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## IMPLEMENTATION OF VALUE ADDED TAX RATES ACCORDING TO LAW NO. 7 OF 2021 AND ITS IMPACT ON MICRO, SMALL, AND MEDIUM ENTERPRISES TAXPAYERS

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### Abstract:

Value Added Tax (VAT) is a tax that is levied on the supply of goods and services that are subject to taxation. As of April 1, 2022, the government has officially increased the value-added tax (VAT) rate from 10% to 11%. This change was mandated by Law No. 7 of 2021, which concerns the harmonization of tax regulations. This study aims to examine the implementation of the 11% VAT rate, which is believed to have resulted in increased selling prices and a reduction in purchasing power following the enactment of Law No. 7 of 2021. Additionally, it seeks to identify the challenges encountered during the implementation process. This research employs a descriptive quantitative methodology, utilizing a range of data collection techniques, including questionnaires, interviews, observation, and documentation. The findings of the study indicate that the rise in the VAT rate to 11% has resulted in an increase in selling prices. However, when the selling price is considered the basis for imposing the tax, some taxpayers still determine the same price. The increase in the price of daily necessities has resulted in a slight decline in purchasing power. The rise in economic prices was precipitated by the hike in the 11% VAT rate, compelling consumers to allocate a greater proportion of their income towards meeting their basic needs. The 11% VAT increase has presented numerous challenges for micro, small, and medium enterprises, with concerns that it may exacerbate economic difficulties. In order to offset the decline in consumer purchasing power, it is necessary to maintain the same price as before, while only the VAT rate has increased for a limited period of time.

### Keywords:

Taxes, Value Added Tax, Micro Small and Medium Enterprises

## Introduction

In Indonesia, taxes represent the most significant source of government revenue. Taxes are mandatory contributions to the state, owed by individuals or entities that are legally compelled to do so. They are not a direct reward, but rather are used for state purposes with the aim of promoting the greatest prosperity of the people (Law No. 28 of 2007). The responsibility for fulfilling the obligation to pay taxes, as a reflection of obligations in the field of taxation, lies with the community members themselves. This is consistent with the self-assessment system that is employed in the Indonesian taxation system. Tax payment represents a manifestation of state obligations and the participation of taxpayers in the direct and joint fulfillment of tax obligations for state financing and national development. In accordance with the philosophical underpinnings of tax law, the act of paying taxes is not merely an obligation; it is also a fundamental right of every citizen to participate in the financing of the state and the advancement of national development.

The central government levies a number of different taxes, including income tax, value added tax (VAT), land and building tax, and stamp duty. Value-added tax (VAT) is a tax imposed on goods and/or services that are subject to taxation. The types of goods that are subject to Value Added Tax (VAT) include tangible goods, personal goods, real estate, and intangible goods. For the purposes of Value Added Tax (VAT), a taxable person is defined as an entrepreneur who makes deliveries of taxable goods and/or taxable services that are subject to tax under the 1984 VAT Law and its subsequent amendments. A taxable person for VAT purposes who makes deliveries that are subject to taxation in accordance with the VAT Law is required to register their business as a taxable person for VAT purposes, with the exception of small entrepreneurs whose limits are determined by the Minister of Finance as part of a series of tax reforms.

The Law on Harmonization of Tax Regulations represents a collective endeavor on the part of the Indonesian people to actualize the aspirations of a developed Indonesia. This tax reform is consistent with the country's efforts to accelerate economic recovery and provide long-term support for national development. The provisions of the Tax Regulations Harmonization Law regulate the expansion of the VAT base by reducing the number of institutions and companies that are not subject to VAT. VAT-free facilities are provided for essential goods and services, including basic necessities, healthcare, education, social services, and other types of services that are crucial for the community's well-being.

The government established a single tax rate for value-added tax (VAT), agreeing to incrementally increase the VAT rate from 10% (as outlined in Law No. 42 of 2009) to 11% starting April 1, 2022, and to 12% no later than January 1, 2025. This policy is informed by the global context of social business, which has yet to fully recover from the impact of the pandemic caused by the SARS-CoV-2 virus. The House of Representatives of the Republic of Indonesia enacted the Law on the Harmonization of Tax Regulations, which is designed to stimulate the country's economy and enhance state revenue from the tax sector in order to mitigate the impact of the global pandemic (Cheisviyanny, Charoline. 2020). In essence, the Law on the Harmonization of Tax Regulations amends and adds several tax regulations, which are an integral part of the series of tax reforms that have been implemented to date, encompassing both administrative and policy reform (Ragilia, 2022).

The alteration in the value-added tax (VAT) rate has an effect on micro, small, and medium enterprises (MSMEs) in the city of Bandung. The city of Bandung is experiencing a period of rapid development, largely due to its proximity to the national capital. A multitude of businesses are flourishing, resulting in a notable increase in the number of MSMEs in the city of Bandung. The level of comprehension among taxable entrepreneurs regarding their tax obligations remains relatively low (Genia, 2019). The level of compliance among MSME taxpayers in Karanganyar is influenced by a number of factors, including their familiarity with tax regulations, the penalties imposed for non-compliance, and the degree of modernisation of the tax system (Cincin, 2023). The Minister of Cooperatives and SMEs has stated that the contribution of MSMEs to national tax revenues remains relatively low (Catriana, 2021). Furthermore, it has been demonstrated that the contribution of MSME entities with potential for becoming taxpayers to the Gross Domestic Product (GDP) is considerable, amounting to 61.7%. Despite an increase in the number of taxpayers each year, the contribution of MSMEs to tax revenues remains relatively low. This finding aligns with the observation made by the Director General of Taxes at the Ministry of Finance, who noted that only approximately 2.3 million MSMEs have paid taxes, representing a mere 3.4% of the 67 million MSMEs in Indonesia (Santia, 2020). In a statement released in October 2020, Minister of Finance Sri Mulyani identified three sectors that are poised for growth: tourism, trade, and manufacturing (Djumena, 2020).

This study aims to examine the impact of the implementation of changes in value-added tax (VAT) rates, which are believed to have led to an increase in selling prices and a reduction in purchasing power, as well as to identify the challenges encountered in the implementation process.

## Literature Review

### *Tax*

In accordance with the stipulations set forth in Law Number 16 of 2009, concerning the Fourth Amendment to Law Number 6 of 1983, concerning General Provisions and Procedures for Taxes, Article 1, Section 1, it is defined that taxes are mandatory contributions to the state, owed by individuals or entities that are legally compelled to do so, with no direct reward, and are utilized for state purposes for the greater prosperity of the people.

The fulfillment of tax obligations is inextricably linked to the adherence to established rules and regulations. In essence, the objective of tax legislation and regulation is to provide legal certainty, accommodate the evolving landscape of economic activities, enhance taxpayer compliance, reinforce the tax base, and ultimately increase state revenues through increased tax revenues. Tax reform will result in alterations to the existing tax framework. Tax reform may be implemented in a variety of ways, including modifications to the manner in which taxes are collected, enhancements to tax administration, expansion of the tax base, improvements to tax regulations, and other potential avenues.

On October 29, 2021, President Jokowi and the Indonesian Parliament enacted Law No. 7 of 2021, colloquially known as the Tax Regulations Harmonization Law. This legal product is designed to advance sustainable economic growth, accelerate economic recovery, establish a more equitable tax system, and enhance voluntary taxpayer compliance. The Law on Harmonization of Tax Regulations was enacted with the objective of implementing

administrative reform, consolidating tax policies, and expanding databases and increasing voluntary taxpayer compliance. Subroto (2020, p. 265) asserts that tax administration practices in Indonesia are characterized by a pronounced target regime. This target regime has become the organizational culture of the Directorate General of Taxes, reflecting the values that are shared.

This is in accordance with the observations made by Bawono Kristiaji, a partner at DDTC, who noted that post-Covid-19 tax policies in various countries are more closely related to the VAT sector. This is evidenced by the implementation of measures such as tariff increases, base expansion, and improvements to the tax system (Setiawan, 2020).

In general, the Tax Regulations Harmonization Act introduces several amendments to existing legislation, including alterations to the General Provisions and Tax Procedures Law, the Value Added Tax (VAT) Law, the Income Tax Law, modifications to excise regulations, the introduction of a voluntary Taxpayer Information Disclosure Program, and the incorporation of carbon tax provisions.

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

VAT is a tax levied on: Supply of Taxable Goods within the Customs territory by entrepreneurs, supply of Taxable Services within the Customs territory by entrepreneurs, Import of Taxable Goods, use of Intangible Taxable Goods from outside the Customs territory within the Customs territory, use of Taxable Services from outside the Customs territory within the Customs territory, Export of Intangible Taxable Goods to Taxable Entrepreneurs, Export of Tangible Taxable Goods to Taxable Entrepreneurs, Export of Taxable Services to Taxable Entrepreneurs.

In consequence of the enactment of the Tax Harmonization Act, the rates of value-added tax have been modified. The current legislation pertaining to value-added tax (VAT) stipulates that the applicable rate is 10%. This rate will remain in effect until March 2022. In accordance with the Tax Harmonization Act, a new VAT rate of 11% will be implemented as of April 1, 2022. Subsequently, the VAT rate will be increased once more, reaching 12% by 1 January 2025. In addition, the Tax Harmonization Act provides for the imposition of special VAT rates on specific types of goods or services and on certain business sectors. However, the legislation does not specify which sectors are subject to standard or final value-added tax (VAT). This special rate employs a final tariff clause pertaining to sales that are subject to the oversight of the Minister of Finance.

In accordance with Article 4, paragraph 1 of the VAT Act, the supply of taxable goods within the customs territory is conducted by entrepreneurs, as is the supply of taxable services within the customs territory. The import of taxable goods, the use of intangible taxable goods outside the customs territory within the customs territory, the type of taxable entrepreneur that exports taxable goods, the use of taxable services within the customs territory, the export of intangible taxable goods by a taxable entrepreneur, and the export of taxable services by a taxable entrepreneur are also subject to the aforementioned provisions.

### ***Goods are not subject to VAT***

The types of goods that are not subject to VAT are goods included in categories of goods such as: Goods resulting from mining or drilling operations that are extracted directly from the

source, basic necessities required by the community, food and beverages served in hotels, restaurants, stalls, and similar establishments, including food and beverages consumed on-site or not, including food and beverages provided by catering companies or restaurants, gold bars, currency, and securities.

### ***VAT object exceptions and VAT facilities***

The Law on the Harmonization of Tax Regulations provides for VAT object exemptions and VAT facilities as follows: food and drinks served in hotels, restaurants, eateries, stalls, and the like, including food and drinks whether consumed on the premises or not, including food and drinks delivered by catering or catering services, which are the object of local taxes and levies in accordance with the provisions of laws and regulations in the field of regional taxes and regional levies; and money, gold bullion for the purposes of the country's foreign exchange reserves, and securities. Conversely, services that are not subject to VAT include religious services, arts and entertainment services, hotel services, services provided by the government in the context of general governance, services providing parking spaces, and catering or catering services.

### ***Micro, Small, and Medium Enterprises (MSMEs)***

In accordance with the stipulations set forth in Law No. 20 of 2008 concerning Micro, Small and Medium Enterprises, as amended by Law No. 11 of 2020 concerning Job Creation, article 1, paragraph (3), Micro, Small and Medium Enterprises (MSMEs) are defined as micro, small and medium enterprises as defined in the aforementioned Law concerning Micro, Small and Medium Enterprises.

### ***Purchasing Power***

As defined by Supawi (2016, p. 25), the interpretation of purchasing power represents the capacity of a given community to procure the goods and services that are necessary for its members. The purchasing power of the people is subject to fluctuations, either increasing or decreasing. An increase in purchasing power is indicated by a higher figure than that observed in the previous period, whereas a decrease is indicated by a figure that is lower than that observed in the previous period.

The factors that affect people's purchasing power include (Supawi, 2016: 26):

- a. Income level. Income is defined as remuneration received from an employer for the energy or thoughts that have been donated, typically in the form of wages or salaries. An increase in income results in an increase in purchasing power, which in turn requires the satisfaction of a more diverse set of needs. Conversely, a decrease in income leads to a reduction in purchasing power and a narrowing of the set of needs that can be met.
- b. Level of education. As education levels increase, so too do the needs that individuals seek to fulfill. To illustrate, a graduate requires a computer to a greater extent than an individual who has completed only elementary school.
- c. Requirement Level. Individuals have disparate needs. Those residing in urban areas possess greater purchasing power than their counterparts in rural settings.
- d. Community Habits. In the contemporary era, consumerism has become a prominent feature of social life. The implementation of an economic lifestyle, namely the purchase of goods and services that are genuinely required, has indirectly enhanced the quality of life.



- e. Price of goods. An increase in the price of goods and services will result in a reduction in the purchasing power of consumers, whereas a decrease in the price of goods and services will lead to an increase in purchasing power. This is in accordance with the law of demand.
- f. Mode. Newly fashionable goods are typically well-received in the market, leading to increased consumption. Therefore, the mode can influence consumption.

### ***Implementation of VAT Rates According to Law No. 7 Of 2021 And Its Impact On Micro, Small, and Medium Enterprises Taxpayers***

This research was conducted one year after the implementation of the value-added tax (VAT) rate hike in Indonesia. The government has officially imposed a value-added tax (VAT) rate increase from 10% to 11% since April 1, 2022. The new rate policy is set forth in Article 7 of Law No. 7 of 2021, which concerns the harmonization of tax regulations. The introduction of a 11% VAT is one of the government's strategies for enhancing the efficacy of tax revenue generation. The government's objective is to stimulate growth in tax revenue, with the ultimate goal of reducing the state budget deficit to 3% by 2023. A value-added tax (VAT) is a government-imposed levy on all sales and purchase transactions of goods or services conducted by individual or corporate taxpayers who have become taxable entrepreneurs.

This study was conducted on taxpayers in the micro, small, and medium enterprises (MSMEs) category, with a sample of MSMEs in the city of Bandung with diverse business activities. The questionnaire was designed in a manner consistent with the findings of prior research conducted in Surabaya (Larasati & Wibowo, 2022), including the impact of price increases on consumer purchasing power and the strategies employed by MSME taxpayers.

The results of the study indicated that the respondent MSMEs have become taxpayers. However, it was observed that not all of them are registered as Taxable Entrepreneurs. Consequently, some are able to collect Value Added Tax (VAT), while others are not required to collect it. Nevertheless, these MSMEs make purchases of goods subject to VAT.

1. An increase in the selling price of goods is a likely consequence of an increase in the VAT rate. This is based on the results of the questionnaire, which indicated that 88% of respondents believed that an increase in VAT rates would result in an increase in the selling price of goods sold by MSME taxpayers. This is because, as a result of the increase in VAT, production costs, especially for home industries, have also increased, with raw materials representing one of the main components. This has an impact on the determination of the product's selling price. An increase in the value-added tax (VAT) of 11% on the selling price results in an overall increase in the selling price, despite the fact that the percentage increase is only 1%. Some taxpayers have opted to increase the selling price, albeit to a relatively modest extent. Additionally, some taxpayers maintain the same tax base for the selling price as was in place prior to the VAT increase, resulting in an increase in the VAT rate alone.
2. Consumer Purchasing Power Decisions. A majority (80%) of MSMEs respondents indicated that, from a financial perspective, consumers can offset the increase in selling prices caused by the VAT rate increase policy. Nevertheless, it is evident that a subset of consumers has opted to curtail their customary purchases.
3. The strategy proposed by Chandler in Anoraga is as follows: (2004, p. 339) defines strategy as "the long-term goals and objectives of a company, and the direction of action and the allocation of resources needed to achieve those goals and objectives."

The increase in the VAT rate will prompt 72% of MSME taxpayers to seek out suppliers offering competitive pricing, as well as consumers seeking the most economical options in light of the VAT hike. This is done in order to prevent the cost of goods sold from being significantly affected by the increase in VAT rates. Eighty-six percent of respondents indicated that they would maintain the same price point in the face of declining consumer purchasing power, with the VAT increasing only temporarily.

### ***Constraints on MSMEs.***

The VAT increase of 11% has resulted in an increase in the daily income of MSMEs, which is now larger than it was prior to the implementation of the VAT rate increase. It would be prudent to exercise caution when making purchases, particularly for items that are required on a daily basis. The financial situation of MSMEs exerts a positive influence on MSME tax compliance, while tax socialization exerts a positive influence on MSME tax compliance (Diana, 2022). The argument is made that the 11% VAT rate increase still has a number of perceived shortcomings, yet MSMEs will continue to comply with the applicable regulations. Conversely, these deficiencies have a direct impact on the satisfaction of people's daily needs. Additionally, MSMEs asserted that the 11% VAT increase will have a beneficial impact on the state.

### **Conclusion**

In alignment with the research objective, which is to examine the impact of changes in VAT rates following the enactment of Law No. 7 of 2021, it was determined that an increase in the VAT rate by 11% resulted in a notable rise in the selling price of the product, particularly for MSME taxpayers.

However, when viewed from the standpoint of the selling price as the basis for tax imposition, it was observed that some taxpayers continued to determine the same price. The results of interviews with several communities indicate a slight decline in purchasing power due to the increase in the price of daily necessities. The rise in the cost of essential goods and services is a direct consequence of the 11% increase in the value-added tax (VAT) rate, which has resulted in a reduction in purchasing power and an increased expenditure on basic necessities. The 11% VAT increase has resulted in numerous challenges for MSMEs, with concerns that it will further exacerbate economic difficulties. In general, MSME taxpayers continue to comply with the aforementioned regulation, which has been in effect since April 1, 2022. In order to offset the decline in consumer purchasing power, it is necessary to maintain the same price as before, with only the VAT rate being increased for a limited period of time.

Further research could be conducted in a more expansive geographical area and with regard to the government's intention to implement a 12% VAT increase in 2025.

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