

CHAPTER I

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

In this modern era, many countries strive to improve their nation's growth in various sectors, such as education, technology, natural and human resources, infrastructure, industry and economic development. Indonesia is known as a country that rich in diverse ethnics, cultures and resources, especially human and natural resources. However, with the wealth of those resources, Indonesia still does not categorized as the developed country. In order to maximizing the country development, Indonesia local government always strive to improve the national development, especially in the economic fields. One of the factors that can help government to improve the economic growth is state's income. The sources of income in a state consist of two sectors, such as internal and external. One of the internal sources is tax, whereas the external source is foreign loans. In order to reduce dependence of external funds, government increases the revenue source within the country which is tax. Tax revenue as a source of domination is one thing that is reasonable, because the amount of natural resources are limited, tax as a source of admissions unlimited age, especially with the increase of the population so that the tax becomes one of the main alternatives in revenue of state.

Tax is a compulsory financial contribution imposed by a government to raise revenue, levied on the income or property of persons and/or organizations, as well as on the production costs or sales prices of goods and services. According to Rohendi (2014), tax as the contribution of national development consists of two function, such as budgeter function and regulatory function. The budgeter function of tax revenue itself is a tool or source to collect funds as much as possible into the state treasury, which is used to defray the

necessary expenses of government in order to build the national development in form of health facilities, education funds, infrastructure, public services (airport, road, and transportation), civil servant salary payment, fuel and electricity subsidies, and other development expenditures; and if there is surplus, it will be used for government's investment (public saving). Besides, regulatory function is used as a government tool to regulate the achievement of a country's economic and political balance. Expressed in another way, tax is a method of apportioning the cost of government among those who are privileged to enjoy its benefits and must bear its burdens. Government always strive to increase state's revenue by maximizing tax collection from the citizens. This is because tax collection plays an important role in national development in order to increase the level of citizen's prosperity and most of government earnings come from tax as it can be seen in the State Budget of Indonesia. According to Brata et.al (2017), currently about 70 percent of the Indonesia State Budget is financed from tax revenues.

The details of Indonesia state income on the Indonesia State Budget from the year 2013 until 2018 is presented as follows:

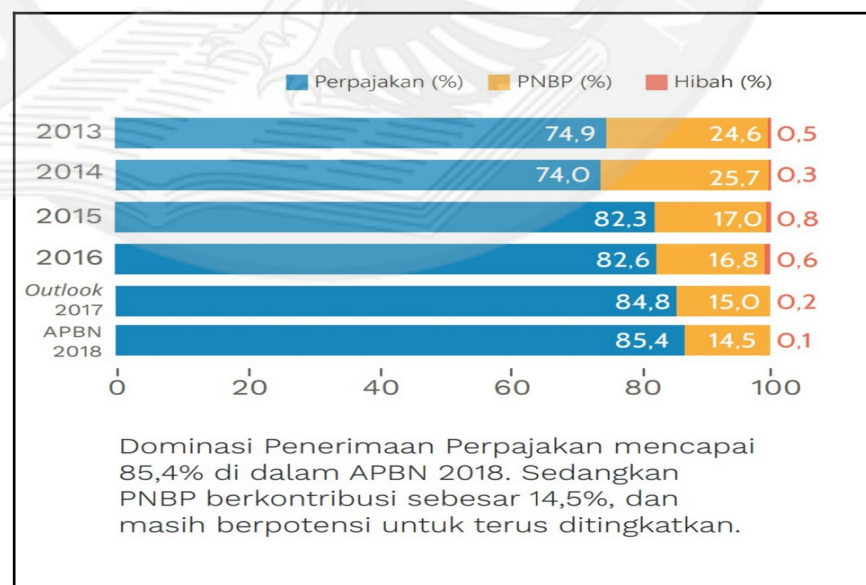


Figure 1.1 Indonesia Source of Income in Percentage (2013-2018)

Source: <https://www.kemenkeu.go.id/apbn2018>

In the year of 2013 until 2018, the dominant source of state revenue is derived from taxation sector, which has the largest percentage other than non-taxation income and grants. As the figure shown above, the percentage of tax income derived is 85,4 percent in 2018, while for the non-taxation income/*Penerimaan Negara Bukan Pajak (PNBP)* is only at the percentage of 14,5 percent and 0,1 percent for grants. Furthermore, in year 2013 until 2018, the income derived from taxation sector continuously has the largest percentage out of the other sector. This can be concluded that taxation income provided the largest contribution to Indonesia revenue. Although taxation income increases for years, it does not balanced with the number of taxpayers that fulfill their taxation obligations. A taxpayer is an individual or business entity that is obligated to pay tax to a federal, state, or municipal government body. However, the level of taxpayer compliance in Indonesia that contributes in the payment of tax is still considered as relatively low. In 2018, Executive Director of Center for Indonesia Taxation Analysis (CITA), Yustinus Prastowo, assessed the level of taxpayer compliance in Indonesia is still low. The low level of compliance is reflected in the tax coverage ratio (new realization ratio to potential) of 72 percent. The tax revenue ratio against GDP (tax ratio) is still low, ranging from 11 - 12 percent or only 0.1 percent increase in the year 2004-2014. According to Prastowo, this figure is still below the Philippines at 14 percent, Malaysia 16 percent, Thailand 17 percent, South Korea 25 percent, South Africa 27 percent, and Brazil 34 percent (finance.detik.com, 2018). The compliance problem becomes an obstacle in optimizing the tax revenue.

Payment of tax is a realization of state obligations and participation of taxpayers to implement taxation obligations directly and equally because tax is the main source for government financing and national development. Indonesia conducts self-assessment tax

system which the taxpayers are given the authorities to register, calculate, pay, and report their own taxes. Before conducting self-assessment system, income tax in Indonesia is collected by using official assessment system which gives an authority to the tax collector for determining the amount of tax payable that the taxpayer has to pay. According to Hermansyah in Dewi and Noviari (2017), procedures of the implementation of taxes that are not well managed, and incurring problems such as tax avoidance, tax evasion, tax morality, administrative completeness, institutional trust, implementation capacity, and the low ratio of paying tax are the cause of tax reform in Indonesia. Conducting reformation in taxation is one of the steps taken by the Directorate General of Taxation to interest the taxpayer awareness in fulfilling their tax obligation. Additionally, not only conducting reformation in taxation, government also issuing various taxation policies to make the taxpayer willing to pay their tax. The newest policies made by the Indonesia government to encourage taxpayers take an active role in formal economic activities is providing facilities, such as tax amnesty which means to give an opportunities for the taxpayer to pay specified amount of tax payable with a certain rate in exchange for forgiveness of tax liability (including fine and interest) and final tax rate deduction from 1 percent to 0,5 percent for the *Usaha Kecil Mikro Menengah (UMKM)*.

Effort to increase economic development especially from tax sectors, not only relies on the role of government and Directorate General of Taxation or tax officials, but taxpayers take an active role as well. According to Wilda (2015), positive assessment of taxpayer toward the state function by government will affect the citizen to fulfill their obligation to pay tax. Participation and awareness of the taxpayer in fulfilling taxation obligations will greatly affect tax compliance. The role of taxpayer awareness and compliance is very important for a nation in an effort to collect the state revenue from tax sector.

Taxpayer awareness is a condition where taxpayers know, understand and implement tax provisions correctly and voluntarily. Awareness of taxpayers is well-behaved people that willing to fulfill the obligation of tax payment. But in reality, there are still many people who are not aware of their tax obligations and always strive to avoid their tax payable so they do not bear a large tax burden. According to Tulenan et.al (2017), taxpayer awareness is someone's good faith to fulfill their tax obligations sincerely without compensation. Why government attention is focused on taxpayer awareness and compliance issues? This is because the understanding and awareness of the people to obediently pay the tax are still relatively low. It can be shown by the data obtained from Directorate General of Taxation records that only 10.59 million individual taxpayers report Annual Tax Return Form for 2017 tax year on time or before the reporting period ends on March 31, 2018. In fact, there should be 17.65 million individual taxpayers reporting. It means that around 40 percent or 7.06 million taxpayers have not reported their Annual Tax Return Form 2017 (katadata.co, 2018). In February 2019, The Directorate General of Taxation (DGT) noted that 29 percent or equivalent to 5.1 million of registered taxpayers have not yet reported their Annual Tax Return Form 2017. In 2018, there should be 17.6 million required to report Annual Tax Return Form 2017, but only 12.5 million reported or around 71 percent from total registered taxpayers (tirto.id, 2019). Due to this lack of awareness of the taxpayers in Indonesia, government becomes difficult to achieve their national targets and it always has been an obstacle for years.

Tulenan et.al (2017) stated that besides from taxpayer awareness as the internal factor that affect the taxpayer compliance, there are also external factor which is fiscal services that gives significant influence toward the taxpayer compliance. Fiscal services can be defined as a way of tax officers to help provide assistance

needed by taxpayers. The quality of fiscal services is very decisive for the taxpayer in paying their taxes. Therefore, tax officers are required to provide a friendly, fair and convincing services all the times for taxpayers so that it can be expected to increase taxpayer compliance in fulfilling the responsibility of paying tax. A lot of companies or institutions are competing to improve the quality of their services, because services are contribute to the sales of a product indirectly, so that it will be expected to increase the income of those companies or institutions. The same thing also applies to the quality of services that are given by the tax officers to taxpayers. According to Brata et.al (2017), if the tax officers provide the best service to taxpayers, automatically taxpayers will feel satisfied with the services, and then it will affect the increase of tax revenue.

So far, there are a lot of negative perceptions from taxpayers toward the tax officers. In fact, there are still a lot of taxpayers who feel they have encountered obstacles in the service process provided by tax officers. Sometimes, tax officers carry out the assistance needed by taxpayers very slowly and unprofessionally, which it can be wasting taxpayer's time for waiting too long. The lack of knowledge and unfriendly tax officers, complicated procedures, uncomfortable services, and inadequate facilities could cause complaints from taxpayers that resulting in the unwillingness to settle their taxation obligations, and result in an attitude of disobedience in carrying out tax obligations. During 2013-2015, the Ministry of Finance's Tax Oversight Committee received 238 complaints and feedbacks from the public. During 2014-2015, the Committee also received 196 complaints from the public, which 93 percent were dominated by complaints to the Directorate General of Taxation (DGT). The majority of the material complained, 49 percent was related to tax administration procedures, and tax regulations about 39 percent. From the statistics of complaints during the last two years, it can be seen

that there are 184 complaints made to the Directorate General of Taxes. Specifically, there are 17 complaints on the quality of tax services, 51 complaints against audits, 20 complaints against the collection process, 13 complaints against the investigation process, 61 complaints against human resource and personnel, 61 complaints against potential taxes, and 73 complaints against the process of objections and appeals related to tax cases (cnnindonesia.com, 2016). Moreover, corruption and illegal bribes are currently carry out by tax officers as result in making the taxation process become faster and easier. In 2016, *Komisi Pemberantasan Korupsi (KPP)* caught the head of the Sub-Directorate of Evidence of the Directorate Law Enforcement at the Directorate General of Taxation, Handang Soekarno, when he received bribes of around 1.99 billion Rupiah (cnnindonesia.com, 2016). Hence, tax officers should provide a convenient, comfortable, and friendly service for the taxpayers in order to improve the quality of the fiscal services. Good quality service from tax officers, an efficient taxation system, and tax counseling will be expected to motivates the taxpayers to be obedient in paying their tax and will make the taxpayers feel satisfied.

The implementation of tax sanctions would have impact for the taxpayers to fulfill the taxation obligations. The meaning of implementation and imposition of tax sanctions could be in the form of administrative sanctions or fines and criminal sanctions which has been regulated in Constitution Number 28 year 2007 about General Provision and Taxation Law (*Undang-Undang Ketetapan Umum Perpajakan/UU KUP*). Sanctions can be a motivation in improving taxpayers' compliance in paying tax, because most taxpayers are afraid to be fined. If they violate the taxation law, they must spend a lot of money more than they should pay or even they will be sentence in jail. Therefore, it is important for taxpayers to understand tax sanction, so that it knows the legal consequences of what is done or

not do. Tax authorities should be consistent in imposing sanctions for those who violate the rules of taxation law. Tax sanctions must be strict, so that taxpayers will be aware to not fulfill their taxation obligation and will do tax calculations in accordance with the income earned (Brata et.al, 2017). The implementation of tax sanction is aims to prevent non-compliance taxpayers. Thus, state revenue from tax sector is expected to increase. Imposition of administrative penalties would be burdensome to some taxpayers; therefore, taxpayers will fulfill the taxation obligations to avoid the imposition of administrative sanctions in the form of interests, fines and penalties. According to General Provision and Taxation Law, sanctions are necessary to provide lessons for tax breakers. Thus, tax sanctions are expected to increase the taxpayer compliance.

The details data of actived individual taxpayers and individual taxpayers who submit Annual Income Tax Return in year 2014-2018 at KPP Pratama Medan Belawan are shown as below:

Table 1.1
KPP Pratama Medan Belawan Data in 2014-2018

No.	Year	Actived Individual Taxpayers	Individual Taxpayers who submit Annual Income Tax Return
1.	2014	42.006	20.334
2.	2015	35.704	23.744
3.	2016	40.130	24.454
4.	2017	37.873	25.414
5.	2018	34.569	25.492

Source: KPP Pratama Medan Belawan (2019)

Based on table 1.1 above, it can be seen that the individual taxpayers who submit Annual Income Tax Return in year 2014-2018 is less than actived individual taxpayers. In 2018, the actived individual taxpayers is 34.569 people, but only 25.492 individual taxpayers who submit Annual Income Tax Return which is about

9.077 actived individual taxpayers did not submit their Annual Income Tax Return.

Based on the background of study above, low level of taxpayer compliance could be a serious problem in a country, especially in developing countries. Taxpayers level of compliance is an important factor that influence the collection of state revenue. When the level of taxpayer compliance increase, automatically the tax revenue will also increased, vice versa. Therefore, it is necessary to do research on the factors that cause the low compliance of taxpayer. The variables that are suspected to give influences toward taxpayer compliance in this study are taxpayer awareness, fiscal services, and tax sanctions.

Previous research conducted by Wilda (2015), shows the result that taxpayer awareness and tax sanctions have no significant effect toward taxpayer compliance, whereas fiscal services have positive or significant effect toward taxpayer compliance. Meanwhile, the research conducted by Marcori (2018) and Brata et.al (2017), taxpayer awareness and tax sanctions have significant effect toward taxpayer compliance, whereas fiscal services have no effect toward the taxpayer compliance.

As the previous research results are inconsistent, the researcher would like to know more about the effect of taxpayer awareness, fiscal services, and tax sanction toward individual taxpayer compliance at *Kantor Pelayanan Pajak Pratama Medan Belawan*. This primary tax office was chosen because of some consideration as Medan is one of the growing cities in Indonesia and the several of socioeconomic background of the population in Medan. Then the researcher would like to conduct research with the title: **“The Effect of Taxpayer Awareness, Fiscal Service, and Tax Sanction toward Individual Taxpayers Compliance at Kantor Pelayanan Pajak Pratama Medan Belawan.”**

1.2 PROBLEM LIMITATION

In order to issue this research to be more effective and efficient, also can present an accurate result, the writer decided to limit the variables in the problems of this research. Therefore, this research only limited on three variables on the problem regarding taxpayer compliance which are:

1. Independent variables: Taxpayer Awareness, Fiscal Service, and Tax Sanction
2. Object of this research: Individual Taxpayers that are registered in *Kantor Pelayanan Pajak Pratama Medan Belawan*
3. Place to conduct research : *Kantor Pelayanan Pajak Pratama Medan Belawan*

1.3 PROBLEM FORMULATION

Based on the background of study above, then it can be drawn in the formulation of the problem as follows:

1. Does Taxpayer Awareness partially has an effect toward Individual Taxpayer Compliance at *Kantor Pelayanan Pajak Pratama Medan Belawan*?
2. Does Fiscal Service partially has an effect toward Individual Taxpayer Compliance at *Kantor Pelayanan Pajak Pratama Medan Belawan*?
3. Does Tax Sanction partially has an effect toward Individual Taxpayer Compliance at *Kantor Pelayanan Pajak Pratama Medan Belawan*?
4. Do Taxpayer Awareness, Fiscal Service, and Tax Sanction simultaneously have an effect toward Individual Taxpayer Compliance at *Kantor Pelayanan Pajak Pratama Medan Belawan*?

1.4 OBJECTIVE OF THE RESEARCH

In accordance with the problem of formulation, objective of the research become the guideline in carrying out the writing and is expected to achieve desire goals, as follow:

1. To determine whether taxpayer awareness partially has an effect toward individual taxpayer compliance at *Kantor Pelayanan Pajak Pratama Medan Belawan*;
2. To determine whether fiscal service partially has an effect toward individual taxpayer compliance at *Kantor Pelayanan Pajak Pratama Medan Belawan*;
3. To determine whether tax sanction partially has an effect toward individual taxpayer compliance at *Kantor Pelayanan Pajak Pratama Medan Belawan*;
4. To determine whether taxpayer awareness, fiscal service, and tax sanction simultaneously have an effect toward individual taxpayer compliance at *Kantor Pelayanan Pajak Pratama Medan Belawan*.

1.5 BENEFIT OF THE RESEARCH

1.5.1 THEORETICAL BENEFIT

Theoretically, the research expects to contribute as further reference material related to taxpayer compliance, gain insight and knowledge to academic and profession to examine and develop issue of the research, as well as gain benefits of the research experience. With this research is expected to be knowledge about taxation accounting for other interested researchers to examine about taxation more deeply.

1.5.2 PRACTICAL BENEFIT

1. To Author

This research can be used in getting more insights and knowledge about taxation especially about the factors that impact tax compliance of taxpayers in order to maximize tax revenue as main source of state's acceptance.

2. To Primary Tax Office

As a contribution to increase taxpayer compliance by knowing the factors that affect mandatory compliance of tax in this research, which are the awareness of the taxpayer, taxation services, and tax penalties, especially for research location.

3. To Taxpayer

It is expected to provide information that will make it easier for taxpayer in doing tax obligations.

1.6 SYSTEMS OF WRITING

Systems of writing consist of several chapters to make it easier for readers to understand the content of this research. The outline of research is organized as below:

CHAPTER I: INTRODUCTION

Chapter one is explaining about the introduction of this research which consists of background of study, problem limitation, problem formulation, research focus, the purpose of research, and systems of writing. The background of study part becomes the base of problem formulation to analyze the effect of taxpayer awareness, fiscal services, and tax sanctions against the obedience taxpayer.

CHAPTER II: LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

This chapter contains theoretical background related to the subject matter selected as the basis for this research.

CHAPTER III: RESEARCH METHODOLOGY

This chapter explains about variable of research, research design, population and samples, type and source of data, data collection method and data analysis method.

CHAPTER IV: DATA ANALYSIS AND DISCUSSION

This chapter contains descriptive analysis of research objects that explain the characteristics of respondents, data quality test, field research results, and discussion about the results of data analysis.

CHAPTER V: CONCLUSION AND RECOMMENDATION

This chapter provides conclusion about the results of the research, and the recommendation to related parties in this research.

