

CHAPTER I

INTRODUCTION

1.1 Background

Taxes are the largest source of state revenue, and an important source of financing for the country. This can be seen from the posture of the State Budget (APBN) in the 2019 tax sector amounting to Rp1,618.1 trillion, approximately 82.5% of total state revenue of Rp2,165.1 trillion (www.kemenkeu.go.id, 2019). Tax recipients with a high level of effectiveness and efficiency are expected to continue in development planning. For this reason, efforts are needed to increase the source of revenue so that the goal can be realized fairly and prosperously until there is no gap in national development. Efforts to maximize tax revenue can not only rely on the role of the tax directorate general or tax officer but also the active role of the taxpayers is needed. This makes compliance and awareness of taxpayers a very important factor in terms of achieving tax revenue success. Empirical results show that tax revenue is determined by the level of tax compliance. Asri and Vinola (2009) provided evidence that the level of compliance of corporate taxpayers has a positive effect on increasing tax revenue.

The problem, however, that often occurs related to this tax collection is that there are still many people who do not want to fulfill their tax obligations, or in other words, there are still many tax arrears. The level of compliance of individual taxpayers (WP OP) to fulfill their tax payment obligations in Indonesia is still quite low. Indonesia's tax revenue from personal income tax (PPh) in 2008 was only 22.89%, while the revenue from corporate income tax on the realization of non-oil

and gas PPh revenue reached 77.11% (www.pajakonline.com January 30, 2009). Recent data shows that in the past five years the level of tax compliance in reporting taxes is still low at around 60% -70% (www.pajak.go.id 3 July 2020). Likewise, the level of compliance of Indonesian taxpayers' value-added tax (VAT) payments is very low compared to other countries in the Asian region. The government noted that realization of tax revenue until 31 December 2015 only reached Rp 1,055 trillion in 2015 yesterday. The amount is only 81.5% of the target in the 2015 Revised State Budget (APBNP) of Rp 1,294.25 trillion.

Tax Amnesty is one of the efforts that the government can do to increase tax revenue. Tax amnesty is given to Indonesian citizens who are suspected of tax evasion abroad and do not report all their assets. According to Rustiyarningsih (2012), there are many factors that cause a taxpayer not to report all of his assets, one of them is including not wanting to pay too much tax, or being reluctant to calculate the total assets, or not willing to pay fines and tax arrears that have accumulated over the years. Unfortunately, the government or any party does not have access to information on one's entire assets and this makes taxpayers easily get away from paying the tax. Tax amnesty constitutes a write-off of taxes that should be owed, not subject to tax administration sanctions and criminal sanctions in the taxation field, by disclosing assets and paying the ransom as stipulated in Law no 11 articles 1 paragraph 1 in 2016. According to Mardiasmo (2015) the tax amnesty policy will increase tax revenue.

Alm's (1998) shows that the level of compliance fell after the tax amnesty program. Ragimun (2015) shows that tax amnesty has been carried out in Indonesia,

but the results are not effective because of unclear objectives and rules, besides that it is not supported by adequate facilities and infrastructure. However, Ngadiman and Huslin (2015) said that tax amnesty has a positive and significant effect on taxpayer compliance. Agreeing with their statements, Suyanto (2016) also shows that tax amnesty has a positive effect on taxpayer compliance.

The granting of tax amnesty is also an effort by the government to attract public funds that have been parked in other countries' banks. For this reason, it is necessary to implement special measures and breakthrough policies to encourage the transfer of assets into Indonesian territory while providing security guarantees for Indonesian citizens who wish to transfer and disclose their assets in the form of Tax Amnesty. Tax amnesty is not a new thing in the world, some countries have implemented tax amnesty in advance with various interests and goals, even Egypt has implemented tax amnesty more than two thousand years ago. Likewise, with countries in other parts of the world such as the United States, Italy, South Africa, and other countries that have implemented tax amnesty several times (Sari, 2017).

Many countries face progress and delays in different economic, social, financial, and tax systems. The deviation of phenomena from some activities of the official public authority circle to the hidden network, which is not subject to public organizations and labor laws and does not declare their assets to the tax authority. This phenomenon is known as the shadow economy (www.pajak.go.id, 2020). Governments in many countries have adopted several steps to deal with this phenomenon through several methods as a process of control and spread awareness, punishment and provide incentives to change from the shadow economy into the

formal economy. However, the method used may be inadequate to control this phenomenon and fight tax evasion which is thought to be born from this phenomenon (Sari, 2017).

The government can recommend other steps that might be more effective in combating tax evasion and adjusting the shadow economy and collecting uncollected taxes before applying for the tax amnesty program. Tax amnesty is a government program to allow citizens to voluntarily pay their taxes that were previously owed without an exposure penalty (UU No. 11 Tahun 2016). A glance at the financial history of governments around the world notes that most governments introduced tax amnesty programs to combat tax evasion and adjust the shadow economy and increase tax revenue in the short term and expand the tax base in the long term (Mouloud, 2015).

The implementation of this tax amnesty will also provide an opportunity for taxpayers who hold their assets outside Indonesia to transfer funds and then play a role in developing the economy in Indonesia through recording as a new taxpayer and channeling funds to investment instruments outside the financial market. The assets or funds owned by Indonesian citizens (WNI) that enter Indonesia are called repatriation funds. Repatriated funds are funds generated from the process of returning income accumulation in the form of assets or assets from outside the territory of the Unitary Republic of Indonesia into the territory of the Unitary State of the Republic of Indonesia and the transfer of repatriated assets to investment instruments by taxpayers involving a Perception Bank with a gateway account that has been created.

As a further effort that the government can prioritize is to make a breakthrough, especially in exploring the potential of taxation to control the behavior of taxpayers so that taxpayers comply with tax regulations. For this reason, the Directorate General of Taxes (DGT) has imposed tax sanctions, which is an action in the form of punishment given to people who violate regulations in the form of administrative sanctions and criminal sanctions without the removal of sanctions as applied to a tax amnesty. According to the Resmi (2014), tax sanctions can occur due to violations of tax legislation. Tax sanctions are guarantees that the provisions of tax legislation (tax norms) will be obeyed. In other words, taxation sanctions are a deterrent so that taxpayers do not violate taxation norms (Mardiasmo, 2009).

Examples of sanctions that can be imposed on taxpayers are the imposition of fines and along with interest on taxpayers who are late paying or not paying taxes at the specified time. Several previous studies found that taxation witnesses have a significant influence on tax revenues. Tiraada (2013) states that tax sanctions are factors that have a considerable influence on taxpayer compliance. The research results of Ngadiman and Huslin (2015), Septarini (2015), and Susmita (2016) show that tax witness assertiveness has a positive and significant effect on taxpayer compliance. Another similar study was conducted by Mutia (2014), regarding the effect of tax sanctions on taxpayer compliance in Padang Primary Tax Office. The results showed that there were significant and positive relationship between tax sanctions and tax compliance. This means that the higher the tax sanctions, the higher the compliance of taxpayers will be achieved. However, different from research conducted by Wirenungan (2013) Asbar (2014) and Ningsih (2016) stated that tax

penalties do not affect taxpayer compliance.

Based on the explanation above, this becomes an interesting topic to study because several studies have different results. This raises the question of why the tax amnesty does not affect the compliance of taxpayers?. Is there any relation to the sanctions that are not running optimally?. Ragimun (2015) said, previously Indonesia had implemented tax amnesty in 1964 and 1984, but the implementation was not effective because the taxpayers did not respond enough and were not followed by reforming the tax administration system as a whole. Then Indonesia re-enacted the tax amnesty in 2016, the research result of Ispriyarso (2019) the implementation of the tax amnesty can be said to be successful from the ransom received but was not successful from the repatriation funds. Regarding the number of participants who took part in the tax amnesty program, it did not reach the target expected by the government. Besides that, the role of the tax sector in the APBN system still serves as a compliment, so that the government does not try to be more serious. Then why is the strictness of the sanctions not affecting the compliance of the taxpayer?. Whether because of the effect of the loosening of the sanctions given to the violators of the sanctions so that the taxpayer feels not afraid to violate the sanctions that have been set?. Therefore this dissertation wants to identify the problem further based on the assessment that has been done by previous researchers.

1.2 Problem Statements

Based on the description in the previous background, tax amnesty and sanctions are the government's efforts to improve taxpayer compliance in paying taxes in

Indonesia. These efforts have been carried out by the Indonesian government in the previous period. Therefore, the problem statements are :

1. Does tax amnesty affect the level of taxpayer compliance?
2. Does the sanction strictness affect the level of taxpayer compliance?
3. Is there an interaction between tax amnesty and sanction strictness in increasing taxpayer compliance?

1.3 Research Objectives

The level of tax compliance in Indonesia is still relatively low. Following the formulation of the problem whether the tax amnesty and strictness of sanction can affect the level of individual taxpayer's compliance. So, the purpose of this literature review is as follows:

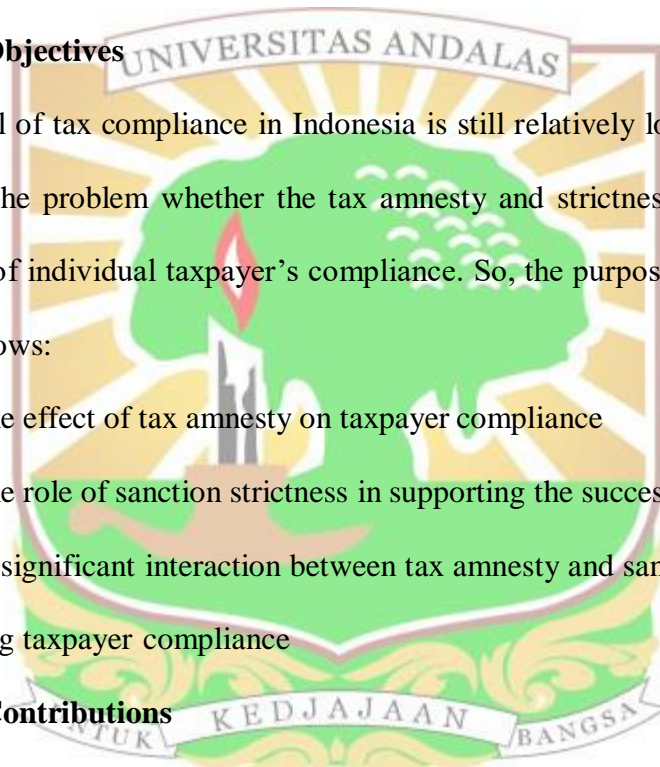
1. To see the effect of tax amnesty on taxpayer compliance
2. To see the role of sanction strictness in supporting the success of tax amnesty
3. To see a significant interaction between tax amnesty and sanction strictness in increasing taxpayer compliance

1.4 Research Contributions

The results of this literature review are expected to contribute to the development of knowledge as well as to practitioners. The following contributions are :

1. Theoretical contribution.

With this dissertation, it is expected to enrich the literature on tax compliance research in paying taxes. The results of this paper will also confirm the



government's efforts to improve taxpayer compliance.

2. Practical contribution

This dissertation can be used as material for evaluating the government's efforts to improve tax compliance so that it can help the government consider the next steps.

