

CHAPTER I

INTRODUCTION

1.1 BACKGROUND

As a developing country, Indonesia needs a lot of income according to public needs such as national budget, regional budget, and construction of public facilities. One of the sources of government revenue is the tax sector (Paramita & Budiasih, 2016). As a developing country, it is important for Indonesia to accelerate economic growth to bring it on par with other countries (Santana, Tanno, & Misra, 2020). Taxes are payments that taxpayers owe to the government that are enforceable, but the rewards may not be directly tangible. Taxes are one of the largest government revenues in Indonesia, so they are the most important part that helps smooth government revenues (Dewi & Merkusiwati, 2017).

Tax revenue is used for the public interest, not for individual interests. For this reason, as a good taxpayer, it is hoped that he can pay tax debts in accordance with applicable laws and regulations. Taxes play an important role in the life of the country to regulate economic growth through tax policy and can prosper its people. If every Indonesian citizen is aware of their obligation to pay tax debts, it is hoped that state revenue from taxes will continue to increase, because the number of taxpayers tends to increase every year. However, in reality in the field that the level of awareness of taxpayers in paying their tax debts is still low. A taxpayer's level of awareness can be seen in tax sales and income. One of them is affected by poor tax administration (Ayem & Listiani, 2019).

Tax administration is directly related to tax avoidance or tax evasion (Ayem & Listiani, 2019). In addition, there are still taxpayers who pay their tax debts that are not in accordance with the truth (Winarsih, 2018). Taxpayer awareness of their obligations to pay tax debts is still very low even though the facilities provided have been used (Sasmito, 2017). Various ways are done by taxpayers to avoid their tax debts either through tax avoidance or tax evasion, this will harm the state and of course cause tax revenue not to match the target. In addition, taxpayers who violate the rules will be subject to administrative penalty or criminal penalty. Other countries impose high levels of taxation, so it is not surprising that the facilities/services available in these countries are better than ours (Sasmito, 2017). Therefore, the increase in tax revenue is not only important for the tax government, but also for the role of taxpayers and their own enthusiasm (Friskianti & Handayani, 2014).

Tax evasion can involve taxpayer ignorance and poor performance of taxpayer obligations. According to Santana, Tanno, and Misra (2020), taxpayers do not pay their tax liabilities because they see tax as a burden on their income, which means that taxes can reduce their income, and deferred income can be used if there is no tax liability. To increase the critical needs of taxpayers. Tax evasion is prohibited by and against the law (Ayem & Listiani, 2019). Tax evasion is fraud and illegal, taxpayers deliberately report incomplete and incorrect data to tax authorities by understating their income so as to reduce the tax debt to be paid. Taxes are not directly compensated, and not repaid out of self-interest, and some taxpayers are trying to reduce their tax liabilities to the Treasury.

Various cases of tax manipulation in Indonesia have not only occurred once, but so many individual taxpayers and corporate taxpayers are involved with the case. For example, the case of tax evasion committed by the Director of PT Supra Andalan Energy who deliberately submitted the 2017, 2018, 2019 Annual Corporate Tax Return as well as the Annual Tax Return for the Value Added Tax period January to December 2017, January to December 2018 and the tax period January to December 2019, the contents of which were incorrect or incomplete and did not deposit the tax that had been withheld or collected. As a result, the state suffered a loss in revenue of Rp. 745,778,551.

Dewi and Merkusiwati (2017) said that many cases of tax evasion were committed by tax employees themselves by involving other parties and taxpayers. This of course will have an impact on the loss of public trust in tax officials or the state, and worry that the money they submit will be misused by irresponsible parties. So the more taxpayers commit tax evasion, the more taxpayers do not carry out tax compliance. If people violate tax compliance, the source of state revenue from the tax sector will be low / decreased. The number of tax evasion cases that occur can encourage taxpayers to be reluctant to carry out their tax obligations and give rise to negative thoughts about taxes.

According to Paramita and Budiasih (2016), actions in minimizing tax debt can be from tax avoidance or tax evasion. Both of these are attempts to minimize tax debt by minimizing their actual income. Regarding the difference between tax evasion and tax avoidance, tax avoidance is still within the limits of tax legislation or does not violate tax law and can be justified through tax planning, and is legal according to (Dewi & Merkusiwati, 2017). Meanwhile, tax evasion is reducing tax debt in illegal ways. Many taxpayers prefer to do tax evasion rather than tax avoidance. According to Ardyaksa (2014) to carry out tax avoidance, taxpayers must have extensive knowledge of taxation, this is used for taxpayers to look for loopholes / subtleties in tax laws that can be taken, and this will be utilized by taxpayers to

minimize their tax debt without having to violate applicable general provisions. This certainly makes it difficult for taxpayers, and seeks to prefer tax evasion to tax avoidance.

Taxation system is one of the important things in helping the success of a country's tax collection. There are three tax collection systems, namely the official assessment system, self-assessment system, and withholding system. Over time, since the tax reform in 1983, Indonesia began implementing a self-assessment system. In this system, taxpayers are required to play an active role, starting from registering themselves as taxpayers, filling out tax returns, calculating the amount of tax owed, and depositing their tax debt obligations. Meanwhile, the taxation apparatus acts as a coach, guide, and supervisor of the implementation of obligations carried out by taxpayers. The existence of a self-assessment system can allow taxpayers to commit tax fraud because there are still many taxpayers who do not have awareness of the importance of fulfilling tax obligations (Sari, Sudiartana, & Dicriyani, 2021). Actually, the published tax laws that regulate all taxpayer responsibilities and even the penalty given will be optimal if the taxpayers themselves understand their duties and responsibilities as taxpayers (Beloan, Mongan, & Suryandari, 2019).

This system will operate well if people have a high level of voluntary tax compliance. If their level of awareness is still low, this will lead to various taxation problems, including tax evasion. In this case, the government is expected to improve the quality of the tax system and conduct socialization to taxpayers regarding the self-assessment system so as to prevent abuse by taxpayers. This description is supported by researchers (Sari, Sudiartana, & Dicriyani, 2021; Maharani, Endiana, & Kumalasari, 2021; Marlina, 2018; Adisty, Herwinarni, & Ardiansah, 2017) who state that the tax system has an influence on taxpayer perceptions of ethics on tax evasion, while according to researchers (Fatimah & Wardani, 2017; Yuliyanti, Titisari, & Nurlela, 2017; Sundari, 2019) the tax system has no influence on taxpayer perceptions of ethics on tax evasion.

Tax penalty is a penalty that will later be received for taxpayers who violate the rules of the applicable tax law (Sundari, 2019). If the application of tax penalty imposed on taxpayers is getting heavier, of course, it will make taxpayers feel afraid and burdened to commit the act of tax evasion. This can encourage taxpayers to increase compliance and can reduce the treatment of tax evasion. With another intention, namely penalty is seen as a tool used so that people do not violate applicable rules or regulations (Ayem & Listiani, 2019). The penalty applied can be in the form of fines or criminal penalties (Sundari, 2019). With the existence of tax penalty, it will be able to reduce tax evasion. This variable shows that tax penalty has an influence on tax evasion. This description is supported by researchers (Sundari, 2019; Ayem

& Listiani, 2019; Adisty, Herwinarni, & Ardiansah, 2017; Yuliyanti, Titisari, & Nurlela, 2017) which state that tax penalty has an influence on tax evasion, which means that the more severe the application of tax penalty applied to taxpayers who violate, the perception of taxpayers to commit tax evasion will be low. This is different from the results of research conducted (Maharani, Endiana, & Kumalasari, 2021; Yezzie, 2017; Sari, Sudiartana, & Dicriyani, 2021) that tax penalty has no influence on taxpayer perceptions of ethics on tax evasion. This means that whether or not the application of tax penalty is strict does not affect taxpayers regarding the ethics of tax evasion.

Tax rates is the reason for tax evasion. In determining the tax rate, it must be applied with justice, which means that tax collection must be fair and equitable (Sari, Sudiartana, & Dicriyani, 2021). Low tax rates cause taxpayers to still be able to fulfill their obligations. Even though they want to evade taxes, taxpayers will try to obey. If the high tax rate will affect the ethics of taxpayers, they will be more serious in making various efforts to avoid their tax obligations. Taxpayers will save their assets through various efforts so that all their needs and needs are met. This description is supported by researchers (Sari, Sudiartana, & Dicriyani, 2021; Adisty, Herwinarni, & Ardiansah, 2017; Herlangga & Pratiwi, 2018) that tax rates affect tax evasion. This is different from the results of research conducted (Maharani, Endiana, & Kumalasari, 2021; Yulia & Muanifah, 2021; Yuliyanti, Titisari, & Nurlela, 2017; Ervana, 2019) that tax rates do not affect tax evasion.

Taxation understanding is also considered influential on tax evasion. Taxation understanding here is like understanding tax regulations, provisions in taxation, tax penalty, procedures for paying taxes, reporting tax returns and so on (Santana, Tanno, & Misra, 2020). The better understanding the taxpayer has regarding tax regulations, the public will understand that tax evasion is an unethical thing to do. On the other hand, if the taxpayer has a lack of understanding of taxation, he will certainly judge that the act of tax evasion is an ethical act to do. The description shows that this understanding of taxation has a negative influence on tax evasion. From the results of research conducted by (Santana, Tanno, & Misra, 2020; Herlangga & Pratiwi, 2018) also said that understanding of taxation has a negative influence on tax evasion. However, it is different from research (Bahari, 2016) that understanding of taxation has no influence on tax evasion.

This study aims to develop previous research by (Sari, Sudiartana, & Dicriyani, 2021; Maharani, Endiana, & Kumalasari; 2021), And wanted to examine the influence of the taxation system, tax penalty, tax rates and taxation understanding on the ethics of tax evasion. Therefore, researcher are interested in conducting research with the title "The Influence of The

Taxation System, Tax Penalty, Tax Rates and Taxation Understanding On The Ethics of Tax Evasion”

1.2 RESEARCH PROBLEM

With so many tax evasion cases that have occurred in Indonesia, researchers want to examine what factors can influence taxpayers in carrying out tax evasion. After considering what factors can influence taxpayers in carrying out tax evasion, researcher finally took several factors, namely taxation system, tax penalty, tax rates, and taxation understanding as independent variables. By using 4 independent variables that will be studied in this research, the research problem formulations to be studied are as follows:

- a. Does the taxation system has an influence on the ethics of tax evasion?
- b. Does tax penalty have an influence on the ethics of tax evasion?
- c. Do the tax rates has an influence on the ethics of tax evasion?
- d. Does the taxation understanding has an influence on the ethics of tax evasion?

1.3 RESEARCH PURPOSE

After the research problem has been formed, the researcher wants to test and find out about the influence of the four independent variables in this research on the dependent variable (Tax Evasion). Therefore, research objectives are to test about:

- a. The influence of the taxation system on the ethics on tax evasion
- b. The influence of tax penalty on the ethics on tax evasion
- c. The influence of tax rates on the ethics on tax evasion
- d. The influence of taxation understanding on the ethics on tax evasion

1.4 BENEFITS OF RESEARCH

The benefits contained in this research, namely:

- a. Theoretical Benefits

This research is expected to be a reference for future research that discusses the same problem regarding tax evasion and can increase knowledge about tax evasion, the taxation system, tax penalty, tax rates, and taxation understanding.

- b. Practical Benefits

The research is expected to provide benefits to taxpayers to understand the taxation system, tax penalty, tax rates, and taxation understanding and add insight into how they affect tax evasion, besides that it can provide benefits to the Government / Tax

Authority regarding the factors that encourage tax evasion and it is hoped that this unethical act of tax evasion can be emphasized as low as possible.

