

## CHAPTER I

### INTRODUCTION

#### 1.1 Background

The government has many different objectives that it wishes to accomplish, and one of those objectives is to ensure the prosperity of the society. Based on the data provided by Badan Pusat Statistik in 2020, the assessment of an individual's level of happiness may be measured by considering the extent to which residential amenities, including health facilities, internet access, transportation, and other relevant factors, are adequately fulfilled. Therefore, the government is obligated to generate a more substantial budget to fulfil the requirement to continually and successfully increase development initiative, which is necessary in order to realize the goal of creating a prosperous society. The government has to pursue multiple approaches in order to accomplish this objective.

According to the Ministry of Finance's report, the realization of the 2022 APBN revealed that tax collection as of December 31, 2022 amounted to IDR 1.716,8 T, accounting for approximately 65,37% of the state revenue, which stood at IDR 2.626,4 T. Meanwhile the source of Non-Tax Revenue (PNBP) is IDR 588,3 T or around 22,4% of the total income. The residual amount comes from the contributions of the Customs and Excise as well as Grants, totalling IDR 321.3 T or 12,2% of the total revenue. This report emphasized the significance of taxation as a fundamental component of the development and progress in Indonesia. Hence,

taxes serve as a potential source of the governmental revenue aimed at promoting the well-being of individuals.

Taxpayers' compliance in fulfilling taxation is one of the things so that the tax revenue could increase. Research carried out by Suryadi (2019) and Oktaviani et al (2017) shows that taxpayer's compliance, both corporate taxpayers and individual taxpayers, has a positive influence on income tax revenues. In simple terms, the level of compliance could be apparent from the percentage of the annual income tax report. The Compliance Ratio for a specific time can be observed by comparing the implementation of the Annual Tax Return (SPT) with the total number of registered taxpayers (WP) during the period (Am & Sarjan, 2020). According to the report released by the Directorate General of Taxes (DJP) in 2021, the compliance ratio among individual taxpayers for non-employee remains relatively low, namely at a rate of 45.53%. This is inversely proportional to the individual taxpayer compliance ratio for employee, which in 2021 reached about 98.73%.

Indonesia implements three different forms of tax collection system, such as the Official Assessment System, the Self-Assessment System, and the Withholding Assessment System. The distinction among the three tax collecting system consist in the entity holding the authority to determine the amount of tax liability. In the Official Assessment System, the DJP assumes the responsibility of identifying the precise amount of tax owed. Conversely, under the Self-Assessment System, Individual Taxpayer (WPOP) are granted this authority. In the Withholding Assessment System, neither WPOP nor the tax authorities have the authority;

rather, it is held by the treasurer of the pertinent agency where the taxpayers is employed.

The tax collection system used to collect domestic tax subject, including individual taxpayers, both employees and non-employees is referred Self-Assessment System. This system grants taxpayers the authority and responsibility to independently calculate and pay the appropriate tax amount through the Annual Tax Return. Additionally, taxpayers are required to submit the annual tax return to the nearest Tax Office of via the government's official online administration system. In contrast to employee's taxpayers who rely on their employers to provide the with tax information for submission to the 1770S forum, non-employee's taxpayers, such as entrepreneurs, are responsible for independently calculating their tax liabilities. They must differentiate between income derived from taxable and non-taxable object and they must also obtain documentation of tax withholding from their transaction counterparts, who contribute to their income. The self-assessment system's implementation and comprehension have a significant impact on how taxpayers act in fulfilling their obligations and in this context the taxpayers' compliance. This is corroborated by Lasmaya & Fitriani (2017)' research, stating that self-assessment system significantly influences taxpayers' compliance.

Problems regarding complying taxes have become a problem that is frequently arises from year to year. Taxpayers frequently recommended to quickly complete their annual tax return reporting obligations prior to the expiration of the reporting date. There are a considerable proportion of taxpayers who continue to disregard their fiscal responsibilities. Whereas the failure to fulfil one or multiple

tax duties, as prescribed by legislation, whether intentionally or not, will result in the tax authorities, enforcing tax collection measures (Desmon & Hairudin, 2020).

One method performed by tax authorities for the purposes of tax collection is the issuance of a document known as Notice of Tax Collection (STP). Tax office will issue tax collection notice as a result of taxpayer' failure to comply the tax obligations, which include both tax payments and reporting. The reasoning and conditions for the issuance of the comprehensive tax collection notice are explained in the provision outlined in Article 14, paragraph 1 of Law No. 28 of 2007, which pertains to General Provisions and Tax Procedures (KUP). The notice of tax collection holds a comparable level of power to the notice of tax assessment, hence justifying the legitimate utilization of a Distress Warrant in the process of collecting the notice of tax collection. It is indisputable that taxpayers are compelled to perform their commitments through required encouragement from the authorities. The indirect impact of this phenomenon can have implications for the overall tax income, thereby establishing a connection between tax compliance assessment with the usage of tax collection notice. The research by Tonthawi (2021) has supported assumption above by claiming that the implementation of tax collection has a beneficial effect on the degree of the tax compliance.

Apart from using notice of tax collection as a tool for collecting taxes, tax authorities have the option of utilizing legal policies, such as tax sanctions, to enhance taxpayer compliance. The issuance of a notice of tax collection occurs when a taxpayer evades, ignores, or delays making payment or filing a tax return. Tax sanctions are imposed when a taxpayer commits a violation or error in tax

reporting. Legal provisions distinguish between two categories of tax sanctions: administrative sanctions and criminal sanctions. Criminal sanctions typically result in imprisonment, but administrative sanctions are frequently applied in the form of interest, fines, and increases. The applications of criminal sanctions are not promptly conducted in its implementations, since it is considered a final recourse in the enforcement of penalties (Tonthawi, 2021). Taxpayers will inherently endeavour to evade tax penalties due to the resultant escalation in the overall tax liability. So that in its implementation, tax sanctions can increase taxpayer compliance.

Tax compliance has been the topic of a lot of study, with the wide range of variables being examined for their influence on this phenomenon. According to research conducted by Prameswari (2021), the compliance of individual taxpayers who operate commercial activities within the Blora district is influenced by some factors, such as self-assessment system and level of tax knowledge due to the demands on taxpayers to understand how to calculate, pay and report taxes independently. Research conducted by Chaerulloh M. (2019) stated that self-assessment system was found to be positively and significantly impacting the tax compliance. Also, the result of study conducted by Saddang Am., & A. Sarjan (2020) showed that self-assessment system was found to be positively impacting individual taxpayers' compliance. These consistent result made the author want to carry out self-assessment system as one of the variable, to see whether the result would remain consistent or not. The chosen research location for this study is the city of Pariaman. This is a result of the relatively low taxpayer compliance rate in

Pariaman. According to the data gathered from KPP Pratama Padang Satu, out of the 28,798 registered individual taxpayers, only 6,730 Annual Tax Return have been filled in 2022. Considering that reporting tax return by individual taxpayers is one form of implementing self-assessment system, it increased the motivation of the author examine the potential impact of self-assessment system' perception have on the compliance of taxpayers, within the city of Pariaman.

Furthermore, there are similarities in the increase between the issuance of tax collection notices and a corresponding rise in income tax receipts in Pariaman in 2022. This can be seen in the following table.

**Table 1.1**  
**Number of Notice of Tax Collection (STP) Issued and Receipt of Income Tax of 21 in the city of Pariaman from 2017-2022**

No	Year	Total of Notice Issued	Receipt of Income Tax 21
1	2017	10.102	376.975.027.635
2	2018	14.436	369.594.985.872
3	2019	28.141	360.957.671.667
4	2020	11.918	363.227.996.810
5	2021	14.832	414.094.600.967
6	2022	24.445	536.027.971.905
<b>TOTAL</b>		<b>103.874</b>	<b>2.420.878.254.856</b>

Source: KPP Pratama Padang Satu

As shown by the data presented in Table 1.1, there is a significant increase in the issue of tax collection notices in 2022, with numbers rising from 14.832 to 24.445, in income tax 21 revenues which in 2021 amounted to IDR 414.094.600.967 to IDR 536.027.971.905 in 2022. Examining the proportionate spike in Pariaman income tax 21 receipts and notices of tax collection, the author

presumed that issuance of tax collection notices has an impact on income tax 21 receipts, thereby influencing taxpayer compliance. Based on a study conducted by Tonthawi (2021), the notice of tax collection found to be affecting individual taxpayer's compliance. In contrast to prior research, the research carried out by Rachmawati et al (2015) posited that the issuance of tax collection notifications does not exert any influence on taxpayer compliance. To confirm this phenomenon, the author decided to also take notice of tax collection as variables that wanted to be studied to test tax compliance.

In addition, the author intends to find out how tax penalties might affect Pariaman taxpayers, as a means of following the recommendations put out by prior researchers who have proposed broadening the scope of research. Tax sanctions were selected as an instrument established by tax authorities in order to deter taxpayers from engaging in tax infractions. Therefore, it is anticipated that the implementation of tax sanctions will improve taxpayer compliance. The result of study conducted by Tonthawi (2021) showed that tax sanction has found to be positively affecting the individual taxpayer's compliance. However, there is a possibility sanctions related to taxes can have the opposite effect. The imposition of penalties that are too severe and/or an increase in the frequency of inspections can have the opposite of desired effect and lead to an increase in bribery and corruption, which will, in the end, lead to a decrease in tax compliance, and also a loss of public trust in public institutions (Septriani, Rura, & Tawakkal, 2015). Furthermore, taxpayers who already have the intention to comply with tax regulations may still be subject to tax sanctions. The enforcing of undesirable tasks

may lead to a decline in individuals' compliance level due to a sense of the threat (Mohdali, Isa, & Yusoff, 2014). Also, research conducted by Wibisono (2020), reveal that individual taxpayers' compliance were affected by tax sanctions. In order to ascertain the impact of tax sanctions, on the taxpayer's compliance in the city of Pariaman, the researcher thus included tax sanctions as a variable to focus on.

Non-employee Individual taxpayers cover various kinds of professions, including professionals such as doctors, accountants, and lawyers, as well as individuals engaged in artistic pursuits, athletic endeavours, comedic performances, and several other professions. Considering that non-employee personal taxpayers have a fairly broad-scope, the author intends to concentrate on a subset of individual taxpayers engaged in entrepreneurial activities due to the large number of entrepreneurs in Pariaman. The latest data updated by Badan Pusat Statistik in 2022 informed that Pariaman has about 13.441 of entrepreneurs. Besides, the absence of scholarly research pertaining to the impact of the self-assessment system, notice of tax collection, and tax sanction on personal taxpayer compliance of entrepreneurs in Pariaman City, as observed through the author's survey of journals on ScienceDirect and Google Scholar, has motivated the author to undertake this research.

In relation to the description stipulated above, author intends to conduct under the title **"THE INFLUENCE OF THE PERCEPTION OF SELF-ASSESSMENT SYSTEM, NOTICE OF TAX COLLECTION, AND TAX SANCTION ON THE COMPLIANCE BEHAVIOR OF ENTREPRENEURS AS INDIVIDUAL TAXPAYER IN THE CITY OF PARIAMAN"**. By



conducting this study, the author hopes this research could help tax authorities dealing with low taxpayer compliance, allowing them to make considerate decisions and increase taxpayer awareness of how important it is to comply with tax obligations for the welfare of taxpayers themselves.

## **1.2 Formulation of the Problem**

According to the information that was provided earlier, the main concerns highlighted in this research are as follows:

1. Does the perception of self-assessment system have an influence on entrepreneurs' compliance as taxpayers?
2. Does notice of tax collection have an influence on entrepreneurs' compliance as taxpayers?
3. Does tax sanction have an influence on entrepreneurs' compliance as taxpayers?

## **1.3 Research Purposes**

The author of this research aims to accomplish the following objectives in this study:

1. Discovering the influence of the perception of self-assessment system on entrepreneurs' compliance as taxpayers.
2. Discovering the influence of notice of tax collection on entrepreneurs' compliance as taxpayers.

3. Discovering the influence of tax sanctions on entrepreneurs' compliance as taxpayers.

#### 1.4 Benefits of the Research

The benefits can be categorized into two main types: theoretical benefits and practical benefits.

##### a. Theoretical Benefits

The researcher anticipates that this research will serve as valuable information for future researchers exploring the same subject or comparable issues. The researcher hopes this study further could offer empirical evidence for the influence of the willingness to pay taxes on taxpayers.

##### b. Practical Benefits

###### 1) For the Government

This research is intended to provide evaluations and suggestions to government and tax authorities regarding strategies that can be conducted to improve understanding of the self-assessment system, the issuance of notice of tax collection, and tax sanction on individual taxpayers in meeting their tax responsibilities.

###### 2) For Author

Through the accomplishment of this research, it is expected that the author will gain a comprehensive understanding of the implications of

the self-assessment system, tax collection notifications, and tax sanctions, on non-employees' tax compliance.

3) For Academic

This research aims to serve a scholarly resource and additional literature for future related to the self-assessment systems', issuance of tax collection notice, and tax sanction' effect on non-employee taxpayer compliance.

