

CHAPTER I

INTRODUCTION

1.1 Background

Currently, the phenomenon of K-pop culture, fueled by cultural diplomacy efforts intensified by South Korea, has spread significantly worldwide, including in Indonesia. This Korean cultural wave, often referred to as the "Korean Wave," encompasses television dramas, movies, pop music, fashion styles, and online games. This phenomenon has gained widespread popularity, spreading to countries such as Japan, China, Hong Kong, Taiwan, and various other Asian countries. Indonesia even ranked as the country with the highest number of K-pop fans in the world in 2021 (Alifah, 2022). Data from the Korean Culture and Information Service (KOCIS) revealed that approximately 66% of K-pop fans are in their 20s, 18% are in their 30s, 8% are in their 40s, 6% are in their 50s, and 2% are in their 60s. Based on these findings, it can be inferred that the majority of K-Pop fans are teenagers, particularly those aged 12 to 21 (Hidayati & Indriana, 2022).

South Korea is famous for the success of the boy and girl music groups they produce. These groups produce not only music but also distinctive dances that are often referred to as "dance choreography." All of their artwork is packaged in an album containing CDs/DVDs, photocards of each group member, and a book containing a collection of photographs of the singer or group members (Febriana et al., 2023). The agency representing the band promoted the album through internet media, including through their official website.

Some teenage K-Pop fans in Indonesia have shown great interest in the development of Korean popular culture. They actively follow news and information related to their idol artists through social media, including concerts, album releases, fashion styles, favourite foods, and daily activities. According to Amirah (2020), this phenomenon has created a close connection between K-Pop fans in Indonesia and their idol artists.

Furthermore, the cultural phenomenon of K-Pop also influences the lifestyle and shopping habits of its fans. They actively seek and purchase products related to their idol artists, such as albums, light sticks, photocards, clothing, and accessories frequently worn by their idols (Hidayati & Indriana, 2022). It is important to note that these items are generally produced officially in South Korea and sold through official K-Pop artist agencies such as YG Ent, SM Ent, and others. The transactions of K-Pop merchandise purchases by K-Pop fans are closely related to taxation aspects (Madurano, 2023). This is because, to obtain these merchandise items, K-Pop fans need to import these goods into Indonesia, and the implementation of this import can be influenced by various taxation factors such as value-added tax (VAT), customs duties, as well as tax treaties between Indonesia and South Korea.

The imposition of some types of taxes will certainly increase the purchase price of each K-Pop merchandise that K-Pop fans will buy. In addition, the recent imposition of tax rate hikes has sparked debate among K-Pop fans. This issue arises because official merchandise is only produced in South Korea. The high price of goods, expensive shipping costs, and increased tax rates often make some fans consider buying their idol's merchandise independently or looking for other alternatives to meet their needs (Frederica et al., 2023).

The latest regulation promulgated on December 26, 2019, relating to customs and taxes on the import of consignments is PMK No. 199/PMK.010/2019 concerning Customs and Tax Provisions on the Import of Shipments. In this new regulation, the Customs is required to adjust the exemption limit for import duties, which was previously USD 75, to USD 3.

In addition to the application of taxation in goods import activities and buying and selling transactions, Value Added Tax or VAT is also applied in the purchase of K-Pop merchandise. VAT is one type of tax in Indonesia that is included in the objective tax category. In this type of tax, the obligation to pay VAT is fully borne by the consumer, so VAT is imposed directly on the tax object which is the burden of the consumer (Frederica et al., 2023). This change in VAT is regulated in Law Number 7 of 2021 concerning Harmonization of Tax Regulations, one aspect of which is an increase in the Value Added Tax (VAT) rate starting April 1, 2022, the VAT rate will increase from the previous 10% to 11%, and is planned to increase again to 12% in 2025.

Not only is there the imposition of VAT and import duties, but the imposition of royalty tax rates from tax treaties also has an impact on K-Pop fans when they buy merchandise from their favourite K-Pop idols. According to the royalty tax treaty between Indonesia and South Korea, the royalty tax rate was initially 20%. However, after an agreement was reached that resulted in a new policy in the tax treaty between Indonesia and South Korea in 2020, the royalty tax rate was reduced to 15%. This tariff change certainly has consequences that can be felt by both countries. In addition, the new policy regarding these tariffs also impacts K-Pop

fans in the context of their K-Pop merchandise purchases, as changes in tax policies, specifically royalty tax rates, affect their spending.

In the purchase of favourite goods or the purchase of goods due to fanaticism, it can be explained by the concept of Mental Accounting introduced by Richard Thaler (1985) in behavioural economics which involves an individual's subjective assessment of money based on personal criteria. In the context of purchasing decisions or fanaticism, Mental Accounting can influence the allocation of funds, result in psychological sacrifices, and encourage decisions that may be economically irrational. Subjective valuations of value can lead to a disregard for rational economic considerations, which in turn can lead to financially inefficient purchasing decisions (Ardika, 2023).

Mental Accounting can also create spending patterns in line with habits or preferences, especially in the context of fanaticism or liking, where individuals may view related purchases as an investment in personal happiness or identity. Thus, Mental Accounting becomes a crucial factor in understanding how subjective value judgments about money can influence purchasing decisions that may not always align with conventional economic principles. There is research that explains the relationship between Mental Accounting in the imposition of Personal Property Taxes on decisions to purchase motor vehicles. According to Ott & Andrus (2000), the research findings indicate that although many feel that the Vehicle Purchase Property Tax (VPPT) is too high, its influence on vehicle purchase decisions is small, and VPPT has a less significant impact, so consumers state that it is not a crucial factor in their purchasing decisions. The theory of Mental Accounting also explains why consumers seemingly do not pay too much attention to VPPT. When

deciding to buy a vehicle, the benefit of owning the vehicle is considered more important than the discomfort of paying taxes.

Several previous studies discuss VAT, import duties, and tax treaties that have been carried out. According to the research by Frederica et al. (2023), Santoso, A & Ratnawati (2023), Fransiska & Kamil (2023), and Qhairunisa, Wardhani, & Vehtasvili (2023), it is revealed that factors such as the determination of tariff exemption limits, the implementation of VAT, luxury goods sales tax, and motor vehicle tax have a positive impact on the purchasing decisions of four-wheeled motor vehicles and imported goods, including those in the categories of K-Pop merchandise, fashion, household appliances, and electronics. These factors are considered relevant for further investigation among K-Pop fans in Padang, given the limited research that explores the relationship between K-Pop fans and taxation aspects, especially in Padang.

This research is motivated by the author's desire to find out whether there is a relationship between increasing tax rates, such as VAT, import duties, and rates in tax treaties, with K-Pop merchandise purchase decisions. This is driven by the existence of Mental Accounting theory that can result in psychological sacrifices and encourage decisions that may be economically irrational that can happen to K-Pop fans. In addition, there is an understanding that K-Pop fans often spend the money they have to support the K-Pop idols they love. One form of this support manifests itself in the purchase of merchandise sold by agencies representing K-Pop idols and K-Pop fans often also purchase merchandise as a way to express support and also to interact with fellow fans in the K-Pop community.

This research is important because it relates the phenomenon of fanaticism which has been proven to have a positive and significant correlation with consumptive behavior in adolescent K-pop fans in Semarang, as found in the research of Hidayati & Indriana (2022). The existence of fanaticism among K-Pop fans is the basis on which they were chosen as the object of research. This reinforces the assumption that the level of fanaticism might influence the purchasing decisions of K-Pop merchandise that has been subject to various types of taxes.

1.2 Problem Statement

The purchase of various types of K-Pop merchandise by fans does not avoid the obligation to pay various types of taxes, which involve the import process and are influenced by several aspects of taxation such as Value Added Tax (VAT), import duties, and tax treaties that apply between Indonesia and South Korea. Changes in VAT rates and tax treaties, and import thresholds can have an impact on the purchasing decisions of K-Pop fans. Therefore, the formulation of the problem in this study can be detailed as follows:

1. How do the changes in VAT rate affect fans' purchasing decisions on K-Pop merchandise purchases?
2. How do the changes in import duty threshold affect fans' purchasing decisions on K-Pop merchandise purchases?
3. How do the changes in royalty tax rates in the tax treaty between Indonesia and Korea affect fans' purchasing decisions on K-Pop merchandise?

1.3 Research Objectives

The effect of taxation on K-Pop merchandise purchase decisions has become an increasingly important aspect amid the popularity of the Korean Wave phenomenon such as changes in VA and tax treaty rates, as well as changes in import duty thresholds on the preferences and purchasing decisions of K-Pop fans in Indonesia. So that based on the formulation of the problem, this research has the following objectives:

1. To find out how the changes in VAT rate affect fans' purchasing decisions on K-Pop merchandise purchases.
2. To find out the effect of changes in import duty thresholds on fans' purchasing decisions on K-Pop merchandise purchases.
3. To find out the effect of the changes in royalty tax rates in the tax treaty between Indonesia and Korea on fans' purchasing decisions on K-Pop merchandise.

1.4 Research Contributions

This research is expected to enrich previous studies by providing several benefits, namely:

1. Theoretical Contributions
 - a. For the author, this research can contribute to broadening the understanding and knowledge related to K-Pop merchandise purchasing decisions, viewed from the perspective of taxation through the lens of Mental Accounting theory. This is significant as such purchasing decisions are typically scrutinized and evaluated primarily from a marketing standpoint.

Additionally, it will deepen comprehension regarding the factors influencing purchasing decisions from a taxation standpoint, thereby establishing Mental Accounting as its foundational theory.

- b. For future researchers, this study can serve as a valuable point of reference for future investigations with similar themes. Furthermore, it can aid in comprehending K-Pop merchandise purchasing decisions from the perspective of taxation, utilizing Mental Accounting theory as a framework.

2. Practical Contributions

- a. Society: This study provides useful information for the public regarding the imposition of VAT, import duties, and tax agreements between Indonesia and South Korea that affect the taxes to be paid when buying K-Pop merchandise. It will also help them understand policies related to increasing VAT rates, increased import duty exemption limits, as well as the implementation of new tax rates in the tax agreement between Indonesia and South Korea in the context of purchasing K-Pop merchandise.
- b. Regulators: The results of the study are expected to provide relevant information for regulators regarding the imposition of VAT, import duties, and government policies in double taxation avoidance agreements (P3B) or tax treaties related to the purchase of K-Pop merchandise. This will help in the formulation of more effective and targeted policies.

1.5 Systematics of Writing

The writing system is a method to provide a general overview of thesis writing so that it can be easily understood by readers when analyzing the aspects

discussed in this thesis. There is a series of descriptions about this research structured in five chapters.

Chapter I discusses the introduction, which includes research background, research problem formulation, research objectives, research benefits, and writing systematics. Chapter II details a review of the literature outlining the relationship between the theoretical foundation and the framework underpinning this research.

Chapter III contains an explanation of research methods, which involves an explanation of the method of data collection and data analysis used in this study. Chapter IV discusses research results, covering a wide range of research topics and analysis of the results presented to generate conclusions, contributions, and suggestions.

Chapter V serves as a conclusion, containing conclusions along with suggestions that are considered relevant and useful for this research and research that may be carried out in the future.

