

Empirical Study on the Levels of Tax Audit and of Tax Compliance: Case Study in KPP Madya Sidoarjo

Syafi 'i¹, Iqbal Fatah²

¹ Faculty of Economics, Bhayangkara University, Surabaya,

² Tax Office Kanwil Jatim, Sidoarjo,
INDONESIA.

ABSTRACT

The study was conducted to determine the levels of tax audit and of tax compliance at Madya Sidoarjo Tax Office. The descriptive-qualitative method was applied in it. The taxpayers at Madya Sidoarjo Tax Office are selected based on the segmentation. The largest taxpayers are referred to the Regional office of the Directorate General of Taxation in East Java II. The selected taxpayers will be directly proportional to the potential tax revenue, which can be maximized. The researchers will analyze the level of taxpayers' compliance and of errors in the fulfillment of tax obligations.

Keywords: Level of Compliance of Tax Payers, Level of Tax Audit

INTRODUCTION

Taxes levied by the government are based on the third amendment to the Constitution 1945 in Article 23 A. Since 1983 an optimization program on the tax revenue has been done through the tax reform. The tax reform is aimed to change the system of tax collection from the official assessment system into a self assessment system. Self-assessment system gives credence to taxpayers to meet and carry out their own duties and rights of taxation (Rahayu 2010:101), and the characteristics of it are: 1). Taxpayers undertake an active role in implementation of their tax obligations; 2). Taxpayers are fully responsible for their own tax obligations; 3). The tax authorities are tasked to provide guidance, research and monitoring of the implementation of tax obligations for taxpayers.

Self-assessment system has some weaknesses resulting in the possibility of taxpayers to commit fraud. The task of the tax authorities is to oversee the fulfillment of the obligation carried out by taxpayers. The most important aspect of the self assessment system is the self-awareness of the taxpayers that have been entrusted to calculate their own taxes in accordance with the applicable law or regulations. The tax authorities, therefore, need to undertake some actions on auditing to avoid the noncompliance of taxpayers.

Taxation Audit

Mulyadi and Puradiredja in Rini (2008) described the word "audit" in this context. They explained that "audit is a systematic process to obtain and evaluate the evidence and the information objectively on the statements or allegations connected with to the economic activities and events with the goal to establish the degree of concordance between these statements and the established criteria, and the delivery of the results to related users." While the PMK Number: 82/PMK.03/2011 defines that the tax audit is "a series of activities to collect and process the data, information, and/or evidence objectively and professionally carried out in a standardized procedures to test the compliance on the fulfillment of tax obligations and/or for the purpose of another in order to carry out the provisions of the tax laws and regulations".

The purpose of the taxation audit based on the PMK No. 199/PMK.03/2007 is to test the compliance on the fulfillment of tax obligations and/or for other purposes in order to carry

out the provisions of the tax legislation. That is why the tax audit can be categorized as a compliance audit. Tax audit is done in terms of: 1). SPT or letters informing the overpayments, including those who have been granted a preliminary return of excess taxes; 2). SPT or letters informing the Loss; 3). Not convey or convey the SPT/letters but beyond the time limit stipulated in the Letter of Reprimand; 4). Merger, consolidation, expansion, liquidation, dissolution, or leaving Indonesia forever; 5). SPT or letters informing the ones who meet the criteria of the risk based selection.

Compliance of Taxpayers

Norman D. Nowak in Zain (2004) described the word “compliance” as the compliance and awareness on the fulfillment of tax obligations which are reflected in these situations: 1). Taxpayers’ understanding or trying to understand all of the provisions of tax laws or regulations, 2) Filling out the tax forms completely and clearly, 3). Calculating the amount of tax payable correctly, 4). Pay and report the taxes payable on time. Nurmantu (2003) explained that tax compliance is a situation in which the taxpayers fulfill all their tax obligations and do their rights of taxation including formal and material compliances.

Formal compliance is the fulfillment of tax obligations that meet the formal requirements in accordance with the tax regulations. While material compliance is the fulfillment of substantive material/the nature of the material provisions of the tax in accordance with the content and spirit of the tax laws or regulations. It can also cover the formal compliance, so that the taxpayers fill out their tax forms honestly, well, and correctly in accordance with the provisions of the Income Tax Act, and after that report them before the deadline. It can be stated that compliance is the main foundation of the self-assessment system. It can be successfully achieved through the effective implementation of the key elements (Ismawan, 2001). Those key elements include: 1). Excellent Service Program for taxpayers; 2). Simple and uncomplicated procedures to facilitate taxpayers; 3). Effective monitoring and verification for the compliance programs; 4). Consolidation of firm and fair law enforcement.

METHOD

A qualitative, descriptive approach is implemented in the study to reveal the problems of the levels of compliance of taxpayers, and of tax audit. The aims are to verify the compliance of taxpayers and analyze the effects of the tax audit on the compliance of taxpayers to fulfill their tax obligations.

Type and Source of Data

The type and source of the data used in this study are the data of the tax audit and of the of taxpayers’ compliance in reporting their Annual Income Tax and Value-Added Tax (VAT) period, data of audit.

Techniques of Data Collecting

The data were collected by means of documentation that is by searching and collecting the data of the reports of the Annual Income Tax Audit of Agency in KPP Madya Sidoarjo and interviewing some related officers.

Techniques of Data Analysis

The techniques of data analysis applied in the study include: 1). Analyzing the related data of the number of taxpayers reporting their annual tax/annual SPT on time, before and after auditing to verify the compliance on the fulfillment of tax obligations. 2). Confirming the related parties including the officers of: a). Data Processing and Information Section concerning with the number of SPT returns on time, and b). Inspection/Auditing Section to

determine the number of taxpayers being examined. 3). Conducting some analysis to find out the effect of the tax audit towards the compliance of taxpayers and the level of errors/corrections on SPT reported together with the results of the audit.

RESULTS AND DISCUSSION

Overview of Research Object

KPP Madya Sidoarjo is the first office to be modernized in DJP East Java Regional Office II. It has a very strategic role in the implementation of the modernization of the tax administration, and its primary purpose is to create good governance practices. The taxpayers in KPP Madya Sidoarjo are those who have been chosen to meet the criteria and considered as the Big Taxpayers in DJP East Java Regional Office II with the coverage area of 11 districts and cities in East Java.

Number of Tax Payers Listed from 2007 to 2011

Table 1. Number of Taxpayers Listed from 2007 to 2011

<i>Year</i>	<i>Industry</i>	<i>Trade</i>	<i>Service</i>	<i>Total</i>
2007	277	127	93	497
2008	403	243	397	1043
2009	408	226	387	1021
2010	410	227	389	1026
2011	404	236	388	1028

Source: KPP Madya Jatim II

Table 1 indicates that the number of taxpayers in 2007 were 497, based on the Decision of the Director General of Taxation No. KEP51/PJ/2007, and in 2008 there was a significant increase in number to 1043, based on the Decision of the Director General of Taxation No. KEP30/PJ/2008 and after that each year the number of taxpayers registered always changes.

Table 2. Compliance in Conveying the Annual SPT of Income from 2007 to 2011

<i>Tax Year</i>	<i>Number of Registered Taxpayers</i>	<i>Number of Annual Report on SPT</i>	<i>Number of Taxpayers Conveying on Time</i>	<i>Levels of Compliance</i>
2007	497	416	297	71%
2008	1043	862	698	81%
2009	1021	848	612	72%
2010	1026	853	643	75%
2011	1028	854	694	81%

Source: KPP Madya Jatim II

The data in Table 2 shows that the levels of the formal compliance of the taxpayers in conveying their Annual Income Tax of the agency/organization/firm from the tax year 2007 to 2011 with the average of 76%

Table 3. The Number of Warrants for Tax Audit Issued Based on the Criteria and Types of Routine Field Inspection

<i>Inspections</i>	<i>Year</i>				
	<i>2007</i>	<i>2008</i>	<i>2009</i>	<i>2010</i>	<i>2011</i>
Overpayment SPT on Repayment Expenses/ Compensation	5	163	294	322	341
Unconveyed SPT of Annual Income	-	7	-	-	-
Annual SPT on the Loss of the Income tax not paid (RTL B)	2	18	8	14	3
Merger or Takeover businesses	1	-	-	-	-
Revaluation of Fixed Assets	-	-	4	-	-
Liquidation, Closure of Business or Leaving Indonesia forever	-	4	4	2	3
Total	8	192	310	338	347

Source: KPP Madya Jatim II

Table 3 describes the number of Warrant for audit which always increases every year. Types of audit include over paid tax return from 2007 to 2011 and it is known that there have been as many as 1124 warrants issued. In 2008, there were 7 warrants issued for the Routine Field Inspections of the Annual Income Tax Refund for overpayment which were caused by unconveying the Annual Income Tax Return. Whereas in 2007 there were 2 warrants issued for Annual SPT on the Loss of the unpaid Income tax (RTL B), and the highest number occurred in 2008 with 18 warrants. In 2007 only one warrant issued for tax audition consolidation/merger or takeover, and in 2009 four warrants were issued for tax audition revaluation of fixed assets. From 2007 to 2011 there were 13 warrants related to the taxpayers experiencing liquidation, closure of business or leaving Indonesia did not change significantly.

Table 4. Number of Reports on Routine Field Inspection from 2008 to 2011

<i>Inspections</i>	<i>Year</i>			
	<i>2008</i>	<i>2009</i>	<i>2010</i>	<i>2011</i>
Overpayment SPT on Repayment Expenses/ Compensation	4	271	340	303
Unconveyed SPT of Annual Income	-	5	-	2
Annual SPT on the Loss of the Unpaid Income tax (RTL B)	2	17	9	12
Data and/or information indicating uncompliances of tax payers	-	-	-	-
Merger or Take over businesses	-	1	-	-
Revaluation of Fixed Assets	-	4	-	-
Liquidation, Closure of Business or Leaving Indonesia forever	-	6	2	2
Total	6	304	351	319

Source: KPP Madya Jatim II

Table 4 describes the condition of the year 2008 in which some investigations or audits were conducted due to Overpayment of SPT and Annual SPT on the Loss of the Unpaid Income tax (RTLB). In 2009 the total number of Routine Field Inspection Reports increased significantly as many as 304 of LPP, dominated by the audit of a tax on the annual SPT Income as many as 271 LPP overpayment, then un conveyed Annual Income Tax as many as 5 LPP, Annual SPT on the Loss of the Unpaid Income tax (RTLB) as many as 17 LPP, Consolidation or Acquisition of Business Enterprises as many as 1 LPP, Liquidation/Closure of Business or Leaving Indonesian as many as 6 LPP. The data of 2010 showed that the highest number was 351 LPP. The number of the audit on the SPT overpayment was over 340 LPP, Annual Income Tax Loss No More Pay (Annual SPT on the Loss of the Unpaid Income tax) was 9 LPP, and Liquidation, Business Closing and Leaving Indonesian forever or as many as 2 LPP. In 2011 there was a decrease in the number of the results of the investigations and there were 319 LPP. The number of audits or investigations on the SPT overpayment were over 303 LPP, un conveying the Annual Income Tax Return were 2 LPP, Annual SPT on the Loss of the Unpaid Income tax as many as 12 LPP, and Liquidation, Business Closing and Leaving Indonesia forever were 2 LPP.

Table 5. Levels of Taxpayers' Compliance after Taxation Audit

Number of Audited Taxpayers	Reporting on Time		Level of Compliance
	Year	Number	
7	2009	2	29%
	2010	2	29%
	2011	5	71%

Source: Data processed by the researcher.

Table 6 illustrates the percentage of the formal compliance of the taxpayers who have been audited since 2008, and there has been an impact on the levels of formal compliance from 2009 to 2011 with its average of 43%.

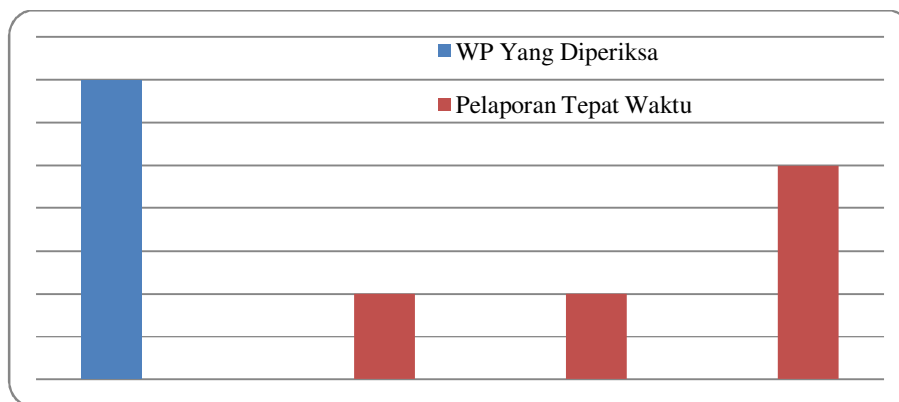


Figure 1. Levels of Taxpayers' Compliance after Taxa Audit in Conveying the Annual SPT of the Company Income

Figure 2 indicates that the total number of taxpayers with issued warrants for not reporting their Annual Income Tax of the company or firm in 2008 were 7. After the audit, the compliance rate of the taxpayers in 2009 and 2010 respectively was by 29%, and in 2011 it increased to 71%.

Table 7. Number of Refund Discrepancy and Results of Taxation Audit on Conveying Annual SPT of Income Tax Agency Overpayment (in thousands)

<i>Year</i>	<i>No of SPT</i>	<i>Annual SPT of Overpayment Based on tax Payer</i>	<i>Annual SPT Based on Audit</i>	<i>Correction</i>	<i>Refund Discrepancy</i>
2009	75	49.132	39.653	11.826	24%
2010	81	95.618	77.897	17.799	19%
2011	80	120.054	105.549	16.370	14%

Source: Data processed by the researcher

From Table 7 it can be seen that the highest percentage of Refund Discrepancy occurred in 2009 was as much as 24 %, in 2010 as much as 19 %, and in 2011 as much as 14 %. Refund Discrepancy is the nominal value of the restitution not granted by the Director General of Taxation based on the results of the investigation or audit, so that it can be interpreted that DJP maintains the revenue of the overpayment value (refund) claimed by the taxpayers.

CONCLUSIONS

Taxation audit gives its impact on the tax payers' compliance. It can be seen from the percentage of the Annual Income Tax Agency conveyed on time from 2007 to 2011 with an average of 75 %. The rate of the quantity of the annual SPT conveyed after taxation audit, the level of compliance in its delivery from 2009 to 2011 is 43 % average. And the amount of the state revenue maintained by the examiner during the years of 2009 until 2011 from the Annual Income Tax overpayment claimed by the tax payers is an average of 19 %.

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