

# **REPRESENTATION OF VAT INCREASE (12%) IN REALIZING JUSTICE AND WELFARE OF THE INDONESIAN PEOPLE**

**Maulia Regita Belananda<sup>1</sup>, Alfiaturrizqi<sup>2</sup>**

<sup>1,2</sup> Fakultas Ekonomika dan Bisnis, Universitas Selamat Sri, Batang, Indonesia  
email: [mauliaregitabelananda@gmail.com](mailto:mauliaregitabelananda@gmail.com)<sup>1</sup>, [alfiaturrizqi011@gmail.com](mailto:alfiaturrizqi011@gmail.com)<sup>2</sup>

---

## **ABSTRACT**

This research focuses on the representation of the 12% increase in Value Added Tax (VAT) on the justice and welfare of the Indonesian people. The purpose of this study is to evaluate the explicit and implicit impact of VAT increase policies and assess the extent to which these policies contribute to social justice and people's welfare. The research method used is a qualitative method with a *literature* study approach. The data collection is from various sources of books, journals, theses, magazines, articles, or *other relevant online* sources. The results of the study show that the increase in VAT has a direct impact on increasing the price of goods and services, which has the potential to reduce people's purchasing power, especially the lower middle economic group. In addition, indirect impacts include the possibility of increased inflation as well as changes in people's consumption patterns. Although this policy aims to increase state revenues to support development, its effectiveness in realizing people's welfare still depends on the implementation of compensation programs, such as subsidies and social assistance. Thus, there is a need for additional policies to ensure that the increase in VAT does not exacerbate social and economic inequality in Indonesia.

**Keywords:** Value Added Tax, 12% VAT, Community Welfare, Social Justice, Utilitarianism Theory

---

## **1. INTRODUCTION**

In every country in the world, the source of income is mostly from tax revenues. Tax revenues have an important role in meeting the needs of a country, such as the State Revenue and Expenditure Budget (APBN) and the Regional Revenue and Expenditure Budget (APBD). Therefore, if a country in its tax revenue does not reach the target, then the country cannot finance all the needs of its country. Based on Article 1 Paragraph 1 of Law No. 28 of 2007 concerning the Third Amendment to Law No. 6 of 1983 concerning General Provisions of Taxation, tax is a mandatory contribution to the state owed by individuals or entities that are coercive based on the Law, by not receiving direct rewards and used for state purposes for the greatest prosperity of the people. Taxes have a role that has a significant impact on national development in Indonesia, namely improving the welfare and prosperity of the community (Wijaya, 2021). This can be proven from the Data of the *Organization for Economic Co-operation and Development (OECD)* in 2019, that the contribution of income tax revenue is 23.9%, VAT 20.2%, and other taxes 2.6%. The data shows that VAT also has a very large role in tax revenue. One type of tax that must be paid by the public is VAT (Value Added Tax). According to Law Number 42 of 2009, Value Added Tax is a tax on the consumption of goods and services in the customs area

which is imposed in stages in each production and distribution line. VAT is one of the taxes that must be paid when making buying and selling transactions, including in the objects of BKP (Taxable Goods) or JKP (Taxable Services) (Tempo, 2024).

This research focuses on the dilemma of increasing VAT rates in Indonesia. In general, value added tax is one of the important elements of a country's development source (Septiani, 2023). Taxes serve as a very important tool in the State Revenue and Expenditure Budget (APBN), as it supports more than 70% of the total state revenue (Directorate General of Taxes, 2025). Value Added Tax (VAT) is a tax system that is applied objectively, either consciously or unconsciously, when using goods or services subject to VAT (Directorate General of Taxes, 2025). It is known that Value Added Tax (VAT) in Indonesia was first implemented in 1983 through Law Number 8 of 1983 concerning Value Added Tax on Goods and Services as well as Sales Tax on Luxury Goods (VAT Law/PPnBM). Previously, Indonesia used a Sales Tax (VAT) system that was enforced since 1951 (Directorate General of Taxes, 2025).

The application, in accordance with Law Number 8 of 1983, the VAT rate is set at 10%. However, on April 1, 2022, the government officially announced an increase in the Value Added Tax (VAT) rate by 1%, where the previous rate was 10% to 11%. This VAT rate increase policy is part of Law Number 7 of 2021 concerning the Harmonization of Tax Regulations (HPP), as part of tax regulation reform (Directorate General of Taxes, 2025). The implementation of this VAT rate increase has caused various reactions from various circles of society. This has become a polemic, especially because this policy was taken when the country was in the process of economic recovery, in the midst of increasing prices of basic necessities, and the Covid-19 pandemic situation which has not been fully resolved properly. Various circles, including economists and business actors, expressed concern about the impact of this VAT increase (Agasie and Zubaedah, 2022).

According to *the Institute for Development of Economics and Finance (INDEF)*, the Indonesian people are not yet in a condition that can bear the impact of the VAT increase. They assessed that this increase could reduce people's purchasing power, especially low-income groups, as well as slow down national economic growth (Agasie and Zubaedah, 2022). The VAT increase is for economic recovery where the state spends a lot on state spending needs, while the country's economy is declining. Thus, it requires the state to increase the VAT rate, so that the source of state revenue increases. The Minister of Finance emphasized that the increase in the Value Added Tax (VAT) rate from 10% to 11% is a form of joint contribution in supporting the economy. The taxes collected will later be reused to improve people's welfare. Although Indonesia still faces challenges in improving the quality of education and health services, all of this can only be realized if the country has a solid tax system (Cabinet Secretariat of the Republic of Indonesia, 2022). Household consumption growth in Indonesia had experienced a sharp decline until it entered the negative zone due to the impact of the Covid-19 pandemic in 2020. This condition began to show signs of recovery in the second quarter of 2021, where household consumption no longer contracted. However, although the government plans to implement the VAT rate increase starting in 2022 after economic conditions are considered to improve, this cannot be a guarantee that household consumption will remain stable or increase. The reason is that household consumption growth is still in a vulnerable recovery phase (Aryani & Tambunan).

Furthermore, in 2025 the government will implement a policy of increasing VAT again, which is 1% from 11% to 12%, in accordance with Law Number 7 of 2021 concerning the Harmonization of Tax Regulations (HPP). Minister of Finance Sri Mulyani revealed that every year, the State Revenue and Expenditure Budget requires a larger source of revenue, so the increase in VAT is expected to increase state revenue. VAT rates

in Indonesia are considered higher than countries in Southeast Asia, but globally this rate is still considered reasonable (Directorate General of Taxes, 2024). Bis based on the *Worldwide Tax Summaries* (2024) report, a comprehensive report on global tax policy released by leading financial consultancy *PricewaterhouseCoopers* (PwC). The following is a list of Value Added Tax (VAT) rates in Southeast Asian countries in 2024:

Table 1.1 List of VAT Rates in ASEAN Countries

No.	Country	VAT Rate
1.	Philippines	12 %
2.	Indonesia	11% (12% by 2025)
3.	Cambodia	10 %
4.	Laos	10 %
5.	Malaysia	10 %
6.	Vietnam	10 %
7.	Singapore	9 %
8.	Thailand	7 %
9.	Myanmar	5 %
10.	Brunei	0 %
11.	East Timor	0 % (Domestic VAT) 2.5 % (VAT on imported goods or services)

Source: CNN Indonesia, 2024

It is known that in 2024 Indonesia will implement a VAT rate of 11%, which is the second highest position after the Philippines which has a rate of 12%. With the VAT rate increasing to 12%, Indonesia will be on par with the Philippines as the country with the highest VAT rate in the Southeast Asian region. However, Indonesia's VAT rate is higher than neighboring countries such as Singapore at 9% and Thailand at 7%. Then, several other countries in Southeast Asia, namely Malaysia, Vietnam, Cambodia, and Laos, both set a VAT rate of 10%, while Brunei and Timor Leste do not impose domestic VAT. This raises many questions for the public, especially for researchers. Where there is a difference in the application of the amount of VAT rates in each country. This will be a problem related to the Value Added Tax (VAT) policy. From the government's side, by increasing the VAT rate in Indonesia, can bring justice, welfare and prosperity to the community.

The change in the VAT rate is a strategic fiscal policy carried out by the government to increase state revenue and support development financing. This tariff increase is based on the government's need to increase stable state revenues, especially when facing increased state spending in priority sectors such as infrastructure, education, health, and social protection. This tax change is also the government's effort to reduce dependence on external debt which has continued to increase over the past decade (Srimaryani, 2023). Taxes play an important role in state revenue, so the government is required to formulate several regulations and policies so that a country's income obtained from the tax sector can be obtained optimally (Hubert & Anis, 2024).

The policy of increasing VAT from 11% to 12% from January 1, 2025 has become a public concern, as it has an impact on various levels of society. The policy of increasing VAT rates causes crucial problems among the public. The polemic of increasing Value Added Tax (VAT) certainly has a positive impact as well as a negative impact. One of the positive impacts of this policy is related to the state budget, the increase in VAT rates is expected to improve the state budget which is experiencing difficulties during the COVID-19 pandemic. Meanwhile, the negative impact of the VAT increase policy is felt to

increase spending from the public, because sometimes the increase also goes hand in hand with an increase in basic needs every day (Kharisma and Furqon, 2023).

On the other hand, with the policy on increasing VAT rates, it actually has positive benefits if managed properly by the Government. The benefits of the tax rate increase policy can increase revenue for the government, the government can provide additional funds for crucial sectors such as health services, education, and social welfare. However, excessively high taxes can hinder private investment and affect economic dynamics, thus demonstrating the importance of maintaining a balance between revenue collection and encouragement for economic growth (Galandjindjinay and Sugama, 2025). As a society, of course, we must strive to maximize existing policies in order to achieve positive results (Majid, *et al.*, 2023). The increase in VAT rates, if managed effectively, can support social justice and the welfare of the community at large. This management can be done through the allocation of tax revenues in a transparent and targeted manner, especially for financing public programs such as education, health, and social assistance.

An increase in VAT rates that are not in accordance with the current situation will also have an impact on trade activities among the public, people's income, and other aspects. This shows that the role of VAT is very important. However, this can cause a very heavy burden on society if not applied fairly. VAT reform aims to achieve 2 (two) main things, namely first, the ability to respond to changes in economic structure in the future. Second, it continues to ensure a fair distribution of tax burden for all Indonesian people. The expansion of the VAT base to maximize state revenue still pays attention to the principles of justice and utility. Especially to improve public welfare and national interests. This is in line with the principles of fair taxation and have legal certainty (Ministry of Finance, 2021).

Then, the increase in the Value Added Tax (VAT) rate raises concerns regarding its impact on low-income people (Khoimarul Hidayat, 2025). Although the government stated that this VAT increase will only be imposed on luxury goods and services (President of the Republic of Indonesia, 2025), there are still concerns that the impact can still be felt by the wider community. On the other hand, the government's plan to implement the *tax amnesty* program volume III also raises the perception of injustice, because it provides an opportunity for taxpayers who were previously non-compliant to report their assets at a lower rate. This can cause injustice among taxpayers who have been tax-compliant and will worsen the social gap between low- and high-income groups (CNN Indonesia, 2025).

There are several studies that have been conducted on tax increases in Indonesia, one of which is a study conducted by Galandjindjinay and Sugama (2025) on the impact of changes in the tax collection base on the Indonesian economy, the results of the study show that tax reform in Indonesia has a significant impact on the economy, including economic growth, fiscal stability, and poverty alleviation. The VAT increase can burden low-income people and suppress domestic consumption. Policy effectiveness is highly dependent on transparent implementation and a balanced strategy between state revenue and economic growth.

Research by Novianto, *et al.* (2023) with the title of examining the increase in VAT rates reviewed from the principle of justice, the results of the study concluded that the policy of increasing the VAT rate to 11% in April 2022 and 12% in January 2025, in accordance with Law No. 7 of 2021 is considered appropriate in theory because it is able to increase state revenue and economic growth. However, its implementation must be based on the principle of justice to prevent excessive burdens on the community, especially the lower middle economic group. Meanwhile, a study conducted by Fitriani and Susanti (2025) on the impact of increasing VAT rates on poverty levels shows that although this policy increases state tax revenues and supports economic recovery, its impact on people's

purchasing power, especially the lower middle group, needs supervision from the government. The poverty rate in general has not increased, but public consumption has decreased.

The VAT increase is still a very complex issue, because the policy of increasing the Value Added Tax (VAT) rate to 12% has just been inaugurated. The policy of increasing the VAT rate from 11% to 12% is motivated by the government's objectives in an effort to increase state revenue, strengthen the fiscal structure, reduce dependence on external debt, and adjust to international tax standards. In addition, the increase in VAT rates is expected to improve the low national tax ratio, thereby creating a fairer and more sustainable tax system. The implementation of the policy of increasing the VAT rate to 12% by considering the principle of justice and its impact on the welfare of the community at large is an interesting topic to be researched further. Thus, the researcher is interested in discussing more deeply with the title "Representation of VAT Increase (12%) in Realizing Justice and Welfare of the Indonesian People".

## **2. LITERATURE REVIEW**

### **Utilitarianism Theories**

Utilitarianism theory basically emphasizes efforts to maximize the benefits or *utilities* of an action. In this way, a person can obtain profits, happiness, and enjoyment, in addition, this theory also aims to prevent the occurrence of pain, evil, suffering, or things that can cause unhappiness (Ridwansyah, 2024). This theory of utilitarianism was introduced by Jeremy Bentham. In 1781, Jeremy Bentham published a work that became the basis for systematically formulating his theory of utilitarianism.

In the theory of utilitarianism, the VAT policy is expected to increase transparency and accountability in the tax system. This transparency is the key so that tax revenues can be allocated optimally for the welfare of the community. However, its implementation faces challenges, especially for Micro, Small, and Medium Enterprises (MSMEs), which have to adjust to additional administrative burdens such as tax invoice issuance and tax reporting. In addition, even though basic necessities are exempt from VAT, the categorization of goods as Taxable Goods (BKP) can cause the perception that the price of goods will increase. If this policy is not managed properly, it has the potential to cause public dissatisfaction, which is contrary to the principle of utilitarianism in maximizing people's welfare. According to Jeremy Bentham's utilitarianism theory, VAT policy can be considered fair if the benefits generated are able to improve the welfare of society as a whole, especially through the use of tax revenues for the public good. (Directorate General of Taxes, 2024).

### **Value Added Tax (VAT)**

Law Number 42 of 2009 concerning the Third Amendment to Law Number 8 of 1983 concerning Value Added Tax on Goods and Services and Sales Tax on Luxury Goods, explains that value added tax is a tax on the consumption of goods and services in customs areas that is imposed in stages in each production and distribution line.

The VAT law has undergone four changes. The first change occurred through Law Number 11 of 1994 which came into effect on January 1, 1995. The second amendment is Law Number 18 of 2000 which took effect from January 1, 2001. Then, the third modification occurred in 2009 with the presence of Law Number 42 of 2009 which was effective on April 1, 2010. The last change is with Law Number 7 of 2021 concerning the Harmonization of Tax Regulations (HPP Law) which came into effect on October 29, 2021, with an increase in the VAT rate from 10% to 11% on April 1, 2022, and 12% by January 1, 2025 (Directorate General of Taxes, 2025).

President Prabowo Subianto officially announced the implementation of a 12% increase in Value Added Tax (VAT) which will take effect on January 1, 2025. This policy is a mandate of Law Number 7 of 2021 concerning the Harmonization of Tax Regulations with the aim of maintaining people's purchasing power, keeping inflation low, and encouraging economic growth. The increase in VAT from 11% to 12% is only imposed on luxury goods and services, for goods and services needed by many people are still given VAT exemption, namely a 0% tariff (zero percent). For example, basic necessities, rice, meat, fish, eggs, vegetables, fresh milk, educational services, public transportation services, simple houses, drinking water. (Coordinating Ministry for Economic Affairs of the Republic of Indonesia, 2025).

### **3. RESEARCH METHODOLOGY**

#### **a. Types of Research**

This type of research is qualitative research, and the researcher chooses to use qualitative research methods, because the researcher wants to analyze more deeply the representation of VAT increase in realizing justice and the welfare of the Indonesian people. This study uses a literature study approach, where researchers use various literature sources to collect relevant data.

#### **b. Data Analysis Methods**

The data analysis method based on Bogdan in (Sugiono, 2019) is the process of searching for data, systematically compiling data obtained from interviews, field notes, and documents, and other materials, so that the information becomes easier to understand, and the results can be conveyed to others. This research was conducted by analyzing literature that is relevant to the topic discussed. Miles and Huberman (1984), stated that activities in qualitative data analysis are carried out interactively and take place continuously until complete, so that the data is saturated. Activities in data analysis are *data reduction*, *data display*, and *conclusion drawing/verification*.

The researcher plays the role of the main instrument, and data collection is carried out through the triangulation technique, which combines various sources and approaches (literature review, secondary data, and regulatory comparison) to obtain a complete understanding. Analysis is carried out inductively, meaning that conclusions are built from findings that emerge from the data, not determined from the beginning. Therefore, the main focus of this research is to uncover the meaning and perception formed in the community towards the 12% VAT increase, as well as the extent to which the policy reflects justice and supports the welfare of the Indonesian people.

### **4. RESULTS AND DISCUSSION**

#### **Explicit Impact of the 12% VAT Rate Increase**

The increase in Value Added Tax (VAT) from 11% to 12% is the main highlight in fiscal policy in Indonesia. This policy has received various responses from the public, especially related to the impact caused in the midst of economic conditions that are still vulnerable. The increase in Value Added Tax (VAT) from 11% to 12% has an explicit impact that can be directly felt by the community, business actors, and the government. The policy of increasing VAT rates raises concerns in the community, especially for low-income groups who are more affected. The increase in the price of goods and services due to VAT can weaken people's purchasing power, considering that most of their daily needs are related to these taxed products. Although basic needs such as food, health services, education, and social services are exempt from VAT, price increases on secondary

and tertiary goods still have a significant impact, which risks widening economic disparities (Majid, Sholikhah, & Lintang, 2023).

Furthermore, business actors also feel the impact in the form of increased production and distribution costs. This increase can lead to product price adjustments or a reduction in profit margins for manufacturers. In the conditions of the national economy that are still facing global challenges and domestic pressures, this increase risks increasing production costs and reducing the competitiveness of Indonesian products in the international market. VAT increase has the potential to slow down economic recovery. People's purchasing power will be depressed, especially for small and medium enterprises (SMEs) that find it difficult to adjust profit margins (Tempo, 2024). An increase in taxes on luxury goods also has the potential to reduce investment. A decrease in consumption can affect investors' decisions, as it can reduce consumer interest in these products, which ultimately has an impact on declining market demand and company revenue. Investors have become more cautious in expanding or developing their businesses due to market uncertainty (Gabriella & Yuniawaty, 2025).

On the other hand, from the government's perspective, the increase in VAT rates contributes to optimizing tax revenues that are more stable than income taxes, because they are easier to supervise. Therefore, this policy can increase state revenue. In addition, the increase in VAT rates also plays a role in stabilizing the country's economy. With the increase in tax revenue, *the tax ratio* will increase. Countries with *high tax* ratios generally have stronger funding systems, which can strengthen economic stability. Economic growth also has the potential to increase due to this policy. Increasing tax revenue can support the development of infrastructure and long-term programs, create jobs, and provide facilities that are beneficial to the community. Thus, this policy can contribute to improving the welfare of the Indonesian people. (Directorate General of Taxes, 2024). However, whether or not this policy succeeds in providing real benefits to the community depends on how effective and transparent the use of the funds is.

For business actors, especially SMEs, the increase in VAT has an impact in the form of increased production and distribution costs, which can reduce the competitiveness of domestic products and slow down economic recovery. From the perspective of utilitarianism, this policy can cause greater suffering for the business sector, especially for business actors who find it difficult to adjust prices or profit margins. However, from the government's perspective, the increase in VAT rates can provide long-term benefits in the form of increased state revenue. In the context of utilitarianism, this policy can be justified if the benefits obtained are greater than the burden borne by society.

Thus, in the utilitarianism analysis, the success of this policy depends largely on how the government manages and distributes the additional revenue from the VAT increase. If the benefits of this tax increase can truly address social inequality, improve public services, and create prosperity for the majority of people, then this policy can be considered in line with the principles of utilitarianism. However, if more individuals and business groups suffer compared to the benefits provided, then this policy risks deviating from the principle of utilitarianism, because it does not maximize happiness for the wider community.

### **The Implicit Impact of the 12% VAT Rate Increase**

The implicit impact of VAT increases involves long-term effects that may not be immediately noticeable but affect overall social and economic dynamics. One of them is the potential for inflation due to the increase in the price of goods and services. Rising inflation can depress the value of the currency and reduce people's well-being if it is not balanced with an increase in income. In terms of inflation, the increase in the Value Added

Tax (VAT) rate is related, although its impact on inflation in Indonesia is considered relatively small. Some of the factors that affect inflation, as explained by Darrusalam as the founder of DDTC (2024), include global commodity prices, soaring food and beverage prices, and increasing transportation costs. In addition, geopolitical conflicts also contribute to global trade instability and have an impact on inflation, as seen in the Russia-Ukraine war (Natalia & Fajriana, 2023). Inflation in Indonesia had peaked in 2022 at 3.67% before finally being brought under control at 2.57% in early 2023, which underscores the importance of maintaining inflation stability to maintain people's purchasing power and macroeconomic stability (Scientific *et al.*, 2024). The increase in VAT can affect people's consumption patterns. Consumers tend to reduce spending on non-essential items and switch to products with more affordable prices. This can have an impact on certain industries, such as the retail and manufacturing sectors, which rely on people's purchasing power to maintain business growth (Tempo, 2024).

Based on the theory of utilitarianism, the implicit impact of VAT increases needs to be analyzed based on the balance between benefits and burdens incurred for society. If this policy provides more benefits for the welfare of the community as a whole, then it can be considered in accordance with the principle of utilitarianism. The increase in VAT can affect people's behavior and perceptions, especially in trust in the government. If the increase in taxes is not followed by the improvement of public services, the public is likely to feel disadvantaged. In addition, changes in consumption patterns due to rising prices of goods and services can have an impact on the industrial sector, especially retail and manufacturing. If purchasing power decreases and production is disrupted, overall social welfare can be negatively impacted.

From a macroeconomic perspective, the potential for inflation due to the VAT increase can reduce people's purchasing power, especially low-income groups. However, on the other hand, this policy also increases state revenue that can be used for development and community welfare. The government has prepared tax incentives to reduce the impact on vulnerable groups. Judging from the theory of utilitarianism, the success of this policy depends on the effectiveness of the allocation of tax funds and compensation policies. If the benefits are greater than the burden borne by the community, the increase in VAT can be considered to support the general welfare. However, if more groups are negatively affected, then this policy risks contradicting the principles of utilitarianism.

### **Representation of the 12% VAT Increase in Realizing Justice and Welfare of the Indonesian People**

The increase in the Value Added Tax (VAT) rate to 12% is predicted to have a major impact on the lower middle class, especially through an increase in the price of goods and services that can reduce people's purchasing power (Subur and Syata, 2024). Of all economic statuses, VAT is subject to the same percentage. This means that, in practice, the middle and lower classes have to bear the same tax burden despite having different purchasing power. This has the potential to create injustice because the higher tax burden may not be proportional to the increase in income received from those on higher incomes. In other words, the less fortunate class will experience a larger proportion of their total expenditure on paying VAT than individuals with greater wealth. High-income groups are generally better able to adapt to tax increases compared to low-income groups. If not balanced with appropriate interventions, this policy has the potential to exacerbate social and economic inequality in society (Purnamasari and Siregar, 2022). Although basic necessities such as rice, corn, meat, and other essential products are exempt from the new VAT rate, low-income groups still face additional burdens due to rising prices of other consumer goods. This situation is further exacerbated by the fact that the majority of

people's income is allocated to meet basic needs, so that the increase in VAT rates has the potential to narrow the fiscal space of low-income households (Subur and Syata, 2024).

If managed optimally, the revenue from the VAT increase can be used to fund various welfare programs, such as subsidies in the health, education, and housing sectors. For example, the budget allocation from the VAT increase in 2022 succeeded in increasing public access to health services by up to 12% (Ministry of Finance, 2023). The importance of improving the management of VAT revenues into programs that focus on social justice is crucial. If the government succeeds in using the funds from the VAT increase to fund programs that target vulnerable groups, such as social assistance, increased access to health care, and quality education, then this 12% VAT surge could be a step towards better social justice. By diverting these funds to sectors that directly impact people's welfare, the government can show its commitment to creating protection for the community. In healthcare, although most basic healthcare services remain exempt from VAT, this increase has the potential to increase the cost of medicines and medical devices. The government can address this by providing subsidies or incentives to manufacturers and distributors, as well as setting the highest retail price (HET) for certain medicines. In the infrastructure sector, increased tax revenues can be used to finance the development of facilities and infrastructure, which is expected to accelerate the distribution of goods and services and increase community mobility. Meanwhile, in the education sector, the government ensures VAT exemptions for basic education services to remain affordable, while increasing the education budget for the development of facilities and infrastructure, as well as improving the quality of educators. Overall, this increase in VAT rates is expected to strengthen the country's fiscal capacity to finance sustainable development programs.

The long-term benefits of VAT increases have the potential to encourage structural reforms of the economy, such as improving public sector efficiency and reducing dependence on external debt. Economic structural reform is the government's strategic effort to improve and strengthen the foundations of the national economy through policy and institutional changes aimed at increasing efficiency, productivity, and fiscal resilience. In the context of rising VAT rates, these reforms reflect steps to expand the country's revenue base in a sustainable manner, reduce dependence on external debt, and encourage more transparent and accountable management of the public sector to create stable economic growth. However, the success of these reforms depends heavily on careful policy planning and implementation. Indonesia has implemented structural economic reforms that include the tax sector as part of efforts to strengthen the foundations of the national economy. This step aims to increase the country's efficiency, productivity, and fiscal resilience. One of the tangible manifestations of this reform is the ratification of Law Number 7 of 2021 concerning the Harmonization of Tax Regulations (HPP Law), which is part of structural reform in the field of taxation. (Viera, *et al.*, 2025). Overall, if the government succeeds in addressing this challenge with the right policies, then the 12% VAT increase will not only be a controversial policy, but can also serve as an instrument to realize social justice and prosper the Indonesian people.

### **Government Policy in Optimizing VAT**

To reduce the negative impact of the implementation of the 12% VAT rate, the government has implemented various strategic measures. One of them is to conduct gradual socialization to the public to explain the reasons and benefits of the tariff increase, with the aim of increasing understanding and reducing resistance to this policy (Ricardo & Tambunan, 2024). In addition, the Directorate General of Taxes (DGT) also provides training and education programs for taxpayers to help taxpayers adjust tax administration to the new rate, so that it is expected to increase the level of tax compliance. In addition,

the government coordinates fiscal and monetary policies to mitigate negative impacts, such as inflation, by optimizing the management of state expenditure and providing subsidies for basic needs to maintain people's purchasing power. In an effort to mitigate the negative impact of the 12% increase in the Value Added Tax (VAT) rate, the government has designed various subsidies-based strategies and social assistance, which include (Aulia, *et al.*, 2025):

**a) Direct Subsidy Provision**

Direct subsidies are given to reduce costs on various basic needs, such as food, fuel, and electricity. In addition, subsidies are also allocated to the public transportation, education services, and health sectors to ensure more affordable access for the community.

**b) Direct Cash Assistance (BLT)**

As a mitigation measure against the increase in the price of goods and services, the government implements the Direct Cash Assistance (BLT) program aimed at low-income people. This program aims to provide financial support to maintain purchasing power and meet the basic needs of families.

**c) Tax Facilities**

The Government also provides various tax facilities as a policy that is responsive to the social and economic impacts of VAT increases. One of them is VAT exemption for essential goods, such as basic necessities, medicines, and educational services, to reduce the burden on the community.

#### **4. CONCLUSION**

The increase in Value Added Tax (VAT) from 11% to 12% is a fiscal policy that aims to increase state revenue in order to strengthen economic stability and support national development. The analysis of the research was carried out with a utilitarianism theory approach, which assesses this policy based on the balance between the benefits obtained and the burden borne by society. Based on the results of the research that has been conducted, it can be concluded that the increase in the Value Added Tax (VAT) rate to 12% has a wide impact on society, the economy, and the tax system in Indonesia. This increase has an explicit impact in the form of increasing prices of goods and services that can suppress people's purchasing power, especially low-income groups. In addition, business actors also feel an additional burden in terms of tax administration and production costs. On the other hand, the government gets benefits in the form of increasing state revenue that can be used to support development and social welfare programs.

The implicit impacts of VAT increases include potential inflation, changes in people's consumption patterns, as well as challenges in maintaining economic stability and social justice. The increase in VAT rates aims to strengthen the tax system and increase state revenue. However, this policy still raises concerns about its impact on vulnerable groups. Therefore, this policy must be balanced with compensation strategies, such as social assistance and subsidies for economically weaker groups, to ensure a balance between state revenues and people's welfare. The VAT increase also represents how the government handles social justice issues in the tax system. While aiming to expand the tax base and support development, suboptimal implementation can exacerbate social inequality. Transparency in the management of tax funds and education to the public about the benefits of this policy is very necessary. The success of this policy is determined by the extent to which the benefits produced can be greater than the burden borne by the community.

**REFERENCE**

- Agasie, D., & Zubaedah, R. (2022). The urgency of increasing the value-added tax rate is based on the principle of national interest. *Legal Perspective*, 22(2).
- Aisyah, A., Maisaroh, S., Ananta, A. F., & Pangestoeti, W. (2025). The Impact of the 12% VAT Increase on State Revenue and Community Welfare. *Indonesian Journal of Defense, Politics and Law*, 2(1).
- Aryani, L., & Tambunan, M. R. U. D. (2022). Notes on the formulation of the policy change in the Value Added Tax (VAT) rate in Indonesia. *Dialogue: Journal of Public Administration Sciences*, 4(2), 362–381.
- Directorate General of Taxes (DGT). (2024). The Positive Impact of the VAT Rate Increase. <https://pajak.go.id/id/artikel/dampak-positif-kenaikan-tarif-ppn>. Retrieved March 23, 2025.
- Directorate General of Taxes (DGT). (2024). Tax Function. Accessed from <https://www.pajak.go.id/id/fungsi-pajak>
- Hubert, M., & Anis, I. (2024). Analysis of Reporting and Conformity of Value Added Tax to the Law Carried Out by PT. Megah Megalon Industries for the January-December 2022 period. *Consensus: Journal of Economics, Management and Accounting*, 3(1), 88–96.
- Ministry of Finance of the Republic of Indonesia. (2023). *Annual Report on Indonesian Tax*.
- Majid, F., Sholikhah, H. S., & Lintang, S. (2023). The Impact of the Increase in Value Added Tax (VAT) Rates on People in Indonesia. *UNITA Accounting Student Journal*, 2(2), 92–97.
- Mardiasmo (2019). *Taxation Revised Edition*. Yogyakarta: ANDI
- Marsela, R. P. (2022). Implications of Law Number 7 of 2021 concerning the Increase in VAT Rates of 11% for Local Handicraft Business Actors in Malang City. *Journal of Sharia Law & Economics*, 8(2), 150-161.
- Marzali, A. (2017). Writing a Literature Review. *ETNOSIA: Indonesian Journal of Ethnography*, 1(2), 27.
- Murdiyanto, E. (2020). *Qualitative Research Methods (Qualitative Research Systematic)*. Bandung: Rosda Karya.
- Purnamasari, D., & Siregar, A. (2022). Pancasila Perspective in National Tax Policy. *Journal of Public Policy*.
- Ricardo, M., & Tambunan, M. R. U. (2024). Challenges and Strategies for Implementing the 12% VAT Rate Policy. *Journal of Economics, Business and Accounting (Costing)*, 7(5), 2114–2128.
- Ridwansyah, R. (2023). The concept of the theory of utilitarianism and its application in practical law in Indonesia. *Nusantara: Journal of Education, Arts, Science and Social Humanities*, 1(2), 1–25.
- Sarwono, J. (2006). *Quantitative and qualitative research methods*. Yogyakarta: Graha Ilmu.
- Subur, & Hikmayani, W. M. S. (2024). Analysis of the impact of the increase in the value-added tax rate on production products. *Makassar State University*, 21(5)
- Sustiyo, J. (2022). Value Added Tax (VAT) Literacy and Consumptive Behavior in Generation Z. *Owner: Research & Journal of Accounting*, 6(1), 508-516.
- Suandy. (2017). *Tax Planning (6th Edition)*. Jakarta: Salemba Four.
- Time. (2024). What is APINDO worried about if the 12 percent VAT is implemented. Accessed by <https://www.tempo.co/ekonomi/apa-yang-dikhawatirkan-apindo-jika-ppn-12-persen-diterapkan>. Retrieved April 7, 2025.