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Regulation of The Minister of Finance of The Republic of Indonesia Number 131 of 2024 on The Increase of Vat By 12% and Its Impact

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Abstract
The increase in the Value Added Tax (VAT) rate to 12% planned for 2025 is part of the tax reform efforts outlined in the Harmonization of Tax Regulations Law (UU HPP). This policy aims to increase state revenue, support national development, and create a fairer tax system. In addition, the increase in VAT rates is expected to strengthen the government's fiscal resilience in facing global economic challenges, including economic uncertainty and the need for financing for strategic infrastructure projects. This reform also aims to align domestic tax policies with international standards to enhance Indonesia's economic competitiveness and attract more foreign investment. PMK 131 of 2024 states that the increase in the Value Added Tax (VAT) rate to 12% will not be applied universally, but only to luxury goods. The government maintains the principle of fairness by providing different tax treatments for various types of goods and services. For luxury goods, VAT is calculated at the full rate of 12% of the selling price or import value, with a transition period until January 31, 2025, during which the effective rate remains 11% through another value mechanism of 11/12 of the selling price. Meanwhile, for goods other than luxury goods, services, and intangible goods, VAT is imposed at a rate of 12%, but calculated using the DPP value of 11/12 of the import value, selling price, or replacement value, so the effective rate remains 11%. In addition, there are exceptions for certain Taxable Goods (BKP) and Taxable Services (JKP) that are subject to VAT with a different DPP value or specific amounts, such as 3 kg LPG, gold jewelry, and used motor vehicles, which will continue to follow the previous regulations and are not affected by this policy. This change also impacts the tax administration system, including the use of tax invoice serial number codes from 010 to 040 for transactions with different taxable base values. With this policy, the government is striving to balance the need to increase state revenue with maintaining the purchasing power of the public and the continuity of businesses. The transition period for luxury goods shows the government's efforts to provide adaptation before the full implementation of the 12% VAT rate.

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1. Introduction

The current tax reform is rooted in several main factors, including Changes in Regulations and Harmonization of Taxation The Government has made various changes in the tax system to adapt to the needs of the modern economy. One of the main legal foundations in this reform is Law Number 8 of 1983 concerning Value Added Tax on Goods and Services and Sales Tax on Luxury Goods, which has undergone several changes, most recently with Law Number 6 of 2023. This change aims to align the tax system with international standards and improve the efficiency of tax administration. Increasing State Revenue and Fiscal Resilience Tax reform aims to optimize state revenue through taxes to support infrastructure development, social welfare programs, and various strategic economic policies. With the increasing need for state financing, the government seeks to expand the tax base and adjust VAT rates to increase the contribution of the tax sector to the State Revenue and Expenditure Budget (APBN). Supporting Justice and Legal Certainty in Taxation One of the main principles in a fair tax system is fairness in the tax burden. With the issuance of PMK 131 of 2024, the government stipulates different tax treatment for certain taxable goods, including adjustments in the tax calculation mechanism. This step is expected to reduce economic disparities and ensure that tax policies do not only burden certain groups of people. Improving Ease of Business and Taxpayer Compliance

Tax reform also aims to increase taxpayer compliance and ease of doing business, especially for business actors. Changes in rules related to tax administration are expected to simplify the tax payment process and encourage business actors to be more compliant with applicable tax provisions. Adjustment to Digital Economy Development and Globalization In recent years, the digital economy has grown rapidly and brought new challenges in the tax system. The tax reform carried out by the government also includes strengthening regulations related to digital transaction taxes, the use of intangible taxable goods from abroad, and taxes on digital services. With this change, the government hopes to capture the potential for tax revenue from the digital sector which has not been optimally accommodatedTax is one of the main instruments in fiscal policy that plays an important role in financing development and improving people's welfare. The Government of Indonesia continues to carry out tax reforms to create a fairer, more efficient, and sustainable tax system. One of the concrete steps in this reform is the issuance of Minister of Finance Regulation (PMK) Number 131 of 2024, which regulates the implementation of a Value Added Tax (VAT) rate of 12%. This policy is in line with the Law on Harmonization of Tax Regulations (UU HPP) which aims to increase state revenue, reduce economic inequality, and align the national tax system with international standards.

Changes in tax policy, especially the increase in VAT rates, have always been an issue that has caused various reactions from various parties, including the business world and the general public. In the context of Indonesia's economy, the increase in the VAT rate from 11% to 12% raises concerns about its impact on people's purchasing power, especially for the lower middle economic group. An increase in VAT rates will automatically have an impact on increasing the price of goods and services, which can ultimately suppress public consumption.

In addition, this policy also affects the business sector, especially Micro, Small, and Medium Enterprises (MSMEs), which have been the backbone of the national economy. MSMEs face challenges in adapting to changes in tax administration and the potential for a decrease in demand due to the increase in the selling price of goods and services. Some businesses are also worried about an increase in tax burden that could reduce their profit margins and competitiveness in the market.

However, in the implementation of this policy, the government tries to maintain the principle of justice by giving different treatment to certain types of goods and services. Based on PMK 131 of 2024, the VAT rate of 12% only applies to Taxable Goods (BKP) that are classified as luxury, while for goods other than luxury goods and Taxable Services (JKP), VAT is still calculated based on another value of 11/12 of the import value, selling price, or replacement. This shows that this increase in VAT rates is not comprehensive, but rather targets certain goods and services with the aim of minimizing negative impacts on the wider community.

In addition, this policy also provides a transition period for luxury goods until January 31, 2025, during which during this transition period, the effective rate of VAT remains at 11% with other value calculation mechanisms. After this period, starting February 1, 2025, the VAT rate will be fully applicable at 12%.

In the global context, this tax reform is also a response to world economic challenges, such as global inflation, economic uncertainty, and the need for funding for strategic infrastructure. By increasing state revenue through taxes, the government hopes to strengthen fiscal resilience in the face of various economic dynamics, both at the national and international levels.

Based on the phenomenon that occurs, there are several problems that need to be analyzed further, How is the policy of increasing the VAT rate of 12%, to what extent does the impact of the PMK 131 of 2024 policy affect various sectors and other business actors in adjusting to changes in tax rules? Can the policy of applying another value of 11/12 to certain goods and services mitigate the impact of the increase in VAT rates on the national economy? As well as how ready business actors are to face the implementation of this policy, both in terms of tax administration and business strategy.

2. Literature Review

2.1. Definition of Value Added Tax

Value Added Tax (VAT), which is a consumption tax imposed on the added value of goods or services at every stage of production and distribution until final sale to consumers. VAT has a dual function as a source of state revenue, a tool for controlling inflation, and an instrument of income redistribution. VAT collection is carried out in multi-stages, with a rate set as a percentage of the added value of the product or service, which is the difference between the selling price and the cost of raw materials or services. VAT collection can be done directly, where businesses deposit it directly to the government, or indirectly, where the seller collects VAT from the buyer. In some cases, VAT can be deducted by the party who paid the invoice and deposited with the government. In addition, VAT covers the categories of Goods VAT (PPnBM) imposed on the sale of certain goods and Service VAT for service transactions (Vidya, 2025). With a flexible structure, VAT also provides incentives to business actors to be more efficient, because the calculation of added value encourages the optimization of the use of raw materials. VAT is often an indicator of economic stability, because fluctuations in VAT revenue reflect people's consumption patterns and the dynamics of economic activity.

2.1.1. Value Added Tax Subject

The subject of Value Added Tax (VAT) in Indonesia is regulated in Law Number 8 of 1983 concerning Value Added Tax on Goods and Services and Sales Tax on Luxury Goods, which has been amended several times, most recently with Law Number 7 of 2021 concerning the Harmonization of Tax Regulations According to the regulation, the subject of value-added tax is divided into two main groups, namely:

1) Taxable Entrepreneurs (PKP)

   Taxable Entrepreneurs (PKP) are individuals or business entities that carry out the following activities: producing goods, importing goods, exporting goods, running a trading business, providing services, or utilizing Intangible Goods or Services from outside the customs area. This group includes entrepreneurs who deliver Taxable Services (JKP) as described in Article 4 paragraph (1) letter a, as well as entities involved in operational cooperation in accordance with Article 3 paragraph (2) of Government Regulation Number 1 of 2012. The definition of Taxable Entrepreneur (PKP) itself, according to Article 1 number 15 of the 1984 VAT Law, is an entrepreneur who delivers Taxable Goods (BKP), JKP, or exports BKP. The explanation of Article 4 paragraph (1) letters a and c of the 1984 VAT Law emphasizes that VAT can be imposed on the submission of BKP and/or JKP by "entrepreneurs," regardless of whether the entrepreneur has been confirmed as a PKP or not. This means, in principle, every submission of BKP/JKP made in business activities can be subject to VAT, even before the entrepreneur officially becomes a PKP.

On the contrary, Article 4 paragraph (1) letter f explains that VAT on export BKP only applies if the exporter has been confirmed as a PKP. This principle also applies to the provisions stipulated in Article 4 paragraph (1) letter g and letter h.

2) Non-Taxable Employers

VAT subjects include entrepreneurs who have not yet had PKP status, but carry out the activities mentioned in Article 4 paragraph (1) b, d, and e, as well as Article 16C of the 1984 VAT Law. In this case, the inauguration as PKP is not a factor that determines whether they are tax subjects or not. Even individuals or non-PKPs who consume BKP or JKP in Indonesia are still subject to VAT, even though usually the price they pay includes VAT. This is in accordance with the VAT Law Number 42 of 2009 Article 4 Paragraph (1) letters b and e, and Article 16C. VAT remains valid even if the perpetrator is not a PKP, especially in the case of:

a. BKP Imports
b. Utilization of intangible BKP from abroad in the country
c. Utilization of JKP from abroad in the country
d. Development Activities
e. Small entrepreneurs are also subject to VAT

This means small entrepreneurs have obligations, especially if they choose to be inaugurated as Taxable Entrepreneurs.

3. Method

This study uses a qualitative approach with the literature review method or literature study, which is the collection of secondary data through relevant literature analysis. This method involves the use of various sources, such as books, scientific papers, final projects, and previous research, as a basis for describing and describing the VAT rate change policy and its impact in Indonesia. Researchers use platforms such as Google Scholar to find relevant and up-to-date references related to research topics. As a complement, reliable news sources are also used to obtain contextual data, especially in understanding the dynamics of tax policy in Indonesia. The data used in this study came from publications in the last four years, namely from 2021 to 2024. The author analyzes the problems raised in detail, relates them to the events that occurred, and evaluates the impact caused by these problems to provide a deep and comprehensive understanding of the research topic, the maximum number of journals searched is 100. The keywords used are "Value Added Tax", "HPP Law", "11% VAT Rate", "12% VAT Rate", "VAT Reform".

4. Results and Discussion

4.1. Value Added Tax Change Policy of 12%

The journey of tax reform in Indonesia, especially related to Value Added Tax (VAT), has undergone several important phases since its inception until the latest adjustment considering Law Number 8 of 1983 concerning Value Added Tax on Goods and Services and Sales Tax on Luxury Goods (Statute Book of the Republic of Indonesia Number 51 of 1983, Supplement to Statute Book of the Republic of Indonesia Number 3264) as amended several times, most recently by Law Number 6 of 2023 concerning the Stipulation of Government Regulations in Lieu of Law Number 2 of 2022 concerning Job Creation into Law (Statute Book of the Republic of Indonesia Number 41 of 2023, Supplement to Statute Book of the Republic of Indonesia Number 6856).

Tax reform will continue to be carried out until December 31, 2024, with the creation of the Minister of Finance Regulation of PMK Number 131 of 2024 which regulates the treatment of VAT on the import and delivery of Taxable Goods (BKP), the delivery of Taxable Services (JKP), as well as the use of intangible BKP and JKP from outside the customs area in the country. This PMK sets a VAT rate of 12% for BKP that is classified as luxury, both in the form of motor vehicles and other motor vehicles that are subject to sales tax on luxury goods.

The policy of changing the value-added tax rate (12%) in order to realize the aspect of justice in society, the Government of Indonesia decided to increase the Value Added Tax (VAT) rate to 12% starting January 1, 2025. This policy is based on several key considerations:

1) Increasing State Revenue: The increase in VAT rates aims to increase state revenue, thereby reducing dependence on external debt and supporting national development financing.
2) Reducing the Budget Deficit: With the increase in the VAT rate to 12%, the government hopes to increase tax revenues that will be used to reduce the deficit in the State Revenue and Expenditure Budget (APBN).
3) Gradual Tariff Adjustment: The increase in VAT rates is carried out in stages to minimize the negative impact on people's purchasing power, inflation, and economic growth.
4) Limited Imposition on Luxury Goods and Services: The government emphasized that the increase in VAT rates from 11% to 12% is only applicable to luxury goods and services, such as private jets, yachts, and luxury homes with a selling price of IDR 30 billion or more. Basic necessities, health services, and education are still exempt from VAT to protect the purchasing power of the general public.
5) Tax Ratio Improvement: This policy is also intended to improve Indonesia's tax ratio, by increasing the tax contribution to Gross Domestic Product (GDP), so as to reflect a fairer and more optimal tax system.

By considering these factors, the government hopes that the increase in the VAT rate to 12% can support a sustainable economy without having a significant impact on people's welfare.

Apart from the story of the change in policy and the value-added tax rate which has triggered debate in various circles. The government is faced with a dilemma between reducing dependence on foreign debt to close the budget deficit and the impact of this policy on the business world. Although this policy is predicted to increase public consumption in the short term, business actors are worried about a higher tax burden, which has the potential to affect their confidence and business turnover. The 12% VAT rate increase is a highlight that shows the impact on the macroeconomy, such as changes in consumption patterns, economic growth, and inflation.

However, in fact, the government is trying to ensure that the principle of justice can still be upheld by modifying the calculation of PMK 131 of 2024 which contains the main stipulation that the VAT rate increases by 12% only for:

1) Items that are classified as luxury with mechanics:
   a. VAT is calculated by multiplying the 12% rate by the DPP in the form of sales or import value.
   b. Especially for the delivery of luxury goods to end consumers by PKPs who have the right to make Retail Tax Invoices, starting from January 1, 2025 to January 31, 2025, VAT is calculated by multiplying the rate of 12% by other DPP values in the form of 11/12 of the selling price. From February 1, 2025, VAT is calculated at the normal rate of 12% of the selling price.
2) For Goods Other Than Luxury Goods and for Services and Intangible Goods :
   VAT is calculated by multiplying the rate of 12% by the DPP in the form of another value of 11/12 of the import value, selling price, or replacement
3) For BKP/JKP that is subject to VAT with Other Value DPP or a Certain Amount with a separate PMK:
   VAT is calculated in accordance with the provisions stipulated in the PMK (example: free supply, self-use, 3 kg LPG, gold jewelry, used motor vehicles, crypto, etc.

From the results of the researcher's analysis in PMK 131 of 2024 in article 2 paragraph (2) "Where the value added tax payable as referred to in paragraph 1 is calculated by multiplying the rate of 12% with the basis of imposition of tax in the form of selling price or import value" and in paragraph (3) explains that taxable goods in the form of selling or import prices as referred to in paragraph (2) are taxable goods that are classified as luxury in the form of motor vehicles and other than motor vehicles which is subject to sales tax on luxury goods in accordance with the provisions of laws and regulations in the field of taxation. Based on the explanation of the PMK item, it is very clear that the increase in the VAT rate of 1% from 11% is only intended for goods that are classified as luxury.

In Article 3 paragraph (1) on the import and/or delivery of taxable goods within the Customs Territory by Entrepreneurs In addition to taxable goods as intended in article 2 paragraph (3), Delivery of taxable services within the customs territory by entrepreneurs, the use of intangible taxable goods from outside the customs area within the customs area is subject to value-added tax, with the value of tax payable as intended in paragraph (1) is calculated by multiplying the rate of 12% by the Tax Basis in the form of other values. Other values as intended in paragraph (2) are calculated as 11/12 of the value of imports, selling prices or replacements.

The researcher sees Article 3 paragraph (1) of this regulation highlighting fundamental changes in the Indonesian tax system, especially related to the mechanism for calculating Value Added Tax (VAT) at a rate of 12% and the use of the Tax Imposition Basis (DPP) in the form of another value of 11/12 of the import value, selling price, or reimbursement. With the enactment of the DPP of other values, this will certainly affect the serial number code of the tax invoice which originally used the code 010 now changes to 040 (DPP Other Values).

Article 4 paragraph (1) taxable entrepreneurs who collect, calculate, and deposit value-added tax payable on the delivery of taxable goods and/or taxable services using the Tax Imposition Basis in the form of other values whose provisions have been regulated in the laws and regulations in the field of taxation separately and a certain amount whose provisions have been regulated in the laws and regulations in the field of taxation. Excluded from the provisions as referred to in 2 and article 3.

The researcher sees Article 4 paragraph (1) of PMK 131 of 2024 confirming the role of Taxable Entrepreneurs (PKP) in collecting, calculating, and depositing VAT on the delivery of Taxable Goods (BKP) and/or Taxable Services (JKP). However, this rule also provides an exception to the provisions stipulated in Article 2 and Article 3 which means that VAT that has been subject to value-added tax with other value DPP (040) and VAT DPP of a certain amount (050) will still be subject to the rules that have been in force previously. Or not affected by the PMK 131 policy of 2024.

Article 5 Taxable entrepreneurs who deliver taxable goods to buyers with final consumer characteristics, upon delivery of taxable goods as intended in article 2 paragraph (3) or luxury goods apply provisions a). Starting from January 1, 2025 to January 31, 2025, the value added tax payable is calculated by multiplying the rate of 12% by the new DPP of another value of 11/12 from the selling price b) starting February 1, 2025 the provisions as intended in Article 2 paragraph (2) apply.

This means that specifically for Value Added Tax on luxury goods, a transition period for the effective rate of VAT remains to 11% (another value of 11/12 of the selling price) until January 31, 2025 and after that it is effective to 12% until so on. This transition period is only for "luxury goods" for non-luxury goods, this transition period does not apply and thereafter another value of 11/12 (11%) will be charged.

4.2. Tax Invoice Provisions in the Transition Period

To facilitate adjustments for Taxable Entrepreneurs (PKP) in tax administration, the Directorate General of Taxes (DGT) has set a transition period of three months, from January 1 to March 31, 2025

1) Tax Invoices and certain documents whose position is equivalent to Tax Invoices made from January 1, 2025 to March 31, 2025 for the Import and/or delivery of Taxable Goods, delivery of Taxable Services, utilization of Intangible Taxable Goods or the use of Taxable Services as stipulated in Article 3 of PMK 131 of 2024, which includes:
   a. The basis for the imposition of Tax from the selling price/replacement/Import value is fully and the rate of 12%; or
   b. The basis for the imposition of Tax from the full selling price/replacement/value of the Import and the rate of 11%, is considered to have fulfilled the provisions as intended in Article 2 paragraph (2) as long as the Tax Invoice and certain documents whose position is equal to the Tax Invoice have included other information in accordance with the provisions of laws and regulations in the field of taxation.
2) For the excess collection of Value Added Tax due to the inclusion of the Tax Imposition Basis as referred to in paragraph (1) letter a, the following provisions apply:

a. the collected party requests the refund of the excess collection of Value Added Tax to the Taxable Entrepreneur of the seller; and
b. based on a refund request from the deducted party, the Taxable Entrepreneur of the seller makes corrections or replacements of the Tax Invoice or certain documents whose position is the same as the Tax Invoice

4.2.1. Provisions For Tax Invoices Made By Taxable Entrepreneurs Of Retail Traders For The Delivery Of Taxable Goods That Are Classified As Luxury

1) Taxable Entrepreneurs who deliver Taxable Goods to buyers with the characteristics of end consumers, upon the delivery of Taxable Goods classified as luxury as referred to in Article 5 of PMK 131 of 2024, the following provisions apply:
   a. from January 1, 2025 to January 31, 2025, the Value Added Tax payable is calculated by multiplying the rate of 12% (twelve percent) by the Tax Basis in the form of another value of 11/12 (eleven by twelve) of the selling price; and
   b. starting February 1, 2025, the Value Added Tax payable is calculated by multiplying the rate of 12% (twelve percent) by the Tax Basis in the form of the selling price.

4.3. The impact of the 12% VAT policy in accordance with PMK 131 of 2024

In connection with the many pros and cons related to the implementation of the 1% VAT rate adjustment from 11% to 12%, the researcher draws a common thread from the regulation, including:

1) The increase in the VAT rate from 11% to 12% is a mandate of Law Number 7 of 2021 concerning the Harmonization of Tax Regulations. According to the Government's agreement with the House of Representatives, the tariff increase will be carried out in stages, from 10% to 11% starting April 1, 2022 and then from 11% to 12% on January 1, 2025. This gradual increase is intended so as not to have a significant impact on people's purchasing power, inflation, and economic growth.
2) Goods and services that are basic needs of the community are still given VAT exemption facilities at a rate of 0%. These goods and services are:
   a. Basic necessities are rice, grain, corn, sago, soybeans, salt, meat, eggs, milk, fruits, and vegetables
   b. These services include medical health services, social services, financial services, insurance services, education services, public transportation services on land and water, labor services and rental services for public flats and public houses
   c. Other items such as books, holy books, polio vaccines, simple houses, rusunami, electricity, and drinking water and various other VAT incentives which are estimated to be Rp265.6 trillion for 2025.
3) The increase in the VAT rate from 11% to 12% applies to all goods and services that have been subject to a tariff of 11%, except for some types of goods that are needed by many people, namely "Kita" bulk cooking oil, wheat flour and industrial sugar. For these three types of goods, an additional VAT of 1% will be borne by the government (DTP), so that this VAT rate adjustment does not affect the price of the three goods.
4) So, the increase in VAT from 11% to 12% only causes an additional price of 0.9% for consumers.

2024

Beverage Prices	IDR 7,000
VAT 11%	Rp. 770
Total paid	IDR 7,770

2025

Beverage Prices	IDR 7,000
VAT 12%	Rp. 840
Total paid	IDR 7,840

Increase in the burden on consumers

IDR 7,840-IDR 7,700 x 100% = Rp. 70 x 100% =0.9%

IDR 7,700

5) Looking back at the increase in the VAT rate from 10% to 11% on April 1, 2022, did not cause a spike in the price of goods/services and the erosion of people's purchasing power. Reflecting on the period of VAT increase from 10% to 11% in 2022, the impact on inflation and purchasing power is not significant. In 2022, the inflation rate is 5.51%, but mainly due to global price pressures, food supply disruptions, and fuel price adjustment policies due to increased demand from the public after the Covid-19 pandemic. Throughout 2023-2024, the inflation rate is in the range of 2.08%.
6) Based on the Government's calculations, inflation is currently low at 1.6%. The impact of the 11% to 12% VAT increase is 0.2%. Inflation will remain low according to the 2025 State Budget target in the range of 1.5%-3.5%. Thus, the increase in VAT from 11% to 12% does not significantly reduce people's purchasing power
7) The increase in the VAT rate from 11% to 12% will strengthen state revenue in the state budget so that it can support the sustainability of national development, including financing education, health and welfare programs for the underprivileged. Based on the baseline of VAT revenue in 2023, assuming the same base, the potential for VAT revenue (VAT on DN and Import VAT) from the 11% to 12% tariff adjustment reached IDR 75.29 trillion.

4.4. The Impact of the 12% VAT Increase on Tax Administration

1) Impact on Invoice number

   With the change in the VAT rate and the basis for imposing the tax on the tax invoice number has also changed, the Tax Basis has been adjusted, especially in the application of the calculation of the basis for the imposition of tax on other values (11/12 from the selling price), the researcher examined that the tax invoice code from "01" to "04", for special arrangements (attachment PER-03/PJ/2022), even though the FP code remains "04", the filling of the DPP still follows the rules in PMK 131, So that the tariff used is 12%. Some FP codes remain the same (such as "02", "03", "07", "08", and "09"), but the DPP fills have been adjusted.

2) Impact on VAT rates on Luxury goods

   Types of BKP Luxury goods have been regulated in PMK 15 of 2023 which is summarized by the researcher as follows:
   a. Motor vehicles as regulated in PMK nomo 141/PMK.010/2021 as amended by PMK-42/2022;
   b. Luxury residences such as luxury houses, apartments, condominiums, town houses, and the like with a selling price of Rp. 30,000,000,000 (thirty billion) or more
   c. Hot air balloons, and steerable hot air balloons, other aircraft without propulsion;
   d. Firearms and other firearms, except for state purposes, excluding air rifle ammunition;
   e. Helicopters, airplanes and other aerial vehicles;
   f. Artillery guns, relovers, pistols, and other firearms operated with the firing of explosives;
   g. Such yachts, excursion boats and water vehicles are mainly designed for the transportation of people, charter ferries of all kinds, except for the interests of the state or public transport;
   h. Yachts, except for the benefit of the state or public transport or tourism undertakings

3) Impact on BKP/JKP with a certain amount

   As discussed earlier, the provision of BKP/JKP with a certain amount whose provisions have been regulated in laws and regulations in the field of taxation are excluded from the Other Value DPP. The VAT collection is carried out using a certain amount that has been regulated in the PMK.

4) Impact on importers

   Importers are subject to different VAT rates depending on the type of goods being imported, i.e. Luxury Goods and Non-Luxury Goods. Goods categorized as Luxury Goods are subject to VAT of 12% of the Import Value (NI).

Calculation formula:

$$\mathbf{PPN = 12\%\ x}\ \boldsymbol{NI}$$

a. This means that importers bringing luxury goods into Indonesia must pay VAT directly of 12% of the import value that has been determined by customs.
b. For goods that are not included in the luxury goods category, there is a special calculation in determining the Tax Basis (DPP).
   VAT is calculated based on the formula
   $$\mathbf{PPN = 12\%\ x\ (\frac{11}{12}\ x}\ \boldsymbol{NI})$$

This shows that the Tax Basis for non-luxury goods is lower than luxury goods, because it is calculated from the value of imports that have been deducted by a factor of 11/12. Consequently, even though the nominal VAT rate remains at 12%, the amount of tax paid by importers for non-luxury goods will be slightly smaller than for luxury goods. Importers should understand the differences in VAT rate calculations based on the category of goods they are importing to avoid administrative errors in tax calculations. Luxury Goods have a higher tax burden, which has the potential to increase the selling price of luxury goods in the domestic market. Tax administration for importers has become more complex due to the provision of other values in the calculation of VAT for non-luxury goods.

4.5. Impact of the increase in VAT rates on taxable entrepreneurs (PKP)

The increase in VAT rates also has an impact on business actors, where Taxable Entrepreneurs (PKP) need to adjust the selling price of their products and services. These adjustments risk lowering customer demand as well as increasing administrative burden. The developing MSME sector is more vulnerable to this impact, while non-PKP MSMEs are relatively not directly affected. In addition, public confidence in economic policies that include changes in tax rates also affects market conditions (Christanti Kwan et al., 2024), with an estimated decline in economic growth of around 0.02%. Price increases due to VAT have the potential to suppress people's purchasing power, especially for goods and services that are not basic needs. If consumption decreases, this can slow down economic growth, considering that household consumption is one of the main factors driving the Indonesian economy (Hikmayani Subur & Wahyu Muh Syata, 2024). An increase in VAT rates of 1% in developing countries can cause household consumption to fall by 0.51% within 2-3 years.

From the government's perspective, the increase in VAT rates is expected to strengthen economic resilience and support national development through increasing state budget revenues. Finance Minister Sri Mulyani emphasized that this policy is in line with efforts to create a fair tax system and support fiscal recovery (Agasie & Zubaedah, 2022) Empirically, VAT increases are considered effective in encouraging economic growth, with every additional IDR 1 trillion from VAT projected to increase GDP by IDR 28.5 trillion and increase national savings by IDR 9.3 trillion. An increase in national savings also has the potential to attract foreign investment, thus having a positive impact on the economy as a whole ((Farida et al., 2022.)

In an effort to reform taxation, increasing the VAT rate to 12% by 2025 aims to increase state revenue and create a fairer tax system. However, the emergence of resistance from the community shows the importance of more comprehensive education. As stated by Darussalam (2024), this policy has the potential to affect inflation, economic growth, and employment, and raises criticism regarding the nature of VAT which is considered regressive for low-income groups. The criticism emphasizes the need for balanced and data-driven information delivery to avoid hasty conclusions that reject this policy. Therefore, transparency in communication, public education, and supporting policies is an important step in reducing its negative impact. With a more inclusive and information-based approach, the government can increase public acceptance of this policy while ensuring its contribution to national economic development.

4.6. The impact of the increase in VAT rates on sales

Based on the results of the research (Septia Putri, t.t.) that PT XYZ's revenue has increased from 2021-2022 which means that the number of DPPs has increased, this is followed by an increase in the amount of output VAT and input VAT. The latest regulation in the Law on Harmonization of Taxation Regulations, one of which is to change the Value Added Tax (VAT) rate, which initially used a rate of 10%, changed to 11% which came into effect on April 1, 2022, is the main factor that stands out in this study and is the factor that affects the increase in company revenue. From the results of the study, the researcher concluded that the same thing could happen with the implementation of the latest VAT rate of 12%.

In the study (Hikmayani Subur & Wahyu Muh Syata, 2024), it emphasizes the analysis of VAT calculations in the reporting of sales reports from PT. Sokenko Maju Jaya. PT. Sokenko Maju Jaya experienced a significant increase in sales in February 2022, even increasing by more than Rp. 200,000,000,-. From the results of the interview, the increase in sales in February 2022 was due to changes in government policies related to tax regulations in Value Added Tax (VAT) which will be implemented on April 1, 2023.

However, from March to April 2022 to March 2023. After going through the interview process with the Financial Supervisor, it was known that this decline was caused by the increase in the price of raw materials in May. According to the President Director, the decline in sales of PT. Sokenko Maju Jaya in May was also caused by stock buildup, which previously occurred due to an increase in the purchase or demand for goods by customers before the increase in raw material prices and changes in VAT rates. To keep sales running, PT. Sokenko Maju Jaya decided to provide payment relief in the form of an installment scheme to every purchase or customer in purchasing products. The latest regulation in the Law on the Harmonization of Tax Regulations, one of which changes the Value Added Tax (VAT) rate from 10% to 11%, comes into effect on April 1, 2022. This change is the most prominent factor in the research conducted on PT. Sokenko Maju Jaya this time. Based on sales data of PT. Sokenko Maju Jaya, it can be seen that many customers purchase goods by utilizing the 10% VAT rate to maximize the storage of goods. When taxes rise to 11%, raw materials and selling prices also rise. The researcher concluded that the increase in VAT rates had an effect on the company's sales. The higher the VAT rate, the more likely it is that there will be a decline in the company's sales and earnings. The change in VAT rates greatly affects the sales of PT. Sokenko Maju Jaya.

4.7. The Impact of the VAT Increase on the Economy

The increase in VAT rates has a direct impact on consumers, as it causes an increase in the price of goods and services. This burden is more pronounced for the lower middle class, especially for consumer products that are not included in the category of basic needs. As a result, people's purchasing power can decrease, especially in buying non-essential goods and services. Given that household consumption is one of the main factors of Indonesia's economic growth, the decline in public spending has the potential to slow down overall economic growth. For business actors, especially PKP, the VAT increase requires them to adjust the selling price to remain in line with the new tariff. This can affect customers' purchasing power, potentially reducing demand. In addition, business actors must update accounting systems, tax invoices, and financial statements, which adds to the administrative burden. The growing MSME sector is more vulnerable to the impact of VAT increases, even though non-PKP MSMEs are not directly affected.

An increase in VAT rates can widen the economic gap because low-income people are more affected than high-income groups. In contrast, the wealthy group has more flexibility in dealing with rising prices. On the other hand, this tariff increase also provides additional revenue for the government that can be used for development programs, economic recovery, and social welfare. However, another impact is the increase in the prices of goods and services which contributes to inflation. However, the inflationary effects due to VAT increases tend to be short-term.

Higher VAT rates cause the prices of goods and services to rise, which has a direct impact on the Consumer Price Index (CPI). For example, if previously the price of an item of IDR 100,000 was subject to VAT of IDR 10,000 so that the total price is IDR 110,000, then with the new tariff, VAT becomes IDR 11,000, so that the total price becomes IDR 111,000. Although this increase has an impact on inflation, the effect is relatively small. Based on projections by Bank Indonesia and the Ministry of Finance, a 1% increase in the VAT rate is expected to contribute to additional inflation of around 0.4% to 0.5%. This is still lower than other factors such as rising energy and food prices which have a greater effect on inflation in Indonesia.

In addition to the direct impact on prices, the increase in VAT rates also has the potential to increase production and distribution costs in various sectors. Producers will probably pass on the burden of these additional costs to consumers, ultimately widening the impact of inflation. In addition, inflation expectations from the public and business actors can accelerate price increases in general, thereby strengthening inflationary pressure in the market. The increase in VAT rates has caused various differences of opinion in the community. Proponents of this policy argue that increasing tariffs is necessary to improve state finances, support infrastructure development, and improve public services. However, those who oppose this policy consider that the time is not right, especially because the community and business actors are still in the post-pandemic economic recovery stage. They are worried that this policy will further burden low-income people and slow down national economic growth

4.8. The impact of the increase in VAT on the community that acts as the final consumer

Based on research from (Anggreny Bangsawan & Alkam, 2023) which discusses the impact directly felt by the community as individuals and end consumers. From the results of the interview, he received information related to whether this increase in VAT rates is able to affect the price of goods and services. Informants as individuals or consumers experience an increase in the price of the goods they buy, the informants feel the impact of VAT changes on meeting their needs. Related to how the level of people's purchasing power before and after the change in VAT rates takes effect. One of the informants said that after the change in the VAT rate, it was able to affect the price of goods so he had to prioritize buying goods that were in accordance with his needs. Because with the increase in VAT of 11%, the cost of daily necessities increases while income is fixed so they have to reduce spending by prioritizing spending that suits their needs and reducing purchases that are not really needed. Or do you look for other alternatives by buying goods that are cheaper. The statements of the informants above can be understood that their purchasing power for goods has not changed. The impact of price increases is experienced by them from the selling price, but their purchasing power is still the same after the increase in VAT rates.

Taxes impact consumer behavior through disposable income, which in turn shapes their purchasing patterns (Nyame-Asiamah & Kawalek, 2021). Taxation has two ways to influence consumer behavior through revenue. First, changes in consumer purchasing power can result in a decrease in total consumption or a shift to more affordable goods and services. Second, the tax impact may differ for different income groups. This is because higher tax rates can affect the purchasing decisions of high-income people differently than low-income consumers, thus changing consumer preferences and spending patterns (Currie & Rowley, 2010).

Taxation has different psychological consequences on society, affecting attitudes, perceptions, and decision-making processes. First, the fairness of tax policies is viewed differently by different consumers, which ultimately influences their behavior. When a tax is seen as unfair or burdensome, society may react negatively to the tax and become resistant to certain brands or goods associated with a larger tax (Lehner, Mont & Heiskanen, 2016). Second, taxation can cause consumers to reevaluate their value systems by raising moral and ethical issues. For example, an increase in taxes on environmentally damaging goods will encourage people to choose more environmentally friendly options.

In conclusion, taxes have the potential to influence consumer behavior in several ways. First, customers can choose to move to a tax-free area to get goods or services at a lower price. Second, people may be encouraged to avoid taxes and encourage the growth of illegal markets due to high tax rates. This will incentivize customers to choose the wrong way and participate in illegal activities to avoid paying taxes (tax evasion). Finally, taxes have the power to encourage or prevent certain consumer behaviors, such as the implementation of environmentally friendly practices and the provision of tax breaks for renewable energy goods (Azadeh, Hosseinalifam & Savard, 2015)

4.9. The impact of the VAT increase on business people

The increase in VAT rates as stipulated in the Law on the Harmonization of Tax Regulations has an impact on the community, especially the lower economic groups. As an objective tax, VAT is levied equally regardless of the taxpayer's social status or income level. Thus, every individual who makes transactions on taxable goods and services is required to pay VAT.

This increase in VAT rates has led to an increase in the price of goods and services, which is influenced by an increase in the cost of production, including the cost of raw materials, electricity, and transportation. As a result, business actors are forced to adjust the selling price of their goods, not only due to the increase in VAT, but also due to the increase in production costs. Nevertheless, people's purchasing power has not experienced a significant decline. In response to rising prices, people are trying to be wiser in managing their finances, both by controlling spending, saving, and looking for alternative goods at more affordable prices.

The increase in VAT rates also has an impact on business actors, especially in terms of adjusting the price of goods. However, this impact does not directly reduce their marketability. In terms of monthly turnover, the income of entrepreneurs is relatively stable without significant changes.

Thus, the increase in VAT rates does not show a significant influence on people's purchasing power, both in individuals and business entities. Although individuals are aware of an increase in prices after the adjustment of VAT rates, needs are still met, albeit with stricter financial management. The same thing happens to business actors who continue to buy raw materials in the same amount. For distributors, the price increase has no impact on the sales rate. Although there is awareness that the increase in VAT rates has an effect on the price of goods, overall selling power and purchasing power remain stable.

5. Conclusion

The increase in the Value Added Tax (VAT) rate to 12% planned in 2025 is part of the tax reform efforts contained in the Law on the Harmonization of Tax Regulations (HPP Law). This policy aims to increase state revenue, support national development, and create a fairer tax system. In addition, the increase in VAT rates is expected to strengthen the government's fiscal resilience in the face of global economic challenges, including economic uncertainty and financing needs for strategic infrastructure projects. The reform also aims to align domestic tax policies with international standards to improve Indonesia's economic competitiveness and attract more foreign investment.

Although this policy has a strategic objective, there are a number of challenges that need to be anticipated. One of them is the potential for a decrease in people's purchasing power, especially for low-income groups, as well as changes in consumption patterns that can have an impact on the business sector. Business actors, especially the MSME sector, are expected to face additional challenges related to the increased burden of tax administration, which has the potential to hinder their growth. Therefore, to minimize negative impacts, the government needs to implement mitigation measures such as compensation programs in the form of subsidies or direct assistance for vulnerable groups to maintain people's purchasing power.

The discussion regarding PMK 131 of 2024 is that the increase in the Value Added Tax (VAT) rate to 12% is not applied comprehensively, but only applies to goods that are classified as luxury. The government maintains the principle of fairness by providing different tax treatment for various types of goods and services.

For luxury goods, VAT is calculated at the full rate of 12% of the selling price or import value, with a transition period until 31 January 2025, where the effective rate remains at 11% through another value mechanism of 11/12 of the selling price. Meanwhile, for goods other than luxury goods, services, and intangible goods, VAT is charged at a rate of 12%, but calculated using other value DPP of 11/12 of the import value, selling price, or substitution, so that the effective rate remains at 11%.

In addition, there are exceptions for certain Taxable Goods (BKP) and Taxable Services (JKP) that are subject to VAT with other values or certain amounts, such as 3 kg LPG, gold jewelry, and used motor vehicles, which continue to follow the previous rules and are not affected by this policy.

This change also has an impact on the tax administration system, including the use of tax invoice serial number codes from 010 to 040 for transactions with other value DPPs. With this policy, the government seeks to balance the need to increase state revenue by maintaining people's purchasing power and business continuity. The transition period for luxury goods shows the government's efforts to adapt before the full implementation of the 12% VAT rate.

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