

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Tax is one of the largest sources of state revenue, one of which comes from income taxes. Income taxes are derived from the payment of income tax from individual taxpayer. Tax is a mandatory contribution to the state by an individual or entity that is compelling based on the applicable law. Without tax, most state activities are difficult to carry out especially in protecting and advancing the public welfare, as well as educating the life of the nation. Hence, contribution and participation of people in the state is very much expected for the purpose of the greatest prosperity of the people in the nation. (Sinaga, 2018)

The transition of official assessment to self-assessment in Indonesia's tax system gives more responsibility for taxpayers to register, report, pay, and calculate their tax obligations to the government. This transition of course, is very dependent and needs much higher compliance and awareness from taxpayers. Thus, it is very likely for government to constantly enhance compliance of taxation, efficacy of tax inspection, sanctions, and investigation functions as it attempts to increase the tax revenue of the country as anticipated.

Taxpayers who have low awareness tend to not fulfil their obligations to pay tax and taxpayers who are aware of their responsibility of paying tax will not feel disadvantaged and coerced in tax collection. Unfortunately, there are still many people who feel burdened by this obligation. Knowledge and awareness from

Taxpayers to the fact that tax revenues are not solely for the benefit of the government are very crucial. (Yuniarwati, 2018)

Some factors that might influence the submissiveness of a taxpayer to pay and report their taxes were related to public knowledge, consciousness, tax sanctions, and service tax authorities in serving the needs of the taxpayer. The fact that increases in the number of taxpayers do not go in line with increase of tax revenue proves that tax awareness and knowledge is still very minimal and tax compliance is a very fundamental point in expanding tax revenue.

Information about taxation can now be searched online and are very efficient to read and pinpoint the importance of awareness, as well as knowledge and sanctions of tax. Unfortunately, many people are not interested with this topic and consider it a waste of time and money. Take SPT as an example, tutorials on filling SPT are scattered across the internet, but taxpayers still find it hard to fill it correctly because they are still reluctant in learning and understanding tax itself and as a result, guidance from tax officers are still highly needed. By learning the knowledge of taxation, taxpayers can increase their awareness and about sanctions of tax, thus tax compliance and tax revenue could both be increased.

Tax sanctions are a set of penalty or administration fines that are imposed by the authorities to ensure a disincentive effect to taxpayers for not fulfilling their tax responsibilities. Tax sanctions also aims on encouraging taxpayer compliance. Tax sanctions include administrative sanctions such as fines, interest, criminal sanctions for taxation, such as violation. Therefore, tax regulations should be

strictly followed by taxpayers as an act of restraining taxpayers from overstep taxation norms and encouraging tax compliance. This statement is also supported by research conducted by Ani Oktavia (2020) that tax sanctions have a positive impact on tax compliance. In other words, tax penalty that is given strictly to those who violates the law of taxation can increase tax compliance.

Regardless of all the explanations above, there are still many other things that can affect taxpayer's compliance. Thus, the writer would like to search and find out more about other factors that could influence a taxpayer's compliance. This study of research will be done in a big company in Medan, Permata Hijau Group. The writer would like to know how the employees in this company see and perceive taxation, and whether tax knowledge, tax awareness, and tax sanctions could affect their compliance in paying taxes.

Permata Hijau Group (PHG), a fully integrated Palm oil corporation, founded in 1984 with core business in the Palm oil plantation. The office is located at Jalan Iskandar Muda No. 107 Medan 20154 Sumatera Utara, Indonesia (<https://www.permatagroup.com/>).

Permata Hijau Group currently has a total of 429 employees in headquarter office which located in Medan, Jl. Iskandar Muda No.107, Babura, Kec. Medan Baru, Kota Medan, Sumatera Utara 20154. Based on the results of some interviews with several employees from different divisions, it can be concluded that the level of tax compliance to pay taxes is still quite low. The following table

is the results of random interviews conducted to some of the employees in the company.

| Division | Number of Interviewee | Problem |
|-------------------|------------------------------|---|
| Logistic | Three employees | <ol style="list-style-type: none"> 1. Do not understand the tax system in Indonesia. 2. Employee does not feel the need to make NPWP as she is still young and does not have fixed asset. 3. Does not know when and why they should pay the tax. |
| Finance | Two employees | <ol style="list-style-type: none"> 1. Does not understand tax sanctions in Indonesia (what will happen if they don't pay tax). 2. Paying tax is useless as it will end up being corrupted by the government. |
| Purchasing | Two employees | <ol style="list-style-type: none"> 1. Assuming that only entity needs to pay tax. 2. Does not understand the procedures of paying taxes. |
| Marketing | Two employees | <ol style="list-style-type: none"> 1. Assuming that only people with fixed asset and high salary need to pay taxes. 2. Avoiding paying tax because tax is considered as wasting money. |

Judging on the result of conducting random interviews on the table above, which is not a sample, it can be concluded that many employees in Permata Hijau Group who does not feel the need to pay taxes, does not understand tax sanctions, and some does not even have their NPWP yet even though they are a permanent employee at the company. This shows that tax compliance in Permata Hijau Group is quite low, and the cause of the low level of tax compliance referring to the table, including the lack of tax knowledge, tax awareness, and tax sanctions of the individual taxpayers. But as employees, one of the main components that

reduces employee salaries is Article 21 of Income Tax or PPh 21, that has automatically been reduced by Permata Hijau Group when salaries are given to employees. This research will focus on whether the employees also comply in reporting their tax in other possible income, asset, and many other possibilities of tax payments.

According to Yuniarwati (2018), tax awareness doesn't have positive impact towards taxpayer compliance due to the low level of awareness that tax revenue is for the sake of the nation's continuity. The result of the research indicates that most of the taxpayer in the researched area feel that the delay and reduction in the amount of the tax paid does not necessarily harm the nation and the taxpayer does not agree that the tax law can be forced. Though the outcome of the research shows that tax knowledge and tax sanction do have positive impact in improving tax compliance, the three variables must be connected and have influence on each other, while in the research, this is not the case. Delay in paying tax and disagreeing with the law will cause the taxpayer to be subjected to tax penalties, which taxpayer should have been aware of as it is stated that tax knowledge and tax sanction do have positive impact in improving tax compliance.

Meanwhile according to the research of Rizal (2019), tax awareness and tax knowledge has positive and significant impact, but tax sanction has negative and insignificant impact in taxpayer compliance. This is because although taxpayers are aware and have sufficient knowledge regarding taxation and the sanctions, but still decided to ignore their obligations as a taxpayer.

Based on the description and different results of previous research above, the purpose of this study aims on researching the impact of tax knowledge, tax awareness, and tax sanctions towards individual taxpayer's tax compliance, focusing on the employees in Permata Hijau Group. This study is also a developed version of research conducted by several previous researchers who examined the factors that affect taxpayer compliance in different research area, in which for this reason the writer conducts research in the form of a thesis with the title **“The Ascendancy of Tax Knowledge, Tax Awareness and Tax Sanction Toward Individual Taxpayer Compliance in Permata Hijau Group”**.

1.2 Problem Limitation

The problem limitation according to the writer is as follows:

1. The research object is Individual Taxpayers that are employees in Permata Hijau Group.
2. The independent variables are Tax Knowledge (X_1), Tax Awareness (X_2), and Tax Sanctions (X_3) while the dependent variable is Tax Compliance (Y).
3. Research object would be the employees of Permata Hijau Group.
4. This research would focus more on whether the independent variables could influence the dependent variable in the research area.

1.3 Problem Formulation

Based on the background research, the problem formulation of this research are as follows:

1. Does tax knowledge have partial impact on Individual Taxpayer compliance in Permata Hijau Group?
2. Does tax awareness have partial impact on Individual Taxpayer compliance in Permata Hijau Group?
3. Do tax sanctions have partial impact on Individual Taxpayer compliance in Permata Hijau Group?
4. Do tax knowledge, tax awareness, and tax sanctions have simultaneous impact on Individual Taxpayer compliance in Permata Hijau Group?

1.4 Objective of The Research

Based on the description of problems formulation stated above, the objective of the research in this research are as follows:

1. To analyze the impact of tax knowledge towards Individual Taxpayer compliance in Permata Hijau Group.
2. To analyze the impact of tax awareness towards Individual Taxpayer compliance in Permata Hijau Group.
3. To analyze the impact of tax sanctions towards Individual Taxpayer compliance in Permata Hijau Group.
4. To analyze the impact of tax knowledge, tax awareness, and tax sanctions towards Individual Taxpayer compliance in Permata Hijau Group.

1.5 Benefit of the Research

Benefit of this research is divided into two, namely Theoretical Benefit and Practical Benefit.

1.5.1 Theoretical Benefit

The theoretical benefit of from this research are as follows:

1. For the writer

The result of this research is expected to help increase the knowledge in taxation, especially in terms of the tax awareness and tax sanctions towards individual taxpayer's tax compliance. Furthermore, it is also expected that this study will also strengthen and develop knowledge in theory about accounting concentrated in taxation.

2. For the Individual Taxpayer

The result of this research is expected to help increase the knowledge, awareness, and sanctions in tax, to encourage taxpayers to fulfill their obligations in paying taxes and tax compliance.

3. For the government

This research is expected to give insights to the regulators so that the government can constantly enhance compliance of taxation, efficacy of tax inspection, sanctions, and investigation functions as it attempts to increase the tax revenue of the country as anticipated.

1.5.2 Practical Benefit

The practical benefits from this research are as follows:

a) For the reader

This research provides the overview and knowledge of accounting especially in the impact of tax knowledge, tax awareness, and tax sanctions towards individual taxpayers' tax compliance.

b) For the writer

As a source information and provider, the writer can add insights and knowledge of taxation especially in the impact of tax knowledge, tax awareness, and tax sanctions towards individual taxpayers' tax compliance.

c) For the upcoming researchers

The findings of this research are likely to be utilized and developed more as a reference source for those interested in undertaking related research in the future.

