

# CHAPTER I

## INTRODUCTION

### 1.1 Background of the study

Indonesia has taken numerous initiatives to stimulate economic growth and continues to expand state development in order to transform it into a developed country. Funds are unquestionably required for Indonesia to continue growing. Taxation accounts for a sizable portion of governmental revenue, and, as such, is a critical component of a country's growth (Maisaroh, 2017).

Due to the importance of tax, the government of Indonesia has adopted several tax assessment systems, such as the official assessment system, the self-assessment system, and the withholding system. The official assessment system is a tax-collection system that gives the government (fiscus) the authority to figure out how much money taxpayers owe in taxes. On the other hand, the self-assessment system is a tax collection system that authorizes or allows the taxpayers to calculate, withhold, and self-report the amount of tax payable. While the withholding system is a tax collection system that authorizes third parties, which are not the tax authorities and are not the taxpayers concerned in calculating, to report taxes on their behalf. (Mardiasmo, 2016)

Under the self-assessment system, there is a likelihood that individuals or entities incorrectly file their tax returns. Underpayment or overpayment of tax obligations can occur if they do not adhere to the rules and regulations.

These scenarios have the potential to have a negative impact on taxpayers in the future. In the event of underpayment of tax, tax administrative penalties or sanctions will be applied, whereas in the event of overpayment, the Account Representative will conduct a tax audit (Rusli & Nainggolan, 2021). As a result, at the end of each taxable year, a tax review is required in order to ensure that the taxpayer is in compliance with the law and to reduce the risk of imposition of additional taxes (Setiawan & Setiawan, 2018).

Tax review is the process of examining all business transactions in order to determine the amount of tax payable and forecast potential tax liabilities based on applicable tax laws and regulations (Andayani et al., 2020). In most cases, tax reviews are carried out by an internal party within the company, such as the accounting department or the finance department. However, it can also be done by a third party who has a deeper understanding of the applicable tax laws (Pratiwi et al., 2019). The purpose of tax review is to ascertain whether there are any errors in the implementation of tax requirements that are inconsistent with tax procedures, in order to make necessary improvements and adjustments to the provisions in accordance with applicable laws (Rismawaty & Wijaya, 2017). As a result, it is preferable for the taxpayer to review their tax obligations prior to the account representative conducting the tax audit (Dewi & Setiawan, 2016).

Tax reviews are usually carried out before an external tax audit conducted by the government because companies can then be more prepared to answer questions from the Account Representative (Ayuningsih & Setiawan,

2016). Furthermore, a review will be done on the obligations that have been carried out. From the evaluation of these two things, the Account Representative will determine the company's tax compliance, whether the company has carried out all tax obligations properly (full compliance), or there are obligations that have not been or are not implemented (under compliance), or if there is an excessive fulfillment of obligations (over compliance) (Nasution et al., 2020).

PT. Rusindo Prima Food Industri is an Indonesian company based in Binjai, North Sumatra. This business is involved in the manufacture and distribution of snack products. The company has calculated the amount of income tax that must be submitted and reported to the government at the end of the fiscal year. Therefore, this business must conduct a tax review to determine compliance with the aim of paying taxes in accordance with regulations that have been set by the government.

It is known that this entity uses a self-assessment system in its tax reporting which means that the tax calculation and reporting activities are carried out without the help of a tax consultant and are calculated by the finance department itself. According to the information obtained by the writer, the finance department of PT. Rusindo Prima Food Industri are known to frequently change employees, this can cause errors in calculations and uncertainty in the implementation of systems and regulations. From the preliminary research conducted by the writer, it was found that there was a wrong recording of company expenses that caused errors in the fiscal financial statements that

affected the amount of tax reported. According to the preliminary tax review, the writer will conduct a tax review to ensure whether this entity complies and follows applicable state laws to fulfill its responsibilities in paying its tax payable.

Through this research, a tax review will be carried out in this entity to avoid future problems such as additional tax penalties or the worst scenario, imprisonment. Andri et al., (2021) stated that “the existence of a tax review can provide a deeper understanding of the company and many parts that can be improved before an external tax audit is carried out by the tax officer”. Therefore, the writer will analyze and discuss this issue through the publication of a research paper entitled **"TAX REVIEW IMPLEMENTATION ON ENTITY INCOME TAX TO EVALUATE TAX COMPLIANCE AT PT. RUSINDO PRIMA FOOD INDUSTRI."**

## **1.2 Problem Formulation**

From the explanation of the background that has been discussed, the writer can identify the problem in this research, which is "How to implement a tax review on the calculation and reporting of entity income tax in the context of evaluating tax compliance at PT. Rusindo Prime Food Industri?"

## **1.3 Research Focus**

This research will only focus on the calculation of corporate income tax in 2020. This procedure is carried out in the corporate taxation section which

includes data of the income statement and the Annual Corporate Income Tax Return of PT Rusindo Prima Food Industri. The writer will carry out a tax review with the aim of finding out whether the company calculates corporate income tax in accordance with the applicable tax regulations and procedures in Indonesia. With the data obtained, the writer will analyze whether the company complies with tax regulations by analyzing fiscal corrections and company tax reports.

#### **1.4 Research Objective**

The writer can conclude the research objective from the background discussion that has previously been discussed is to gain a better understanding of how tax reviews can be implemented on the calculation and reporting of entity income tax in order to evaluate the tax compliance of PT. Rusindo Prima Food Industri.

#### **1.5 Benefit of The Research**

The writer's research is expected to have a significant impact and contribution to the company's increased understanding of taxation and compliance. The benefit of the research is divided into two categories in this section: theoretical and practical. In terms of theoretical benefit, the writer of this research hopes to advance theoretical thinking, particularly in the area of taxation. While the practical benefits are expected that the company can

practically fulfill its tax obligations honestly and in accordance with the validity of tax provisions.

### **1.5.1 Theoretical Benefits**

This research could be important for researchers and academics:

1. To understand more about the procedures of tax review in order to minimize the possible future risks of additional sanctions toward the company.
2. To become a reference for the future research with the same topics
3. To contribute for the improvement of knowledge about the taxations procedures and regulations applied during the tax review conducted.

### **1.5.2 Practical Benefit**

The outcome of this study is expected to be beneficial to the company:

1. To gain an understanding on how tax review could help in mitigate the risk of future administrative penalties due to a low level of compliance.
2. To gain a better understanding of the taxation procedures in Indonesia in preparation for future tax planning.