

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Tax is one of revenue sources in Indonesia in order to optimize the state revenue. Every taxpayer has the obligation to calculate, pay and report the amount of tax that should be paid to the government because Indonesia is applying self assessment system. Self assessment system obligates taxpayer to count, pay, and report his tax obligation by himself. It also requests taxpayer to plan his tax as well. In Indonesia, tax is a contribution to the state or country. Tax can be forced to be collected contribution exposed on every single Indonesia citizens or everybody else lived in Indonesia for a certain period of time.

As a taxpayer, either individual or company should pay tax as regulated by taxation law. For companies, income tax is considered as cost or expense in running or conducting business. Tax as cost will affect the profit received. The company will be burdened if the tax is relatively high. Employers should find a solution to reduce their expenses. In improving the efficiency and competitiveness in a company, the employers should keep costs as optimal as possible.

As a result of tax burden on employers, they might avoid paying high tax. It is illegal to avoid paying tax because it is an obligation as a citizen. So the company may apply tax planning to manage or minimize the amount of income tax payable. Before applying tax planning, one must have comprehended the regulation and application of tax planning. Tax planning is the process of planning how to avoid tax overpayment, for example, by giving employees tax allowances in order to minimize the amount of corporate income tax which is called as Gross up method.

In Indonesia, income tax is governed under Law Number 36 of 2008. Regarding tax on income in the form of salaries, wages, fees, allowances and other payments derived by an individual taxpayer in respect of employment or office, services and activities, it is defined in article 21 of the law.

In Article 21-Income Tax, income tax is one of the taxes which must be paid by individuals who receive compensation in the form of salaries, wages, fees, and etc. Company as the withholding agent should withhold Article 21-Income Tax of his employees. There are calculation of Article 21-Income Tax with the allowances and without tax allowances. Article 21-Income Tax is a tax that must be paid for someone who has been occupied. The calculation of Article 21-Income Tax with tax allowances means tax allowance is given by the company to employees to fulfill their obligations to pay taxes. Then, tax allowances can be classified as deductible expenses.

Every taxpayer will find a way to minimize the tax payment. Therefore, every tax manager of a company must prepare tax planning to minimize tax liabilities in accordance with the regulations. Tax planning is a way that can be done or planned by taxpayer so that the tax to be borne will be lesser without violating the applicable tax regulations.

PT Mitra Pinasthika Mustika Finance is a multi-finance company engaged in working capital financing, multipurpose, and investment in the consumer financing sector for four-wheeled, two-wheeled and multipurpose motorized vehicles. The company is using net method in which the company bears the Article 21-Income Tax of their employees it means there is no tax allowances given to the employees. When PT Mitra Pinasthika Mustika Finance is using net method, the income tax is charged on employee's salary. PT Mitra Pinasthika Mustika Finance feels that company pay quite high corporate income tax by this time since company established.

Net Method is a method of tax withholding where the company bears the amount of Article 21-Income Tax from the employees. Article 21-Income Tax is calculated on net salary received by employees. According to Taxation Provision, there is another method of withholding Article 21-Income Tax which company bears the tax payment of their employees by giving tax allowances. The method is called as Gross Up Method.

To reduce company tax payment, gross up method is needed. With Gross Up Method, tax allowances is given by the company and could be treated as deductible expense to minimize corporate income tax. So, the writer will calculate and analyze Article 21 – Income Tax for permanent employees by applying Gross Up Method towards PT Mitra Pinasthika Mustika Finance.

Therefore, the writer is interested to conduct the research with title as follows : **“The Analysis of The Comparison of Net Method and Gross Up Method to Minimize Corporate Income Tax Through Article 21-Income Tax Study at PT Mitra Pinasthika Mustika Finance Branch Medan”**

1.2 Problem Limitation

Due to the limitation of time, ability, and knowledge, the writer will only focus on the calculation of Article 21-Income Tax applied on 20 permanent employees of fiscal year 2018 started from january to december at PT Mitra Pinasthika Mustika Finance Branch Medan by using Gross Up Method. The writer will also analyze the amount of Article 21-Income Tax towards company tax by using Net Method and Gross Up Method.

1.3 Problem Formulation

Based on the background of study that has been described above, the problem formulation is as follows: “What is the different

between tax applying net method and gross up method for income tax of PT Mitra Pinasthika Mustika Finance Branch Medan ? “

1.4 Objective of the Research

The objective of doing this research is to know the impact of tax planning at PT Mitra Pinasthika Mustika Finance Branch Medan towards the corporate income tax by implementing Gross Up Method.

1.5 Benefits of the Research

This research is expected to be useful to some parties as follows:

1.5.1 Theoretical Benefit

1. For the writer, this research is to learn more about calculating net method and gross up method on permanent employees, to gain knowledge and to know the comparison from the calculation of income tax on permanent employees.
2. For the readers, this research will improve their knowledge to know more about net method, gross up method and Article 21- Income Tax. It is used as a guidance for those who intend to do similar research in the future.

1.5.2 Practical Benefit

For the company, this research is determined to decide which metode is better to be applied at the company, to know the differences of the amount of tax to be paid by the company.

1.6 Systems of Writing

To facilitate an overview of the content of this research, the system of writing will be compiled as the following details :

Chapter I : Introduction

In this chapter, the writer describes about the background of study, problem limitation, problem formulation, objectives of the research, benefit of the research, and systems of writing.

Chapter II : Literature Review and Hypotesis Development

In this chapter, the writers describes some theories that are related to the topic of study, such as taxes, Article 21-Income Tax, definition of tax planning, the comparison of net method, gross up method and the impact to the company tax.

Chapter III : Research Methodology

In this chapter, the writer explains the research design by explaining the variable used in this research, research object, data collection methods and data analysis method.

Chapter IV : Data Analysis And Discussion

In this chapter consists of brief history of company, organization structure, data presentation and data analysis.

Chapter V : Conclusion

This chapter contains the conclusions as the results of the whole study and the problems faced in this research. It also includes recommendations to overcome the problem, and the limitation in doing the final paper.