***Short communication***

**Implementation of Value-Added Tax Rates in Indonesia Under the Tax Harmonization Law**

**ABSTRACT**

**Aims:** The hope is that implementing a value-added tax rate of 11% can help Indonesia's economic recovery post-covid-19. However, after the policy implementation, there were issues from various external and internal aspects. This article aims to explain the impact of the implementation of value-added tax rates based on the economic issues faced by Indonesia.

**Study design:** The approach used in this article uses a literature review approach.

**Results:** Every implementation of a new policy, of course, will have a positive and negative impact. Regardless of the impact of the implementation of the new tax rate, the value-added tax is quite effective as a source of state revenue due to the collection system on the objects of consumption of final goods or services. How-ever, due to its short-term nature, the value-added tax is less effective when used as the main instrument for economic recovery.

**Conclusion:** Economic recovery requires other instruments and cooperation from various lines and policies prioritising the community because most economic activities are in the community line.

*Keywords: Value-added tax rate, Tax Harmonization Act, Economic Recovery, Indonesia*

1. Introduction

Value-added tax is an essential component of state revenue. The passage of the Tax Harmonization Law at the end of 2021 will impact changes to the value-added tax rate in Indonesia. The value-added tax rate has increased by 1% from the previous to 11% and will come into effect on April 1, 2022 (DDTC News Editor, 2022). The 11% tariff will only last for a while because the value-added tax will increase again to 12% by January 1, 2025 (Farman, 2022). One of the aims of increasing the value-added tax rate is for Indonesia's economic recovery after being affected by Covid-19 (Law Number 7 of 2021 Concerning Harmonization of Tax Regulations, 2021).

Value-added tax has several advantages over income tax. Value-added tax is an indirect tax levied on consumption activities charged to the final consumer (Pato & Marques, 2014). Value-added tax arises whenever there is the consumption of goods or services, while income tax arises whenever there is an additional economic value (Law Number 7 of 2021 Concerning Harmonization of Tax Regulations, 2021; Pato & Marques, 2014). Value-added tax is considered more efficient than income tax because of the collection mechanism charged when consuming goods or services, so many consumers do not realize that they have contributed to paying taxes (Septriadi et al., 2018). The income tax mechanism is a deduction every time there is an increase in economic value, so many taxpayers feel a tax burden that taxpayers often tax evasion (Bernasconi et al., 2014; Boadway, 2005).

The current increase in the value-added tax rate impacts several groups. The community feels the most significant impact because the most considerable economic activity is on the part of the community. Indonesia's current economic condition also impacts the implementation of value-added tax rates. This article aims to provide a perspective on the impact of implementing a value-added tax rate based on Indonesia's current economic conditions.

1. RESEARCH METHOD

This article uses a literature review approach to discuss the impact of implementing value-added tax rates. The literature review approach is in line with the purpose of this article, which is to summarize knowledge from the literature and conclude the impacts arising from the implementation of value-added tax (Knopf, 2009).

1. DATA ANALYSIS AND DISCUSSION
   1. Current condition of the Indonesian economy

The Covid-19 virus has had a major economic impact, including in Indonesia. This condition occurred when the positive community surge was confirmed and the implementation of the social restriction policy (Olivia et al., 2020). One of the policies for Indonesia's economic recovery due to Covid-19 is the application of an 11% VAT rate. After the ratification of the Tax Harmonization Law, economic conditions in Indonesia experienced ups and downs. One of the factors influencing the ups and downs of the economy in Indonesia is the conflict between Russia and Ukraine.

The conflict between Russia and Ukraine has significantly impacted the world economy, including Indonesia. Russia is one country that supplies crude oil to the world (Khudaykulova et al., 2022). Since the conflict occurred, Russia has received world economic sanctions, one of which is a limit on oil exports to suppress Russian revenues (Korosteleva, 2022). The world economic sanctions policy certainly impacts the imbalance between the demand and supply of goods so that crude oil prices soar (Gordon & Recio, 2019; Korosteleva, 2022).

Crude oil prices correlate with various economic aspects, including consumer goods. Crude oil is the primary source of energy in economic activity (Baffes, 2007). Crude oil is fuel for production and transportation activities. If the demand and supply for crude oil are not balanced, it will impact the production chain and consumption of goods. Some goods ready for consumption require different production processes, and one of the drivers of the processes is a machine that uses fuel. The distribution of ready-to-consume goods certainly requires transportation to reach consumers, and one of the drivers of the consumption goods distribution process is transportation that uses fuel. The impact of rising crude oil prices has an impact on increasing the cost of goods sold for goods to be consumed. The most prominent bearer of the increase in the price of goods is the community as the leading economic actor. Alghalith's research (2010) proves that high volatility in oil prices impacts increasing consumer goods prices.

Economic conditions that have not improved due to Covid-19 and weakened by external factors arising from the conflict between Russia and Ukraine have caused the Indonesian economy to be in danger of recession. International pressure and economic problems facing Indonesia are the main factors causing the recession. Conditions of the threat of recession significantly impact the power of consumption of goods and services.

* 1. The impact of implementing value-added tax rates

Value-added tax is a tax on the consumption of goods or services. Global and country economic conditions play a role in people's consumption power. The decision to increase the value-added tax rate certainly impacts the economy and public consumption. Based on Indonesia's current global economic conditions, implementing a tariff increase will have positive and negative impacts.

* + 1. The positive impact of implementing value-added tax rates

Value-added tax is a tax on the consumption of goods or services. Value-added tax is an indirect tax imposed on the final consumer (Pato & Marques, 2014). The nature of the value-added tax on the imposition of tax objects gives rise to tax collections at each consumption of goods or services at the final level (Septriadi et al., 2018). Bird (2005) reveals that value-added tax's nature and collection system is more effective and efficient than income tax. The value-added tax collection system can psychologically affect the awareness of the final consumer (Septriadi et al., 2018). Most end consumers are unaware they have contributed to paying value-added tax because the collection system is carried out simultaneously with paying transactions for these goods or services. In contrast to the income tax system, psychologically, most taxpayers feel that taxes are a burden because they reduce the income received, so taxpayers tend to avoid taxes (Jihene & Moez, 2018).

Value-added tax in Indonesia is a component of state revenue. Liyana's research (2021) results reveal that value-added tax can increase state revenue by increasing gross domestic product and national savings. Bird (2005) reveals that if the value-added tax administration system is sound, then value-added tax can provide a significant potential for state revenues due to tax collection on objects of consumption. Based on the nature and collection system of the prevailing value-added tax, adopting a tax rate of 11% can have a positive impact on helping Indonesia's economic recovery by increasing state revenues.

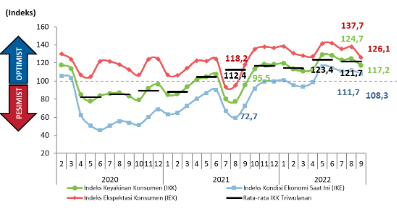
* + 1. Negative impact of implementing value-added tax rates

The initial goal of implementing the value-added tax rate was to help Indonesia's economic recovery after the social restrictions caused by Covid-19. However, Indonesia was affected by the global economy due to the conflict between Ukraine and Russia. Apart from external factors (global problems), Indonesia also faces internal problems such as disasters and other social problems. The complexity of the problems faced by Indonesia impacts people's behaviour patterns in the consumption aspect.

Unfavourable economic conditions certainly impact the imposition of an 11% value-added tax rate. The conflict between Russia and Ukraine has an impact on the world's distribution of crude oil and the global economy. Indonesia is one of the countries affected by unfavourable global economic conditions, which increased fuel prices. Apart from external factors, the increase in fuel prices was also caused by internal factors, one of which was the reduction in government subsidies for public fuel consumption (Business Editor of Tempo, 2022). The increase in the price of fuel oil will have an impact on various lines of economic activity by increasing the cost of goods sold. Fuel oil is one of the primary sources influencing economic flows (Wicaksana et al., 2022). A linear increase in fuel prices has an impact on reducing people's purchasing power (Najmulmunir, 2008).

Consumers or society is the key to a country's economy. Various factors that occur in the economic aspect have affected people's purchasing power. The increase in tax rates also suppresses consumption behaviour in the community because it increases the cost of sales that the public wants to consume. Several studies have shown that tax rates impact reducing a commodity's consumption power (Chopra, 2004; Elzeline Waterlander et al., 2014). The implementation of the new value-added tax rate directly or indirectly has an impact on the level of people's consumption power.

The role of value-added tax is less than optimal when used as a reference for economic recovery. Miki's research results (2011) explain that the increase in value-added tax rates only has a momentary effect on aggregate consumption and economic growth before and after the increase in rates in a few months. Japan has proven that an increase in economic growth only occurs momentarily in the timeframe before and after the increase in value-added tax (Cashin, 2012). The results of the Current Economic Condition Index in Indonesia also show that the economic upturn only occurred shortly before and after implementing the new tax rates (Bank Indonesia, 2022). Measurement of the Current Economic Condition Index comes from current income and consumption of durable goods (Bank Indonesia Communications Department, 2022).



**Figure 1**. Current Economic Condition Index

1. CONCLUSION, IMPLICATION, SUGGESTION, AND LIMITATIONS

In essence, every policy implementation will impact the intended aspects. Current economic conditions, both external and internal factors, trigger the impact of implementing the value-added tax. Based on the nature and collection system, the value-added tax rate increase will likely help Indonesia's economic recovery. On another aspect, the increase in the value-added tax rate has impacted people's purchasing power. The decline in people's purchasing power is due to various external factors (the conflict between Russia and Ukraine) and internal factors (Indonesia's economic conditions). Value-added tax is less effective when used as a reference for economic recovery. The nature of the increase triggered by the implementation of the value-added tax rate is only temporary, namely before and after the policy implementation. Suggestions for further research are to look at aspects of economic recovery in Indonesia from instruments other than fiscal. Economic recovery involves many instruments from various aspects of the socio-political economy.

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