

CHAPTER I

INTRODUCTION

1.1 Background of the Study

National development in Indonesia is mostly funded by state revenues, particularly in the tax sector. Taxes are mandatory levies that the citizens must pay to the state in order to support the government and the general public (Mardiasmo, 2018). Taxpayers will not immediately feel the advantage from taxes because they are used for public interest, rather than private interest. The public interest is allocated in terms of infrastructure development, such as bridges, roads, public transportation, buildings, health, education and other facilities, in order to improve people's welfare while also attracting tourists to raise state revenue (Faqiha, 2021)

Moreover, the development of micro, small and medium enterprises keep expanding since many of Indonesians' growing desire to start their own business (Pratama & Mulyani, 2019). However, it is undeniable that since the Covid-19 pandemic, it has had a multiplied impact on the economic downturn to the micro, small and medium enterprises in Indonesia, including in the Medan City (Melati, 2022).

Recognizing the significant portion of Indonesian economic growth is contributed by micro, small and medium enterprises and they serve as its backbone, the government launched the National Economic Recovery program in 2020 and still continues until 2021 to encourage business of

micro, small and medium enterprises to recover during the pandemic (Kemenkeu, 2020).

Although the implementation of this incentive program is lightened up and beneficial to micro, small and medium enterprises, the State Revenue and Expenditure Budget has seen a decrease in revenue receipts from the tax sector, given that the tax sector generates the majority of state revenue. However, the government has decided to pursue the best long-term policies so that the economy in Indonesia can continue to function and grow. Not only that, the government also attempting to ensure the wellbeing of its citizens improves and does not leave behind other countries. Only taxpayers that consistently comply with tax laws are eligible for this.

However, not all business actors understand and are aware of the existing knowledge and tax requirements. This could be due to a lack of information or knowledge about taxation or low awareness of taxpayers' responsibilities to fulfill their tax obligations (Wujarso et al., 2020). As a result, it is vital to understand and provide guidance on this type of business actor in order to encourage taxpayer awareness in order to meet their tax duties.

Micro, small and medium enterprises will be helped in fulfilling their tax requirements if the taxpayer comprehends the taxes education and regulations, considering the numerous provisions and regulations that frequently change in order to adapt to shifting circumstances (Wujarso et al., 2020). Taxpayers must keep their knowledge up to date, either through

socialization activities prepared by related parties or by studying it independently, in order for taxation to continue to contribute and support the development of the country.

The taxpayer's compliance in fulfilling their tax obligations also greatly determines the success of the tax program's implementation and national development. If each taxpayer fails to meet their tax obligation or fails to comply with the existing tax regulation, it will lead to a desire to engage in tax avoidance, tax evasion or tax smuggling in order to minimize state tax revenues.

To encourage the taxpayer compliance and anticipate the tax avoidance, the relevant tax agencies have enacted tax sanctions that will be imposed on taxpayers who fail to properly comply with their tax requirements, whether intentionally or unintentionally. The imposition of this tax sanction is intended to serve as a reminder and lesson for every taxpayer to comply with the law rather than avoid paying taxes.

Due to the document of the Directorate General of Taxes, the ratio of tax revenues continues to drop. The most significant decline is in the year of 2020 (Sembiring, 2021). In addition, the pressure has been felt across all business sectors because of the Covid-19 pandemic. As a result, state revenue has also fallen drastically. However, prior state revenues also kept declining when looking at the ratio (Sembiring, 2021).

Table 1.1 Indonesia's Tax Revenue Contribution toward the GDP from year 2016 – 2020

(Sembiring, 2021)	2016	2017	2018	2019	2020
Tax Revenue Percentages	9 %	8.5 %	8.8 %	8.4 %	6.9 %

Source: Sembiring (2021)

Despite the fact that the government has imposed tax sanctions on taxpayers who breach the tax laws, unfortunately there are still many cases of tax avoidance. Sri Mulyani Indrawati, the Minister of Finance, stated that “the tax ratio in Indonesia is still low and one of the reasons is because the level of public compliance in paying taxes is also still low. In fact, there are people who still think paying taxes is not an obligation, even a form of colonialism” (Kemenkeu, 2018).

On the other hand, Indonesia still continues to collect less tax revenue than is typical. When compared to other countries, Indonesia's tax ratio is still low. For example, in 2018, Indonesia only collected 12.7% of Indonesia's GDP. Meanwhile, in the same year, Malaysia was successful in obtaining its state revenue by 15%, while Australia collected 27.8% of its GDP (Kemenkeu, 2018).

There are a number of factors that can impact taxpayer willingness to comply with their tax requirements, including understanding the value and advantages of taxation, avoiding underreporting and underpaying taxes, also understanding the potential consequences of doing so. Tax knowledge is used as a guide for taxpayers when making decisions that have a direct impact on how tax obligations will be carried out. Therefore, taxpayer compliance will increase if the taxpayers have taxation knowledge. The fact

that the taxpayer is aware of the obligations and penalties that will be applied indicates that they are highly knowledgeable about taxes (Zahrani & Mildawati, 2019). The poor level of tax knowledge is also significantly impacted by lack of socialization. There are still many people who are unaware of how important taxes are to the state and result in an under-contributed community in taxpayer compliance (Azmi, 2018).

Research conducted by Hantono & Sianturi (2021), found that the tax knowledge has a negative and not significant impact on the taxpayer compliance. On the other hand, it disagrees with the result of the research conducted by Zahrani & Mildawati (2019), which stated that the tax knowledge has a positive impact on the taxpayer compliance.

Generally, tax avoidance is carried out by the taxpayer with the goal of lowering the income tax rate that the company must pay by reducing taxable revenue in order to lower the operating profit of influential companies (Rahayu, 2017). Although tax avoidance results in lower the state treasury revenues, since the taxpayers are constantly seeking for ways to set the tax without breaking the law, it is not considered as illegal (Sudirjo, 2021). Based on previous research conducted by Herdiyatna & Salamun (2020), tax avoidance has a positive and significant impact on taxpayer compliance. But, it is not in line with the result of the research conducted by Febri & Sulistyani (2018), which stated that the tax avoidance has a negative or it can be said that it does not significantly impact the taxpayer compliance.

Tax sanctions are the consequences received by the taxpayer whenever the taxpayer disobeys with the tax regulations. Tax sanction can be used by the government to regulate tax administration so that taxpayers comply with the tax regulation (Eliyana, 2021). The main purpose of imposing sanctions is not in the terms of increasing state revenue, but to raise the consciousness to fulfill their obligation in the tax sector (Dewi & Merkusiwati, 2018). According to the research conducted by Azmi (2018), tax sanctions have no impact on the taxpayer compliance who carry out their business activities. But, in contrast, the result of the research conducted by Nisa (2016), stated that the tax sanction has an impact on taxpayer compliance of micro, small and medium enterprises.

The pandemic situation that is currently occurring, which undoubtedly has an impact and burdens individuals, is thought to be the cause of the decline in compliance level. But, despite the fact that many people are struggling economically right now, paying taxes is still a requirement. By using these tax revenues, the government also try their best to help people by providing subsidies especially to people who really need it.

Beside these factors mentioned previously, there are other more things that might impact taxpayer compliance. With the existence of several factors that can impact taxpayer compliance, the writer is curious if these factors can also impact taxpayer compliance of micro, small and medium

enterprises. In this study, the writer conducted the research in Medan in order to identify the taxpayer compliance in that research area.

Medan is one of the cities with a favorable business climate and has a pretty good micro, small, and medium business development. In addition, the continuous increase of micro, small and medium enterprises in Medan (Tarigan, 2022), successfully drew the interest of the researcher to examining whether the micro, small and medium enterprises taxpayers in Medan have met their tax obligation by being good and obedient taxpayers in the form of paying taxes, which is why the researcher picked it as the object of the study. As a result, the writer conducted research with the title **“The Impact of Tax Knowledge, Tax Avoidance and Tax Sanction toward Taxpayer Compliance of Micro, Small and Medium Enterprises in Medan”**.

1.2 Problem Limitation

The following are the problem limitation that the writer identified:

1. Taxpayers of micro, small and medium enterprises run by individuals who have the business in Medan are the object of the study.
2. The independent variables are tax knowledge, tax avoidance and tax sanction, while the dependent variable is taxpayer compliance of micro, small and medium enterprises.
3. The research centered on determining whether the dependent variable is impacted by the independent variables in this study.

1.3 Problem Formulation

The problem formulation of this research that made by the writer are as follows:

1. Does tax knowledge partially have a significant impact on taxpayer compliance of micro, small and medium enterprises in Medan?
2. Does tax avoidance partially have a significant impact on taxpayer compliance of micro, small and medium enterprises in Medan?
3. Does tax sanction partially have a significant impact on taxpayer compliance of micro, small and medium enterprises in Medan?
4. Do tax knowledge, tax avoidance and tax sanction simultaneously have a significant impact on taxpayer compliance of micro, small and medium enterprises in Medan?

1.4 Objective of the Research

The following are the objectives of the research:

1. To analyze whether the tax knowledge partially has a significant impact on taxpayer compliance of micro, small and medium enterprises in Medan.
2. To analyze whether the tax avoidance partially has a significant impact on taxpayer compliance of micro, small and medium enterprises in Medan.
3. To analyze whether the tax sanction partially has a significant impact on taxpayer compliance of micro, small and medium enterprises in Medan.

4. To analyze whether the tax knowledge, tax avoidance and tax sanction simultaneously have a significant impact on taxpayer compliance of micro, small and medium enterprises in Medan.

1.5 Benefit of the Research

The benefits of the research are categorized into two parts, which are as follows:

1.5.1 Theoretical Benefit

The writer expects that through this study, people will get additional knowledge to give the taxpayers more understanding of wider taxation and to boost compliance. The writer also expects that this study will contribute to increase the comprehension of the impact of tax knowledge, tax avoidance and tax sanction toward the taxpayer compliance of micro, small and medium enterprises.

1.5.2 Practical Benefit

The following are some practical benefit that this research has:

1. Give a general overview of how tax knowledge, tax avoidance and tax sanction impact the compliance of micro, small and medium enterprises in the field of the study.

2. Provide the taxpayers with information and guidance so they can complete their tax obligations in compliance with the law that has been approved by the Directorate General of Taxes.
3. As a reference or starting point for the further study into the impact of tax knowledge, tax avoidance and tax sanctions toward taxpayer compliance of micro, small and medium enterprises.

