

CHAPTER 1

INTRODUCTION

1.1 Research Background

Tax is a contribution to the State under the law (which can be enforced) with no reciprocal merit (contra) directly demonstrated, and are used to pay for general expenses of the state (Waluyo, 2013). According to tax laws philosophy, pay taxes is not just an obligation, but it is the right of every citizen to participate in the form of participation of the state and national financing development. Huge tax role in the economic growth of a country, include Indonesia as a developing country. Tax revenues to be one element of this country, as stated in Law No. 17 year 2003 on State Finance, has a strong influence on the country. Tax revenue is very important because tax revenue is one source of revenue to finance the regional and local economic development.

The main target of the country's financial policy in the domestic revenue is to explore, encourage, and develop sources of state revenue, increased in accordance with the needs of development. One thing that government wants to improve to support domestic revenue primarily tax is from business sector. Business growth in Indonesia is indicators of the rapid increase in potential government revenue in taxes even though not reflect the desired condition. Therefore, the Government continues and enhances the main points of tax policy so that can synchronize with existing tax laws that might be expected to stimulate the economy.

Budget of the State in 2013, state revenues from the tax sector targeted of 1,193,000,000,000 rupiahs or by 77.99% of the total state revenues (Ministry of Finance, 2013). Directorate General of Tax (DGT) has a responsibility to achieve these targets because DGT is an institution that has the authority and responsibility in the implementation of tax administration in Indonesia. DGT prepared many ways to meet the target of tax revenue, for example, (1) by making improvements in tax administration system to improve taxpayer compliance, such as e-filing, (2) conduct extension of individual taxpayers high- and middle-income, (3) expanding the tax base, including the sectors which have not been too much explored such as trading sector (micro and small entities), (4) make improvements on tax laws to better provide legal certainty which is fair and reasonable, and (5) optimize the use of data and information relating to the tax from other institutions.

The percentage of taxpayer compliance rate in 2012 was still very low. An individual who is supposed to pay taxes or who have income above the personal exemption (PKP) as many as 60 million people, but the number who registered himself as a taxpayer and only 20 million people who pay taxes or report tax return is only 8.8 million people with tax return ratio of approximately 14.7 percent. While the business entity that is registered as many as 5 million, which would register themselves as only 1.9 million taxpayers who pay taxes and /reporting tax return only 520 thousand enterprises with tax return ratio of approximately 10.4 percent. That's why DGT needs data and information from other institutions to provide valid data on taxpayers.

Real fact explained that not all taxpayers comply and pay taxes accordance with applicable regulations. There are many reasons given by the taxpayer, such as unwillingness in reporting their real property, unwillingness to visit the tax office in order to fulfill their tax reporting obligations because the tax office is far from their house or their office, and difficulties on calculate the tax. Tax compliance costs incurred as a result of the complexity of the regulations or procedures of tax and tax collection system (Rahayu, 2010:154). Turner *et al.*, (1998) stated that the cost of compliance may imply costs to be incurred by the taxpayer beyond the cost of the tax by the taxpayer in order to meet the tax obligations are not onerous and does not hinder the fulfillment of the taxpayer in making his tax liability.

In other hand, Government efforts to increase domestic revenues from the tax sector, among others, by changing the tax collection system from the official assessment system becomes self assessment system which was implemented since the 1983 reform of the tax system is very influential for the taxpayer to give credence to the taxpayer for calculate, pay, and self-reported the amount of tax that should be payable. Changes in the tax system is intended to make the taxpayer as an independent subject in the fulfillment of the right to participate to participate in financing the construction and simplification as well as increased efficiency in tax administration. Self-assessment system also requires the taxpayer to be ready to face the testing compliance reported on the tax, which is facing the examination.

Self-assessment system is causing rising costs of tax compliance, as evidenced by the number of taxpayers who find it difficult to prepare tax return (SPT) because of lack of knowledge. In addition to the tax payers have to sacrifice transportation and administrative costs to the bank or post office to make deposits. Taxpayer also must take the time to read the instructions to prepare tax return, filling, calculating the amount of tax to be paid under the rules and submit to the Tax Office (Suryana, 2012). Mostly, Micro, Small, and Medium Entities (SMEs) hire a tax consultant or someone who understands the tax to manage their tax.

Wallschutzky in Sandford (1993) stated that inefficiency of tax administration system caused high level of tax compliance cost which is one factor contribute to the increasing practice of tax evasion. This can be explained by the notion of Social Exchange Theory Homans and transaction cost theory (as part of the concept of transaction cost economics) that people naturally have the properties to always try to lower the tax burden or even avoid it (Mangkoesubroto, 1994:195). To improve tax compliance, tax compliance costs must be kept to a minimum by the government, because it has the potential to make non-compliant taxpayers. Then, attempt to identify and conduct an analysis of the elements in the tax compliance costs itself so that the effort to revamp the tax policy implementation can conform on target.

Indonesia's economy is dominated by business activities based on micro, small and medium enterprises (MSMEs). The number of MSMEs units up to 2012 amounted to 56,534,592 units consist of micro enterprises amounted to 55,856,176 units, small businesses totaled 629,418 units and medium-sized

enterprises amounted to 48,997 units, while large enterprises amounted to 4,968 units. The percentage of total MSMEs units in Indonesia based on previous data is 99.99% and large businesses have a percentage of 0.01% (www.depkop.go.id). Large number MSMEs units in Indonesia should also be reflected in tax revenue. However, tax revenue is dominated by a large taxpayer whose number is less than 1%, which is the remaining taxpayer engaged in MSMEs (Rakhmad, 2012). For MSMEs, the tax is still seen as a burden, which should be avoided as much as possible.

Amount of the tax potential in economy especially from private sector, makes DGT want to expand their tax bases. The Government began to look private sector because private sector has great potential for income taxes, such as Micro, Small and Medium Enterprises. Micro, Small and Medium Enterprises turnover and profit is much smaller than the big companies. But the existence of these entities can be found in almost all the way in fact able to contribute significantly to economic growth. Unfortunately, from the side of tax compliance of MSMEs is still many deficiencies. Many MSMEs Taxpayers who willfully fails to report and pay taxes due to several factors, such as regulations that are difficult to understand. For MSMEs taxpayers who still use a simple accounting calculations have not been able to arrange the books in detail, it is also a factor weakening the level of tax compliance in particular MSMEs. It is the duty of the government to simplify existing regulations.

The high cost of tax compliance is lead people are unwilling to pay taxes as well as MSMEs sector. According to Prasetyo (2008) to reduce tax compliance

costs is the simplification of the tax system. Seeing this phenomenon, the government took the initiative to simplify tax laws. To increase tax revenues and reduce tax compliance costs, the government issued Government Regulation (PP) number 46 year 2013 concerning income tax on income from businesses that received or accrued by the taxpayer has a certain gross turnover. Income tax imposed to the taxpayer individual or entity that has an income of businesses with gross income does not exceed 4.8 billion rupiah in one year. Income from this business doesn't include income from services relating with independent work. In terms of taxation, the imposition of income tax on gross income with certain rates is known as one of the ways of applying the presumption tax or presumptive taxation (Thuronyi, 2003). In this case the tax authorities consider that taxpayers obtain a minimum amount of net income that is required to pay a certain percentage of taxes.

Besides Indonesia, other countries such as Philippines, Malaysia, Thailand and China also apply a presumptive tax to certain taxpayer groups that generally are those that allegedly are not willing to voluntarily register to obtain a taxpayer identification number (TIN) and those who have registered but did not report the actual earnings (Terkper, 2003). The individual entrepreneur, farmer groups and professional workers who perform transactions with cash is also being targeted application of presumptive tax. This group is referred to as a group called hard to tax group. Even small and medium entrepreneurs are also included in the group (Tanzi and Casanegra, 1989). The presumptive tax have some advantages, especially its effectiveness in reducing the administrative burden of tax

administration and the taxpayer (tax authorities) because the tax calculation is very simple, equitable distribution of the tax burden and to eliminate tax evasion and smuggling (Thuronyi, 2003).

Article 4 paragraph 2 e of Law No 36 year 2008 of the Fourth Amendment of Law No. 7 year 1983 about income tax mentioned that certain income may be subject to final income tax is regulated by or under Government Regulation. Accordingly, on 12 June 2013, the government issued Government Regulation (PP) number 46 year 2013 concerning income tax on income from businesses that received or accrued by taxpayers has a certain gross turnover effect on 1 July 2013. Government issued this regulation is intended to provide convenience for individual taxpayers and entities that have a gross turnover of certain necessary provisions regarding the calculation itself, depositing, and reporting of tax payable. Limit circulation of business and individual taxpayers in the enterprises of 4.8 billion rupiahs, the amount of turnover is still within the scope of MSMEs according to law No. 20 year 2008 on micro, small, and medium enterprises. Before the implementation government regulation (PP) No. 46 year 2013, MSMEs used Income Tax Article 25 and government gave specific provisions governing the tax rate of MSMEs, but only a form of business entity. Law No. 36 year 2008 about Income Tax in Article 31 letter e noted that the taxpayer's gross domestic distribution facility reached 50 billion received in the form of tariff reduction of 50 percent of the general rate set out in article 17 paragraph 2 of Income Tax Act imposed on taxable income from the gross turnover of up to 4.8

billion rupiahs. The enterprises income tax rate, amounting to 25 percent, then the taxpayer is eligible tariffs as high as 12.5 percent.

Aside from simplicity tariffs set is one percent of the gross turnover, to further optimize Government Regulation PP number 46 year 2013 Directorate General Tax facilitate payment of taxes with the help of Automated Teller Machine (ATM) in collaboration with banks such as BRI, Bank Mandiri, or BTN to simplify the process of paying taxes and ease of applying for tax-exempt certificate. In this case the government has done its best efforts to increase the number of state cash receipts. Low cost and easy process is expected to be able to encourage MSMEs Taxpayers who already have TIN or people does not have TIN to immediately implement their tax obligations.

Thing that affect the tax compliance is the amount of tax compliance costs imposed on taxpayer (Coolidge, 2012). Holtzman (2007) in his study mentioned that a simple tax system would reduce the tax compliance burden compared with the complex tax system. While Priantara (2011) concluded that needs, convenience, sanctions, and the perception has significant effect on individual taxpayer's compliance of small and micro entrepreneurs.

As in most cases the change also made the pros and contra. Good intentions of the government to provide ease and simplification of tax regulations and giving people the chance to contribute to the implementation of the country does not seem to be acceptable to the community, especially MSMEs. The government argues that the change rate and basis of computation should be very profitable for taxpayers because MSMEs can provide convenience and

simplification of tax payment. In fact, MSME Taxpayers gave negative responses, because the tax paid is greater than the tax paid by embracing the old regulation. Moreover, with no compensation for the loss, profit and loss remain taxed 1% of turnover. So some MSMEs reject or even pretend not to know of the existence of the new regulations. The phrase "give ease of paying taxes for MSMEs" does not seem to be able to encourage more MSMEs to Taxpayers pay taxes discipline, evidenced by the number of MSMEs that still has a high gross turnover but not paying taxes.

The imposition of income tax final settlement of income tax means that after one percent of the gross turnover calculated each month, the tax liability on such income has been deemed complete and final. Whereas if the review of the concept of fairness in taxation (equity principle), the imposition of final income is not in accordance with justice because it does not reflect the ability to pay. Fair taxation is the greater income the greater tax to be paid. This is called the vertical equity (Musgrave & Musgrave, 1976). Income is meant here is the net income, i.e. after deducting the costs of gross income, deduction allowed by tax regulations (Mansury R, 1996). Since the final income is calculated directly from the gross turnover taxation not in accordance with the concept of fairness in taxation due to the size of the net income of a person or business entity shall not affect the amount of taxes to be paid as the tax rate is calculated by multiplying the gross turnover directly. According to Vogel, Spicer, and Becker in Richardson (2006) taxpayers tend to avoid paying taxes if they consider unfair tax system. This suggests that fairness in taxation affect taxpayer compliance.

Tax benefits and tax fairness for taxpayer aims to improve taxpayer compliance. Compliance is an attitude that is willing to do everything, which also constituted by consciousness and absence of coercion, which can make a person's behavior as expected (Mahon, 2001). One of the goals of the government regulation (PP) No. 46 year 2013 is the increased voluntary compliance. Harahap (2004:43) states that espoused self-assessment system has mission and the consequences of changing attitudes (awareness) citizens to pay taxes voluntarily (voluntary compliance). Compliance voluntarily meet tax obligations are the backbone of the self assessment system.

Issues regarding tax compliance are a frequent problem in the field of taxation. Research in this area was often done. Research on tax compliance is very important, given the role of taxation in promoting development in Indonesia is very large. Some research on tax compliance of which was done by Resyniar (2014) most entrepreneurs of MSMEs do not agree with the change and the basis for calculating the tax rate, entrepreneurs agreed that the easiness and simplicity of tax can help people and entrepreneur in paying tax, entrepreneurs argued that the purpose of Government Regulation (PP) No.46 year 2013 do not educate people to apply discipline administration and transparency in paying tax, entrepreneurs argued that the socialization of Government Regulation (PP) No. 46 year 2013 is not maximum yet.

While research result done by Butar (2013) said that the impact of the implementation of Government Regulation (PP) No. 46 year 2013, the amount of tax paid is become smaller than using the old regulation. Implementation of new

regulation minimizes the occurrence of mistakes in determining the amount of corporate income tax that must be paid.

Research conducted by Susilo (2014) said that understanding of the taxpayer of Government Regulation (PP) No. 46 year 2013 is still low. Some taxpayers only know the rate of Government Regulation (PP) No. 46 year 2013, most of taxpayers does not know and understand the rules se. Government efforts to apply this rule to taxpayers so that they understand the new tax laws enacted MSMEs and MSMEs willing to pay taxes on that they have not maximized. Individual taxpayer has not received counseling or deeper explanation for this rule. Counseling is only done on corporate taxpayers only, so not all taxpayers understand and understand the Government Regulation (PP) No. 46 year 2013.

Based on the phenomenon and the results of previous studies, the research will understand the impact of the enactment of Government Regulation (PP) No. 46 year 2013 on tax collection system on MSMEs and the compliance of MSME taxpayers. Research location is in Surabaya because Surabaya is a strategic place that number of trade and service MSMEs, which is about 260,762 registered in the Department of Cooperatives. In addition, during 2012, MSMEs in Surabaya achieve the greatest turnover of approximately 62.5 billion according to the Central Bureau of Statistics of East Java. The study was conducted on two companies in Surabaya; there are trade and service MSMEs to determine the extent of the roles, benefits, disadvantages and impact of changing of taxation collection system. Service and trade choose because in general service MSMEs have greater margin than others, and trade MSMEs have the lowest margin than

others. So, there is a big different impact between trade and service MSMEs because effectuation of Government Regulation (PP) number 46 year 2013. Based on the above background, research is developed in the form of thesis entitled "The Impact Of The Enactment Of Government Regulation (PP) Number 46 Year 2013 To Taxation Collection System And The Compliance Of Micro Small Medium Enterprises Taxpayers (Cases Study On CV. X & PT. Y)"

1.2 Problem Formulation

According to the background information above, the problems that will be discussed in this research are:

1. How does the impact of the enactment of Government Regulation (PP) number 46 year 2013 to tax collection system on Micro Small Medium Enterprise Taxpayers?
2. How is the compliance of Micro Small Medium Enterprises after the changing of taxation collection system?

1.3 Research Objective

The objectives of conducting this research are:

1. To obtain clear description the impact of the enactment of Government Regulation (PP) number 46 year 2013 to taxation collection system on Micro Small Medium Enterprises Taxpayers
2. To investigate the compliance on Micro Small Medium Enterprises after the changing of taxation collection system.

1.4 Research Contribution

Some contributions that can be attained from this research are:

1. Theoretical

This study is expected to provide understanding and input for the study of the impact of the enactment of Government Regulation (PP) Number 46 year 2013 to taxation collection system and the compliance on Micro Small Medium Enterprises Taxpayers. In addition, it is expected to become the basis for subsequent studies of its kind.

2. Practical

The results of this study are expected to provide feedback to Directorate General of Tax (DGT) in the impact of the enactment of Government Regulation (PP) number 46 year 2013 to taxation collection system. In the future, especially in order to increase voluntary compliance and increase tax fairness. For the taxpayers, the results of this study can be a reference for better tax planning, in particular to reduce the potential for increased tax compliance costs.

1.5 Research Framework

Generally, this research is consisting of five chapters, which among chapters contains relations one another.

Chapter 1: Introduction

This chapter contains background related to the topic of the thesis, namely taxation system in Indonesia, taxpayer compliance, micro small medium enterprises in Indonesia, and Government Regulation (PP) number 46 year 2013. This chapter also contains problem formulation, research motivation, research contribution, and research framework.

Chapter 2: Theoretical Framework

This chapter describes the theories that are used in research related to the topics discussed were concerning tax knowledge, tax fairness, the theory of taxation, taxpayers, and tax compliance of MSMEs associated with government regulation (PP) No. 46 year 2013. Chapter also explains the basic concepts are used as guidance in the analysis and discussion, and previous studies related to this thesis.

Chapter 3: Research Methodology

This chapter contains a description of the research method used in this study; they are research approach, scope of the research, research design types and sources of data, data collection procedures, and data analysis techniques. This study used a qualitative approach with study case method.

Chapter 4: Research and Discussion

This chapter describes the general overview of the object and the subject of research, a description of the results of research, analyzing the changing of taxation collection system, the impact of tax compliance and the interpretation of the results of the analysis is carried out.

Chapter 5: Conclusion and Suggestion

This chapter is contains conclusion, limitation, suggestion and implementation from the result of research and conform to the problem formulation in chapter 1 and theories in chapter 2.