

VALUE-ADDED TAX INCREASE AND HOUSEHOLD CONSUMPTION IN INDONESIA: BALANCING FISCAL SUSTAINABILITY AND CONSUMER WELFARE

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Abstract

Value Added Tax (VAT) serves as one of Indonesia's primary sources of government revenue and plays a crucial role in supporting fiscal sustainability. The implementation of the 12% VAT rate in 2025 has generated considerable debate regarding its potential effects on household purchasing power and economic welfare. Although previous studies have examined either the macroeconomic consequences of VAT adjustments or tax administration, limited research has integrated the legal framework, tax collection mechanism, and socioeconomic implications of the new VAT policy within a comprehensive analytical framework. This study aims to examine the implementation of Indonesia's 12% VAT policy, analyze its impact on household consumption and government revenue, evaluate its effectiveness in balancing fiscal sustainability and tax equity, and propose policy recommendations. A qualitative descriptive approach was employed using documentary analysis and a literature review. The study utilized secondary data derived from government regulations, academic publications, official reports, and credible national and international economic sources. Data were analyzed through content analysis and comparative descriptive analysis to assess the relationship between VAT policy, consumer behavior, tax administration, and fiscal outcomes. The findings indicate that the VAT increase strengthens government revenue and supports fiscal sustainability; however, it also reduces household purchasing power, particularly among lower-income groups, and creates short-term inflationary pressures. The effectiveness of the policy depends on efficient tax administration, transparent implementation of the self-assessment system, and complementary fiscal measures, including targeted social assistance and tax exemptions for essential goods. This study contributes to the literature by providing an integrated perspective on VAT reform and offers practical insights for designing equitable and sustainable fiscal policies in Indonesia.

Keywords: consumer welfare; fiscal sustainability; household consumption; tax administration; value-added tax



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INTRODUCTION

Value Added Tax (VAT) and Luxury Goods Sales Tax (LGST) constitute two of the most significant sources of government revenue in Indonesia, playing a crucial role in maintaining fiscal stability and supporting national development. In response to increasing public expenditure requirements and growing uncertainty in the global economy, the Indonesian government has sought to optimize tax revenue by increasing the VAT rate from 11% to 12% in 2025, as stipulated in the Minister of Finance Regulation (PMK) No. 131 of 2024 (Destiny, 2025).

The increase in the VAT rate has generated considerable public debate. On one hand, concerns have been raised that the policy may reduce household purchasing power and suppress consumer spending, particularly among middle- and lower-income groups. Catur (2024) found that an increase in the VAT rate negatively affects household consumption, which may subsequently slow national economic growth. On the other hand, the government considers the policy a strategic and rational measure to maintain sustainable fiscal revenue while supporting economic resilience. To mitigate its potential adverse effects on vulnerable groups, the government has complemented the policy with various economic support programs targeting low-income households (Stefanno & Bernadette, 2024).

Furthermore, the President of the Republic of Indonesia emphasized that the 12% VAT rate would apply only to specific categories of goods and services, particularly luxury goods, thereby minimizing its impact on the consumption of essential commodities (Reuters, 2024). According to Anna Suci (2025), revenue from VAT and LGST is projected to reach approximately IDR 895.9 trillion in the 2025 fiscal year, reaffirming the importance of these taxes as a major pillar of Indonesia's State Budget (APBN).

Historically, Indonesia has implemented a self-assessment system, under which taxpayers are responsible for calculating, paying, and reporting their own tax obligations (Gesah Rachmad, 2015). In addition, the classification of Taxable Goods (Barang Kena Pajak—BKP) and Taxable Services (Jasa Kena Pajak—JKP) serves as a fundamental component of an equitable and efficient VAT system (Gesah Rachmad, 2015a). Consequently, any adjustment to the VAT rate should be accompanied by transparent tax administration and extensive public education to ensure continued taxpayer compliance.

The implementation of the 12% VAT policy deserves further academic attention because it represents a critical trade-off between the government's fiscal needs and society's purchasing power. The policy aims to broaden the national tax base while preserving overall macroeconomic stability. At the same time, it aligns with Indonesia's ongoing tax reform agenda, which emphasizes digitalization, administrative efficiency, and more effective tax collection, as consistently promoted by the Directorate General of Taxes in recent years.

Although numerous studies have examined the role of VAT in supporting government revenue, relatively few have comprehensively discussed the recent 12% VAT policy by integrating its legal foundation, tax collection mechanism, classification

of taxable goods and services, and its implications for household consumption and fiscal sustainability. Existing studies have generally focused either on the macroeconomic consequences of VAT adjustments or on administrative aspects of tax collection, leaving limited discussion regarding the balance between fiscal effectiveness and distributive fairness within the current policy framework. This gap highlights the need for a comprehensive assessment of the newly implemented VAT policy from both fiscal and socioeconomic perspectives.

Accordingly, this study aims to: (1) explain the background and tax collection mechanisms of VAT and LGST in Indonesia; (2) analyze the impact of the 12% VAT policy on household consumption behavior and government revenue; (3) evaluate the effectiveness of the government's strategy in balancing fiscal sustainability and tax equity; and (4) propose policy recommendations in the form of alternative fiscal measures or incentives for economic sectors potentially affected by the VAT increase.

To address these objectives, this study employs a descriptive qualitative approach based on a literature review of recent VAT policies, taxation regulations, and empirical evidence concerning household consumption. The analysis also incorporates the principles of tax fairness as discussed by (Rachmad Gesah, 2015b) and the classification of taxable goods and services (BKP and JKP) as described by (Rachmad Gesah, 2015a). Through this approach, the study seeks to provide a comprehensive understanding of the effectiveness of the 12% VAT policy from both the perspectives of government revenue generation and its broader economic consequences. The findings are expected to contribute to the formulation of tax policies that are equitable, adaptive, and supportive of sustainable economic growth and public welfare.

LITERATURE REVIEW

Value Added Tax and Luxury Goods Sales Tax in Indonesia

Value Added Tax (VAT) is an indirect consumption tax imposed on the supply of taxable goods and taxable services throughout the production and distribution chain. In Indonesia, VAT is administered under a self-assessment system, whereby taxpayers are responsible for calculating, paying, and reporting their own tax obligations (Gesah Rachmad, 2015). This system is intended to improve tax compliance while reducing administrative burdens on the tax authority. The effectiveness of VAT implementation also depends on the proper classification of Taxable Goods (Barang Kena Pajak—BKP) and Taxable Services (Jasa Kena Pajak—JKP), as these classifications determine the scope of taxable transactions and contribute to a fair and efficient tax system (Gesah Rachmad, 2015a).

Alongside VAT, the Luxury Goods Sales Tax (LGST) is imposed on selected luxury goods to strengthen the equity of the tax system by placing a relatively higher tax burden on consumers with greater purchasing capacity. Consequently, VAT and LGST function not only as instruments for generating government revenue but also as fiscal policy tools that support income redistribution and macroeconomic stability.

VAT Policy and Household Consumption

From an economic perspective, VAT directly affects consumer prices because the tax burden is generally transferred to final consumers. According to consumption theory, an increase in indirect taxes tends to reduce real purchasing power, particularly among households with relatively lower incomes. As consumer prices increase, households are likely to adjust their consumption patterns by reducing expenditures on non-essential goods while maintaining spending on basic necessities.

Empirical evidence supports this relationship. Catur (2024) found that an increase in Indonesia's VAT rate negatively affects household consumption and may consequently reduce national economic growth. Nevertheless, the government argues that the 12% VAT policy is necessary to strengthen fiscal capacity and ensure the sustainability of public expenditure, particularly in response to increasing development needs and economic uncertainty (Stefanno & Bernadette, 2024). To minimize adverse social impacts, the government has limited the application of the higher VAT rate to specific categories of goods and services, especially luxury goods, while maintaining protection for essential commodities (Reuters, 2024).

Tax Equity and Fiscal Sustainability

Tax policy is expected to achieve a balance between fiscal sustainability and distributive justice. Fiscal sustainability refers to the government's ability to generate sufficient revenue to finance public expenditure without creating excessive fiscal imbalances. Meanwhile, tax equity requires that the tax burden be distributed fairly across different income groups.

The increase in Indonesia's VAT rate reflects the government's effort to broaden the tax base and strengthen state revenue. According to Anna Suci (2025), VAT and LGST revenues are projected to reach approximately IDR 895.9 trillion in the 2025 fiscal year, demonstrating their strategic role in financing the State Budget. However, the effectiveness of this policy depends not only on higher revenue collection but also on the government's ability to protect vulnerable households through complementary fiscal measures, such as subsidies, social assistance, or targeted tax incentives. Therefore, evaluating the 12% VAT policy requires consideration of both its fiscal contribution and its socioeconomic consequences.

Previous Studies and Research Gap

Previous studies have examined various aspects of VAT implementation in Indonesia. Catur (2024) demonstrated that VAT increases may reduce household consumption and adversely affect economic growth. Stefanno and Bernadette (2024) argued that the policy remains justified from a fiscal perspective because it strengthens government revenue while being accompanied by compensatory economic measures. Reuters (2024) further highlighted that the implementation of the 12% VAT rate was intentionally limited to selected goods and services in order to reduce its burden on basic household consumption.

Despite these contributions, previous studies have primarily focused either on the macroeconomic effects of VAT increases or on fiscal policy considerations. Limited attention has been given to integrating the legal framework of VAT implementation, the self-assessment tax collection mechanism, the classification of BKP and JKP, and the broader implications of the policy for household consumption and fiscal sustainability within a single analytical framework. Consequently, this study seeks to bridge this gap by providing a comprehensive literature-based assessment of Indonesia's 12% VAT policy, emphasizing the interaction between tax administration, consumer behavior, and fiscal objectives. The findings are expected to contribute to discussions on equitable tax policy and provide practical recommendations for improving future fiscal policy implementation.

RESEARCH METHOD

This study employed a qualitative descriptive approach to examine the impact of Indonesia's 12% Value Added Tax (VAT) policy on household consumption and its implications for government revenue. A qualitative approach was considered appropriate because it enables an in-depth understanding of economic and social phenomena through the interpretation of fiscal policies, taxation regulations, and relevant empirical evidence (Rachmad Gesah, 2015b). The research design emphasized public policy analysis combined with a literature review and the interpretation of secondary data obtained from government regulations, academic publications, and credible national and international economic reports.

The scope of this study focused on the implementation of the 12% VAT policy in Indonesia in 2025, as stipulated in the Minister of Finance Regulation (PMK) No. 131 of 2024. The analysis covered four principal aspects: (1) national fiscal policy concerning adjustments to VAT and Luxury Goods Sales Tax (LGST) rates; (2) the impact of the policy on household consumption behavior; (3) the effectiveness of tax collection under Indonesia's self-assessment system (Rachmad Gesah, 2015b); and (4) the classification of Taxable Goods (Barang Kena Pajak—BKP) and Taxable Services (Jasa Kena Pajak—JKP) as the basis for VAT imposition (Rachmad Gesah, 2015a).

The study relied exclusively on secondary data obtained from multiple authoritative sources. The primary materials included government regulations, particularly Minister of Finance Regulation (PMK) No. 131 of 2024 concerning the increase in the VAT rate from 11% to 12%, and reports on projected national tax revenue for the 2025 fiscal year (Anna Suci, 2025). Additional data were collected from previous empirical studies investigating the effects of VAT increases on household consumption (Catur, 2024; Rabani et al., 2024), as well as national and international economic news discussing Indonesia's fiscal policy adjustments and measures to mitigate the social impact of the VAT increase (Anna Suci, 2025; Reuters, 2024b). The theoretical framework was supported by classical taxation literature on VAT and LGST collection mechanisms (Rachmad Gesah, 2015b) and the classification of BKP and JKP (Rachmad Gesah, 2015a).

Data collection was conducted through documentary and literature review techniques. Relevant information was systematically collected from academic journals, taxation regulations, government publications, official reports, and credible economic news sources (Anna Suci, 2025; Catur, 2024; Destiny, 2025; Rabani et al., 2024; Reuters, 2024b; Stefano & Bernadette, 2024). Each document was reviewed, classified according to the research objectives, and organized into thematic categories to facilitate subsequent analysis. Secondary macroeconomic information regarding household consumption and VAT revenue was also utilized to strengthen the interpretation of the policy's economic implications. In addition, non-participant observation was employed by examining publicly available digital information and official reports related to the implementation of the VAT policy.

To clarify the analytical framework, this study adopted several operational concepts. Value Added Tax (VAT) refers to a consumption tax imposed on taxable goods and services at each stage of production and distribution based on the Tax Base (Dasar Pengenaan Pajak) (Rachmad Gesah, 2015b). Luxury Goods Sales Tax (LGST) refers to an additional tax imposed on luxury goods that are generally consumed by higher-income groups (Rachmad Gesah, 2015a). Household consumption refers to household expenditure on goods and services following the implementation of the 12% VAT rate (Firmansyah Febri, 2024). Government revenue from VAT and LGST refers to total tax revenue generated from these taxes as reported in the 2025 national fiscal report (Anna Suci, 2025). Finally, the VAT rate policy refers to the government's fiscal decision to adjust the VAT rate as an instrument for increasing public revenue while maintaining macroeconomic stability (Destiny, 2025).

The collected data were analyzed using content analysis and comparative descriptive analysis. Content analysis was employed to identify recurring themes, patterns, and relationships concerning the role of VAT and LGST in supporting government revenue and national economic stability. Comparative analysis was subsequently used to compare household consumption trends and government tax revenue before and after the implementation of the 12% VAT rate. The findings were interpreted based on the theoretical framework of VAT collection mechanisms (Rachmad Gesah, 2015b) and the classification principles of taxable goods and services (Rachmad Gesah, 2015a). Furthermore, a qualitative fiscal policy analysis was conducted to evaluate the effectiveness of the government's policy response, drawing upon the perspectives presented by Reuters (2024b) and Destiny (2025). Through this analytical approach, the study sought to provide a comprehensive understanding of the relationship between VAT policy, household consumption, fiscal sustainability, and government revenue generation.

RESULTS AND DISCUSSION

RESULTS

This study examined the implications of the increase in Indonesia's Value Added Tax (VAT) rate to 12%, as stipulated in Minister of Finance Regulation (PMK) No. 131

of 2024, on household consumption and government revenue. The analysis also considered the VAT collection mechanism and the classification of Taxable Goods (Barang Kena Pajak—BKP) and Taxable Services (Jasa Kena Pajak—JKP) to evaluate how the policy is implemented within Indonesia's taxation system.

The findings reveal three principal outcomes. First, the 12% VAT rate has been formally implemented as part of the government's fiscal reform agenda. Second, the policy is expected to reduce household consumption, particularly for secondary and tertiary goods, as higher prices decrease consumers' purchasing power. Third, the government has introduced several mitigation measures aimed at minimizing the potential socioeconomic impacts of the policy, particularly for lower-income households.

Further analysis indicates that the impact of the VAT increase is closely associated with the tax collection mechanism applied in Indonesia. The **self-assessment system**, together with the classification of BKP and JKP, determines how VAT is imposed throughout the production and distribution process before being ultimately transferred to final consumers. Consequently, the effectiveness of the policy depends not only on the adjustment of the statutory tax rate but also on the efficiency of tax administration and taxpayer compliance. These findings were derived from government regulations published through the official tax authority, previous empirical studies (Catur, 2024; Rabani et al., 2024), international economic reports (Reuters, 2024b), and theoretical literature concerning VAT collection mechanisms and the classification of taxable goods and services (Rachmad Gesah, 2015b; Rachmad Gesah, 2015a).

Table 1. Summary of Research Findings (Descriptive Analysis)

Indicator	Before Policy Implementation	After the 12% VAT Policy	Reference
VAT policy	The VAT rate was 11%.	The VAT rate increased to 12% in accordance with Minister of Finance Regulation (PMK) No. 131 of 2024.	(Destiny, 2025)
Household consumption	Consumption was primarily influenced by price elasticity and household income.	Household consumption declined, particularly for secondary and tertiary goods, with lower-income households experiencing the greatest impact.	(Catur, 2024)

Inflationary pressure	Prices remained relatively stable under the 11% VAT rate.	The VAT increase created the potential for short-term inflation due to higher consumer prices.	(Catur, 2024; Reuters, 2024b)
Government revenue	VAT and LGST constituted major contributors to the State Budget (APBN).	Government revenue from VAT and LGST is projected to reach approximately IDR 895.9 trillion in 2025.	(Anna Suci, 2025)
Tax collection mechanism	The self-assessment system and the classification of BKP and JKP were already in place.	The tax collection mechanism influences how the VAT burden is distributed to final consumers through the taxation of taxable goods and services.	(Rachmad Gesah, 2015b, 2015a)

The descriptive findings demonstrate that the increase in the VAT rate represents a trade-off between strengthening government revenue and maintaining household purchasing power. While the policy is projected to enhance fiscal capacity through higher tax revenue, it also has the potential to reduce household consumption and generate inflationary pressure, particularly among lower-income groups. These findings further suggest that the effectiveness of the policy depends on the government's ability to implement complementary measures, including targeted fiscal support, efficient tax administration, and transparent implementation of the self-assessment system. Consequently, the 12% VAT policy should be evaluated not only from the perspective of revenue generation but also in terms of its broader socioeconomic implications for household welfare and sustainable economic growth.

DISCUSSION

This study examined the implications of Indonesia's increase in the Value Added Tax (VAT) rate from 11% to 12% by evaluating its effects on household consumption, government revenue, tax administration, and fiscal sustainability. Consistent with the descriptive findings presented in the previous section, the results indicate that the policy creates a trade-off between strengthening fiscal capacity and maintaining household purchasing power. Although the VAT increase is expected to improve government revenue, it also introduces short-term socioeconomic challenges that require complementary fiscal policies to preserve tax equity and economic stability. These

findings directly address the research objectives by explaining the implementation mechanism of VAT and LGST, evaluating the policy's economic consequences, and assessing its implications for Indonesia's fiscal framework.

VAT Policy and Fiscal Capacity

The increase in the VAT rate to 12%, as stipulated in Minister of Finance Regulation (PMK) No. 131 of 2024, represents the government's strategic effort to strengthen fiscal capacity while broadening the national tax base (Destiny, 2025). As an indirect consumption tax, VAT is imposed throughout the production and distribution process before being transferred to final consumers. Consequently, any increase in the statutory VAT rate directly affects the prices of taxable goods and services whenever producers pass the additional tax burden to consumers.

These findings are consistent with the theoretical framework presented by Rachmad Gesah (2015b), who explained that Indonesia's self-assessment system enables taxpayers to calculate, collect, and report VAT independently while issuing tax invoices as evidence of taxable transactions. The findings also support the discussion presented in the literature review, which emphasized that VAT functions not only as a revenue-generating instrument but also as a fiscal policy tool designed to ensure sustainable public financing. Therefore, the implementation of the 12% VAT policy demonstrates the government's commitment to improving fiscal resilience while maintaining the efficiency of tax administration.

Impact on Household Consumption

The findings further indicate that the VAT increase is likely to reduce household consumption, particularly for secondary and discretionary goods. Previous empirical studies (Catur, 2024; Rabani et al., 2024) similarly reported that higher VAT rates reduce consumer purchasing power because households respond to higher prices by decreasing expenditures on non-essential goods. This effect is especially pronounced among lower-income households, whose income is primarily allocated to meeting basic needs.

These findings are consistent with Keynesian consumption theory, which argues that increases in consumption taxes reduce disposable income and consequently weaken aggregate demand in the short run. The results also reinforce the theoretical discussion presented in the literature review, which highlighted that indirect taxation influences consumer behavior by increasing market prices. Accordingly, although the government's decision to limit the application of the 12% VAT rate to selected goods, particularly luxury goods, may alleviate some of the adverse impacts, maintaining household purchasing power remains a critical policy challenge.

Inflationary Risk and Sectoral Implications

Another important finding concerns the potential inflationary pressure arising during the transition period following the VAT increase. As producers adjust selling prices to reflect higher tax liabilities, sectors such as retail trade, food and beverage industries, and tourism may experience temporary price increases. This observation is consistent with Reuters (2024a), which reported that the Indonesian government

introduced a package of economic measures—including price monitoring, targeted subsidies, and social protection programs—to mitigate the inflationary consequences of the VAT increase.

From a macroeconomic perspective, moderate inflation may be unavoidable during the implementation of indirect tax reforms. However, the effectiveness of the policy depends on the government's ability to prevent temporary price adjustments from developing into persistent inflationary expectations. Therefore, coordination between fiscal policy, monetary policy, and consumer protection measures becomes essential for maintaining macroeconomic stability during the policy transition.

Government Revenue and Tax Equity

One of the principal objectives of increasing the VAT rate is to enhance government revenue. According to Anna Suci (2025), VAT and Luxury Goods Sales Tax (LGST) revenues are projected to reach approximately IDR 895.9 trillion in 2025, indicating the significant contribution of consumption taxes to Indonesia's State Budget (APBN). These findings confirm that the policy is capable of strengthening fiscal sustainability by expanding government revenue available for financing public expenditure.

Nevertheless, the findings also demonstrate that revenue enhancement should be accompanied by careful consideration of tax equity. As emphasized by Rachmad Gesah (2015a), the classification of Taxable Goods (BKP) and Taxable Services (JKP) constitutes a fundamental component of an equitable VAT system because it determines which goods and services are subject to taxation. Essential goods and social services should remain exempt or receive preferential tax treatment to prevent disproportionate burdens on lower-income households. Consequently, fiscal sustainability and distributive justice should be regarded as complementary rather than competing policy objectives.

Administrative Implications and Policy Recommendations

The findings also suggest that successful implementation of the 12% VAT policy depends substantially on the effectiveness of tax administration. Strengthening Indonesia's self-assessment system requires enhanced supervision of electronic tax invoices, improved digital tax administration, and risk-based auditing procedures to ensure taxpayer compliance (Rachmad Gesah, 2015b). Efficient tax administration not only improves revenue collection but also increases transparency and public confidence in the taxation system.

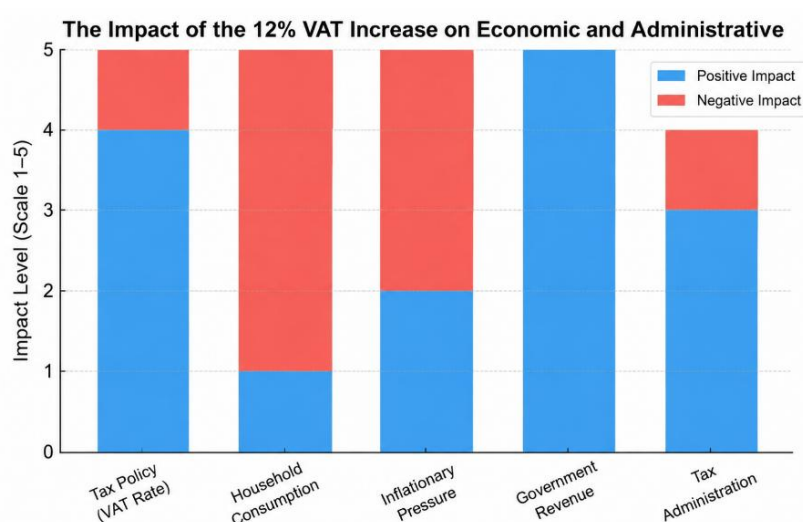
In addition, the findings support the recommendation proposed by Catur (2024) that the government should complement the VAT increase with targeted fiscal incentives and social assistance programs for vulnerable households to maintain purchasing power. The classification framework of BKP and JKP proposed by Rachmad Gesah (2015a) may further serve as an effective policy instrument for exempting essential goods and services from VAT, thereby ensuring that the policy remains equitable while preserving its fiscal effectiveness. Accordingly, future fiscal reforms should integrate revenue generation, administrative efficiency, and social protection within a comprehensive taxation strategy.

Overall, this study confirms that the implementation of Indonesia's 12% VAT policy represents a balanced fiscal strategy aimed at strengthening government revenue while preserving economic stability. Although the policy is expected to improve fiscal sustainability, its long-term success depends on complementary measures that protect household purchasing power, strengthen tax administration, and promote distributive fairness. These findings extend previous research by integrating the legal framework, tax administration mechanism, consumer behavior, and fiscal objectives into a unified analytical perspective, thereby providing a more comprehensive understanding of the socioeconomic implications of Indonesia's VAT reform.

Research Limitations

This study has several limitations. First, the analysis is entirely based on secondary data obtained from government regulations, media publications, and previous empirical studies. Consequently, the findings may not fully capture recent behavioral changes among households following the implementation of the 12% VAT policy. Second, detailed quantitative data on household consumption patterns, price elasticity, and sector-specific expenditure were not available, limiting the analysis to a qualitative descriptive interpretation. Future studies are therefore encouraged to employ quantitative approaches using primary survey data or panel datasets to estimate the causal impact of the VAT increase on household welfare, inflation, and consumption behavior more accurately.

Figure 1. The Impact of the 12% VAT Increase on Economic and Administrative Aspects.



Interpretation: Figure 1 illustrates the balance between the positive and negative implications of Indonesia's 12% VAT policy across five dimensions. Positive impacts are most evident in government revenue and tax administration, reflecting improved fiscal capacity and enhanced tax governance. Conversely, negative effects are concentrated in household consumption and inflationary pressure, indicating that the policy may

temporarily reduce purchasing power and increase consumer prices. Overall, the figure reinforces the study's conclusion that the effectiveness of the VAT policy depends on achieving an appropriate balance between fiscal sustainability and consumer welfare.

CONCLUSION

This study examined the implementation of Indonesia's 12% Value Added Tax (VAT) policy and its implications for household consumption, government revenue, tax administration, and fiscal sustainability. The findings indicate that the increase in the VAT rate, as stipulated in Minister of Finance Regulation (PMK) No. 131 of 2024, represents a strategic fiscal measure aimed at strengthening government revenue and broadening the national tax base. The study confirms that the policy has the potential to increase state revenue significantly, thereby supporting fiscal sustainability and the financing of public expenditure. However, the findings also demonstrate that the policy may reduce household purchasing power, particularly among lower-income households, resulting in lower consumption of secondary and discretionary goods and creating short-term inflationary pressures.

The study further highlights that the effectiveness of the VAT increase depends not only on the adjustment of the statutory tax rate but also on the efficiency of tax administration. The implementation of the self-assessment system, supported by the appropriate classification of Taxable Goods (BKP) and Taxable Services (JKP), plays a fundamental role in ensuring transparent, equitable, and effective VAT collection. Therefore, fiscal sustainability should be pursued alongside tax equity through complementary measures, including targeted social assistance, fiscal incentives, and exemptions for essential goods and services.

Overall, this study contributes to the existing literature by providing an integrated assessment of Indonesia's 12% VAT policy from legal, administrative, and socioeconomic perspectives. Unlike previous studies that primarily focused on either fiscal outcomes or macroeconomic effects, this research combines the legal framework, tax collection mechanism, consumer behavior, and fiscal objectives within a single analytical framework. The findings provide practical insights for policymakers in designing tax reforms that strengthen government revenue while safeguarding consumer welfare and promoting sustainable economic development.

Suggestions for Future Research

Future research should extend the present study by employing quantitative or mixed-method approaches using primary survey data, panel datasets, or household expenditure data to estimate the causal effects of the 12% VAT policy on purchasing power, consumption patterns, inflation, and household welfare. Such approaches would provide more robust empirical evidence than descriptive qualitative analysis alone.

In addition, future studies are encouraged to investigate the heterogeneous effects of the VAT increase across different household income groups, economic sectors, and geographical regions. Comparative analyses between urban and rural areas, as well as

sector-specific evaluations involving retail, manufacturing, tourism, and digital commerce, would provide a more comprehensive understanding of the distributional impacts of VAT reform.

Finally, future research may evaluate the long-term effectiveness of complementary fiscal policies, including targeted subsidies, social assistance programs, digital tax administration, and risk-based tax audits, in mitigating the adverse effects of VAT increases while maintaining fiscal sustainability. Such studies would provide valuable evidence for policymakers in designing equitable and resilient tax systems capable of balancing revenue generation with consumer welfare and inclusive economic growth.

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