

CHAPTER I

INTRODUCTION

1.1 BACKGROUND OF STUDY

The owner will consider the many factors in determining business types such as capital and tax. Changing type of business is part of the activity every business person does when their business is growing well or needs to be expanded more, but they need to calculate the cost before making a decision, to make sure they make a good decision, and predict the tax, see what is more profitable for the company. The company has many choices in determining the form of business types. Form of business types will determine the legal form, the number of owners, decision making and activities in the company. Some forms of business entities that can be implemented in Indonesia are sole proprietorship, partnership, cooperative, foundation, limited companies and other business forms. Each form has certain advantages and disadvantages. Most of the business entities have goals in obtaining profit as much as possible but the obstacle occurs that the higher the income will increase the tax payment. Many business entities have failed in maintaining the sustainability of their business, so it takes many considerations in running business. Therefore, it is necessary to study the differences of business.

Business types consist of sole proprietorship business types and entity business types. Sole proprietorship is a business type that is established by an individual without involving a partner in conducting the business activities. Sole proprietorship business types are simpler than other business types. Entity business types are business types that are established by more than one person with the same purposes. The term entity is defined as a group of persons and/or capital as a unity whether or not it conducts business or activity which covers limited companies, limited partnerships, other types of companies, state

owned or local owned enterprises in whatever name and form, firm, cooperative, pension fund, partnership, association, foundation, public organization, social political organization or other similar organization, institution, and other forms of entities. The company in decision of business types should consider many tax factors such as income tax rate, imposition of double income tax of net income and income from dividend distribution, opportunity to postpone the tax imposition, regulation of loss of operation, regulation of fringe benefit and payment in kind. The consideration of business types can be done with considering income tax rate. The income tax rate each year for individual taxpayer and entity taxpayer is different. The individual taxpayer is imposed with progressive income tax rate. Entity taxpayer is imposed with proportional income tax rate. Therefore, partnership and corporation is imposed with proportional income tax rate. However, there are difference tax treatment in partnership and corporation such as tax treatment of dividend and salary of owner as employee in the company. The company should consider the tax factor in determine the proper business types decision.

Each form of business entity has different tax consequences. The consequences related with changes in the form of business entity that is based on the consequences of the Income Tax Provision. Comparison of the form of business entity can give information the appropriate business type that must be chosen by the owner. Minimize the tax expense can be done in various ways. In practice, there is a difference of interests between the government and taxpayer. Taxpayer tries to pay tax as small as possible because paying tax means reducing the economic capability of the taxpayer. On the other hand, the government needs funds to financing the country development. The most of funds comes from tax revenues. In general, the owner of business considers tax payments as burden so they will try to minimize the burden to optimize profits. In order to improve the

efficiency and competitiveness of business, the owner of business should minimize the tax payment. One way to minimize the tax payment is in choosing the business type.

This research is done to UD Sejati Abadi Medan as the company that engaged in general electric distributor in Medan. The company has sales over Rp 4,800,000,000.00. Therefore, the company is not imposed with final income tax in 1% from revenue based on Government Regulation Number 46 of Year 2013. The company is imposed tax rate for individual taxpayer based on Income Tax Law Number 36 of Year 2008. In line with the company's development and expansion, the company wants to increase the capital with adding the number of investor. With changing business types from sole proprietorship business type to partnership or corporation business type, the company can increase the source of fund because there is additional of owner. The company's capital consists of one owner. The owner work in the company as director. The company gives the salary to owner as director each month and pay dividend to the owner each year. The company does not conduct the withholding tax of Article 21 Income Tax and Article 4 paragraph 2 Income Tax because the salary and dividend to owner in sole proprietorship company are not taxable object. Therefore, the company conduct the fiscal correction to director's salary in determining taxable income. The company also reduce the owner's non taxable income to company's net income in determining taxable income.

The company will add the new owner with result that there are two stockholders in the company. Therefore, the company must change the tax subject from individual taxpayer to entity taxpayer. Partnership and corporation are imposed with proportional income tax rate based on Income Tax Law Number 36 of Year 2008. Dividend to owner is imposed with Article 4 paragraph 2 Income Tax in corporation while dividend to owner of partnership is not imposed

with Article 4 paragraph 2 Income Tax. Salary of owner as employee is imposed with Article 21 Income Tax and can be recognized as deductible expense in corporation according to Income Tax Law while salary of owner as employee in partnership is not imposed Article 21 Income Tax and cannot be recognized as deductible expense. There are differences between partnership and corporation in implementing income tax rates, fiscal correction of salary to owner, Article 21 Income Tax of owner's salary and Article 4 paragraph 2 Income Tax of dividend to owner.

Based on the above description, the writer is interested in doing research with taking title “**The Analysis of Changing Business Type Decision Towards the Amount of Income Tax Payable at UD Sejati Abadi Medan**”

1.2 PROBLEM FORMULATION

Based on the background study above, the writer will make the problem formulation as follows: Which business type partnership or corporation that will be more appropriate to be implemented at UD Sejati Abadi Medan in minimizing the income tax payment?

1.3 RESEARCH FOCUS

The company will consider many aspects in making decision to change business types such as tax, legal and financial matter. There are many types of business types such as partnership, corporation and so forth. The company must know the consequences of each business type to income tax payment. With considering the time of research and writer's ability, the research will be focused on the impact of changing business type to partnership and corporation on income tax payment at UD Sejati Abadi Medan in taxable year 2017.

1.4 RESEARCH OBJECTIVE

The objective to the study is to know either partnership or corporation business type will be more appropriate to be implemented at UD Sejati Medan in minimizing the income tax payment.

1.5 BENEFIT OF THE RESEARCH

The benefits of this research can be seen as follows:

1.5.1 THEORETICAL BENEFIT

1. This research can increase the writer's understanding in calculation of income tax payment in partnership and corporation.
2. This research can increase the writer's experience in making decision of business types with considering tax consequences of each business types.
3. This research can be used as reference for other research with same topic.

1.5.2 PRACTICAL BENEFIT

Practical benefits of this research are as follows:

1. This research can give suggestion for company in choosing the appropriate business type in minimizing income tax payment.
2. This research can give input to other company that want to change business types with considering the tax consequences of each business types.

1.6 SYSTEMS OF WRITING

The systems of writing in this *skripsi* will be as follows :

Chapter I : Introduction

This chapter will describes background of the study, problem formulation, research focus, research objective,

benefit of the research and systems of writing. In this chapter, it describes types of business form, tax consequence of each business type, current business type in company, calculation of income tax in the company and the planning of company in changing business type.

Chapter II : Literature Review

This chapter will describes theoretical background, previous research and framework of thinking. The writer will explains some of theories related with this research such as classification of business form, equity in each business form, difference between partnership and corporation, income tax subject, income tax object, deductible expense, non deductible expense, income tax rate, income tax calculation, tax planning, characteristic of tax planning, purpose of tax planning and tax aspect in choosing business form.

Chapter III :Research Methodology

This chapters presents research design, research object, data collection method and data analysis method. In this chapter, it describes the qualitative and descriptive research design used in analysis of business types decision on income tax payable. Data collection methods used are documentation and communication with employee. Data analysis method shows the step in analysis of tax consequence from each business types that will be used in determining appropriate business type.

Chapter IV : Data Analysis and Discussion

This chapters shows general view of company data analysis and discussion. In general view of company, it describes the company history, organization structure,

job description, current business types in the company, calculation of income tax and the payment of salaries and dividend to owner. In data analysis and discussion, it describes the analysis tax consequences in partnership and corporation and the comparison of income tax payment between partnership and corporation.

Chapter V : Conclusion

This chapter presents the conclusion of this research in determining appropriate business type to minimize the income tax payment. The implication in changing of business type on income tax is given based on research result. The writer also gives the recommendation in determining appropriate business type for minimizing income tax payment.

