

# CHAPTER I

## INTRODUCTION

### 1.1 Background of The Study

As we know tax has played an important role in our country, because one of the sources of our nation's income is from tax. The amount of revenue received by the state is determined by the Ministry of Finance upon presidential approval which is discussed together with the Member of Parliament (DPR). The source of state income will later be used to improve people's welfare as a manifestation of the fifth precepts, namely social justice for all Indonesian's citizens. At present, the source of Indonesian state income is dominated by taxes. Tax is a form of people's contribution to the state that must be paid by each taxpayer for the benefit of the government and the welfare of the general public. Sources of state income derived from taxes are divided into seven sectors, namely Income Tax, Value Added Tax, Sales Tax on Luxury Goods, Land and Building Tax, Export Tax, International Trade Tax and Import Duty (Gischa, 2020).

As we know that tax is also the biggest source of income for our state budget or it is usually known as *Anggaran Pendapatan dan Belanja Negara (APBN)*. Based on Article 3 Paragraph 4 of Indonesian Law Year 2003 No 17 regarding State Finance, there are five main goals or purposes of our state budget such as:

1. Functioning as authorization which become the basis of the nation's income and expenditure.
2. Being guidelines for the management in planning for the nation's activities.
3. Acting as a supervisor so that the existing budget can be used wisely to reduce unemployment and waste of resources.
4. Distributing the budget properly with elements of justice and appropriateness.
5. Maintaining and striving for balance in economic fundamentals.

(Member of Parliament, 2003)

Table 1.1 State Income Realization for year 2020

	State Budget (in Trillion Rupiah)	President Regulation No 72 Year 2020 (in Trillion Rupiah)	Temporary Realization (in Trillion Rupiah)	% to President Regulation No 72 Year 2020
State Income	2.233,20	1.699,95	1.633,59	96,10
I. Domestic Income	2.232,70	1.698,65	1.621,30	95,45
1. Tax Revenue	1.865,70	1.404,51	1.282,77	91,33
2. Non-tax Revenue	367,00	294,14	338,53	115,09
II. Grant Income	0,50	1,30	12,29	945,76

Source: Compiled by writer (2021)

Based on the data that are obtained from APBN per January 2021 and compiled by the writer in Table 1.1, we can see that there are four columns such as State Budget, President Regulation No 72, Temporary Realization and % to President Regulation No. 72. Usually we only compare temporary realization with the state budget but due to the COVID-19 pandemic, our nation's income is not in a stable state. Because of that, the government made a new regulation on 24<sup>th</sup> June 2020, which is called as President Regulation No. 72 year 2020. The main focus is to maintain quality and continuity of our state revenue and expenditure

with the purpose that our national economy or financial system can adapt with current situation and need to do readjustments to State Budget 2020 (Djaman, 2020). We can also see the details of Indonesia's state budget and temporary realization from the year 2020 in the Table 1.1. Our tax revenue is Rp 1,282.77 T and it is around 78.52% from our country's state income. From this, it is clear that taxes dominate our country's source of income (Kementrian Keuangan, 2021).

Table 1.2 Common Tax Revenue year 2020

Tax Revenue	Temporary Realization 2020 (in Trillion Rupiah)
Income Tax 21	140,78
Income Tax 25/29	169,81
Income Tax 26	53,47
Income Tax 4(2)	112,59
Value Added Tax	298,84
Import Tax	170,42

Source: Compiled by writer (2021)

Based on the data that are obtained from APBN per January 2021 and compiled by the writer in Table 1.2, it can be seen that the list of the common tax revenue in Indonesia and the temporary realization. We can conclude that Value Added Tax is the biggest contributors for our countries tax revenue after the Income Tax (Kementrian Keuangan, 2021). According to (Afifiyah, 2020) here are the top five contributors for Indonesia's Value Added Tax in 2020 :

1. Industry Sector (Rp64.06 T)
2. Trade Sector (Rp52.76 T)
3. Construction Sector and Real Estate (Rp16.02 T)

#### 4. Transportation and Inventory Sector (Rp11.96 T)

#### 5. Mining Sector (Rp7.98 T)

Based on the data above, healthcare and hospital are not included as the biggest contribution for Indonesia's VAT in 2020 although that we knew during 2020 not only Indonesia but all countries over the world is facing a pandemic or we know as Covid-19. According to (Moerti, 2020), the first case of coronavirus or Covid-19 in Indonesia was detected on March 2020, since then the number of infected people are keep increasing day after day. At the beginning of March there were only two people that were infected by coronavirus and by the end of December 2020, there were total of 743,197 cases of infected people and 22,138 people died because of it.

Based on the research conducted by Indonesia Services Dialog (ISD) it was stated that in 2016 the number of Indonesia's citizens taking treatment abroad had increased by almost 100 percent over the past 10 years. During 2006 there were 350,000 patients from Indonesia who went abroad for treatments but in 2015 the number increased to around 600,000 patients. In 2016 it was calculated that the expenditure of Indonesia's citizens for treatment abroad is around Rp.18.2 trillion. The most visited countries for treatments are Malaysia, Singapore and Thailand. In fact, about 2/3 of Indonesia's citizens ever had treatment in Malaysia. There are several reasons why they choose to have treatment abroad such as:

1. Countries such as Malaysia, Singapore and Thailand are quite responsive in responding to inquiries from prospective patients. In fact, several hospitals offer special packages for tourists who want treatment,

from accommodation to transportation. So, people feel they get more complete information about procedures and medical costs. These are some reasons most hospitals in Indonesia do not have on providing those information.

2. When viewed in terms of facilities and technological advances, Indonesia has actually provided them. It is just that not all hospitals can keep up with these technological developments.
3. Most of the hospitals in destination countries for treatment have accreditation through agencies that oversee the quality of hospital health services such as the Joint Commission International (JCI), International Organizational Standardization (ISO) 9000. Thus, the international certification labels ultimately make people more confident with the quality of service that has been offered.
4. In terms of costs, Malaysia is one of the countries with the lowest medical costs for Indonesia's citizens compared to other countries such as Singapore. This is also influenced by population growth which is not too high and followed by fairly stable economic growth.
5. It is undeniable that the average Indonesia's citizen who is undergoing treatment abroad is usually traveling at the same time. So, Indonesians choose a destination for treatment as well as want to refresh their minds by going to another country for a while. (Permatasari, 2019)

But during 2020, the COVID-19 pandemic caused several countries to ban flights to prevent the spreading of the virus and the Indonesia's citizens can not

have treatment abroad which cause the increasing patients in Indonesia's hospital. At the end of year of 2020, there are increasing in revenue for the healthcare industries and hospitals. According to (Kencana, 2020), CEO of Lippo Karawaci, John Riady, stated that PT Siloam International Hospital or the hospital industries is getting rebound in the Q3 of 2020 and in 5-6 years the income is increased by around 12%. According to (Manajemen Rumah Sakit, 2021), here are the list of hospital revenue which are listed at Indonesia Stock Exchange.

Table 1.3 Revenue of Hospital that are listed in Indonesia Stock Exchange

	Revenue (in Billion Rupiah)	Net Profit (in Billion Rupiah)
<b>PT Siloam International Hospitals Tbk</b>		
Q3-2020	1.825.551,00	81.247,00
Q2-2020	1.299.435,00	- 146.237,00
Q1-2020	1.876.316,00	16.195,00
<b>PT Medikaloka Hermina Tbk</b>		
Q3-2020	1.150.648,00	157.416,00
Q2-2020	748.272,00	32.398,00
Q1-2020	983.889,00	71.841,00
<b>PT Royal Prima Tbk</b>		
Q3-2020	73.411,00	15.433,00
Q2-2020	37.184,00	- 11,00
Q1-2020	45.657,00	2.299,00
<b>PT Sejahteraraya Anugrahjaya Tbk</b>		
Q3-2020	335.749,00	8.582,00
Q2-2020	193.876,00	- 53.556,00
Q1-2020	282.123,00	- 9.420,00
<b>PT Mitra Keluarga Karyasehat Tbk</b>		
Q3-2020	874.514,00	236.701,00
Q2-2020	566.635,00	89.972,00
Q1-2020	874.716,00	198.771,00
<b>PT Metro Healthcare Indonesia Tbk</b>		
Q3-2020	55.452,00	17.283,00
Q2-2020	49.858,00	- 5.539,00
Q1-2020	54.500,00	- 735,00

Source: Compiled by writer (2021)

From the table 1.3, it can be seen that hospital revenue decreased in the second quarter of 2020. In the third quarter, hospital revenue increased in almost all open hospitals. Hospital revenue is one of indicator of the hospital's



performances. There are many other aspects of financial performance that need to be researched whether the COVID-19 pandemic causes hospitals to experience a decline in financial performance or vice versa.

According to (Maulida, 2018), hospital provides various forms services, including: consulting services with expert doctors, inpatient services, inpatient services the way by providing medicines, medical check-up services, laboratory services, services radiology, physiotherapy services, and many more. It is same with the other organizations or companies, hospitals also have an obligation to pay taxes.

As mentioned in article 4 A paragraph 3 of Law Number 42 of 2009 Value Added Tax of Goods and Services and VAT on Luxury Goods, in addition to goods that are not subject to VAT, there are also services that are not subject to VAT. One of the services mentioned is services provided by hospital is not subject to VAT (Member of Parliament, 2009a). Based on the explanation, it is clear that services that is provided by hospital is not subjected to VAT, but the medicine that are sold or consumed by the patients are subjected to VAT. Every hospital must have a pharmacy. Pharmacy is a place to store medicine and medical supplies that why it is inseparable with hospital. Based on the practical, medicine can be used either by inpatient or outpatient. If it is used by inpatient, it is considered as part of the services and not subject to VAT but if it is considered as subject to VAT when it is used by outpatient.

According to (Rizka, 2019) Murni Teguh Memorial Hospital is one of the best private hospital based in Medan which is located at Jl. Jawa No 2 and it had been operated since 2012. Definitely Murni Teguh Memorial Hospital also has a

pharmacy at the hospital and the medicine can be used for both patients such as inpatients and outpatients. Based on the preliminary research conducted by the writer through an informal interview session with the Tax and Accounting personnel of Murni Teguh Memorial Hospital, the writer found out that the Value Added Tax (VAT) imposition at the hospital is considered inconsistent. The inconsistency can be found in the method of calculation and reporting between the former staff and current staff. It shows differences in the method of calculation and reporting that led to a summon letter issuance by the Directorate General of Taxes. Based on the background study elaborated above, the writer is interested in conducting the internal tax audit on the implementation and calculation of VAT at Murni Teguh Memorial Hospital to review if the VAT imposition has been applied in accordance with the VAT policy and regulation valid in Indonesia. Therefore, the writer prepares the research with the title of “Internal Tax Audit on Value Added Tax to Evaluate Tax Compliance at Murni Teguh Memorial Hospital.”

## **1.2 Problem Formulation**

Based on the background of study described above, a number of issues can be formulated which will be further studied through this research, as below:

- a. Is the Value Added Tax (VAT) calculation at Murni Teguh Memorial Hospital has been applied in accordance with the VAT policy and regulation valid in Indonesia?
- b. How to implement the internal tax audit towards the calculation and reporting of Value Added Tax (VAT) in order to evaluate the tax compliance at Murni Teguh Memorial Hospital?”



### **1.3 Research Focus**

The objectives of doing this research is to know how the implementation and calculation of Value Added Tax at Murni Teguh Memorial Hospital. Discussion in the calculation of VAT at Murni Teguh Memorial Hospital includes evidence of VAT reporting for the year 2020.

### **1.4 Research Objective**

The purpose of the research carried out is to:

- a. To find out about whether the Value Added Tax (VAT) calculation at Murni Teguh Memorial Hospital has been applied in accordance with the VAT policy and regulation valid in Indonesia.
- b. To find out the steps for conducting the internal tax audit towards the calculation and reporting of Value Added Tax (VAT) in order to evaluate the tax compliance at Murni Teguh Memorial Hospital.

### **1.5 Benefit Of The Research**

#### **1.5.1 Theoretical Benefit**

The research is expected to provide knowledge about Value Added Tax policy and regulation valid in Indonesia. It is specifically providing knowledge on how an internal tax audit should be properly conducted as part of an effort of the taxpayers to be complied with the Indonesian taxation regulations.

### 1.5.2 Practical Benefit

The benefits obtained from the results of this study are:

- a. For the healthcare industry companies.

The result of this research is expected to be used as guidance on how to conduct internal tax audit in related to the imposition of Value Added Tax. Because of that, it can be applied properly based on the VAT policy and regulation valid in Indonesia and also to consider the tax compliance of the healthcare industry companies.

- b. For authors and readers.

The result of this research is expected to be used to provide insights for the regarding on how important to conduct internal tax audit on Value Added Tax to increase the tax compliance of the healthcare industry companies.

