

CHAPTER I

INTRODUCTION

1.1 Background of the Study

In the context of implementing national growth, a country must be supported by sufficient funding. This funds, which are the country's revenues, come from internal and external sectors. Tax is the revenue that is gained by a country from internal sectors. In Indonesia, tax is the country's primary source of revenue and has an important role in developing the country itself. As a big country with population of more than 270 million people, Indonesia needs to focus on various developments to generate growth in the society and create prosperity for the people. In order to do this development, Indonesia needs to have a large source of revenue and taxation is considered as the most important element in the country's national income.

According to Article 1 Paragraph 1 *Undang-Undang No. 28 Tahun 2007* about General Provisions and Procedures of Tax, tax is a mandatory contribution to the state owed by individuals or entities that is coercive based on the law, with no direct compensation and is used for the country's needs as big as possible for the prosperity of the people. Tax income that has been collected, will be managed by government for the use of financing central and regional government spending for the welfare of the people. In other words, the tax revenue that government collects from the community will eventually return to the community.

Sources of financing for development in Indonesia over the past decade have been majorly relying on tax revenue. It is evident that tax revenue always increases from year to year. The graph presented below shows Indonesia's revenue on the state budget from year 2016 to 2020.

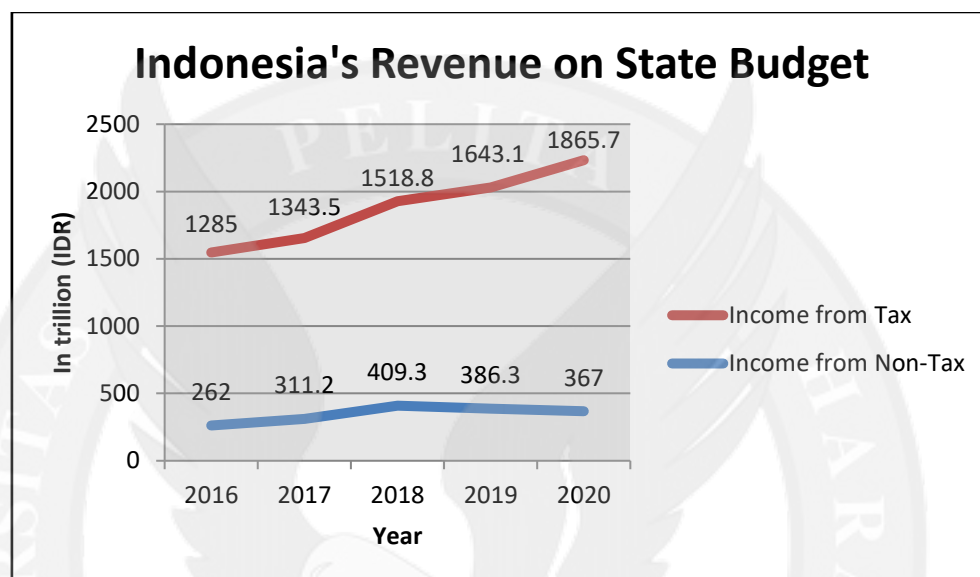


Figure 1.1 Indonesia's State Revenue (2016-2020)

Source: <https://www.kemenkeu.go.id/apbn2020>

From the Figure 1.1 above, it is shown that most of Indonesia's revenue stated on the State Budget (*APBN*) is sourced from tax collected from taxpayers. In 2020, the income from tax sector is IDR 1,865.7 trillion. This amount is higher than the income from non-tax sector which is IDR 367 trillion. This proves that tax revenue holds a crucial role as it provides the largest contribution to the country's income.

Indonesia introduced self-assessment system in 1983 to replace official assessment system. Self-assessment system is a tax collection system that gives authority and trust to taxpayers to determine the amount of tax payable by

themselves (Kellie, 2018). This system is expected to be able to provide ease for taxpayers in carrying out their obligations to the state. Every taxpayer is expected to have tax compliance and be responsible to pay and self-report the amount of his/her tax payable.

As stated by Siamena, Sabijono and Warogan (2017), taxpayer compliance is the obedience of taxpayers to fulfill their tax obligations in accordance with the applicable regulations. It is the awareness of taxpayer to pay, report and calculate their taxes in accordance with the law of taxation. If taxpayer compliance is high, government can receive more revenue. This revenue will then be used for country's development either in both short and long-term.

However, some citizens are still not aware of their responsibility as taxpayers. As a result, government could not achieve maximal result in doing development due to the high number of taxpayers who do not disclose the amount of tax based on the government regulation and some who tend to underpay the tax. The level of taxpayer compliance as a measure of role in the society in fulfilling tax obligation in Indonesia is still very low.

There are various of reasons taxpayers in Indonesia do not fulfill their tax obligations. According to Widyaningtyas (2020), lack of taxpayer compliance in Indonesia is caused by low level of tax knowledge understood by taxpayer. This issue can be seen where educational institution in Indonesia seldom taught about tax subject or tax knowledge. Whereas, taxpayers should have adequate knowledge about General Provisions and Procedures of Tax and also in paying tax, reporting tax and calculating tax in order to comply their tax obligations.

Another aspect that causes some taxpayers to not pay their utmost attention in obtaining the knowledge about their tax obligations is as they believe that tax is a burden that should be denied.

In fact, taxation knowledge is very useful and important for taxpayers in order to fulfill their tax obligation especially in the current pandemic situation. During the Covid-19 outbreak, our government through Ministry of Finance has issued several incentives in taxation field. The incentive of Article 21 Income Tax is applied to employees with certain criteria including those who have Taxpayer Identification Number (*NPWP/Nomor Pokok Wajib Pajak*) and who receive regular gross income that is not more than IDR 200 million per year. Besides, according to *Peraturan Pemerintah Pengganti Undang-Undang Republik Indonesia Nomor 1 Tahun 2020*, government also established tax relaxation such as lowering Income Tax (*PPH/Pajak Penghasilan*) rate for corporate taxpayer from 25% to 22% for 2020 and 2021 tax years, and to 20% for 2022 tax year. All of this information needs to be socialized to taxpayers so that they can receive better comprehension about tax. The examples of tax socialization given by government are by creating talk show about tax on radio or television, setting up tax advertisement on banners or billboards, and using social media platforms and teleconference media to share latest information about tax to taxpayers. By providing understanding of taxation for taxpayers so that they have good enough knowledge about tax, it is expected that taxpayer will increase their tax compliance.

The next factor that is considered to have impact on taxpayer compliance is tax sanction. Handayani and Damayanti (2018) mentioned that the existence of tax sanction can also increase the level of taxpayer compliance. Tax sanction is a preventive tool so that taxpayers do not violate taxation regulations (Mardiasmo, 2019, p. 72). As tax has a coercive nature under the law, tax penalties are applied if taxpayers violate tax regulations and do not comply their tax duties. Siamena et al. (2017) stated that tax sanction has an important role in providing lesson for tax offenders in order for them to not underestimate tax regulations and be obedient in paying taxes.

According to Siamena et al. (2017), in order for tax regulations to be obeyed, there must be tax penalties for the violators. The enforcement of these sanctions is in the form of administrative sanctions and criminal sanctions. In relation with taxation, the existence of *UU Nomor 11 Tahun 2020 about Cipta Kerja* has changed the rate in calculating administrative tax sanction in the form of interest in Indonesia. Currently, the rate of administrative tax sanction in the form of interest is no longer constant. Instead, it may change every month by following the movement of Bank Indonesia (BI) interest rate (Dewantari, 2020).

Tax sanctions act as a deterrent so that taxpayers do not violate taxation norms. It is crucial for taxpayers to understand tax sanctions in order for them to know the legal consequences of the actions taken or not taken. Therefore, taxpayers are expected to raise their level of taxpayer compliance by having the awareness that there are sanctions that should be paid if they do not fulfill their tax obligations.

Another factor that can also bring impact to taxpayer compliance is the implementation of e-Filing. E-Filing was first introduced by the government through “*Peraturan Direktur Jenderal Pajak Nomor KEP-05/PJ./2005* about the Procedures for Electronic Submission of Tax Return (e-Filing) through the Application Service Provider (ASP) Company”. According to Nurlaela (2017), e-Filing was made with the intention to provide convenience, comfort and satisfaction to taxpayers so that the taxpayers are willing to carry out their tax obligations. Tax reporting is used to be done manually by going to the tax office and filling out the paper-based form provided by the tax office. By the existence of e-Filing, taxpayers can report Annual Tax Return (*SPT Tahunan*) and also Periodic Tax Return (*SPT Masa*) by online via the website provided by Directorate General of Taxes (DJP Online) anytime and anywhere without having to go to the tax office.

According to Damian (2020), the Directorate General of Taxes temporary decreased face-to-face tax services and provided employees with guidance to work from home in line with president’s appeal to practice social distancing back in 2020. This situation certainly requires all taxpayers to learn, update and implement e-Filing system in order to fulfill their tax duty in reporting tax instead of visiting tax office. Moreover, the Covid-19 pandemic in Indonesia started during the time when taxpayers needed to report their Annual Tax Return (*SPT*). Taxpayers are indirectly required to learn and implement e-Filing system in order to avoid long queue and crowd in tax office.

Based on the explanation regarding the concept above, this research will focus on taxation knowledge, tax sanction and also the implementation of e-Filing as the factors that is expected to improve taxpayer compliance and this research will be conducted in KPP Pratama Medan Kota.

The realization of tax revenue at KPP Pratama Medan Kota is shown as follows:

Table 1.1 Realization of Tax Revenue at KPP Pratama Medan Kota in 2016-2020

No.	Year	Tax Revenue Target	Tax Revenue	Realization of Tax Revenue
1.	2016	1,533,809,707,000	2,053,673,396,316	133.89%
2.	2017	1,504,548,471,000	1,285,089,391,918	85.41%
3.	2018	1,580,529,228,000	1,477,234,047,921	93.46%
4.	2019	1,141,687,310,000	1,087,364,611,712	95.24%
5.	2020	997,020,000,000	871,291,014,630	87.39%

Source: Administration Staff and Statistic at KPP Pratama Medan Kota (2021)

From the table above, it can be seen that the tax realization of KPP Pratama Medan Kota in 2016 is 133.89%. This percentage is considered as high as it has surpassed 100%. It is high because in 2016, tax amnesty was conducted. Hence, the realization of tax revenue was a hit in that year. Followed by 85.41% in 2017, the tax realization decreased. This percentage is the lowest among year 2016 until 2020. Next, in 2018 the percentage of tax realization is 93.46% followed by a slight increase in the following year which is 2019 with a percentage of 95.24%. Lastly, in 2020, tax realization decreased again becoming 87.39%. The decreasing number of tax revenue resulted in the weakening of Indonesia's economy, which brought effect to the country's tax revenue.

The taxpayer compliance level at KPP Pratama Medan Kota is shown as follows:

**Table 1.2 Percentage of Taxpayer Compliance at KPP Pratama Medan Kota
in 2016-2020**

No.	Year	Registered Individual Taxpayers	Annual Tax Return of Individual Taxpayers	Percentage of Taxpayer Compliance
1.	2016	132,304	32,798	24.79%
2.	2017	140,119	32,111	22.92%
3.	2018	145,910	31,643	21.69%
4.	2019	175,693	42,454	24.16%
5.	2020	211,288	44,743	21.18%

Source: Administration Staff and Statistic at KPP Pratama Medan Kota (2021)

From the table above, it can be seen that the level of individual taxpayer compliance is still low at KPP Pratama Medan Kota. Starting from 2016, the percentage of taxpayer compliance is 24.79%. This percentage decreased in 2017, which is 22.92% and followed by a decrease in the following year, which is 2018 with a percentage of 21.69%. In 2019, there was a slight increase of taxpayer compliance becoming 24.16%. Lastly, in 2020, the percentage decreased again becoming 21.18%. This number is also the lowest percentage of taxpayer compliance at KPP Pratama Medan Kota during the period of 2016 until 2020. As the tax realization in KPP Pratama Medan Kota is still not optimal and the taxpayer compliance in KPP Pratama Medan Kota is considered as low, it is necessary to do a research on the factors that cause the low level of taxpayer compliance.

Previous research conducted by Sawitri et al. (2017) and Widuri et al. (2019) shows that taxation knowledge and tax sanction have significant effect toward taxpayer compliance. However, the research conducted by Fauziati et al. (2016) shows that taxation knowledge has no effect toward taxpayer compliance.

Besides, the research conducted by Rahmawati and Yulianto (2018) shows that tax sanction does not significantly affect taxpayer compliance.

In addition, previous research conducted by Waluyo (2017) shows that implementation of e-Filing has positive and significant effect on taxpayer compliance. Nevertheless, the research conducted by Wijaya and Sari (2020) shows that implementation of e-Filing does not affect taxpayer compliance. As there are different results of research from previous researches, further research is still required to confirm the relationship between these variables.

From the information explained, the writer is interested in doing a research in the form of *skripsi* titled “The Impact of Taxation Knowledge, Tax Sanction and Implementation of E-Filing toward Taxpayer Compliance at KPP Pratama Medan Kota”.

1.2 Problem Limitation

Tax compliance can actually be affected by many factors. In this research, the writer chooses taxation knowledge, tax sanction and implementation of e-Filing as the factors analyzed to find out the impact that they bring toward taxpayer compliance at Tax Office (KPP) Pratama Medan Kota. The scope of taxpayers being surveyed is 40 individual taxpayers registered at Tax Office (KPP) Pratama Medan Kota.

1.3 Problem Formulation

Based on the background of research, the problem formulations of this research are as follows:

1. Does taxation knowledge partially have an impact toward taxpayer compliance at Tax Office (KPP) Pratama Medan Kota?
2. Does tax sanction partially have an impact toward taxpayer compliance at Tax Office (KPP) Pratama Medan Kota?
3. Does implementation of e-Filing partially have an impact toward taxpayer compliance at Tax Office (KPP) Pratama Medan Kota?
4. Do taxation knowledge, tax sanction and implementation of e-Filing simultaneously have an impact toward taxpayer compliance at Tax Office (KPP) Pratama Medan Kota?

1.4 Objective of the Research

Based on the problem formulation, the objectives of this research are as follows:

1. To evaluate the impact of taxation knowledge partially toward taxpayer compliance at Tax Office (KPP) Pratama Medan Kota.
2. To evaluate the impact of tax sanction partially toward taxpayer compliance at Tax Office (KPP) Pratama Medan Kota.
3. To evaluate the impact of implementation of e-Filing partially toward taxpayer compliance at Tax Office (KPP) Pratama Medan Kota.

4. To evaluate the impact of taxation knowledge, tax sanction and implementation of e-Filing simultaneously toward taxpayer compliance at Tax Office (KPP) Pratama Medan Kota.

1.5 Benefit of the Research

The benefits of this research are divided into theoretical benefit and practical benefit, which are as follows:

1.5.1 Theoretical Benefit

Theoretically, this research is expected to provide knowledge in taxation field specifically about taxation knowledge, tax sanction and implementation of e-Filing and their relation toward taxpayer compliance.

1.5.2 Practical Benefit

There are some practical benefits that are expected from this research, which are as follows:

1. For the writer

This research is expected to improve the writer's understanding about taxation knowledge, tax sanction and implementation of e-Filing and their relation to taxpayer compliance.

2. For taxpayers

Through this research, the writer hopes that taxpayers will understand about tax knowledge, tax sanction and implementation of e-Filing with the aim to increase their tax compliance.

3. For KPP Pratama Medan Kota

The writer hopes that this research can provide inputs to KPP Pratama Medan Kota in analyzing the decrease of taxpayer compliance at the tax office by looking at the factors of taxation knowledge, tax sanction and implementation of e-Filing.

4. For other researcher

The writer hopes that this research can provide additional information to support further research about the taxation knowledge, tax sanction and implementation of e-Filing in relation to taxpayer compliance.

