

CHAPTER 1

INTRODUCTION

1.1 Background of the Study

Every people need to pay tax as one of the duties in the country. Tax takes part as an important role for one country to develop. It is the source of state income to be used as a tool to regulate economic activities. Government needs to take tax from citizen because it can help for country development. One of the tax revenues comes from income tax. Income tax is a tax that imposed on the income tax object. Income tax will always be imposed on any individual or business entity that earns income in Indonesia. Tax is one of the main sources of state revenue that can increase domestic revenue.

The response of tax is still negative, so the taxpayer or entity is trying to avoid or make the low amount of tax payable in order to increasing profit. Company also tries to minimize its income tax payable by taking advantage of the tax regulations. The income tax payable is paid according to the tax regulations. Tax planning is the first step of tax management. Tax management is a tool to meet tax obligations correctly. The amount of tax payable can be minimized to get a profit. Tax planning is an effort to minimize taxpayer's tax with good schemes that are already clearly stipulated in tax legislation and it does not cause dispute between taxpayers and tax authorities. By conducting tax planning, the company can pay the tax on time, to prevent deficiency and excess pay, and can find out the proper rules for decreasing income tax payment, in order not to break the rules and get the sanction. Activity of the company will run smoothly without getting the sanction.

One of Income Tax types that is often conducted the improvement, amendment and change is Article 21 Income Tax. Article 21 Income Tax is tax that is imposed on income in the form of salaries, wages, honoraria, allowances and other similar remuneration in respect of employment or position, services and other activities performed by individual resident taxpayers. The parties that are obliged to withhold, deposit and reporting of Article 21- Income Tax are employer, government, state treasury, the company and other parties that determined as

withholding agent according to Income Tax Law. Article 21 – Income Tax is tax that should be paid on citizens who are working and deriving incomes from the withholding agent. In Indonesia context, tax is the contribution to the state or country authorities.

Income Tax Article 21 which is one of the sources of tax revenue is tax on income in form of salaries, wages, honorarium, allowances, and other payment received or earned by individual resident taxpayer in relation with work, services and activities. (Mardiasmo, 2016). According to the Income Tax Law Number 36 year 2008, the withholding of Article 21 – Income Tax shall be made by an employer, a government treasurer, entity that pays pension, remuneration, and honoraria. The types of individual taxpayer are permanent employee, freelance, retirement recipient, recipient of wages, recipients of honorarium. Taxes received by the government will be used to build public facilities such as schools, roads, bridges, hospitals, and other things, so that people can support their daily activities. From the government side, tax is a source of state revenue that must be maximized in tackling state expenditure. While if from the side of the company, the tax is an expense that affects earnings and tax assumptions as the distribution of earnings to shareholders will affect the rate of return on investment. Therefore, to optimize the profit received, each company will seek to minimize their tax payments.

One of the legal ways to streamline the tax burden but not violate the tax laws is by tax planning. Generally, taxpayers are trying to push taxes as little as possible and delaying tax payments as it is still permitted by the tax laws. Pressing the tax can be done by minimize income or maximize the deductible expenses in order to reduce the tax payable by using the current taxation laws. There are some methods in doing tax planning which are gross method, net method and gross up method.

This method is legal tax planning of Article 21- Income Tax based on tax regulation. Net method is Article 21 Income Tax calculation method that the employee's income tax is borne by the company with recognizing the employee's income tax as the tax expense. The gross method is Article 21 – Income Tax calculation that the employees bear the amount of income tax. Gross up method is

Article 21 Income Tax calculation that company gives tax allowance by including the tax allowance in calculation of Article 21 Income Tax.

This research is conducted in PT Kharimantara Indonesia which is engaged in outsourcing business. As a profit-oriented company, PT Kharimantara Indonesia has a goal to get the maximum profit but they also pay attention on their employees which is employees' satisfaction. To make sure they can achieve the maximum profit and also employees' satisfaction, they need tax planning as an effort to save company expenses. The company has tax obligation in conducting withholding of Article 21- Income Tax. Currently, the company uses gross method in applying the calculation of Article 21- Income Tax. Employees' income tax of Article 21 is borne by the company. Tax planning is very important to the company as an effort to fulfill the obligation of taxation, and savings of the company expenses. This research focuses on choosing the alternative calculation of Article 21 – Income Tax which is most appropriate for the company to save the burden of Corporate Income Tax.

Based on the background above. the researcher is interested in choosing the title **“The Implementation of Tax Planning on Article 21 – Income Tax at PT Kharimantara Indonesia”**

1.2 Problem Formulation

The company implements gross method in calculating Article 21 - Income Tax. Although this method can give benefits for employee in obtaining full amount of income, this method cannot give benefit for the company because Article 21 Income Tax expense must be corrected in calculation of entity income tax.

Based on the background above, as the company wants to pay taxes in minimum amount the problem formulated by the writer is “What is the most suitable and appropriate tax planning on Article 21- Income Tax for the company in order to minimize their tax payable?”

1.3 Research Focus

The tax planning can be done in many ways. The purpose of tax planning is minimizing the tax payment based on tax regulation. Tax planning of Article 21 Income Tax can be implemented in some methods. One of the methods is gross up method of Article 21- Income Tax. The purpose of gross up method is providing benefit for company and employee. Due to the limitation of writer's ability, time and the company's condition, the research focus is implementation of gross up method of Article 21- Income Tax on permanent employee and its impact on entity income tax at PT Kharimantara Indonesia in year 2018.

1.4 Objective of the Research

The purpose of the research conducted is to answer the research questions that have been formulated in the problem formulation before. Therefore, the purpose of this study is choosing the alternative calculation of Article 21 – Income Tax which is most appropriate for the company to save the burden of Corporate Income Tax.

1.5 Benefit of The Research

The benefits of this study are divided into two, namely theoretical and benefits practically.

1.5.1 Theoretical Benefit

The theoretical benefit of this paper is to provide a greater understanding of taxation especially in context of tax planning on Article 21 – Income Tax

1.5.2 Practical Benefit

For practical benefit of this paper is:

1. This research can provide suggestion for the company in implementing tax planning of Article 21 Income Tax in minimizing entity income tax.
2. This research can give additional information for other company in implementing gross up method of Article 21 Income Tax.

1.6 Systems of Writing

In the systematics of writing, the author will briefly describe the chapter by chapter in sequence. The order of writing the chapter to be presented is as follows:

Chapter I: Introduction

This chapter describes the background of the study, problem formulation, research focus, objectives of the research, benefit of the research, and systems of writing.

Chapter II: Literature Review

This chapter consists of background of study used in the research and literature review of previous studies dealing with research topics, theories on which the analysis is based, and the framework of thought from the study.

Chapter III: Research Methodology

This chapter described the company's general picture, vision and mission, corporate structure and tax treatment conducted at PT. Kharimantara Indonesia

Chapter IV: Data Analysis and Discussion

This research is analysis of the calculation Article 21- Income Tax in the company, calculation of entity income tax and implementing of gross up method of Article 21- Income Tax in the company. The discussion is to know the impact of gross up method of Article 21 Income Tax on entity income tax and tax saving.

Chapter V: Conclusions and Suggestions

In this chapter contains the conclusions of the results of research that the author does and provides advice in the form of input to the company to get better.