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Analysis of Company Tax Compliance Related to Foreign Investment: Case Study in Indonesia

Thesa Adi Purwanto and Menia Safitri

Tax Administration Laboratory, Vocational Education Program Universitas Indonesia, Depok, Indonesia

Abstract

Tax is one important factor for investors in deciding to invest in a country. Theoretically, taxes affect investment decisions as long as the tax imposition affects the cost and profit earned by the investor. SHE Co., Ltd is a Japanese company that will invest in PT. PQR. This company is engaged in automotive. Before deciding to invest in PT. PQR, SHE Co., Ltd first wants to know the feasibility of PT. PQR for them to invest. One of the indicators of feasibility is the level of tax compliance of PT. PQR. This study describes the impact of the fulfillment of tax obligations of PT. PQR to foreign investors who will invest. Research was conducted using data from PT. PQR. The processed data is about Corporate Income Tax (PPh Article 25), Income Tax Article 21 and Value Added Tax for about the last 3 (three) years. The data then will be analyzed to fulfill the requirements of Regulation of the Minister of Finance Number 74/PMK.03/2012, which is On time to submit the Annual Tax Return within the last 3 (three) years, Time specified and no tax arrears. (Abstract)

Keywords: tax compliance, foreign investment, income tax Article 25, income tax Article 21, Value Added Tax

Corresponding Author:
Thesa Adi Purwanto
thesa@vokasi.ui.ac.id

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1. Introduction

State finance is a vein in the development of a country and very decisive continuity of the economy both now and in the future. The household finances of this country are set forth in the State Revenue and Expenditure Budget set by the government together with the Parliament. To fulfill its sustainability, the State needs funds or capital. The required capital is one of them sourced from taxes.

To maximize state revenues there must be a balance between the BudgetAir function and the tax regulated function. With the BudgetAir function, taxes serve to finance state expenditures. To carry out routine state tasks and carry out development.

Meanwhile, with regulatory functions the Government can regulate economic growth through tax policies. Through regulatory functions, taxes can be used as a means to achieve goals that are located outside the financial field and more aimed at the private sector. For example in order to drive investment, both domestic and abroad.

According to Arifin P. Soeria Atmadja, in the implementation of government, both for routine expenditure and development expenditure, required a lot of funds. Source of funds obtained from both within and outside the country on the basis of strictly managed by the government [6]. Economic development which involves the private sector in the form of foreign and domestic investment has a very important role in economic activity. This is because investment is the first step in production activities. The economic growth of a country is closely related to the level of investment. To achieve a high rate of economic growth required a high level of investment [8].

Tax is one important factor for investors in deciding to invest in a country. Theoretically, taxes affect investment decisions as long as the tax imposition affects the cost and profit earned by the investor.

Tax compliance is the most important factor of all factors affecting tax revenue. High public awareness will encourage more and more people to fulfill their obligations to register themselves as taxpayers, report and pay their taxes properly as a form of national and state responsibility. The greater the level of compliance people pay taxes then the tax revenue will increase, (James & Clinton). This condition may ultimately have an impact on the increase in state budget that will be allocated to various sectors and governments under it. This form of taxpayer compliance will have a major impact on attracting foreign investors to invest in the country.

2. Methodology

This study describes the impact of the fulfillment of tax obligations of PT PQR to foreign investors who will invest. Research conducted using data from PT PQR. The processed data is about Corporate Income Tax (PPh Article 25), Income Tax Article 21 and Value Added Tax for about the last 3 (three) years. The data then will be compared with the payment deadline and reporting deadline for each type of tax to fulfill the requirements of Regulation of the Minister of Finance Number 74/PMK.03/2012, which is On time to submit the Annual Tax Return within the last 3 (three) years, Time specified and no tax arrears.

3. Discussion

3.1. Tax compliance

Tax compliance according to Tax Glossary is: "Degree to which a tax payer complies (or fails to comply) with the tax rules of his country, for example by declaring income, filing a return, and paying the tax due in timely manner."

Likewise, the opinions of Roth, Scholz and Witte cited by John Haseldine indicate that: "compliance with reporting requirements means that tax payers files are all required tax returns at proper time and that the returns accurately report tax liability in accordance with the internal Revenue Code, regulations, and court decision applicable at the time return is filed" [2].

From the aforementioned understanding shows that the tax is the implementation of the implementation of the obligation to deposit and report the tax payable in accordance with the rules of taxation. The expected compliance with the self-assessment system is voluntary compliance rather than compulsory compliance.

Compulsory taxpayer, is a tax-conscious taxpayer, understands the rights and obligations of taxation, and is expected to care tax, which is to implement taxation obligations correctly and understand the rights of taxation. Taxpayers are predicated in compliance with taxation obligations will certainly get more facilities and facilities compared with the provision of services to taxpayers who have not or are not obedient. The facilities provided by the Director General of Taxes on compulsory taxpayers are:

1. Provision of deadline for issuance of Tax Overpayment Decree (SKPPKP) no later than 3 (three) months since the application of taxpayer overpayment is received for income tax (PPh) and 1 (one) month for Value Added Tax (VAT) Without going through research and inspection by the Director General of Taxes

2. The existence of policy of acceleration of issuance of Decree of Return of Introduction of Excess Tax (SKPPKP) to be no later than 2 (two) months for Income Tax and 7 (seven) days for VAT.

For the taxpayer not yet or not obedient, the facility is not given to him, the issuance of SKPPKP must wait for research and examination. That is time consuming, costly, and a source of corruption, collusion and nepotism (KKN).

According to Chaizi Nasucha citing his article Norwan D. Nowak entitled "*Tax Administration In Theory and Practice* " states that taxpayer compliance is "a climate of compliance and awareness of fulfillment of tax obligations, reflected in the situation in which [1]:

1. The taxpayer understands or seeks to understand all the provisions of the taxation legislation.
2. Fill out the tax form completely and clearly.
3. Calculate the amount of tax payable correctly.
4. Pay the tax payable on time."

Otto was quoted by Chaizi Nasucha as saying that taxpayer compliance indicators are indicated by trends [1]:

1. Registration (Registration).

   Registration is indicated by the number of individuals who register themselves as taxpayers compared to the total population that exists.

2. Reporting (Filing).
3. The accuracy of the report (Correct reporting).

   The accuracy of the report illustrates the truth of each taxpayer's report that can be compared against the activities of a particular type of business and the effectiveness of the tax tariffs paid on the basis of the income received.

4. Payment (Payment)

   Payments illustrate the trend of timely, precise tax deposits with tax bases and deposits by taxpayer type.

As a technical guideline to know whether the taxpayer can be categorized as compulsory taxpayer, can be seen in the Decree of the Minister of Finance No. 554/KMK.04/2000 on the Procedures of Taxpayer Determination With Criteria Specified In Order Returns Introduction Excess Tax Payment as amended by Ministerial Regulation Finance Number 74/PMK.03/2012 which meets the following requirements:

1. Timely in submitting the Notice;
   - Timely in submitting the Annual Tax Return within the last 3 (three) years;
   - In the last year of delivery of a Late SPT of not more than 3 (three) tax periods for each type of tax and not consecutively;

- SPT The late period as referred to in letter b has been submitted not later than the deadline for submission of SPT The following tax period;

2. Has no tax arrears for all taxes, except for tax arrears that have been granted permission to install or suspend payment of taxes;
3. Financial Statements are audited by a Public Accountant or a government financial oversight body with unqualified opinion for 3 (three) consecutive years;
4. Never been convicted for committing criminal offenses in the field of taxation based on court decisions that have had permanent legal force within the last 5 (five) years.

3.2. Foreign investment

OECD (1996) describes foreign direct investment as follows: foreign direct investment reflects the objective of obtaining a lasting interest by a resident entity in one economy ("direct investor") in an entity resident in an economy other than the investor ("Direct investment enterprise"). The lasting interest implies the existence of a long-term relationship between the direct investor and the enterprise and a significant degree of influence on the management of the enterprise. Direct investment involves both the initial transactions between the two entities and all subsequent capital transactions between them and their affiliated enterprises, both incorporated and unincorporated.

Attract foreign investors or foreign investors can be done various countries as one effort to accelerate the development of investment. Promoting foreign investment will make some important contributions to development, that is, foreign investments provide their own capital, will move technology and other expertise to the countries they are in, increase the use of modern technology, and often their efforts can increase exports [7].

According prasetyo in the book "Really Provision of Incentive Taxes Can Increase Foreign Investment in Indonesia? " This explains that there are several factors that affect an investment decision. These factors are:

1. Macro

   Factors include the political system and political stability of a State, economic policy, legal system, public governance,

   Legal administration and consumer purchasing power. The criteria of this macro factor is still relatively loose.

2. Meso

   These factors include infrastructure conditions (transport, energy, and communications), social facilities (health facilities, education and other support facilities), and business associations (business associations and chambers of commerce and industry).

3. Micro

   After considering macro and meso factors, the last investor will consider the micro factors that include land (price and proximity to the market), labor (minimum wage, skill, and productivity level), capital (ease of getting credit, and possibly tax incentives) Commercial elements (capabilities and experience of local partners), and other elements such as offers from other regions.

Kuncoro in his book ”Fundamentals of Development Economics” also explains that there are factors that affect a country’s competitiveness over other countries that influence investors’ decisions to invest. These factors are:

1. Economic performance

   Indicators used to assess economic performance include the domestic economy, international trade and investment, employment and price levels (inflation).

2. Efficiency of government

   The key indicators used to assess government efficiency are financing of bailout, fiscal policy, institutional framework, business legislation and education.

3. Business efficiency

   The key factors employed include productivity, labor markets, financing, management practices, and the effects of globalization.

4. Infrastructure

   Key indicators include basic infrastructure, technological infrastructure, scientific infrastructure, health and environment, and value systems.

3.3. Case study

SHE Co., Ltd is a Japanese company that will invest in PT. PQR. Before deciding to invest in PT. PQR, SHE Co., Ltd first want to know the feasibility of PT. PQR for them to invest. There are two criteria that must be met by PT PQR, namely:

1. Fulfill taxation obligations in accordance with the applicable tax laws in Indonesia
2. Bookkeeping system in accordance with the Accounting Standards in Indonesia

From the data that the author gets, PT PQR has fulfilled its tax obligations in accordance with the applicable tax laws in Indonesia, namely:

1. Compliance in registering.

   PT PQR registered to obtain a Taxpayer Registration Number 1995 and confirmed as Taxable Person for VAT purposes in 2005.

2. Compliance in calculating the tax payable.

   PT PQR has calculated the amount of taxes payable correctly and can illustrate the truth comparable to the type of business activities and the effectiveness of tax rates paid on the basis of the income received. In other words, do not report taxes less than they should.

3. Compliance in tax payments.

   PT PQR has deposited taxes on time, and does not exceed the prescribed time deposit.

4. Compliance to report the Notice (SPT).

   PT PQR has submitted the SPT on time, while the late report due to Correction.

5. Compliance in compliance with the provisions of tax laws.

   PT PQR understands or seeks to understand all provisions of the tax laws. To help with the tax affairs PT PQR uses the services of Tax Consultant Office X located in Bogor, Indonesia.

For the second criterion is whether PT PQR has conducted a Bookkeeping System in accordance with the Accounting Standards in Indonesia is still in the process of examination by an independent audit team, therefore it is not yet certain whether SHE CO., Ltd. will invest or not.

The taxes related to PT PQR are as follows:

1. Corporate Income Tax

   Corporate Income Tax is a tax imposed on income received or obtained by the Agency, namely any additional economic capability received or obtained by corporate taxpayers either from Indonesia or from outside Indonesia, which may be used for consumption or to increase the wealth of corporate taxpayers Concerned, by name and in any form. At PT PQR, corporate income tax owed in installments every month (PPh Article 25). Under the provisions of Article 2 of Regulation of the Minister of Finance Number 242/PMK.03/2014 Income Tax Article 25 shall be paid no later than the 15th (fifteenth) of the following month after the tax period has expired. If the deposit deadline falls on a holiday (including Saturday, Sunday, public holiday, and General Election), then payment can still be made on the following day. Notification Letter (SPT) of the Income Tax Article 25 shall be submitted no later than 20 (twenty) days after the Tax Period ends. Here is a table detailing PPh 25 PT PQR in 2015:

Table 1: Details of PPh 25 PT PQR, Year 2015.

Tax Period	Payment Date	Reporting Date	Payment Deadline	Reporting Deadline
January	10 February	20 February	16 February	20 February
February	10 March	20 March	16 March	20 March
March	15 April	17 April	15 April	20 April
April	08 May	18 May	15 May	20 May
May	08 June	19 June	15 June	22 June
June	07 July	17 July	15 July	20 July
July	10 August	20 August	18 August	20 August
August	10 September	18 September	15 September	21 September
September	13 October	19 October	15 October	20 October
October	10 November	20 November	16 November	20 November
November	10 December	18 December	15 December	21 December
December	14 January 2016	18 January 2016	15 January 2016	20 January 2015

Source: PT. PQR Audit Working Paper, Year 2015.

From the aforementioned data, the Income Tax Article 25 PT PQR within three consecutive years has fulfilled the requirements of Regulation of the Minister of Finance Number 74/PMK.03/2012, which is On time to submit the Annual Tax Return within the last 3 (three) years, Time specified and no tax arrears.

2. PPh 21

Income Tax Article 21 is a tax on income in the form of salaries, wages of honorarium, allowances and other payments in respect of employment or occupation, services and activities undertaken by an individual taxpayer of the domestic tax subject. As a tax deductible Article 21, PT PQR is entrusted to calculate, deduct, deposit and self-report the tax payable. Under the provisions of Article 2 of Regulation of the Minister of Finance No. 242/PMK.03/2014 Article 21 Income Tax must be paid no later than the 10th of the following month after the tax period expires. If the deposit deadline falls on a holiday (including Saturday, Sunday, public holiday, and General Election), then payment can still be made on the following day. An Income Tax Return (SPT) of Article 21 shall be submitted no later than 20 (twenty) days after the Tax Period is over. Here is a table detailing PPh 21 PT PQR in 2015:

Table 2: Details of PPh 21 PT. PQR, Year 2015.

Tax Period	Payment Date	Reporting Date	Payment Deadline	Reporting Deadline
January	10 February	20 February	10 February	20 February
February	10 March	20 March	10 March	20 March
March	10 April	20 April	10 April	20 April
April	08 May	20 May	11 May	20 May
May	08 June	20 June	10 June	22 June
June	06 July	08 July	10 July	20 July
July	10 August	20 August	10 August	20 August
August	09 September	16 September	10 September	21 September
September	12 October	20 October	12 October	20 October
October	10 November	19 November	10 November	20 November
November	10 December	18 December	10 December	21 December
December	11 January 2016	20 January 2016	11 January 2016	20 January 2015
Source: PT PQR Audit Working Paper, Year 2015.				

From the aforementioned data, the Income Tax Article 21 of PT PQR within three consecutive years has fulfilled the requirement of Regulation of the Minister of Finance Number 74/PMK.03/2012 which is On time to submit Annual Notification Letter in the last 3 (three) years, in February And March 2014 there was a correction due to miscalculation that caused overpayment, on overpayment PT PQR reimbursed the overpayment, the same thing also happened in the year 2015, that is, in January to May due to the change of Non-taxable Income that resulted in overpayment, On this overpayment PT PQR reimbursed the overpayment and no tax arrears.

3. VAT

   Value Added Tax is a tax imposed on any increase in value of goods or services in circulation from producer to consumer. As a Taxable Entrepreneur PT PQR is obliged to collect, deposit and report VAT payable. Under the provisions of Article 2 of Regulation of the Minister of Finance No. 242/PMK.03/2014, VAT or VAT and PPnBM payable in one Tax Period shall be deposited at the end of the subsequent month after the Tax Period is ended and before the VAT Notification Period is delivered. If the deposit deadline falls on a holiday (including Saturday, Sunday, public holiday, and General Election), then payment can still be made on the following day. Notification Letter (SPT) The VAT period must be submitted End of the following month after the end of the Tax Period. The following is the details table of VAT PT PQR in 2015.

Table 3: Details of VAT PT PQR, Year 2015.

Tax Period	Payment Date	Reporting Date	Payment Deadline	Reporting Deadline
January	No VAT Payable	23 June	26 February	27 February
February	30 March	31 March	30 March	31 March
March	No VAT Payable	30 April	29 April	30 April
April	No VAT Payable	23 June	28 May	29 May
May	No VAT Payable	23 June	29 June	30 June
June	No VAT Payable	31 August	30 July	31 July
July	No VAT Payable	29 February 2016	28 August	31 August
August	29 September	30 November	29 September	30 September
September	29 October	30 October	29 October	30 October
October	No VAT Payable	31 December	27 November	30 November
November	No VAT Payable	29 February 2016	30 December	31 December
December	–	29 February 2016	28 January 2016	29 January 2016

Source: PT PQR Audit Working Paper, Year 2015.

From the aforementioned data, the VAT of PT PQR within three consecutive years has fulfilled the requirement of Regulation of the Minister of Finance Number 74/ PMK.03/2012, which is On time to submit Annual Notification Letter in the last 3 (three) years, happened each correction In the year 2013, that is, in August to October due to miscalculation, in the year 2014, that is, in April, June and July due to miscalculations and in 2015, that is, in January, April, June, July, August, October, November and December

Due to miscalculation. For all overpayments PT PQR compensates for the overpayment for the subsequent tax period and no tax arrears.

4. Conclusion

Based on the discussion that has been described in the previous chapter it can be concluded as follows:

1. The conception of the complying taxpayer is compliance in registering, compliance in calculating tax payable, compliance in tax payments, compliance to report Notification and compliance in compliance with the provisions of tax laws.
2. In the Law of the Republic of Indonesia Number 25 Year 2007 on Capital Investment Article 1 it is explained that domestic investment is an activity of investing to conduct business in the territory of the Republic of Indonesia conducted by domestic investors by using domestic capital. Foreign investment is an activity of investing to conduct business in the territory of the Republic of Indonesia conducted by foreign investors, whether using the foreign capital completely or in association with domestic investors.
3. PT PQR has fulfilled its taxation obligations in accordance with the prevailing tax regulations in Indonesia, namely PT PQR has been registered as a taxpayer, has calculated the tax payable properly, has paid the tax payable not exceeding the time specified, has reported Notification Not exceeds the time Determined and compliance in compliance with the provisions of the tax laws.
4. It is not yet certain whether SHE CO., Ltd will invest or not. Because there is still one criterion that is still in the process of examination by the audit team that PT PQR bookkeeping system is in accordance with the applicable Financial Accounting Standards in Indonesia.

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