The Role of Tax Law on Personal Income Tax on Tax Compliance

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Abstract

Tax law enforcement plays a strategic role in encouraging taxpayer compliance, particularly in the context of personal income tax. The objective of this study is to examine the extent of influence of tax regulations on improving individual taxpayer compliance. The normative legal approach is the research methodology used, accompanied by a qualitative review of literature, tax laws and regulations, and relevant taxpayer compliance data. Based on the research results, the main determinants of compliance are proportional sanctions, legal clarity, and an open tax administration system. Furthermore, the effectiveness of tax regulations in providing legal protection and fiscal justice also influences taxpayer perceptions of their tax obligations. The conclusion of this study confirms that strengthening tax regulations, both in terms of regulation and implementation, is crucial in creating a culture of tax compliance among individual taxpayers.

I. INTRODUCTION

One of the primary sources of government funding is personal income tax. Individual taxpayer compliance is crucial for increasing state revenue and maintaining economic stability. In this regard, tax laws are crucial for controlling and ensuring taxpayer compliance. Therefore, research into the role of personal income tax laws on tax compliance is highly relevant and important.

Individual income is subject to taxation. Individual taxpayer compliance is crucial for increasing state revenue and maintaining economic stability. However, the impact of tax laws on encouraging tax compliance requires further investigation, as many individuals remain unpaid. Numerous policies, particularly so-called tax reforms, have been implemented through the enactment of various laws related to the tax sector to increase domestic revenue from the tax sector. Two primary objectives of the current fundamental changes, specifically related to policy, are revenue collection. Several initiatives have been taken to reduce reliance on the migration industry. Intensifying tax collection is essential for the tax function to increase domestic revenue. A country's ability to maintain and enhance its competitiveness in the global economy depends heavily on its tax policies. Given the rapid movement of money today, competitive tax policies are necessary to attract capital and advance technology to maximize economic growth (Yusuf, 2023).

II. RESEARCH METHODS

This study was conducted using a qualitative approach, using a normative legal analysis method as its primary foundation. The objective of this method is to gain a comprehensive understanding of how tax regulations affect individual taxpayer compliance, particularly with regard to income tax payments. Legal studies are understood not only as a collection of written rules, but also as something living and exerting a real influence on societal attitudes and behavior. Therefore, the method used focuses on an in-depth analysis of applicable regulations, the underlying legal principles, and how these norms are applied in the context of everyday life.

To analyze the data, two approaches were used: a regulatory approach and a conceptual approach. The first approach was used to examine the content of positive law, particularly those related to provisions on Personal Income Tax. Meanwhile, the conceptual approach was used to understand how tax law can influence fiscal compliance from a theoretical and fundamental legal perspective. All data were analyzed descriptively and qualitatively, by systematically outlining the content of regulations and literature, then linking them to the social context and taxpayer behavior in Indonesia.

III. RESULTS AND DISCUSSION

A. General Understanding of Taxes

Taxes not only serve as a vital source of state revenue but also reflect the public's direct involvement in financing national development. In its broadest sense, taxes are a financial obligation imposed on individuals or businesses, the collection of which is based on legal regulations. While providing no direct remuneration to the payer, this commitment is necessary, and the proceeds are used to meet the state's needs for the common good.

This understanding of taxes has been clearly regulated in various legal provisions, one of which is stated in Article 1 paragraph (1) of Law Number 16 of 2009 (Winarsih, 2022). In reality, taxes are imposed coercively, meaning that all citizens who have met objective and subjective standards are required to pay taxes. Although not given direct compensation, the community still receives real benefits from taxes, such as infrastructure, health services, education, subsidies, and other social programs. Therefore, taxes can be called a form of national solidarity, where individuals or bodies that are economically capable contribute to the common good.

B. Understanding Personal Income Tax (PPh OP)

Individual Income Tax is a tax liability imposed on individuals on the income they earn during a tax year. This income encompasses all sources of income that enhance a person's financial capabilities, whether from local or international sources, and can be used to increase assets or wealth or to meet consumption needs. Individual taxpayers in this context include business owners, employees, independent contractors, and micro-entrepreneurs such as thrift store owners. Taxable income includes salaries, honoraria, business profits, gifts, royalties, and other items of economic value.

Individual Income Tax (PPh OP) is a subjective and direct tax. Subjective because it takes into account the taxpayer's personal circumstances, such as marital status and number of dependents. Direct because the entire tax burden is borne by the taxpayer and cannot be shifted to another party. To implement this, individuals must determine their own taxes, deposit the funds into the state treasury, and submit their annual tax return (SPT) through the Annual Tax Return (SPT).

C. Legal Basis for Taxes

Article 23A of the 1945 Constitution, which states that all taxes and other mandatory contributions are regulated by law, is the primary legal basis for taxation in Indonesia. This constitutional provision guarantees that the state may not collect taxes without a valid legal basis. In other words, legality in tax collection is based on the absolute mandate of the constitution. Based on this absolute mandate, the government issued a series of laws that form the backbone of the national tax system. Law Number 28 of 2007 concerning General Provisions and Tax Procedures (KUP) is one such law. This law regulates the rights and obligations of taxpayers as well as procedures for payment, reporting, registration, supervision, and law enforcement. In addition, the KUP serves as a legal umbrella for various types of taxes, including income tax (PPh), land and building tax (PBB), and value added tax (PPN).

Tax implementation is not limited to laws; it is also regulated through derivative regulations, such as the Minister of Finance Regulation (PMK), Government Regulations (PP), and Regulations of the Director General of Taxes (PER), which provide technical details regarding implementation in the field. This multi-layered legal structure demonstrates the importance of legal certainty in ensuring compliance and preventing tax avoidance practices that harm the state. However, in practice, tax law challenges extend beyond the regulatory aspect.

Public legal culture, perceptions of taxation, and the transparency of public funds are also important factors influencing taxpayer compliance. Therefore, in addition to regulatory improvements, cultural and educational approaches also need to be strengthened to ensure compliance with tax laws is not solely driven by fear of sanctions, but also out of moral awareness as citizens.

D. Legal Basis for Income Tax

Income tax is specifically regulated in Law Number 36 of 2008 concerning Income Tax, which is an amendment to Law Number 7 of 1983. This law contains detailed provisions on who is subject to tax, what is taxed, how the tax is calculated, the rates imposed, and how to report and pay taxes. According to this law, individuals or entities domiciled in Indonesia or abroad but earning income from Indonesia are considered tax subjects.

All other forms of income subject to taxation include salaries, corporate income, gifts, rent, dividends, interest, and royalties. Deposit interest and other final income are not required to be reported in the Annual Tax Return, but are subject to a specific rate. In addition to the Income Tax Law, technical criteria such as the Minister of Finance Regulation (PMK) and the Minister of Finance Regulation (PER) also apply. One of the main provisions is PMK No. 215/PMK.03/2018, which regulates taxation for Certain Individual Taxpayers (WP OPPT) (Tobing, n.d.).

E. Tax Existence

In any country, taxes are a fundamental foundation of progress. Revenue flows from the government to the public when it purchases goods and services. The government uses the money it collects from taxes in accordance with its methods to fund investment projects that benefit many people.

Taxes have a significant impact on a country's sustainability in terms of infrastructure development and human resources. These factors include welfare and the fact that when a product is taxed, consumers pay a higher price than producers because the government receives a portion of the sales (Rumadan, 2012).

Other factors, such as output, also have impacts beyond welfare. The impact of taxes on overall production can be divided into two categories: their overall impact on production and their composition (BAJ, 2020).

The state budget (APBN) is always guided by the concept of a balanced and dynamic budget in an effort to achieve the target of improved economic growth. Increasing zakat revenue will impact Indonesia's economic development, as the state can utilize this revenue for administrative purposes. This is because all government expenditures, even those related to economic growth, are partially funded by tax revenues (Etsuko, 2014).

F. Mandatory Tax Payment Rules

Based on Law Number 16 of 2009, citizens who have been designated as taxpayers are required to pay taxes which are divided into several types, namely central taxes (VAT, PPH, PPNBM, and import duties) and regional taxes (motor vehicle tax, hotel, cigarette, and so on).

Tax is defined as a contribution made by the people to the state without direct payment. This includes indirect taxes (VAT, import duties, and export taxes), direct taxes (PBB, PKB, and PPH), subjective taxes (based on the taxpayer's financial capacity) and objective taxes (VAT on taxable products). (Samuel, 2022).

The principle of justice, which is one of the four principles adopted by the government when collecting taxes, emphasizes that tax payments are determined by the economic capacity of each citizen, meaning that the higher the income, the higher the tax that must be paid and that tax revenues are allocated appropriately for the good of all. The concept of certainty, which places a high value on legal clarity and ensures that the general public knows what is taxed, the amount owed, and the method of payment.

Economic theory states that taxes inevitably have more benefits than drawbacks. Taxes function as a budget because their purpose is to finance the government. The regulatory expenditure function seeks to balance public welfare and allocate earned money to community needs by enacting laws that allow people with higher incomes to set aside funds to pay taxes according to their ability. Addressing inflation and deflation is one way the stability function helps stabilize a country's economic situation. Finally, although taxes are intended to provide employment opportunities, income redistribution should also help create communal income (Nuke, 2022).

G. The Role of Personal Income Tax Law Regarding Tax Compliance

Personal income tax is mandatory for every individual or corporate organization that is required to comply with tax laws and regulations, including paying taxes, withholding or collecting certain taxes, or reporting income taxes. Taxes support the development and maintenance of transportation infrastructure, such as roads, bridges, and other buildings, which encourage economic activity and public mobility (Eka, n.d.).

The party that has the role of deducting or collecting tax from the income of another party before the income is received by the Taxpayer, namely an important role in the tax system because it helps in collecting tax at the source, namely:

1. Employer (company): by deducting income tax as stated in Article 21 (PPh 21).
2. Entities paying dividends, interest, or royalties: Withhold Income Tax Article 23 (PPh 23) from payments.
3. Government: Cuts Article 22 Income Tax (PPh 22) on imports of goods or sales of luxury goods (Suryo, 2021).

The main role of the tax withholding/collector is to calculate the withholding/collection or to determine how much tax must be withheld or collected within a tax rate, then there is the withholding/collection which is carried out physically reducing the amount paid to the recipient, and depositing the withheld/collected tax, this is done in the amount of tax deposited that has been withheld/collected to the state treasury. After that, to make proof of withholding/collection used to provide evidence to the Taxpayer that the tax has been withheld/collected, and finally there is reporting the withholding in a matter of submitting the PPh Periodic Tax Return related to withholding/collection.

In addition to its primary role in tax collection, government institutions also serve as tax authorities. These roles are numerous, including:

1. There is a tax policy in place to regulate the draft as a rule and guideline regarding income tax.
2. The existence of system checks for enforcing the law, this is useful for ensuring taxpayer compliance through tax audits, tax sanctions, and payments.
3. Providing a service at the same time, providing an educational service to help taxpayers understand their obligation to provide a means of reporting taxes.

4. Tax data administration is a function that involves managing taxpayer data and transactions for a specific tax rate. (Purnama, 2022)

The basic principle of Income Tax (PPh) in Indonesia is any additional economic capacity received or obtained by a taxpayer from any source that can be used for consumption or to increase their wealth. Therefore, as long as the increased economic capacity can be used for consumption or to increase the taxpayer's wealth, it is taxable, regardless of the source. Many types of income, including income from work connections and freelance work, are taxable, including salaries, honoraria, income from medical practice, notary, actuarial, accounting, and legal professions (Yenni, 2001).

Furthermore, income can be divided into two groups: income subject to non-final tax and income subject to final tax. The latter is income that is not mixed with other income because its tax is final. Profits from stock trading, for example, may also come from gifts. The Indonesian tax system, which includes the concept of a comprehensive income tax, aims to equalize development costs.

Any additional financial resources earned or received by taxpayers contribute to their ability to cover government operating costs. Fixed and variable income from various sources are included in this category, as they can increase taxpayers' wealth or purchasing power. As long as it can be used for wealth accumulation or consumption, any new economic capacity received or acquired by taxpayers, regardless of its origin, is taxable. This exemplifies the principle of fairness in the tax system, which states that everyone should pay according to their ability.

Furthermore, the Indonesian tax system was made more organized and easier for taxpayers to understand by dividing income into four main categories and imposing both final and non-final taxes. This also facilitated tax administration and oversight of tax implementation (Sekar, 2018).

IV. CONCLUSION AND SUGGESTIONS

A. Conclusion

Based on the results of the discussion in this journal, it can be said that personal income tax laws play an important role in determining the level of taxpayer compliance, and the existence of clear tax laws is in line with achieving an efficient and equitable tax system.

Tax law, within this framework, not only acts as a set of norms that regulate fiscal obligations, but also functions as an instrument guaranteeing legal certainty, protecting taxpayers' rights, and as a tool to foster legal awareness which in turn encourages the creation of sustainable voluntary compliance.

Individuals are required to pay income tax (PPh) on all income earned or received during a tax year. Personal income tax is primarily used by the government to fund various public services and development initiatives. This PPh revenue is used to fund essential industries.

B. Suggestions

To improve individual taxpayers' compliance in paying income tax, it is necessary to strengthen the implementation of tax laws that are clear, consistent, and fair. Comprehensive socialization and education about taxpayers’ rights and obligations should be enhanced so that the public understands the importance of paying taxes according to the applicable regulations. Furthermore, the government needs to improve a more transparent and taxpayer-friendly tax administration system, making the reporting and payment processes easier and more efficient. Strict and consistent law enforcement against tax violations should also be carried out to create a deterrent effect. Through this approach, it is expected that the compliance level of individual taxpayers will increase, positively impacting state revenue.

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