as it can be seen from the graphic below that is gotten from databoks.katadata.co.id, there are significant increase of either the individual tax compliance target and the tax compliance data itself from the year 2015 – 2020.

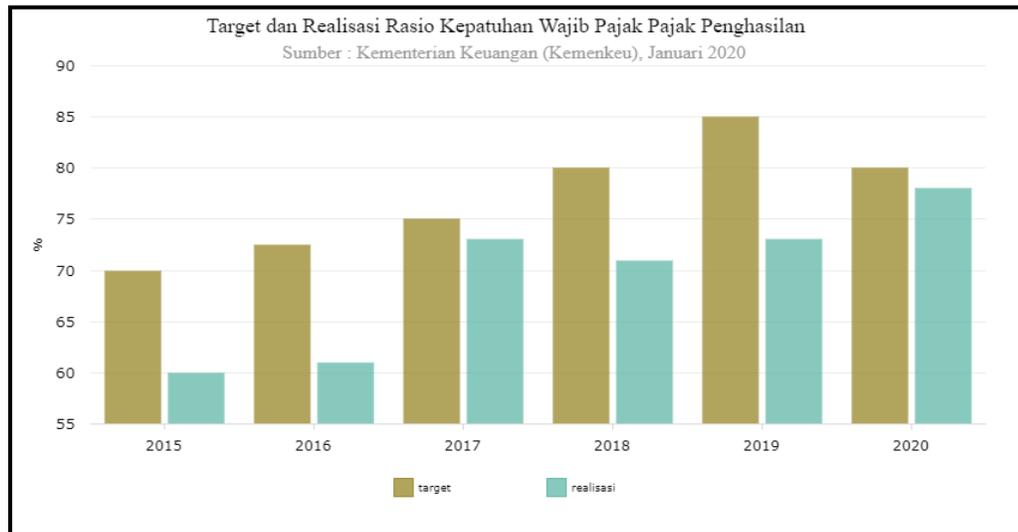


Figure 1.1 Individual Taxpayer Compliance Data

Source : Ministry of Finance, January 2020 (2021)

So, it can be seen from the picture above, in the year 2015, there is still a very big gap between the individual taxpayer compliance target and the actual individual taxpayer compliance. But it can be seen that it keep increasing by the year when the government keep giving program to increase the tax awareness.

Not only that, actually during this pandemic, because of the economics of Indonesia is decreasing, the tax income to the government also decreasing. A lot of people are fired and jobless during this time. That is why the government has set the new tax policy to encourage people to keep reporting the tax and pay the tax if they have to on time.

One of the keys to the government's effectiveness in collecting tax revenue so that it can be used to support development financing is taxpayer compliance (Hantono, 2021). That is why during this pandemic situation, the government keep trying hard to keep the tax compliance high by setting new policy.

Of course, in every new policy that is set, there will pro and contra, for people who do agree with this new policy, they will report and pay the tax on time, but for people who do not agree, they will not report and pay the tax on time. This is when the tax compliance can be measured. When there are people ; who do and do not pay and report the tax on time, the tax compliance is affected.

In accordance of the previous research that was conducted by Hantono (2021), tax morale has a tremendous impact on tax compliance, and also the previous research that was conducted by Sriniyati (2020) also said that tax morale has significant impact toward tax compliance of individual taxpayers at *Daerah Istimewa Yogyakarta*. For tax knowledge, Hantono (2021) also stated that compliance does not need high tax knowledge. This is in line with the research conducted by Wardani & Rumiyaun (2017), the tax knowledge does not have significant impact towards tax compliance.

Lastly, about the tax incentives, Aprilia (2021) stated that tax incentives do have significant impact towards tax compliance. This is not in line with the research conducted by Dewi et al. (2020) that tax incentives has no significant impact towards tax compliance during the Covid-19 pandemic situation. Due to this difference in the researches' result, writer chooses this variable in this research.

So, the tax morale, tax compliance and tax incentives are the factors that might be affecting tax compliance, but how affecting could these three factors be especially in this pandemic situation. That is why writer is interested to do the research of **“The Impact of Tax Morale, Tax Knowledge, Tax Incentives During**

Covid-19 Pandemic toward Tax Compliance on Individual Taxpayers at Kantor Pelayanan Pajak Pratama Medan Timur”

1.2 Problem Limitation

1. This research will solely look at the variables that have been chosen in order to acquire direct and accurate data, which are tax morale, tax knowledge, tax incentives which might be affecting the tax compliance during the Covid-19 pandemic.
2. This research will be carried out at *Kantor Pelayanan Pajak (KPP) Pratama Medan Timur*.
3. This research is conducted in 2021-2022
4. This research will solely look into individual taxpayers.

1.3 Problem Formulation

Based on the background that has been described, the problem can be formulated as follows:

1. Does tax morale have significant impact towards tax compliance on individual taxpayer at *Kantor Pelayanan Pajak Pratama Medan Timur*?
2. Does tax knowledge have significant impact towards tax compliance on individual taxpayer at *Kantor Pelayanan Pajak Pratama Medan Timur*?
3. Does tax incentives during Covid-19 pandemic has significant impact towards tax compliance on individual taxpayer at *Kantor Pelayanan Pajak Pratama Medan Timur*?

4. Does tax morale, tax knowledge and tax incentives during Covid-19 pandemic simultaneously has significant impact toward tax compliance on individual taxpayer at *Kantor Pelayanan Pajak Pratama Medan Timur*?

1.4 Objectives of the Research

Based on the problems that have been formulated, it can be concluded that the objectives of this research are as follows:

1. To know does tax morale has significant impact towards tax compliance on individual taxpayers at *Kantor Pelayanan Pajak Pratama Medan Timur*.
2. To know does tax knowledge has significant impact towards tax compliance on individual taxpayers at *Kantor Pelayanan Pajak Pratama Medan Timur*.
3. To know does tax incentives during Covid-19 pandemic has significant impact towards tax compliance on individual taxpayers at *Kantor Pelayanan Pajak Pratama Medan Timur*.
4. To know do tax morale, tax knowledge and tax incentives during Covid -19 pandemic simultaneously has significant impact toward tax compliance on individual taxpayer at *Kantor Pelayanan Pajak Pratama Medan Timur*.

1.5 Benefit of Research

The benefit of this research is the solution and ideas suggested as a result of this research could be useful to a large number of people in a variety of industries and related fields. The theoretical and practical advantages of performing this research are separated. The following are this research's benefits:

1.5.1. Theoretical Benefit

The theoretical benefit is that research is beneficial to the advancement of science. This theoretical advantage stems from the aim of various studies, which is to verify current theories. Whether or not the study that will be conducted will be able to support or refute this hypothesis. As a result, theoretical benefits typically emerge as a result of frustration or concerns with different forms of established theoretical foundations, prompting an empirical inquiry.

The theoretical benefit of this research is this research could give deeper understanding about the tax especially for the tax compliance during the Covid-19 pandemic as well as the variables that are affecting which are tax morale, tax knowledge and tax incentives.

1.5.2. Practical Benefit

This research also could provide benefit in practical ways. First, for the writer herself, this research could give deeper understanding on the tax compliance of individual taxpayers that are affected by tax morale, tax knowledge and especially by tax incentives during the Covid-19 pandemic. Second, this research could give deeper understanding about the tax incentives that was imposed during the Covid-19 pandemic in Indonesia.