

## Increasing Value Added Tax (VAT) 12% and Impact on The Economy Society: Systematic Literature Study Approach

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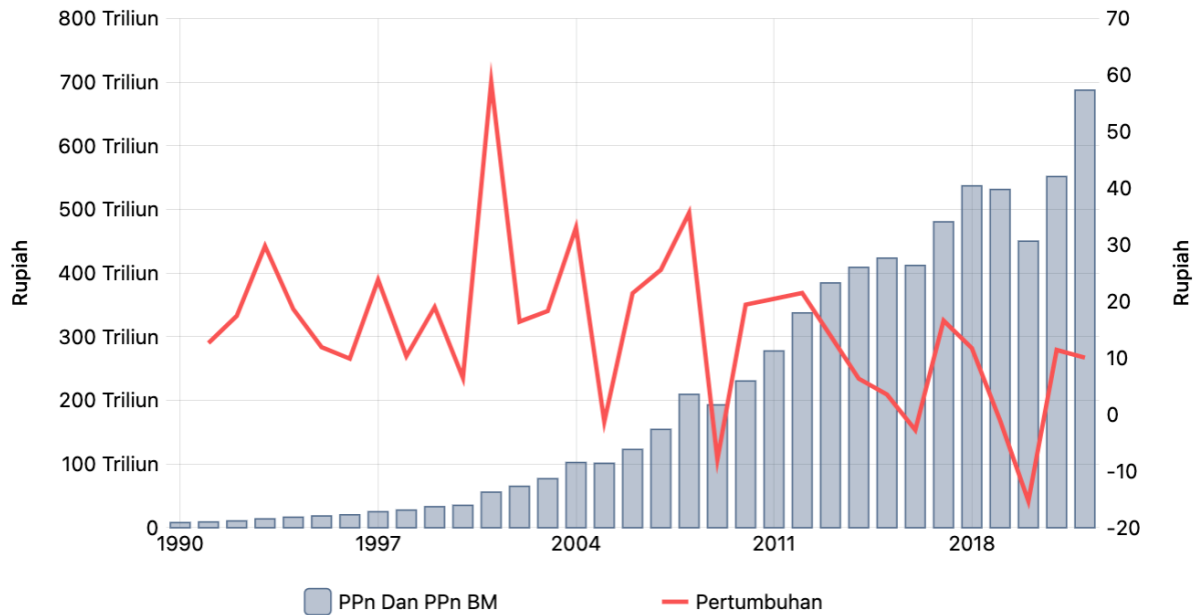
**Abstract:** The increase in the Value Added Tax (VAT) rate from 11% to 12% is one of the strategic policies of the Indonesian government to increase state revenues to support sustainable development. This policy is regulated in the Law on Harmonization of Tax Regulations (UU HPP) and aims to expand the tax base and create fiscal justice. This study aims to analyze the impact of the increase in VAT rates on the Indonesian economy using a qualitative method based on a systematic literature review. Data were analyzed from various scientific articles, online news, and related policy reports to provide a comprehensive picture of the implications of this policy. The results of the study show that the increase in VAT rates has a direct contribution to increasing state revenues, which is expected to support the development of infrastructure, education, and health. However, this policy has also raised concerns about the additional burden on people's purchasing power, especially low-income groups, although basic necessities are not included in the scope of VAT. In addition, the analysis shows that this rate increase contributed additional inflation of around 0.2% in the first year of its implementation, which is temporary because it is limited to the initial adjustment phase. Inflation in Indonesia tends to be more influenced by global commodity prices than changes in VAT rates, so its impact on economic growth is projected to be minimal. The long-term success of this policy depends heavily on effective management of state revenues and government transparency in communicating the benefits of the policy to the public. Thus, this VAT rate increase can be an effective tool to support sustainable development if supported by adequate supporting policies.

**Keywords:** VAT, Indonesian Economy, Systematic Literature Review, Inflation.

### 1. Introduction

Taxes, as the main source of income in Indonesia and an important strategic financial resource for a country, can support efforts to encourage economic growth and create welfare for the community, making it one of the most important elements in national development efforts. According to data from the Indonesian Cabinet Secretariat (2023), taxes contributed 64.6% of total state revenue, making it an important tool for the Indonesian economy (Dwi Septiani, 2023). VAT is a form of revenue that comes from taxes (Faruq et al., 2024). According to the Ministry of Finance Learning Center, VAT is a tax levied on transactions, both sales and purchases of goods or services in a customs area, the levy of which is gradual throughout the production and distribution process. This means that VAT will be levied when a transaction or delivery occurs. One of the advantages of the Tax Regulation Harmonization Law is value added tax, because taxes levied consistently on goods and services are expected to make a significant contribution to the country's foreign exchange earnings (Rika Mawarni et al., 2022). With the regulation of Law Number 7 of 2021 and the Minister of Finance Number 131 of 2024 concerning Harmonization of Tax Regulations, the official VAT rate increased from 11% to 12% in Indonesia on January 1, 2025. After that, VAT will be implemented gradually in accordance with the current provisions.

By increasing this VAT rate, the government hopes to support economic recovery and development (Ricardo & Tambunan, 2024).



Sumber: [www.databoks.katadata.co.id](http://www.databoks.katadata.co.id), 2022.

In the graph above, the trend of state revenue from Value Added Tax (VAT) and Value Added Tax on Luxury Goods (PPnBM) is shown in the blue bars on the left axis, and its growth rate is shown in the red line on the right axis from 1990 to 2020. Overall, VAT and PPnBM revenues have increased significantly over time, although there are variations, especially during economic crises, such as the Asian monetary crisis in 1997-1998 and the global financial crisis in 2008. In the period after 2018, VAT revenues showed a fairly high spike, reflecting the strengthening of the tax base and the effectiveness of tax administration, although the growth rate looks volatile and less stable. This suggests that, rather than stable economic growth, policies such as tax rate increases or tax base expansion drive increased VAT revenues.

As shown by the blue bar graph of the period of tariff increase or other strengthening policies, this policy is expected to further increase state revenues due to its relation to the increase in the VAT rate to 12%. However, the change in the revenue growth rate (red line) shows the problems that arise, especially during difficult economic periods. Increasing the VAT rate can not only increase state revenues but can also reduce people's purchasing power as a result of the increase in the prices of goods and services. As a result, household consumption, which is a major component of GDP, will be affected. Therefore, the VAT increase policy does not only rely on higher rates, but also on mitigating measures such as subsidies or social protection for vulnerable groups, controlling inflation, and increasing the effectiveness of tax management. In this way, the negative impact of the VAT increase on consumption and economic growth can be minimized, and the policy can still benefit national development.

Based on research conducted by (Putri, 2024) that this nominal increase will have a negative impact on the economy and society, but it will greatly help the APBN and improve the economy in the long term. Then the research conducted (Hikmayani Subur & Wahyu Muh Syata, 2024) also said the same thing despite the risks, this increase will not hamper economic growth because health, education, basic necessities, and social services will remain free from VAT.

The Indonesian government has implemented various tax reforms to keep up with global and domestic economic developments. One of them is the increase in the VAT rate, which was set in 2023, which was gradually increased from 10% to 11% in April 2023, and is projected to increase again to 12% in 2025. The increase in the VAT rate may create new problems. because it causes people to face problems. Because of the policy plan to increase the VAT rate to 12%, producers and service providers may have to increase the prices of goods and services to cover the additional VAT costs they have to pay to the government. This increase in the VAT rate can have an impact on many things, especially on people's purchasing power. Because they have a larger proportion of expenditure, consumers with low incomes are likely to be more affected. This can result in delays or reductions in purchases of goods and services that are not important to the economy (Latuheru & Ricardo Parera, 2024). As a result, economic growth may slow down as a result. However, this increase is also done to reduce the state budget deficit, expand the tax revenue base, and maintain long-term fiscal stability (Wijayanti & Muhammad Ramadhan Bayu Aji, 2023). In addition, this policy is considered in the global economy because of its effects on national economies, changes in the investment climate, and commodity price fluctuations (Putra et al., 2019). The policy of increasing VAT rates, however, is still being debated. Although its main aim is to increase state revenue, this step is considered to have a negative impact on people's purchasing power, especially in low-income groups (Zaitira Meiyasa et al., 2024). Prices of goods and services have increased due to the increase in VAT rates, which has a direct impact on consumer habits. On the contrary, inflation should be one of the main issues that the government must anticipate (Meiditambua et al., 2023). The stability of prices of basic necessities can be affected by price increases caused by increases in VAT rates (Agasie & Zubaedah, 2022), which is an important component of the consumer price index (CPI). National economic competitiveness and social stability can be affected by rising inflation in the long term (Saparudin et al., 2015).

The purpose of this study is to find out and provide systematic information and conceptual basis about the impact of the increase in VAT rates to 12% on the community's economy. This study shows that the increase in VAT to 12% will be beneficial to the community because it will minimize the risks associated with the increase. From an academic and practical perspective, this study can be used as a reference for further research and can help companies formulate related strategies and policies. In addition, it is also very important to analyze the impact of the increase in VAT rates so that we can fully understand the consequences of this policy on society and the economy. In this research, we will discuss the impact of the increase in VAT rates on society, specifically regarding income distribution and purchasing power, and how this policy affects the inflation rate. By understanding these impacts, we hope to find solutions to the problems being discussed.

## 2. Research Method

The impact of the increase in the Value Added Tax (VAT) rate from 11% to 12% on the Indonesian economy is studied using qualitative research methodology and systematic literature review. This method was chosen because it can provide an in-depth and comprehensive understanding of the phenomenon studied through secondary data collection from various sources. Data sources in this study include policy reports, online news, scientific articles, and government publications related to VAT policy. Relevant literature is selected based on the year of publication and topic relevance. This step is taken to ensure that the analysis is based on accurate and up-to-date data.

The thematic method is used in the data analysis approach to find important patterns and themes from the reviewed literature. Furthermore, the collected data is thoroughly examined to understand the relationship between the VAT increase policy and economic indicators such as inflation, people's purchasing power, and state revenue. In addition, moderating variables, such as how government subsidies and mitigation measures affect vulnerable groups, are also considered in this study. To protect the research results from interpretation bias, validation is carried out by comparing data from various literatures.

The methodology used in this study allows researchers to reveal the direct and indirect impacts of the VAT rate increase policy on various aspects of the community's economy. With this approach, the results of the study are expected to provide significant and relevant academic contributions for policy makers in developing more effective fiscal strategies. In addition, the results of the study are also expected to be a reference for further research to explore more deeply the implications of taxation policies on sustainable development.

## 3. Results and Discussions

Value Added Tax (VAT) is a tax imposed on entrepreneurs or service providers who have become Taxable Entrepreneurs (PKP) for every transaction of delivery of taxable goods or services within the territory of a country. VAT is not direct, but is charged to the end consumer. Goods or services that are subject to tax (VAT) are called taxable goods or services (BKP/JKP). Some goods and services are not subject to VAT, such as basic necessities. The end consumer who must pay tax. The average Indonesian VAT rate is 11%, and can change according to government policy. VAT is collected every time goods are made or distributed, but is only paid to consumers. Taxable Entrepreneurs (PKP) have the ability to distinguish Input Tax, which is the tax paid on goods purchased, from Output Tax, which is the tax collected on goods sold. The impact of the increase in Value Added Tax (VAT) on society includes the impact on consumers; the increase in VAT increases consumer costs and causes an increase in the price of goods and services. Consumers will feel this impact because it is low. There are no basic necessities that will not be affected by the VAT increase, but the tariff increase will affect other consumer goods. Public consumption can be reduced if there is a decrease in consumption or an increase in prices due to the increase in VAT. One of the main drivers of Indonesia's economic growth is household consumption. Declining consumption can slow economic growth, especially if people start to cut back on their spending on non-essential goods and services.

The government and the DPR discussed the Harmonization of Tax Regulations in 2021, which resulted in an increase in VAT rates. Article 7 paragraph 1 of this law, referred to as the Harmonization of Tax Regulations, states an increase in VAT rates from 10%, 11% (starting April 1, 2022) to 12% (starting January 1, 2025). Further regulations on VAT are regulated in PP Number 49 of 2022 and the increase in VAT in 2025 is also regulated in PMK Number 131 of 2024. The government wants to increase this rate to expand Indonesia's tax base and maintain fairness and usefulness. This is done with the aim of optimizing tax revenues to realize tax justice and legal certainty (Agasie & Zubaedah, 2022). To achieve this goal, the government also considers the history of state tax revenues or tax ratios that tend to increase from 2018 to 2023. Although the implementation of the policy must begin in 2025, it will certainly be a long process because tax increases are associated with something unpleasant. Both theoretically and empirically, increasing tax rates will have a negative impact on economic growth. However, there are no special conditions for increasing VAT rates. Instead, the increase in VAT rates must be carried out gradually if there is no special reason (Kirana & Widodo, 2023). Due to the tax increase in 2021, many people are worried about the increase in VAT for things that are important to the community. However, the DPR finally decided not to increase VAT for things like health, education, and basic necessities. As a result, the impact of the tax increase to 12% can only be reduced, although it cannot be completely eliminated.

As a result of the increase in Value Added Tax (VAT) on business actors, business actors, especially Taxable Entrepreneurs (PKP), must change the selling price of their goods or services to comply with the new VAT rate. This can have an impact on customer demand. In addition to the administrative burden, PKP must adjust the accounting system, tax invoices, and financial reports to follow the new rate. This takes time and costs money. Impact on the MSME Sector, although some MSMEs may not be directly affected if they are not included in PKP, this sector tends to be more sensitive to VAT increases, especially those that are starting to develop. Because the increase in Value Added Tax (VAT) can exacerbate economic inequality, low-income groups will be more affected than high-income groups. However, the wealthy tend to be more flexible in dealing with price increases. Increased State Revenue allows the government to get more money from the VAT increase. These funds can be used to build infrastructure, social welfare, and economic recovery. Because the price of goods and services increases, inflation and VAT increases contribute to inflation. However, this effect is usually temporary. If there is a possibility of a decline in consumption, especially on non-essential goods and services, public consumption may decline, which could affect economic growth in the short term.

Impact of Value Added Tax (VAT) Increase on Macroeconomics, VAT increase can worsen economic inequality, because low-income groups are more affected than high-income groups. Conversely, the rich tend to be more flexible in accepting price increases. VAT increase makes the government get more money, which can be used to improve the economy, infrastructure, and social welfare. Inflation is caused by an increase in the price of goods and services. However, this impact is usually temporary. There is a possibility of a decrease in consumption, especially for non-essential goods and services, which can affect economic growth in the short term. The impact of the increase in Value Added Tax (VAT) on inflation is that the price of taxable goods and services increases as a result of the increase in the VAT rate, which in turn causes the consumer price index (CPI) to increase. For example, a product that costs Rp1,000,000 was previously subject to VAT of Rp110,000, so the total is Rp1,100,000. However, with the new rate, the VAT



becomes Rp12,000, so the total is Rp1,120,000. With this increase, the contribution of goods and services to inflation increases. However, in reality, the impact of the increase in the VAT rate from 11% to 12% on inflation in Indonesia is relatively small. This is due to several factors, one of which is the minimal contribution of the rate increase. Based on projections by Bank Indonesia and the Ministry of Finance, a 1% increase in the VAT rate is estimated to contribute additional inflation of 0.2% in the first year of its implementation. Production and distribution costs can increase as an indirect result of the increase in Value Added Tax (VAT) on inflation and the increase in the price of taxable goods and services. Producers may pass these additional costs on to consumers, widening the impact on inflation. In addition, as people and businesses anticipate rising general costs, they may raise prices for other goods and services. This will amplify inflationary pressures.

There are pros and cons to the increase in VAT rates. Those who support this policy see it as an important step to improve state finances, because increased tax revenues can be used for infrastructure development, public services, and economic recovery. However, those who oppose this policy see this policy as untimely because the community and business actors are still trying to recover from the impact of the Covid-19 pandemic and the unstable global economy and market conditions. They are concerned that as a large part of the low-income community, the VAT increase could worsen economic conditions.

#### **4. Conclusions**

According to the Law on Harmonization of Tax Regulations (UU HPP), the increase in the Value Added Tax (VAT) rate from 11% to 12% has a significant impact on the Indonesian economy and society. Although this measure is intended to increase state revenue, many people are concerned, especially about the potential additional burden on household spending. To reduce the impact on vulnerable groups, the regulation prohibits basic necessities from being subject to VAT. This increase in the VAT rate is estimated to contribute an additional 0.2% in the first year of its implementation, which is more related to the initial adjustment phase and is short-term in terms of inflation. Overall, fluctuations in global commodity prices are still the main component that influences Indonesian inflation.

The current phenomenon shows that public perception of the benefits of the VAT rate increase policy is a major obstacle in implementing the policy. People are often concerned about the effects of the VAT increase on their spending due to the many increases in the prices of basic necessities caused by global instability, such as geopolitical conflicts and supply chain disruptions. In the long term, the success of this policy depends heavily on how the government manages tax revenues to improve public welfare, such as by investing in infrastructure, education, and health. On the other hand, the VAT policy must be communicated openly and educated about its benefits for national development. Therefore, this policy can produce optimal results if combined with smart management and adequate protection for vulnerable groups.

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