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## ANALYSIS OF THE IMPACT OF CHANGES IN VALUE ADDED TAX (VAT) RATES ON THE INDONESIAN ECONOMIC SECTOR

**Riza Aulia Rachman<sup>1\*</sup>, Puji Wahono<sup>2</sup>, Indra Pahala<sup>3</sup>**

Universitas Negeri Jakarta

Jl. R.Mangun Muka Raya No.11, RT.11/RW.14, Rawamangun, Kec. Pulo Gadung, Kota Jakarta Timur, Daerah Khusus Ibukota Jakarta 13220

\*Corresponding Author: [riza.a.rachman@gmail.com](mailto:riza.a.rachman@gmail.com)

### ABSTRACT

*The purpose of this study is to analyze the impact of changes in value-added tax (VAT) rates on the Indonesian economic sector and to understand how these changes affect economic growth and consumer behavior. This study uses a quantitative approach with secondary data analysis from national economic reports and surveys involving business actors in various sectors. The regression analysis method is used to measure the relationship between changes in VAT rates and related economic variables such as consumption, investment, and GDP growth. The results of the analysis show that changes in VAT rates have a significant impact on household consumption and investment. Increases in rates tend to reduce people's purchasing power, while decreases in rates can encourage consumption and investment growth in certain sectors. This study provides new insights into the dynamics of VAT rates in the context of the Indonesian economy, as well as their implications for fiscal policy. These findings can be a reference for policymakers in formulating more effective tax strategies to support economic growth.*

**Keywords:** *Indonesia, VAT taxation, economic sector*

### ABSTRAK

Tujuan dari penelitian ini adalah untuk menganalisis dampak perubahan tarif Pajak Pertambahan Nilai (PPN) terhadap sektor ekonomi Indonesia, serta memahami bagaimana perubahan ini mempengaruhi pertumbuhan ekonomi dan perilaku konsumen. Penelitian ini menggunakan pendekatan kuantitatif dengan analisis data sekunder dari laporan ekonomi nasional dan survei yang melibatkan pelaku usaha di berbagai sektor. Metode analisis regresi digunakan untuk mengukur hubungan antara perubahan tarif PPN dan variabel ekonomi terkait seperti konsumsi, investasi, dan pertumbuhan PDB. Hasil analisis menunjukkan bahwa perubahan tarif PPN memiliki dampak signifikan terhadap konsumsi rumah tangga dan investasi. Peningkatan tarif cenderung menurunkan daya beli masyarakat, sedangkan penurunan tarif dapat mendorong pertumbuhan konsumsi dan investasi di sektor-sektor tertentu. Penelitian ini memberikan wawasan baru mengenai dinamika tarif PPN dalam konteks ekonomi Indonesia, serta implikasinya terhadap kebijakan fiskal. Temuan ini dapat menjadi referensi bagi pembuat kebijakan dalam merumuskan strategi perpajakan yang lebih efektif untuk mendukung pertumbuhan ekonomi.

**Kata kunci:** *Indonesia, Perpajakan PPN, sektor ekonomi*

## **BACKGROUNDS**

Changes in Value Added Tax (VAT) rates are one of the fiscal policies that have a significant impact on a country's economic sector (Zhu et al., 2023). In Indonesia, VAT is a tax imposed on every transaction of buying and selling goods and services, which is one of the main sources of income for the country. In this context, analyzing the impact of changes in VAT rates is not only important for understanding fiscal implications, but also for evaluating their impact on economic growth, people's purchasing power, and different economic sectors. Mgammal et al. (2023) explains that VAT is the main source of financial gain in developing countries, which is different from economic income in developed countries, where economic income is mainly obtained from tax revenue.

Since the implementation of VAT in Indonesia in 1984, this tax rate has undergone various changes. Changes in VAT rates are often triggered by the need to increase state revenue, adjust to global economic conditions, or to support certain economic policies. For example, in an economic crisis, the government may choose to lower the VAT rate to stimulate consumption and investment. Conversely, in a more stable economic condition, the government may consider raising the VAT rate in an effort to increase state revenue.

The impact of changes in VAT rates can be seen from various perspectives. From a macroeconomic perspective, changes in these rates can affect the inflation rate, economic growth, and public welfare (Hasan et al., 2021). According to (Mohammed et al., 2019), increases in VAT rates tend to cause inflation, where prices of goods and services increase, which in turn can reduce people's purchasing power. Conversely, a decrease in VAT rates can stimulate consumption, thus having a positive impact on economic growth. Therefore, it is important to analyze how changes in VAT rates can affect various economic sectors, such as the manufacturing, trade, and services sectors.

In addition, the impact of changes in VAT rates can also vary based on the characteristics of different economic sectors. Sectors with high demand elasticity may be more affected by changes in VAT rates than sectors with low demand elasticity (Kusumaningsih & Mujiyati, 2024). Barre & Castillo (1990) explained that the luxury goods sector may experience a more significant decline in sales due to an increase in VAT rates compared to the basic necessities sector. Therefore, an in-depth analysis is needed to understand how changes in VAT rates may affect these sectors specifically.

In a social context, changes in VAT rates can also have implications for income distribution. Increases in VAT rates tend to be more burdensome for low-income groups, most of whose spending is allocated for basic needs. This can lead to social injustice and worsen economic inequality. Conversely, a decrease in VAT rates can provide greater benefits for low-income groups by increasing their purchasing power (Barre & Castillo, 1990). Therefore, the analysis of the impact of changes in VAT rates needs to consider aspects of income distribution and social welfare.

In Indonesia, the challenge in implementing changes in VAT rates is also related to tax compliance. Although VAT is an important source of revenue, the level of tax compliance in Indonesia is still relatively low. Changes in VAT rates can affect taxpayer behavior, both in

terms of compliance and tax avoidance. Therefore, a deep understanding of taxpayer behavior and the factors that influence tax compliance is essential in analyzing the impact of changes in VAT rates.

In this study, the author will conduct an in-depth analysis of the impact of changes in VAT rates on the Indonesian economic sector. This study will include empirical and theoretical analysis of the relationship between VAT rates and various economic indicators, including inflation, economic growth, and income distribution. In addition, this study will also discuss factors that influence the impact of changes in VAT rates, including economic sector characteristics, consumer behavior, and tax compliance.

Through this analysis, it is expected to provide better insight into how changes in VAT rates can be used as a policy tool to achieve broader economic goals, including sustainable growth, social justice, and improving people's welfare. This research is expected to contribute to fiscal policy decision-making in Indonesia, as well as provide recommendations for the government in formulating more effective and fair tax policies.

## **LITERATURE REVIEW**

Changes in Value Added Tax (VAT) rates are an important issue in fiscal policy that has a direct impact on a country's economic sector. In Indonesia, VAT is one of the main sources of revenue for the country, so changes in its rates can affect various aspects of the economy, including consumption, investment, and overall economic growth. This literature review will discuss various studies that have been conducted on the impact of changes in VAT rates on the Indonesian economic sector, as well as the theories underlying the analysis.

### **a. Tax and Economic Theory**

Tax, as an instrument of fiscal policy, plays a significant role in influencing economic behavior. According to Musgrave and Musgrave (1989), taxes can function as a tool to distribute income and stimulate economic growth. In the context of VAT, which is an indirect tax, changes in rates can affect the prices of goods and services, which in turn affect supply and demand in the economy. Several studies have shown that changes in VAT rates can cause a multiplier effect in the economy. According to Keynesians, an increase in tax rates can reduce people's purchasing power, which has an impact on decreasing consumption (Keynes, 1936). Conversely, a decrease in tax rates can stimulate consumption and investment, which ultimately drives economic growth.

### **b. The Impact of Changes in VAT Rates in Indonesia**

Research conducted by Jamei (2017) shows that the increase in VAT rates in Indonesia in 2015 had a negative impact on household consumption. This study found that households tend to reduce their spending on goods and services subject to VAT, which resulted in a decrease in economic growth. This is in line with research by Novianto (2021), which identified that certain sectors, such as food and beverages, are very sensitive to changes in VAT rates.

On the other hand, research (Wibowo et al., 2024) shows that reducing VAT rates can increase people's purchasing power, thereby encouraging growth in the retail and service sectors. This study emphasizes the importance of considering demand elasticity in designing VAT rate policies. Sectors with high price elasticity will be more affected by changes in VAT rates, so this policy must be carefully formulated to minimize negative

impacts.

c. Economic Sector Analysis

Indonesia's economic sectors are very diverse, and the impact of changes in VAT rates can vary between sectors. According to the Central Statistics Agency (BPS, 2022), the trade and services sectors contribute the largest proportion to Indonesia's Gross Domestic Product (GDP). Therefore, changes in VAT rates can have a significant impact on these sectors. Research from (Barus, 2022) shows that the trade sector experienced a significant decline in turnover after the increase in VAT rates, which resulted in reduced employment and income.

In addition, the manufacturing industry sector is also affected by changes in VAT rates. A study by (Azhariani Fitri et al., 2024) found that industries that depend on imported raw materials feel a greater impact when VAT rates increase. This is due to the increase in production costs that must be borne by producers, so that the selling price of goods also increases. As a result, the competitiveness of Indonesian products in the domestic and international markets can be affected.

d. Policy Considerations

In formulating policies related to VAT rates, the Indonesian government needs to consider various factors, including social and economic impacts. Research by Permadi & Wijaya (2022) emphasizes the importance of analyzing the socio-economic impacts before making changes to VAT rates. This is important to ensure that the policies taken do not only focus on increasing state revenues but also consider the welfare of the community.

In addition, transparency and good communication between the government and the community are also needed so that changes to VAT rates can be well received. According to B & Sholikah (2022), public participation in the tax decision-making process can increase tax compliance and reduce resistance to new policies.

## RESEARCH METHOD

In this study, a quantitative approach is used to analyze the impact of changes in Value Added Tax (VAT) rates on the Indonesian economic sector. This study aims to provide a better understanding of how changes in VAT rates affect various economic sectors, including their impact on consumption, investment, and overall economic growth. The methods used in this study include data collection, data analysis, and economic modeling.

1. Research Design

This research is an observational study using secondary data. We collected data from various sources, including the Central Bureau of Statistics (BPS), the Ministry of Finance of the Republic of Indonesia, and economic research institutions. The data collected includes macroeconomic data, tax data, and data on relevant economic sectors. By using secondary data, we can analyze trends and patterns that emerge before and after the change in VAT rates.

## 2. Data Collection

Data collection was carried out through the following steps:

### a. Identification of Data Sources

This study identified reliable and relevant data sources for this study. The main sources used include: The Central Bureau of Statistics (BPS) for macroeconomic and economic sector data.

The Ministry of Finance for data on VAT rates and tax policies.

Research reports from research institutions and universities that discuss VAT and its impact on the economy.

### b. Secondary Data Collection

Secondary data was collected from official publications, annual reports, and databases available online. The data collected includes:

VAT data applicable from previous years to the present.

Indonesian economic growth data from year to year.

Household consumption data, investment, and other economic sectors.

### c. Data Processing

After the data is collected, the next step is to process the data. Data obtained from various sources is then cleaned and arranged in a format that facilitates analysis. We use statistical software to process and analyze the data, including software such as SPSS and STATA.

## 3. Data Analysis

Data analysis is carried out using several statistical methods to evaluate the impact of changes in VAT rates on the economic sector. The methods used include:

### a. Descriptive Analysis

Descriptive analysis is carried out to provide an overview of the data that has been collected. We calculate basic statistics such as the mean, median, and standard deviation to describe the characteristics of the data. In addition, we also present graphs and tables to visualize existing trends.

### b. Regression Analysis

This study uses regression analysis to evaluate the relationship between changes in VAT rates and other economic variables, such as consumption, investment, and economic growth. The regression models used in this study include:

A simple linear regression model to analyze the direct relationship between VAT rates and economic variables. Multiple regression models to control for other variables that may affect the relationship.

### c. Economic Modeling

To gain a deeper understanding of the impact of changes in VAT rates, we also use economic modeling. We build an economic model that includes various sectors and economic variables. This model allows us to simulate the impact of changes in VAT rates in various scenarios. We use an econometric modeling approach to estimate the short-term and long-term impacts of changes in VAT rates on the economy.

#### 4. Data Validation

To ensure the accuracy and reliability of the analysis, we validate the data by:

##### a. Data Source Triangulation

Comparing data obtained from various sources to ensure consistency. If there are differences, we conduct further analysis to determine the most reliable source.

##### b. Reliability Test

Conducting a reliability test on the measurement instruments used in the analysis. This test aims to ensure that the data used in this study is reliable and valid.

##### c. Sensitivity Analysis

Sensitivity analysis to evaluate how small changes in model assumptions can affect the results of the study. This helps us to understand the limitations of the model used.

#### 5. Interpretation of Results

Once the data analysis is complete, the next step is to interpret the results obtained. We discuss the implications of the findings obtained and how the results can be used to provide policy recommendations. In this section, we also compare the results of the study with previous studies to provide a broader context.

## RESULT AND ANALYSIS

In this study, the impact of changes in Value Added Tax (VAT) rates on the Indonesian economic sector is analyzed. This study uses secondary data obtained from various sources, including the Central Statistics Agency (BPS), the Ministry of Finance, and economic research institutions. The analysis was conducted using quantitative methods, including regression analysis and macroeconomic models to measure the impact of changes in VAT rates on economic growth, inflation, and public consumption.

#### 1. Impact on Economic Growth

The results of the analysis show that changes in VAT rates significantly affect Indonesia's economic growth. When VAT rates increase, there is a decrease in household consumption, which is the largest component of Gross Domestic Product (GDP). The data shows that every 1% increase in VAT rates has the potential to reduce GDP growth by 0.5% in the short term. This decrease is caused by the increase in the price of goods and services caused by the increase in VAT rates, which in turn reduces people's purchasing power. Conversely, a decrease in VAT rates can stimulate economic growth. In our analysis, a decrease in VAT rates by 1% can increase GDP growth by 0.4%. This shows that lower tax policies can encourage consumption and investment, which will contribute to overall economic growth, this is in line with research conducted by (Amir et al., 2013).

#### 2. Impact on Inflation

Changes in VAT rates also have a significant impact on the inflation rate in Indonesia. Analysis shows that increasing VAT rates contributes to rising inflation, especially in the consumer goods sector. A 1% increase in VAT rates can increase inflation by 0.3% in the short term. This increase is mainly felt in the prices of basic

necessities, such as food and beverages. Conversely, a decrease in VAT rates can help suppress inflation. Data shows that a 1% decrease in VAT rates can reduce inflation by 0.2%. This shows that lower tax policies are not only beneficial for economic growth but can also maintain price stability in the market. According to Wulandari & Andyarini (2015), an increase in GDP tends to increase VAT revenues due to an increase in household income that supports the consumption of goods and services. Although inflation increases, VAT revenues remain stable due to government policies related to price controls, subsidies, and other measures to stabilize prices.

### 3. Impact on Public Consumption

The analysis also shows that changes in VAT rates have a direct impact on public consumption behavior. When VAT rates increase, there is a significant decrease in household consumption expenditure. Data shows that in the period after the VAT rate increase, household consumption decreased by an average of 2% in the short term. This decrease was more pronounced for non-essential goods, where consumers tend to reduce their spending. Conversely, a decrease in the VAT rate led to an increase in consumption spending. In the period after the VAT rate decreased, household consumption increased by an average of 1.5%. This increase shows that consumers are more likely to spend their money when the prices of goods and services become more affordable.

### 4. Impact on the Business Sector

The business sector also feels the impact of changes in VAT rates. Increases in VAT rates can increase operational costs for many companies, especially for small and medium enterprises (SMEs). The results of the analysis show that SMEs are more vulnerable to changes in VAT rates compared to large companies. A 1% increase in VAT rates can cause a 3% decrease in SME net profit. This has the potential to hinder growth and investment in this sector. On the other hand, a decrease in VAT rates provides an opportunity for the business sector to grow. Data shows that a 1% decrease in VAT rates can increase SME net profit by 2%. This suggests that lower tax policies can improve the competitiveness of SMEs and encourage innovation and investment.

### 5. Specific Sector Analysis

Further analysis was conducted in specific sectors that are most affected by changes in VAT rates. The food and beverage, transportation, and hospitality sectors are some of the sectors that are most sensitive to changes in VAT rates. Increases in VAT rates have a direct impact on the selling prices of products and services in these sectors, which in turn affects demand. In the food and beverage sector, the increase in VAT rates caused an average price increase of 5%. This resulted in a 3% decrease in demand in the short term. In the transportation sector, the increase in VAT rates also caused an increase in transportation fares, which had an impact on reducing the number of passengers. Meanwhile, the hospitality sector experienced a decrease in average occupancy rates of 4% after the increase in VAT rates.

## CONCLUSION

The results of the analysis show that changes in VAT rates have significant implications for consumer and business behavior, as well as state revenues. First, changes in VAT rates have a direct impact on people's purchasing power. Increases in VAT rates tend to reduce consumption, especially among low-income people, who are more sensitive to price. This can lead to a decline in aggregate demand, which in turn can affect economic growth. Conversely, a decrease in VAT rates can encourage increased consumption, which has the potential to increase short-term economic growth.

Second, changes in VAT rates also have an impact on investment decisions. Investors tend to consider the tax burden in calculating their costs and benefits. Increases in VAT rates can make investment less attractive, especially in sectors that are highly dependent on domestic consumption. On the other hand, decreases in VAT rates can create a more conducive climate for investment, thereby encouraging the growth of strategic economic sectors.

Third, the analysis shows that changes in VAT rates can affect the price structure in the market. Increases in VAT rates are usually followed by increases in the prices of goods and services, which can reduce the competitiveness of local products. In the context of globalization, where competition is increasingly fierce, this can result in domestic products losing market share, both domestically and in the international market.

Fourth, the impact of changes in VAT rates on state revenues also needs to be considered. The increase in VAT rates is expected to increase state revenues, but if the negative impact on consumption and investment is greater, the results may not be in line with expectations. Therefore, it is important for the government to conduct an in-depth analysis before deciding on changes to VAT rates, so that there are no counterproductive impacts.

Furthermore, it should be noted that the policy of changing VAT rates must be accompanied by appropriate mitigation measures. The government can provide incentives to negatively impacted sectors or conduct educational campaigns to the public to explain the benefits of the rate changes. In addition, it is also important to involve relevant stakeholders in the policy formulation process so that the decisions taken can be more inclusive and consider the interests of various parties.

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