

CHAPTER I

INTRODUCTION

1.1. Background of the Study

Sources of state revenues come from various sectors, both internal and external sectors. One source of state revenues from the internal sectors is tax, while the example from the external sectors, is foreign loans. In an effort to reduce the dependency on external sectors, the government continues to try to maximize the revenues from internal sectors. Today, taxes are the largest source of internal revenue sectors in the State Budget (*APBN*) (Saidi, 2014).

State revenues from the tax sector continue to increase from year to year. Looking at the influence of taxes in the State Budget (*APBN*), the effort to increase tax revenues continue to be carried out intensively by the government, in which the duty is delegated to the Directorate General of Taxes. Various efforts have been made by the Directorate General of Taxes to maximize tax revenues, such as tax extensification and intensification. This is done by expanding the subject and object of tax as well as by capturing new taxpayers. Efforts to maximize tax revenue cannot rely solely on the Directorate General of Taxes and its tax officers, but it also needs the active role of the taxpayers themselves to comply with the tax regulations. The taxation system change from the Official Assessment to Self Assessment was implemented by the government to provide bigger trust in taxpayers to register, calculate, pay and report their own tax obligations. In Self Assessment Reporting System, the compliance and awareness level of taxpayers is a very important factor to achieve successful tax revenues (Arum, 2012).

Tax is a compulsory contribution that needs to be paid by society to the authorized government. There is a phenomenon of public skepticism about taxes; only by hearing the word of "tax", it has created the negative assumption about the

tax itself. However, in real life, the taxes which paid by society are actually used by the government to build infrastructure and to fund government programs in order to provide welfare to the community, especially in Indonesia.

According to Soemitro (2014: 15), Tax has two functions; which is budgetary function and regulatory function. The budgetary function is tax as a tool to get money for the state treasury. Based on budgetary function, the discipline and awareness of the public to comply with tax obligations is urgently needed. The issues that regarding the compliance of tax has become an important issue at Indonesia because if the Taxpayers are not obedient, it can cause a desire to do acts of tax avoidance and evasion which is detrimental to the state in terms of state revenues. Taxpayer compliance can be influenced by two types of factors, namely internal and external factors. Internal factor is a factor that comes from the taxpayers themselves to fulfill their tax obligations. Unlike internal factors, external factors are from outside the taxpayers themselves, such as situations and environment around taxpayers.

In relation to taxpayers, Budiatmanto (in Witono, 2008) mentioned that the compliance can be defined as the Taxpayers behavior in fulfilling their tax obligations in accordance with the applicable regulations. The behavior of it is very influenced by motivation. Usually, motivation will have an effect on intensity behavior (motivated, without motivation, and apathy), and conformity with aim behavior (effective, ineffective). Moreover, Luigi Alberto Fronzoni (in Witono, 2008) also mentioned that Tax Compliance in tax law has the general meaning as (1) report according to the correct tax base; (2) consider the fulfillment of tax obligations; (3) reporting on time; (4) paying the correct tax liability on time. Obedience defines as reporting all income and overall tax payment tax in accordance with the applicable law, regulations and jurisprudence. One element that can be emphasized by tax officers in raising awareness and tax compliance is by socializing tax regulations by counseling, good moral appeal with the mass media, billboard, and open site regulations that taxpayers can access at any time. So that with the existence of socialization that is the knowledge of Taxpayers pertaining to tax obligation can

increase higher. Knowledge about tax regulations is important to grow obedient behavior, because how could it be Taxpayer told to obey tax regulations if they themselves do not know about tax regulations, how the taxpayers are supposed to submit the Annual Tax Return (*SPT*) on time if they do not know the deadline for reporting.

Tax has the characteristics of binding settlement of to taxpayers which is contraprestation, where the effects that given by the taxpayers is not a direct impact but distributed to the priority areas, so it can be evenly distributed. Besides that, the tax is coercive which can be seen from the aspect of billing in the form of administrative sanctions and criminal sanctions, that overseen by the tax officials as the parties that representing the State. (Soemitro in Mardiasmo, 2016:1)

As the factor that leads to the low level of taxpayer compliance in paying and reporting the taxes which is imposed on him is because the tax itself is contraprestation. For example, though someone who regularly pays and reports the taxes imposed, not necessarily the development and renewal of infrastructure which carried out by the government will be felt directly by the taxpayers, in contrast to the retribution charges collection such as parking fees that we can perceive the benefits directly. However, an important trend in tax administration policies in recent years is the recognition that this paradigm is incomplete. Instead, a revised “service” paradigm recognizes the role of enforcement but also emphasizes the role of tax administration as a facilitator and a provider of services to taxpayer-citizens.

The other factors that degrade the enthusiastic of the taxpayers in paying and reporting the taxes imposed on them are the inadequate knowledge of taxpayers on how to calculate, pay and report the tax which is imposed on them. Recorded the taxpayer compliance data in 2009 up to 2016 for the entity is about 39.2% to 67.2% while for individual taxpayers, ranging from 42.2% to 70.3% (Wira, 2017).

This value is considered very low regarding the big amount of Indonesian citizens and also the trend of the decreasing level of tax income collection which is reflected in the decreasing level of taxpayers’ compliance. The ways in which the tax

office has been carried out are massive socialization of how to calculate, pay and report taxes imposed so as to raise the awareness of taxpayers as well as increase the taxation knowledge for taxpayers. Even in some cities, the tax officer held the regular training which conducted weekly for those taxpayers who still do not understand the procedures in calculating, paying and reporting the taxes which imposed on them. In addition to socialization on how to calculate, pay and report taxes imposed, as well as the socialization of the usability and tax benefits for the State. The latest step which taken by the Directorate General of Taxes in order to improve the taxpayer compliance level of both of the entity and the individual is to modernize the tax administration, whereas the form of modernization has been done amongst the taxpayers can fill the Annual Tax Return (*SPT*) by online so no longer need to print the Annual Tax Return (*SPT*) form as usual. Moreover, the Director General of Taxation also applies the e-Filing system to assist the taxpayers in completing the Annual Tax Return (*SPT*). The e-Filing system will guide the taxpayers in filing e-SPT by simply answering the questions that exist online. With such a concept, the taxpayers have unconsciously filled the e-SPT. By the e-Filing system will certainly facilitate the taxpayers in calculating, paying and reporting taxes which imposed to them so that there will be no difficulty that will reduce the level of taxpayer compliance in paying and reporting the taxes imposed on them. In fulfilling obligations and rights taxation, taxpayers issue a number of costs commonly referred to as compliance cost. Ideally, the costs are issued by the Taxpayer no burden some taxpayers and does not become inhibiting factors in internal taxpayers fulfill obligations taxation. Siti Kurnia Rahayu (2010:150) decalred Tax compliance cost is not only in terms of money (direct money cost), but also involves time (time cost) and mind (psychological cost). High costs tax compliance can cause Taxpayers are reluctant to pay taxes. Prasetyo (2011) concluded that the cost of tax compliance has a negative influence on the compliance of Taxpayers. This means that if the tax compliance costs getting higher, consequently the tax compliance getting lower.

Individual taxpayers who carry out business activities or free jobs are more vulnerable to tax violations than individual taxpayers who do not conduct business or free work. It's because they do their own books or records for their own efforts. Bookkeeping or recording can be done carried out alone or by employing people who are experts in accounting. But most of the business actors and free jobs it is assumed that it will be less efficient when hiring people to do bookkeeping or recording, especially in matters cost. Thus, the concerned prefers to carry out bookkeeping or recording itself, so that raises the possibility of errors or dishonesty within tax reporting (Arum, 2012).

Individual taxpayers who carry out business activities or free work must fill in the Annual Tax Return Form 1770. Individual taxpayers who conduct business or free work is an individual who organizes their own business activities and not bound by any bond with the employer which involves those individual taxpayers who conduct a business activities such as trading, service, industry and etc. While what is meant by free work is work carried out by individuals who have special expertise as business to earn income and not be bound by a bond with the employer. Examples of free work are personal practice as doctors, consultants, lawyers, and others.

Table 1.1 Individual Tax Compliance Rate 2017 and 2018

| Tax Year | Compliance Level |
|----------|------------------|
| 2017 | 114,09 % |
| 2018 | 87,72 % |

Source: Tax Office Medan Polonia (2019)

In table 1.1 can be seen that the comparison between tax compliance levels in 2017 and 2018 did not increase significantly although in 2018, the modernization made in tax administration has created an obligation for the taxpayers. Comparison between the taxpayers' compliance levels indicates a gap phenomenon in which the level of compliance ironically become lower whereas it should naturally become higher due to the ease obtained by using the application. The gap phenomenon is very

interesting to be investigated and also tracing the cause of significantly increase of absence in the taxpayer compliance level, so that the researcher wants to examine and know the influence of the modernization of tax administration system, tax awareness of taxpayers, and tax knowledge of taxpayers towards the compliance of taxpayers by using taxpayer's data which contained at KPP Pratama Medan Polonia. As we know that there are so many ways done by the Director General of Taxes in order to increase tax revenues but still not seen significant changes, hence the researcher conducted research on the latest step of the Director General of Taxation to improve taxpayer compliance with the title of "The Influence of the Modernization of Tax Administration System, Tax Awareness, and Tax Knowledge of Taxpayers towards the Taxpayers' Compliance at KPP Pratama Medan Polonia."

Some previous research results that using the same variables that used on this research includes Hasanah (2016), where the study results showed that tax knowledge of taxpayers, modernization of tax administration system, and tax awareness have a positive and significant impact towards the taxpayers' compliance at the Regional Office of the Directorate General of Taxes Special Region of Yogyakarta Year 2013. As well as the research which obtains from Arifin (2016), where on his research reveals the modernization of tax administration system, tax awareness, tax sanctions and the service of tax officers have a positive and significant impact towards the taxpayers' compliance.

1.2. Problem Limitation

The problems in this research are limited to the following such as the variables used in this research consist of the modernization of tax administration system, tax awareness, and tax knowledge of taxpayers along with the individual taxpayers' compliance which aims to examine the taxpayers' compliance level pertaining to their obedience in calculate, pay and report their tax obligations at KPP Pratama Medan Polonia. The research is done in March 2019 by giving questionnaires to 100 taxpayers.

1.3. Problem Formulation

The problem formulations in this research are:

1. Does the modernization of tax administration system influence the taxpayers' compliance at KPP Pratama Medan Polonia partially?
2. Does the tax awareness influence the taxpayers' compliance at KPP Pratama Medan Polonia partially?
3. Does the tax knowledge of taxpayers influence the taxpayers' compliance at KPP Pratama Medan Polonia partially?
4. Do the modernization of tax administration system, tax awareness and tax knowledge of taxpayers influence the taxpayers' compliance simultaneously at KPP Pratama Medan Polonia?

1.4. Objective of the Research

The objectives of this research are as follows:

1. To examine and analyze the influence of tax administration modernization system towards the taxpayers' compliance at KPP Pratama Medan Polonia.
2. To examine and analyze the influence of tax awareness towards the taxpayers' compliance at KPP Pratama Medan Polonia.
3. To examine and analyze the influence of tax knowledge of taxpayers towards the taxpayers' compliance at KPP Pratama Medan Polonia.
4. To examine and analyze the simultaneous influence of modernization of tax administration system, tax awareness and tax knowledge of taxpayers towards the taxpayers' compliance at KPP Pratama Medan Polonia.

1.5. Benefit of the Research

This research is expected to provide benefits such as:

1.5.1. Theoretical Benefit

The result of this research is expected to be used as literature, reference and reading material for the academic purposes and theoretical development in

relation with the variable working in this research mainly related to the modernization of tax administration system, tax awareness and tax knowledge of taxpayer towards taxpayers' compliance in fulfilling taxation obligation.

1.5.2. Practical Benefit

The results of this research are expected to give a contribution to KPP Pratama Medan Polonia in providing the development in improving the services to the taxpayers, especially at KPP Pratama Medan Polonia for the taxpayer's efforts to increase taxpayer compliance are largely determined by:

- a. Awareness of taxpayers,
- b. Knowledge and understanding of taxes
- c. Tax service bureaucracy with the modernization of the taxation system.

1.6. Systems of Writing

The systematic of writing in this research include:

CHAPTER I: INTRODUCTION

This chapter provides an explanation about the background of the study, the problem limitation, the problem formulation, the objective of the research and the benefit of the research as well as the systems of writing.

CHAPTER II: LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

This chapter provides an explanation of the theoretical background, the previous research, the hypothesis development, the research models and the framework of thinking.

CHAPTER III: RESEARCH METHODOLOGY

This chapter provides an explanation of the research design, the population and sample, the data collection method, the operational

variable definitions and variable measurement and the data analysis method.

CHAPTER IV: DATA ANALYSIS AND DISCUSSION

This chapter provides an overview of the general view of research object, the data analysis, the descriptive statistics, the result of data quality testing, the result of hypothesis testing and the discussion.

CHAPTER V: CONCLUSION

This chapter provides an explanation of the conclusions, implications and recommendation of the research.

