

# CHAPTER 1

## INTRODUCTION

### 1.1 Background

Pop culture is now no longer only synonymous with Western culture, but also other parts of Asia such as Japan and Korea. Especially what is really growing in today's society, the Korean epidemic that hit Indonesia. Not only does it bring a large influx of pop culture, but also films, dramas, and even food. According to Wuryanta (2012), the phenomenon of Korea's entry was triggered by the 2022 Korea-Japan World Cup championship which brought Korea into the top four in the world in football. This made South Korea's name even bigger, causing some private television stations to start broadcasting Korean music and dramas.

Korea Pop is also increasing in popularity in Indonesia. Along with the rise of the Korean Pop wave or better known as K-Pop, the market for goods from South Korea is growing rapidly. With fans and non-fans as consumers, markets that prioritize goods from South Korea are mushrooming and competing competitively. There are many variations, various creative ideas are presented to suit consumer tastes. Starting directly, to without meeting face to face or buying and selling online.

When buying and selling goods from South Korea, in order to get authentic goods, sellers must first import goods directly from South Korea to satisfy the market. Especially in K-Pop culture, where related celebrities are usually under the auspices of an agency. Quoting from the personal blog Knows (2020) which quotes

John Seabrook in his book *The Song Machine*, “these agencies act as managers, agents and promoters, controlling every aspect of an idol's career; record sales, concerts, publishing, endorsements, and TV appearances.” These agencies are the ones who regulate buying and selling affiliated with the idol, implementing a pre-order system every time they release an album or even certain merchandise where fans are directed to buy unfinished goods and then wait about a month before releasing the goods.

This purchase, especially the album, is believed to boost the idol's popularity. This is closely related to the parasocial interactions that arise, where according to Shoffner (2019) parasocial interactions are interactions formed between consumers and celebrities through mediated channels. Parasocial relationships are sometimes seen as imaginary relationships experienced by fans who idolize a celebrity and occur in one direction, namely from the fan to the celebrity (Sitasari, et al, 2019). Parasocial relationships are divided into several forms, ranging from extreme worshipping, romantic relationships and normal friendships, to certain negative relationships (Hartmann, 2016).

Parasocial has several levels, namely entertainment-social, intense-personal, and borderline-pathological, where at the intense-personal level it can make fans willing to buy something affiliated with the object of the parasocial. Exploiting this psychological side, fans flock to buy whatever the agency offers without even looking at the price. This is a phenomenon in itself among K-Pop fans where agencies will release products no matter how strange they are

The above has resulted in increased demand for imports from South Korea from K-Pop fans. New business owners based on imported goods from South Korea have emerged, meeting consumer demand. With the aim of supplying goods, imports from South Korea are routinely carried out. In the process, this import activity is certainly subject to import duties and tax rates in accordance with Minister of Finance Regulations.

Based on data from the Central Statistics Agency (BPS), there has been an increase in imports from South Korea to Indonesia over the past five years. One of the largest contributors to this growth is goods related to the entertainment industry, including K-Pop merchandise.

For instance, in July 2023, imports from South Korea to Indonesia increased by 21,1% compared to the previous month and 12,3% from the previous year, It was even stated that among the three main country (origin of imports) is only South Korea which has experienced an increase both monthly and annually. Interestingly, according to titipbeliin.com who is quoting from Databoks, one of the most imported products being related to the K-Pop industry. K-Pop merchandise, such as physical albums, lightsticks, and other exclusive items, was a major contributor to this rise. This indicates that the consumption of Korean popular culture, especially K-Pop, has become an important part of Indonesia's digital economy.

What's interesting is that amidst this unique phenomenon, there are still things that are no less unique. Due to shipping costs that can exceed the amount of goods

purchased from overseas purchasing sites from South Korea, new K-Pop based business ideas have emerged. Business owners offer services to order goods according to consumer wishes, along with other consumer orders. Business owners who provide this service will price the merchandise which has been converted into Rupiah plus a profit, to then attract consumers to order from them, and place orders in large quantities to cover shipping costs and taxes together which is considered to lighten the burden on consumers who want to enjoy their idol's original merchandise from South Korea. This practice is called Group Order or better known as GO.

GO entrepreneurs, or what are usually called GO owners, are usually service providers who sometimes even collaborate with other parties who act as orderers, address owners in South Korea before they are collected and sent to Indonesia, then separated from other orders until the GO owner just has to wait for the goods. The consumer arrives at his address. The GO owner is responsible for sending the goods to the owner. It is not uncommon for GO owners to work alone with a team without partnerships with external parties, therefore they manage everything from ordering, shipping addresses to South Korea to the arrival process in Indonesia. GO owners carry out various activities for the sake of efficiency and effectiveness and to meet market desires. In order to facilitate buying and selling access and reach potential consumers anywhere, GO operates online. GO owners can attract buyers from promotions on various social media and then usually create groups on social media such as LINE and WhatsApp containing consumers to make it easier to collect data and provide the latest information thus GO can be more organized.

Many GOs now have big names and are trusted by consumers as shopping destinations because of their online systems. Trust is the most important thing in this practice. This completely online activity also means that GO business are not recorded statistically because they do not yet use e-commerce applications such as Shopee and Tokopedia. Payment is not made through the application. Everything that is done is truly based on trust.

Although it is common for GO owners to openly use their personal photos during practice, it cannot be denied that there is no official identity regarding the owner. Moreover, small GO is not as famous as GO with more than 500+ consumers. Even though there may be no desire to keep personal identity a secret, practices like this occur as a natural thing among GO owners, both sellers and buyers. There are several GOs that ask for data on consumers who make purchases, but there are also many GOs that are based on names listed on social media alone.

The large dependence of trust in this recently massive business has sparked curiosity about the income of the owners which has never been recorded anywhere, with buying and selling that often occurs and is not even limited to one idol or one type of merchandise, making it possible to reap large profits even if only little profit taken. Even though it is a business that is started by itself and cannot be said about the exact amount of income, K-Pop GO owners can be classified as MSME entrepreneurs. But again, the buying and selling is done online outside the application *e-commerce* made researchers question their tax payments as an owner of business.

Moreover, in the broader context of the digital economy, similar issues arise. According to OECD (2015), online businesses are often hard to monitor because they don't require a physical presence, making it challenging for tax authorities to impose regulations. Alm, Bloomquist, & McKee (2010) echo this sentiment, noting that many digital businesses are under-reported due to regulatory gaps or ineffective enforcement, a challenge particularly relevant to GO K-Pop businesses operating informally.

The Harmonized Tax Law (UU HPP) and PP No. 23 of 2018 aimed to address such challenges by creating regulations for the digital economy. However, the nature of GO K-Pop businesses, which often operate at a smaller scale and primarily use social media platforms, makes these regulations difficult to enforce. Despite efforts to close tax gaps, GO owners often remain outside formal tax reporting structures.

Interestingly, the Indonesian government's tax revenue from the digital sector has been rising steadily. As of July 2024, IDR 26.75 trillion was collected from the digital economy, with major contributors being PMSE VAT at IDR 21.47 trillion, crypto taxes at IDR 838.56 billion, and fintech at IDR 2.27 trillion. This significant rise from IDR 731.4 billion in 2020 to IDR 6.76 trillion in 2023 highlights the growing focus on taxing the digital economy. However, small-scale operators like GO K-Pop businesses remain difficult to monitor and regulate, underscoring the need for more robust policies to ensure tax compliance in the digital age.

Tax, as we know, is one of the revenues of the Indonesian state from the internal sector. Taxes are the largest source of internal revenue in the current APBN. In Article 1 of Law Number 28 of 2007 about General Provisions and Tax Procedures, tax is a mandatory contribution to the State by individuals or groups, taxes are coercive, based on law with no direct reciprocity and are used for the greatest benefit of the state for the prosperity of the people.

Not only does it have a high contribution to government and development, but taxes can also be an effective fiscal instrument in directing the economy in Indonesia. Financing state expenditure, which is increasing over time, requires state revenues to come from within the country without having to depend on aid or loans from abroad. This means that all state spending must be financed from state revenues, in this case namely tax revenues.

Independent productive economic businesses in accordance with Law Number 20 of 2008 Article 1 about the criteria of Micro, Small, and Medium Enterprises, in accordance with the amendments to the Income Tax (PPh) Law in the Law Number 7 of 2021 about Harmonisasi Peraturan Perpajakan or HPP Law, individual taxpayers with certain gross turnover as regulated in the Regulations Government (PP) Number 23 of 2018 is not subject to income tax on turnover up to IDR 500 million in 1 tax year. This provision will come into effect in the 2022 tax year. Hence it can be said that MSME taxpayers who have chosen to use the final PPh regime PP 23/2018 can also switch to using the general tax provisions.

However, taxpayers still have to submit a notification letter to the tax services office (KPP).

Therefore, it is hoped that business owners can fulfill their tax obligations. Taxpayer compliance is also always a concern. Fikriningrum (2012) in his article regarding factors that influence individual taxpayers in fulfilling their obligation to pay taxes, states that Tax Awareness has a positive and significant effect on personal willingness to pay taxes. The higher a person's tax awareness, the higher his or her compliance as a taxpayer. Research by Tanilasari and Gunarso (2017) also shows the same results, that tax awareness positively influences taxpayer compliance. Recent research by Toniarta and Merkusiwati (2023) also concluded that tax awareness influences individual taxpayer compliance.

Apart from tax awareness, Fikriningrum (2012) also mentions another factor that is also influential, namely knowledge of taxation. Knowledge about taxes can influence a person's perceived behavioral control regarding taxpayer compliance. If someone feels they have sufficient knowledge of tax principles and procedures, they may feel more able to comply with tax obligations. This research is also supported by research by Hidayati (2014) that tax knowledge has a positive effect on individual taxpayer compliance. Research by Yulia, et al. (2020) also supports the proven influence of tax knowledge on taxpayer compliance.

Another important factor that is usually feared, namely tax sanctions. It is hoped that tax sanctions can emphasize the importance of taxpayer compliance for



online business owners which are not recorded or reported. The imposition of tax sanctions is carried out by imposing sanctions on taxpayers who are disobedient and disciplined in making tax payments according to the law. It is hoped that tax sanctions can have a deterrent effect on taxpayers to comply with tax regulations. This is supported by research by Toniarta and Merkusiwati (2023), Zulma (2020), Ristanti, et al. (2022) which states that tax sanctions have an effect on individual taxpayer compliance. This means that with the consistent implementation of tax sanctions, taxpayer compliance will increase.

Based on the background description above, researchers conducted research using three factors that influence taxpayer compliance in K-Pop Group Order owners, namely tax awareness, tax knowledge, and tax sanctions. The selection of these factors is based on similar previous research in Indonesia and more specifically at the level of business owners who are not statistically registered, both the number of business owners and their tax reports are still deemed inadequate. By combining these three factors to see whether tax awareness, tax knowledge, and tax sanctions influence taxpayer compliance of taxes for K-Pop Group Order owners as individuals. Therefore the research title was obtained, namely **"The Influence of Tax Awareness, Tax Knowledge, and Tax Sanctions on Taxpayer Compliance of K-Pop Group Order Owners"**

## **1.2 Research Problems**

Based on the background description above, the formulation of this research problem is as follows:

1. Does tax awareness affect the compliance of K-Pop Group Order owners as taxpayers?
2. Does tax knowledge affect the compliance of K-Pop Group Order owners as taxpayers?
3. Do tax sanctions affect the compliance of K-Pop Group Order owners as taxpayers?

### **1.3 Research Objectives**

Based on the problem formulation that has been put forward, the objectives of this research are:

1. To determine the effect of tax awareness on the compliance of K-Pop Group Order owners as taxpayers
2. To determine the effect of tax sanctions on K-Pop Group Order owners as taxpayers.
3. To determine the effect of tax knowledge on K-Pop Group Order owners has always been a taxpayer.

### **1.4 Research Contributions**

It is hoped that the results of this research can contribute to the development of science.

1. This research can provide useful input for the tax authorities in enforcing taxpayer compliance.

2. This research can increase knowledge in scientific studies regarding taxpayer compliance.
3. This research as an addition to the literature for students who will carry out further research.
4. For taxpayers, this research opens discourse for taxpayers to think about the importance of increasing compliance in carrying out tax obligations.

### **1.5 Systematic of Writing**

To obtain a complete picture of the writing of this thesis, it is divided into five chapters with the following details:

#### **CHAPTER I INTRODUCTION**

This chapter contains the background, problem formulation, research objectives, research benefits, and the systematics used in writing.

#### **CHAPTER II LITERATURE REVIEW**

This chapter discusses the theoretical basis that underlies the research. Similar previous research will be used as a basic reference for the theory, framework of thought and formulation of hypotheses.

#### **CHAPTER III RESEARCH METHODS**

This chapter explains research variables and operational definitions, data types and sources, data collection methods, and data analysis methods.

#### **CHAPTER IV RESULTS AND DISCUSSION**

This chapter is the main content of the research which explains the research results, data processing and data analysis resulting from the data processing. Apart from that, it also explains the objective description of the research object which contains a brief explanation of the objects used in the research which contains a brief explanation of the objects used in the research. Analysis of data processing results and discussion of research results are presented in a simpler form that is easy to read and interpret.

#### **CHAPTER V CLOSING**

The final chapter of this thesis contains conclusions and research results and suggestions from the discussion.

