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Analysis of the Impact and Implications of the VAT Rate Increase in Indonesia

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ABSTRACT

This study aims to find out how the impact felt by the community after the implementation of the VAT rate increase policy on individuals who act as end consumers, and business actors or MSMEs who act as distributors. The method used in the study is a Systematic Literature Review (SLR) from various studies on the impact and implications of VAT rate increases in Indonesia. The results of the study show that VAT affects the price of goods and services in the market, increases production costs and selling prices, and worsens inflation. However, the increase in VAT rates can also increase government tax revenues, reduce the budget deficit, and stabilize the country's fiscal condition. In addition, the increase in VAT can affect consumer behaviour and business investment, especially in the manufacturing, trade, and service industry sectors.

Introduction

Indonesia's economy has undergone significant changes in recent years. Stable economic growth and the expansion of sectors as the basis of the Indonesian economy such as manufacturing, trade, and services, but Indonesia also experiences challenges such as budget deficits, price fluctuations, and inflation are the main concerns of the government (Sinambela, 2019). Minister of Finance, Sri Mulyani Indrawati stated that state spending is still accelerating upward, noting that the realization of state spending in 2023 reached IDR 3,121.9 trillion, exceeding the 2023 State Budget allocation (102.0% of the 2023 State Budget or 100.2% of Presidential Regulation 75/2023). This amount increased by 0.8% from the realization in 2022 of IDR 3,096.3 trillion (Ministry of Finance, 2024). To deal with these dynamics, fiscal policies need to be implemented to achieve sustainable and inclusive economic development goals (Rita & Astuty, 2023). One of the fiscal policies that is often used is the adjustment of the Value Added Tax (VAT) rate which aims to increase state revenue and control consumption and investment. The increase in the Value Added Tax (VAT) rate of 10 per cent to 11 per cent is active on April 1, 2022 (Directorate General of Treasury, 2023). Currently, there is a discourse on changing the provisions of the Value Added Tax (VAT) rate to 12 per cent in 2025, conveyed by Member of Commission XI of the House of Representatives of the Republic of Indonesia Ecky Awal Mucharam that the increase in the Value Added Tax (VAT) rate is contradictory to the current condition of people's purchasing power, the increase in the VAT rate which was recently increased to 11% of people's purchasing power is reported to have decreased significantly (Current Parliament - House of Representatives, 2024) (Murti & Fabiansyah, 2023).

The policy of increasing the VAT rate has reaped pros and cons from various circles of society. On the one hand, proponents of increasing the VAT rate argue that the move is necessary to overcome the state budget deficit and strengthen the fiscal revenue base. The increase in VAT rates is also considered to increase economic stability by controlling inflation. (Liyana, 2021). On the other hand, the cons of the increase in VAT rates focus on the level of people's purchasing power, especially for the lower middle economic group. In addition, it will provide additional pressure on economic sectors that are struggling to cope with global uncertainty and regulatory changes. (Kharisma, 2023). The increase in VAT also has the potential to cause people to switch to shopping abroad due to rising prices in the country. In addition, the increase in production and consumption costs can result in a decline in the goods and services sector and a negative impact on sales. The decline in productivity also has the potential to reduce labour absorption, which in turn will reduce people's income and consumption (hukumonline.com, 2022).

Due to the complexity of economic issues and public policies, the government and stakeholders need to carefully consider the policy changes made. Therefore, it is necessary to analyze the impact and long-term implications of the policy to ensure that the decisions taken will provide maximum benefits for the economy and the Indonesian people as a whole. (Halomoan & Sitabuana, 2022).

Taxes are one of the most potential sources of state revenue. Taxes are expected to drive the country's economy through capital participation in development and state-owned enterprises. (Fajriana, 2023). As a result, taxes in a country can increase spending on routine spending and capital goods that are affected by the private sector. Taxes, as the main tool to support the state budget, must play a role that has many functions. The government continues to strive to optimize tax revenues because there is a significant increase in development needs and the country's economic problems that often occur. This can be seen in various government regulations, policies, and decisions, such as by optimizing laws and regulations regarding value-added tax and the basis for its calculation. (Putri, 2022).

Value Added Tax (VAT), Income Tax (PPh), Land and Building Tax (PBB), and Luxury Goods Sales Tax (PPnBM) are some of the types of tax sources generated by the state. These funds also come from stamp duty, excise, import, and export. Income taxes have made the greatest contribution to helping the state finance spending. However, income tax is only imposed on certain taxpayers, namely those who are not taxable and have income above their income can be made income tax taxpayers. The payment transfer tax is also known as the amnesty tax imposed or delegated to another person.

Value Added Tax (VAT) is a consumption tax aimed at consumers who use these goods and services based on the imposition of goods and services that are the object of tax in the customs area. (Renata, Hidayat, & Kaniskha, 2016). The imposition of this tax is aimed at the value of goods and services that are identified for circulation from producers to consumers. The second largest tax expenditure, after Income Tax (PPh), is the value-added tax, or VAT, which accounts for about 30% of tax revenue. Merchants are the parties responsible for calculating, reporting, and accounting for VAT, while users of the final product are the parties responsible for paying VAT. (Ridho, 2021).

The purpose of VAT is to encourage the country's economic growth, increase the competitiveness of Indonesian-made products in the domestic market, ensure the availability of goods exempt from VAT on the import and/or delivery of certain taxable goods, and as a source of state revenue to finance various types of public expenditure. Based on the Ministry of Finance's DJPB website, the provisions and objectives of Value Added Tax (VAT) collected at the time of delivery of taxable goods (BKP) and/or taxable services (JKP) include VAT rates, Taxable Goods (BKP), Taxable Services (JKP), Taxable Entrepreneurs (PKP), and VAT exemption facilities.

Research Methods

The research method used is Systematic Literature Review (SLR), which is a means to identify, evaluate, and interpret all available research that is relevant to a particular research question, topic field, or phenomenon of interest (Kitchenham, 2007). There are three steps carried out in this method, namely the planning stage, the review stage, and the reporting stage. The type of data used in this study is secondary data obtained through literature studies from various studies regarding the analysis of the impact and implications of VAT rate increases in Indonesia from national journals available in the Google Scholar database using the keywords VAT Rate, VAT, and Tax Rate Increase.

Results and Discussion

VAT is defined as a consumption tax imposed on the sale of goods and services which is calculated as a percentage of the added value of a product or service. VAT is collected by Individuals, Entities, and Government Taxpayers who have the status of Taxable Entrepreneurs (PKP) and are levied at each stage of production or distribution (Lintang, Majid, & Sholikhah, 2022). The source is the sale and purchase of taxable goods/services (BKP/JKP) carried out by Taxable Entrepreneurs (PKP), as well as the import of BKP and/or the use of Intangible JKP/BKP from outside the Customs Area within the Customs Area. The following is an example of a discussion in the paragraph for the article entitled "Analysis of the Impact and Implications of VAT Increase in Indonesia":

The increase in the Value Added Tax (VAT) rate in Indonesia to 11% has caused various implications for society and the economy. One of the implications is an increase in production costs and prices of goods, which can then affect people's purchasing power. The impact of the VAT increase can also worsen the purchasing power of the lower middle class, which has been affected by the Covid-19 pandemic. However, the government has taken the right step by providing many VAT facilities for certain goods or services, so that the impact on the community is considered to be limited. This VAT facility, especially for the lower class, will minimize the impact of price increases on the consumption of necessities and other goods (Lintang et al., 2022).

In recent years, the Indonesian government has experienced a significant increase in VAT. This increase in VAT rates can affect various economic sectors, such as the manufacturing industry, trade, and services. Import-based manufacturing industries, for example, can be affected by the increase in import costs caused by the increase in VAT. Meanwhile, the service sector, such as transportation and logistics, may experience an increase in operational costs resulting from the increase in VAT. Therefore, the government needs to monitor and supervise the impact of the VAT increase on various economic sectors so as not to affect the stability of the national economy.

The increase in VAT in Indonesia can also affect domestic and foreign investment. Domestic investment can be affected by the increase in production costs caused by the increase in VAT, so it can affect economic growth. Meanwhile, foreign investment can be affected by the increase in operational costs caused by the increase in VAT, which can affect the level of investment security in Indonesia. Therefore, the government needs to monitor and supervise the impact of the VAT increase on domestic and foreign investment so as not to affect the stability of the national economy. The following is the realization of VAT revenue obtained from the Indonesian Central Statistics Agency.

Figure 2 State Revenue Realization on VAT and PPnBM

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H1: VAT affects the price of goods and services in the market

The H1 hypothesis states the effect of VAT on the price of goods and services in the market. VAT is charged to consumers. Service providers will collect VAT and transfer this tax burden to consumers, causing the price of goods and services to be more expensive from a consultative point of view. VAT not only affects consumers but also has an impact on supply chains such as raw materials, thereby increasing production costs and increasing selling prices. The service provider will adjust the selling price to cover the VAT burden and maintain a stable profit margin. When most products are subject to VAT, it can encourage price increases in the market and affect inflation.

H2: Positive impact of VAT rate hikes on Indonesia's economic growth

The H2 hypothesis states that the increase in the Value Added Tax (VAT) rate has a positive impact on Indonesia's economic growth.

The increase in VAT rates directly increases government tax revenue, considering that VAT is one of the main sources of state revenue. Higher revenues allow the government to have more funds to invest in development, infrastructure, education, health, and other social programs.

Government investment in these projects can boost economic growth by creating jobs, increasing productivity, and improving people's quality of life. An increase in the VAT rate can help reduce the budget deficit and stabilize the country's fiscal condition. Fiscal stability is an important prerequisite for long-term economic growth because it creates an environment conducive to investment and business development. VAT is a consumption tax that is more difficult to avoid compared to income tax. By expanding the tax base through an increase in VAT rates, the government can reduce the economic distortions that often occur due to tax avoidance.

H3: Changes in consumer behaviour and business investment in response to the increase in VAT rates

The increase in the Value Added Tax (VAT) rate will affect consumer behaviour and business investment in Indonesia. The increase in VAT can affect consumer behaviour by increasing production costs and prices of goods and it can affect people's purchasing power. In recent years, the Indonesian government has experienced a significant increase in VAT. This increase in VAT rates can affect various economic sectors, such as the manufacturing industry, trade, and services. Import-based manufacturing industries, for example, can be affected by the increase in import costs caused by the increase in VAT. Meanwhile, the service sector, such as transportation and logistics, may experience an increase in operational costs resulting from the increase in VAT. Therefore, the government needs to monitor and supervise the impact of the VAT increase on various economic sectors so as not to affect the stability of the national economy.

Conclusion

The increase in Value Added Tax (VAT) rates in Indonesia has a complex and multifaceted impact on the economy. VAT affects the price of goods and services in the market, increases production costs and selling prices, and exacerbates inflation. However, the increase in VAT rates can also increase government tax revenues, reduce the budget deficit, and stabilize the country's fiscal condition. In addition, the increase in VAT can affect consumer behaviour and business investment, especially in the manufacturing, trade, and service industry sectors. Therefore, the government needs to monitor and supervise the impact of the VAT increase so as not to affect the stability of the national economy.

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