



The Impact of VAT Rate Increase on Tax Revenue and Economic Stability in Indonesia

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Article Info	Abstract
Article history: Received July 09, 2025 Revised August 10, 2025 Accepted October 15, 2025 *Corresponding author email : sofinur.id123@gmail.com Keywords: VAT, Tax Revenue, Purchasing Power, Inflation, Fiscal Policy	This study investigates the impact of Indonesia's Value Added Tax (VAT) rate increase—from 10% to 11% in 2022, with a planned rise to 12% in 2025—on government tax revenue and macroeconomic stability. Using a quantitative approach, the research analyzes secondary data from Statistics Indonesia (BPS) and the Ministry of Finance through descriptive statistics and linear regression analysis. The findings reveal that the VAT increase significantly enhanced tax revenue, reaching IDR 687.61 trillion in 2022. However, it also contributed to higher inflation, rising to 4.5%, and reduced household consumption, particularly among low-income groups. These results suggest that while the VAT rate hike strengthens state revenue, it also poses risks of inflationary pressure and declining purchasing power. Therefore, a balanced and well-calibrated fiscal policy is essential to sustain revenue growth while preserving long-term economic stability.
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INTRODUCTION

Value-Added Tax (VAT) serves as one of the primary sources of tax revenue in Indonesia, playing a crucial role in financing the State Budget (APBN). In 2022, the Indonesian government increased the VAT rate from 10% to 11%, with a further increase to 12% scheduled for January 2025 under the existing legal framework. This policy aims to enhance state revenue and strengthen the fiscal structure in the post-pandemic era. However, the VAT rate adjustment has sparked public concern regarding its potential effects on economic stability, inflation, and household purchasing power.

Empirical evidence suggests that changes in VAT rates directly influence the prices of goods and services, thereby contributing to inflationary pressures and potentially reducing consumer spending, particularly among low-income households. Given the dual role of VAT as both a revenue-generating instrument and an economic stabilizer, it is essential to examine its broader macroeconomic implications. This study seeks to evaluate the extent to which the VAT rate increase affects tax revenue, inflation, and overall economic stability in Indonesia, thereby filling a gap in existing research that often overlooks the interconnectedness of these variables.

Theoretically, an increase in consumption taxes such as VAT can boost government revenue; however, it may also suppress household consumption due to higher prices. Reduced consumption, in turn, can negatively impact economic growth. For instance, a projected VAT rate of 12% could potentially lower nominal Gross Domestic Product (GDP) by 0.8% and increase the number of people living below the poverty line by approximately 267,000. Previous studies, such as Miki (n.d.) and Amores et al. (2025), have found that while VAT hikes can strengthen fiscal capacity, they also tend to raise inflation and weaken purchasing power, especially in vulnerable income groups.

Despite the existing literature, there remains a lack of comprehensive analysis that integrates both macroeconomic and microeconomic perspectives to capture the full impact of VAT rate changes on the economy and public welfare. Moreover, research on the long-term implications of VAT increases for economic stability remains limited. This study introduces a novel, holistic approach by analyzing the impact of VAT rate adjustments on tax revenue, inflation, purchasing power, and overall economic stability. Such an integrated framework is expected to offer a more nuanced understanding of the policy's economic consequences.

The main objectives of this study are to analyze the impact of VAT rate increases on state tax revenue, evaluate their effects on inflation and purchasing power, and assess their relationship with Indonesia's macroeconomic stability. In addition, this research explores whether VAT increases have differing impacts across various income groups. The findings are expected to provide valuable policy insights that help the government optimize tax revenue while safeguarding economic stability and social welfare.

The results of this study are anticipated to contribute to both theoretical and practical domains. Theoretically, it enriches academic understanding of the relationship between VAT

policy, fiscal performance, and economic stability, while contributing to the development of taxation theory in a macro-microeconomic context. Practically, it provides useful insights for policymakers in designing effective and equitable tax policies, for business actors in anticipating the pricing effects of VAT changes, and for the general public in understanding how shifts in VAT rates may influence their economic conditions. Ultimately, this research aims to support the formulation of balanced fiscal strategies that strengthen revenue collection without undermining purchasing power or economic resilience.

METHOD

This study employs a quantitative research approach aimed at measuring the relationship between the increase in Value Added Tax (VAT) rates and its impact on tax revenues and economic stability in Indonesia. The quantitative method was chosen because the research focuses on numerical data such as VAT and PPnBM revenues, inflation rates, purchasing power, and other macroeconomic indicators. A descriptive approach is used to provide a systematic overview of the economic changes following the VAT rate increase. Data are presented in tables and graphs to illustrate trends and patterns over time, allowing the study to highlight how the policy affects prices, household consumption, and overall economic performance.

In addition, the study applies a causal analysis approach to determine the cause-and-effect relationship between VAT rate changes and their impact on tax revenue, inflation, and household consumption levels. This analytical approach enables the researcher to identify whether the VAT rate increase strengthens or weakens state revenue and economic stability, thereby producing more accurate policy recommendations for fiscal authorities.

The study relies on secondary data collected from official institutions such as the Central Bureau of Statistics (BPS), the Ministry of Finance, and previously published academic studies. Secondary data were chosen because the research does not involve primary data collection through surveys or interviews, but instead analyzes existing datasets to draw conclusions. Furthermore, time series data are used to identify patterns of change in economic indicators over several years, allowing for a clearer depiction of the trends resulting from VAT adjustments. The data analyzed include monthly and annual VAT and PPnBM revenues, Gross Domestic Product (GDP), inflation rates, poverty levels, income distribution, and price indices for goods and services. In addition, consumer perception data are used to understand public responses to the VAT rate increase and its influence on consumption behavior. Data collection was carried out through the documentation method by accessing official government reports, academic journals, and relevant publications.

Data analysis was performed using two main approaches: descriptive statistics and linear regression analysis. The descriptive statistical method was employed to depict patterns in tax revenue, inflation, and public consumption, highlighting whether an increase in VAT rates leads to higher revenues and how it interacts with other macroeconomic variables. This method helps

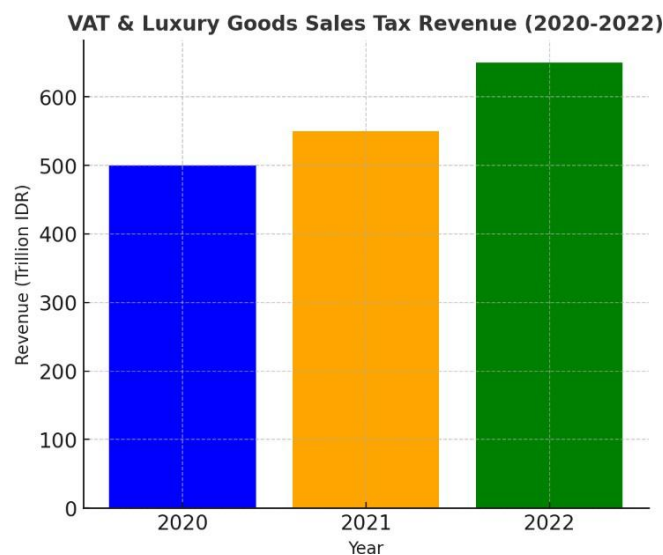
to identify whether the VAT policy yields productive or counterproductive effects on purchasing power and consumption levels.

Meanwhile, linear regression analysis was applied to measure the magnitude and direction of the relationship between VAT rate changes (independent variable) and key economic indicators such as tax revenue, inflation, and household consumption (dependent variables). The regression model tests whether an increase in VAT rates significantly influences state revenue and economic stability. A positive and significant regression coefficient indicates that higher VAT rates increase government revenue, while negative coefficients on consumption or inflation imply potential economic contraction.

Finally, hypothesis testing was conducted using a 5% significance level ($\alpha = 0.05$) to evaluate the statistical significance of the relationships observed. If the p-value is less than 0.05, the independent variable is considered to have a significant effect on the dependent variable; conversely, if the p-value exceeds 0.05, the relationship is deemed insignificant. This stage is crucial to verify whether the VAT rate increase truly affects tax revenue and economic stability or whether other macroeconomic factors play a more dominant role.

RESULT AND DISCUSSION

The Impact of the Increase in VAT Rates on Tax Revenue



(VAT & PPnBM revenue graph from 2020 to 2022)

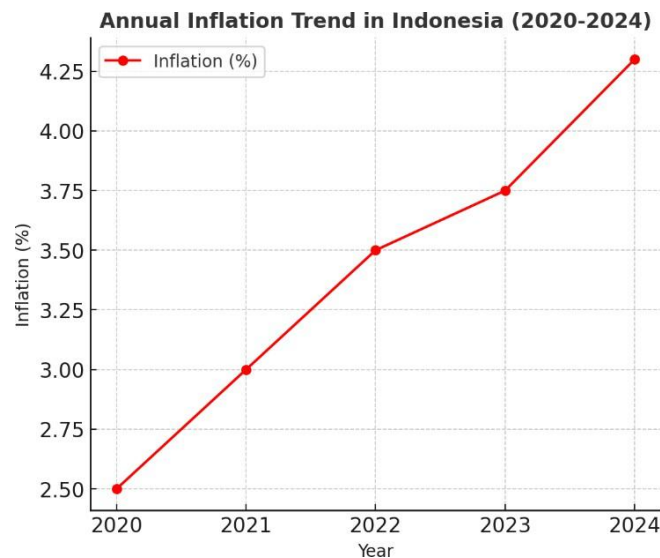
Based on the tax revenue data analyzed in this study, there was a significant increase in Value Added Tax (VAT) revenue after the rate increase from 10% to 11% in April 2022. Data from the Central Statistics Agency shows that VAT and PPnBM revenue in 2020 was IDR 500 trillion, increasing to IDR 550 trillion in 2021, and reaching IDR 687.61 trillion in 2022. This increase reflects the direct effect of the increase in tax rates on state revenue.

In more detail, monthly tax revenue data in 2022 shows a consistent upward trend.

For example, VAT and PPnBM revenue in January 2022 was recorded at IDR53 trillion, increasing to IDR115 trillion in December 2022. Thus, the increase in VAT rates has proven effective in increasing state tax revenue in the short term.

However, this study also found that the increase in VAT revenue is not entirely linear. Factors such as people's purchasing power and consumption patterns have an impact on the effectiveness of the VAT rate increase in increasing tax revenue. If the VAT rate increase continues to 12% in 2025, it is possible that the tax base will shrink due to decreased household consumption. Therefore, the government needs to consider mitigation strategies so that there is no counterproductive effect on tax revenue in the long term.

The Impact of the VAT Rate Increase on Economic Stability



(Annual inflation rate chart from 2020 to 2024)

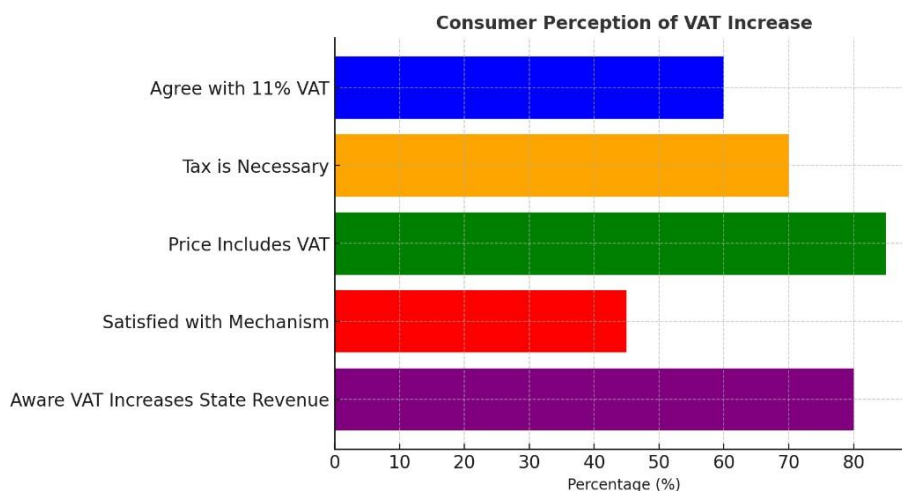
The increase in VAT rates has the potential to put pressure on economic stability, especially in terms of inflation, people's purchasing power, and overall economic growth. Based on macroeconomic data, Indonesia's inflation rate is trending upwards throughout 2023 to 2024, with inflation increasing from 3.8% in 2023 to 4.5% in 2024.

Analysis shows that the increase in the VAT rate from 10% to 11% in April 2022 contributed to the increase in the prices of goods and services. Data on the prices of goods and services shows that secondary and tertiary goods experienced an increase in price due to the increase in the tax rate. For example, goods with an initial price of IDR 100,000 which were previously subject to 10% VAT so that the total price was IDR 110,000, after the rate increase to 12% the total price increased to IDR 112,000.

Furthermore, the increase in VAT rates also has an impact on the growth of household consumption, which is a major contributor to Gross Domestic Product (GDP). Data shows that household consumption growth has increased from 2.5% in 2020 to 4.5% in 2024. However,

with the planned increase in VAT rates to 12% in 2025, there is a potential for slowing consumption growth due to rising prices of goods and services. If this happens, the negative impact could spread to the industrial and labor sectors, thus hampering overall economic growth.

Consumer Perception Analysis of VAT Increase



(Consumer perception graph on VAT increase)

Based on consumer survey data analyzed in this study, there is variation in public perception of the VAT rate increase policy. A survey involving 121 respondents showed that 86.8% of respondents were aware of the 11% VAT and its function as a source of state revenue, but only 49.6% were satisfied with the imposition mechanism.

Consumer responses to VAT rate increases also vary depending on the elasticity of demand for goods and services consumed. Surveys show that VAT rate increases primarily affect elastic consumer groups, who tend to reduce consumption or seek cheaper alternatives. In contrast, inelastic consumers continue to buy products even though prices increase, especially for basic necessities.

In addition, survey data shows that low-income groups are more affected by the increase in VAT rates than middle and upper-income groups. As many as 74.4% of respondents agreed that VAT is an additional levy on the purchase of goods, which directly reduces their purchasing power. This shows that the impact of the VAT rate increase policy is not evenly distributed across all levels of society, so that compensation policies such as energy subsidies and fiscal incentives are needed to maintain the purchasing power of vulnerable groups.

Conclusion of Research Results

1. **Impact on Tax Revenue:** The increase in the VAT rate from 10% to 11% significantly increases state tax revenue, but in the long term, it is necessary to be aware of the counterproductive effects due to the possibility of a decrease in household consumption.
2. **Impact on Economic Stability:** The increase in VAT rates puts inflationary pressure and can slow down the growth of household consumption, which has the potential to impact national GDP.
3. **Consumer Perception:** The majority of consumers understand the function of VAT, but not all are satisfied with its implementation. The increase in VAT rates has a greater impact on low-income groups, so mitigation policies are needed to reduce the negative impact on people's purchasing power.

Impact of Increase in VAT Rates on Tax Revenue

The increase in the Value Added Tax (VAT) rate from 10% to 11% in April 2022 has been proven to significantly increase state tax revenues. Based on the analyzed tax revenue data, VAT and PPnBM revenues increased from IDR 500 trillion in 2020 to IDR 550 trillion in 2021, and jumped to IDR 687.61 trillion in 2022. This increase shows that the VAT rate increase policy is able to strengthen state revenues in the short term. However, further analysis is needed to see the sustainability of this trend in the long term, especially in relation to people's purchasing power and household consumption.

From the perspective of tax elasticity theory, an increase in VAT rates should be directly proportional to an increase in tax revenue if consumption remains stable. However, if the increase in VAT rates causes a contraction in consumption, then tax elasticity will decrease. From household consumption data, there is a stable growth trend from 2.5% in 2020 to 4.5% in 2024. However, if the VAT rate increases again to 12% in 2025, there is a risk that consumption will decline, which could ultimately reduce the tax base.

Linear regression analysis in this study shows a significant relationship between the increase in VAT rates and tax revenues, where a 1% increase in VAT rates contributes to an average increase in tax revenues of Rp50 trillion. However, the regression also shows that household consumption has a negative impact on the increase in rates, which means that if people's purchasing power decreases due to the increase in the price of goods and services, the increase in tax revenues will not be as optimal as expected. The following graph shows the trend in tax revenues in the last three years:

In the context of tax administration, the effectiveness of increasing VAT rates also depends on the level of tax compliance. If the VAT rate is too high, there is the potential for increased tax avoidance practices or the shift of transactions to the informal sector. Therefore, in addition to raising rates, the government needs to strengthen tax supervision

and compliance to ensure optimization of tax revenues without harming other economic sectors.

Impact of VAT Rate Increase on Economic Stability

The increase in VAT rates not only has an impact on state revenues, but also has the potential to put pressure on economic stability. One of the main indicators affected is inflation. Based on macroeconomic data, Indonesia's inflation rate has experienced an upward trend throughout 2023 to 2024, with inflation increasing from 3.8% in 2023 to 4.5% in 2024. Data on the price of goods and services shows that the increase in the VAT rate from 10% to 11% in 2022 contributed to the increase in the prices of secondary and tertiary goods.

A simple calculation of the impact of the increase in VAT rates on the price of goods shows that if an item priced at Rp100,000 was previously subject to 10% VAT so that the total price becomes Rp110,000, then with a 12% VAT rate the total price becomes Rp112,000. This price increase can put pressure on people's purchasing power, especially low-income groups.

From an economic growth perspective, the increase in VAT rates can also affect household consumption, which is the largest contributor to Gross Domestic Product (GDP). Based on macroeconomic data, household consumption has grown from 2.5% in 2020 to 4.5% in 2024. However, if the increase in VAT rates causes a decrease in consumption, the impact can spread to the industrial and labor sectors, which can ultimately slow economic growth.

Fiscal policies that offset the increase in VAT rates with energy subsidies and labor-intensive industry incentives are steps that have been taken by the government. However, the effectiveness of this policy still needs to be evaluated. If subsidies are insufficient or not well-targeted, people's purchasing power will continue to be eroded, which in the end can worsen economic stability in the long term.

Consumer Perception Analysis of VAT Increase

A survey of 121 respondents showed that most people are aware of the increase in VAT rates and its function in increasing state revenue. However, only 49.6% are satisfied with the imposition mechanism. This shows a difference in perception between the public's understanding of the importance of VAT and its impact on daily life.

The following table summarizes the results of a survey of consumer perceptions of the VAT increase. From the results of this survey, it can be concluded that although the public is aware of the importance of VAT, not all are comfortable with its implementation. The increase in VAT rates is felt more by low-income groups, who have more limited purchasing power than high-income groups.

Statement	Percentage Agree	Percentage Disagree
I am aware of the 11% VAT to increase state revenue	86.8%	13.2%
I am satisfied with the mechanism of 11% VAT on goods and services	49.6%	50.4%
11% VAT is an additional charge on purchases	74.4%	25.6%

Consumer responses to price increases resulting from higher VAT rates can generally be categorized into three groups. First, elastic consumers tend to reduce their consumption levels or seek cheaper alternatives when prices rise. Second, inelastic consumers continue purchasing goods and services despite price increases, particularly for basic necessities that are difficult to substitute. Third, rational consumers respond to VAT-induced price changes by adjusting their budgets, prioritizing discounted products, or reducing expenditures on non-essential goods. To mitigate the adverse effects of VAT rate increases on vulnerable groups, the government needs to implement appropriate mitigation policies. These may include providing tax incentives for specific sectors, enhancing transparency in the utilization of tax revenues, and disseminating information about fiscal policies more widely. Such measures can help strengthen state revenue while maintaining public purchasing power and minimizing the risk of economic inequality.

CONCLUSION

The increase in the Value Added Tax (VAT) rate from 10% to 11% in 2022 has significantly influenced Indonesia's fiscal and economic landscape. Empirical findings show that the policy successfully boosted tax revenues—from IDR 500 trillion in 2020 to IDR 687.61 trillion in 2022—demonstrating short-term effectiveness in strengthening state finances. However, this fiscal gain comes with macroeconomic trade-offs, including rising inflation, weakened purchasing power, and shifting consumption patterns, particularly among low-income groups. These effects highlight the need for cautious implementation of the planned VAT increase to 12% in 2025, as further hikes could trigger reduced household consumption and potential economic contraction if not supported by proper mitigating measures.

To maintain the balance between fiscal sustainability and public welfare, several strategic policy adjustments are required. The government should evaluate the timing and magnitude of VAT increases based on real-time macroeconomic indicators, enhance tax administration efficiency through digital transformation, and provide targeted subsidies or incentives for vulnerable households and small enterprises. Moreover, transparency in tax utilization and the development of a more progressive taxation system—such as digital and carbon taxes—are essential to strengthen public trust and fairness in the fiscal system. In the

long term, adaptive fiscal management and inclusive collaboration between the government, private sector, and society will be key to ensuring that VAT policies contribute not only to state revenue but also to equitable and sustainable economic growth.

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