

CHAPTER I

BACKGROUND

A. Background Of Research

يَتَّيِبُهَا لِّلَّذِينَ ءَامَنُوا أَطِيعُوا اللَّهَ وَأَطِيعُوا الرَّسُولَ وَأُولِيَ الْأَمْرِ مِنكُمْ فَإِن
نُنزَعْتُمْ فِي شَيْءٍ فَرُدُّوهُ إِلَى اللَّهِ وَالرَّسُولِ إِن كُنتُمْ تُؤْمِنُونَ بِاللَّهِ وَالْيَوْمِ الْآخِرِ
ذَٰلِكَ خَيْرٌ وَأَحْسَنُ تَأْوِيلًا ﴿٥٩﴾

“O ye who believe, follow Allah and obey the Messenger (Him), and ulil amri among you.” (QS. An Nisa’: 59)

Sustainable development is an important thing for the state to realize its national goal of increasing the level of welfare of the people. To be able to realize this goal, tax is one source of funds to be able to realize national development Abadi (2016). Constitution of Indonesia No. 28 of 2007 explain General Provisions and Procedures for Taxation of taxes compulsory that define compulsory tax contribution to the state is owed by an individual or entity that is compelling based on the Law, by not getting compensation directly and used for state needs for the maximum prosperity of the people based on the Law, without obtaining a reward either directly or indirectly or anything that can be used for the benefit of a country and community welfare.

The tax role is very important as one of the sources of state income, therefore the government has made various efforts to maximize tax revenues through the Directorate General of Taxes (DGT). One of the efforts made is through the reform of legislation in the field of taxation with the enactment of

a *self assessment system*. The *self-assessment system* requires Taxpayers to fulfill their tax obligations, namely filling out and submitting an Annual tax return (*Surat Pemberitahuan Tahunan*) in the Tax Service Office. High awareness and compliance of taxpayers are important factors in implementing the system (Priyantini, 2008). This means that taxpayers need to be actively required to fulfill their tax obligations starting from registering themselves, filling annual tax return notice honestly, well, and following up to until they paying off their tax payable.

Because of this, almost all people are taxed. Taxes become a source of income whose influence is very significant for the country. 70% of Indonesia's state revenues come from tax collection. In conducting the tax obligations, the citizen of Indonesia is relatively low in terms of self-awareness commit taxpayer. Inspection tax conducted by the government certainly has a noble purpose, not merely for the reception but those taxpayers become obedient in carrying out taxpayer obligations.

Tax compliance issues are a classic problem faced by almost all countries that implement the tax system. The main problem of taxation in Indonesia is still around the level of taxpayer compliance which is still very low. The level of tax compliance in Indonesia is still low, with only 30 percent of taxpayers paying taxes. When compared with the compliance of tax payments in Malaysia which has 80 percent of registered taxpayers, of course, Indonesia's tax performance is still far behind (Panjaitan, 2018).

Improving tax compliance is a main goal of revenue agencies around the world. The standard policy tool has traditionally increased enforcement efforts (e.g., larger penalties, higher audit rates) (Alm J., 2019).

Indonesia adheres to a self assessment tax system or taxpayers are given the trust to calculate, pay, and report their own taxes. Then the level of compliance of taxpayers in Indonesia according to the Center for Indonesia Taxation Analysis (CITA) is still low in awareness of paying taxes. Executive Director of the Center for Indonesia Taxation Analysis (CITA) Yustinus Prastowo assessed the level of compliance of the Indonesian people for taxes is still low (Kusuma, 2016).

Yustinus Prastowo in Jakarta said Indonesia tax compliance is still relatively low. The low level of compliance is reflected in the tax coverage ratio (new realization ratio to potential) of 72%. The tax revenue ratio to GDP (tax ratio) is still low, ranging from 11% -12% or just increasing 0.1% in the range 2004-2014 (Kusuma, 2016).

As in the data provided by the Executive Director of the Center for Indonesia Taxation Analysis (CITA), Yustinus Prastowo said the level of taxpayer compliance from Indonesian citizens is very low, Kusuma (2016). Then the statement from Sri Mulyani as the Indonesian Ministry of Finance revealed that Indonesian tax revenues had decreased from the previous year, therefore as good citizens we must be aware of paying taxes, because taxes are an important instrument for the interests of the country's development.

The Ministry of Finance revealed that tax revenues in 2018 reached IDR 1,315.9 trillion, or only 92% of the realization of the 2018 State Budget target of IDR 1,424 trillion. This means that the tax shortfall was IDR 108.1 trillion last year. In the presentation of the 2018 State Budget realization on Wednesday (01/02/2019), The ministry of finance Sri Mulyani stressed that all figures in the realization of the state budget, including tax realization, could still change until the Financial Management Agency (*Badan Pemeriksa Keuangan*) audit. However, the Ministry of Finance did not dismiss the tax shortfall, especially from the non-oil and gas tax sectors.

Therefore, it is just that Sri Mulyani emphasized that tax revenues from other sectors were quite high. Despite the shortfall, the former World Bank CEO revealed last year's high non-oil and gas tax growth because it reached 13.7%, compared to the previous year at only 2.9%. Sri Mulyani stated Indonesia received non-oil and gas taxes are still shortfall at 90.3%. Indonesia already collected Rp 1,251.2 trillion from the target of Rp 1,385.9 trillion. However, this is compensated by the amount of high oil and gas income tax, statement from the Minister of Finance. Inggit (2019). Oil and gas of income tax was recorded at Rp 64.7 trillion. The tax revenue for this sector was quite good, up to 28.6% in 2018, although comparing to the previous year which reached 39.4%, it seems to decline. In addition to oil and gas income tax, following receipt of data more in the realization of the State Budget 2018.

Tax revenues received from the manufacturing sector to Rp 363.60 trillion (increase 11,12%). Tax revenue received from trade sector to Rp

234.46 trillion (23.72%). Tax revenues and the financial services sector insurance received Rp 162.15 trillion (11.91%). Tax revenue from construction & real estate tax received Rp 83.51 trillion (6.62%). Tax revenue from the mining sector received Rp 80.55 trillion (51.15%). Tax revenue from agricultural sector tax received Rp 20.69 trillion (21.03%) (Inggit, 2019).

The ministry of finance explained, from the tax revenues of the above sectors, the growth was lower than in 2017. Nevertheless, almost all tax receipts grew double digits, indicating tax revenues in 2018 were quite optimal.

With detailed tax receipts, the tax ratio in 2018 reached 11.5% of GDP, better than in 2017, which is only 10.7% of GDP. Indonesia already improved tax revenues, our tax ratio has improved significantly. This means that all of our tax reforms do already show more results (Inggit, 2019).

In 2017, tax revenues also did not reach the target of Rp 1,147.5 trillion or 89.4% of the target of Rp 1,283.6 trillion (CNBC Indonesia, 2019). From the statement of the ministry of finance, it can be seen that tax revenue from the MSME sector in Indonesia is Rp 234.46 trillion or an increase of (23.72%) from last year. This can be taken into consideration that the MSME sector in trade in Indonesia has increased given the population growth in Indonesia which has increased along with the increase in the number of MSME industry. In addition, actors in Micro, Small and Medium Enterprises (MSMEs) are one of the biggest drivers of economic growth in Indonesia.

One of the government's efforts to increase tax revenues is by collecting taxes from Micro, Small and Medium Enterprises (MSMEs). The reason for the government to collect taxes from MSMEs is because they have the potential to increase national economic growth. It has been argued that regulatory requirements on business, especially those on SMEs can be a constraint on their growth. Indonesian Small and Medium Enterprises (SMEs) play a significant role in the national economy (Inasius F. 2019).

This is a very good income Indonesia, because taxes are a very large source of income for Indonesia. Because tax is a source of income that can be obtained from year to year unlike natural resources, that will be lasted in the future. Therefore, tax is one of the main factors in the sustainability of a country and we can see the progress or failure of a country from the level of their tax revenue.

Based on this background, this study examines whether tariffs, socialization, control, and understanding of taxes influence the compliance of MSME tax in the city of Yogyakarta. Therefore, the title for this study is THE EFFECT OF TARIFF, SOCIALIZATION, CONTROL, AND UNDERSTANDING OF TAXATION ON TAX PAYMENT COMPLIANCE OF MICRO SMALL MEDIUM ENTERPRISE TAXPAYERS (Empirical Study on Micro Small Medium Enterprise in Yogyakarta City). This research is a replication of the research conducted by Pamuji, Mukzam, and Sudjana (2014) who examined "Factors That Affect The Compliance Of Micro, Small, And Medium Enterprises (MSME) In Meeting Tax Liabilities". The difference

between this research and replication is adding the factors tax rate (tariff) research conducted by Julianto (2017). The tariff imposed on taxpayers of Micro Small Medium Enterprises (MSME) and the other differences are the object of the research. This research was in Yogyakarta city as the object and had a different object with replication research that was in Malang city. Tax rates are one of the factors related to the level of influence a person has in the role of a taxpayer performing his rights and obligations.

There are not many research is on relationships delivered by tariffs and understanding of taxation so it can be one of the references both theoretically and practically.

B. Research Scope

This study focuses on the influence of Tariff, Socialization, Control, and Taxation Understanding for Taxpayers compliance of MSME in the city of Yogyakarta.

C. Research Question

1. Does the government's tariff have a positive influence on the compliance of MSME taxpayers?
2. Does control have a positive influence on the compliance of MSME taxpayer?
3. Does government socialization have a positive influence on the compliance of MSME taxpayer?
4. Does taxation understanding have a positive influence on the compliance of MSME taxpayer?

D. Objectives of The Study

The objectives of the study are:

1. To obtain empirical evidence that tariff has a positive influence on compliance.
2. To obtain empirical evidence that control has a positive influence on compliance.
3. To obtain empirical evidence that socialization has a positive influence on compliance.
4. To obtain empirical evidence that taxation understanding has a positive influence on compliance.

E. Significance of The Study

1. Theoretically

This study reinforces the importance of considering psychological social factors in MSMEs in the city of Yogyakarta in determining taxpayer compliance.

2. Practically

The results of this study provide an overview of the effectiveness of understanding taxes, supervision, tariffs and socialization provided by the government on tax compliance.