# Vat Increase As an Alternative National Economic Recovery

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Abstract. Various efforts were made by the government to immediately carry out economic recovery. One of the government's policies in the economic sector is monetary policy and taxation. The tax incentive policy is one alternative to improve the economic system, but the policy has an impact on other business losses. In the midst of difficult economic conditions, the issue of an increase in Value Added Tax (VAT) Or has made the public uneasy. This study used a qualitative method, data collection was carried out by interviewing 20 people from various circles. The results of the study describe the impact of government policies on the economic condition of the community. In general, people reject the increase in tax rates, people are very disappointed with the government, they think the increase will make the people poorer. An increase in tax rates will make the prices of basic necessities, fuel, and services more expensive. The government must look for alternative policies, raising tax rates is not an option. One of them is by promoting small business activities (MSMEs). The stimulation is in the form of financial assistance, interest-free loans, tax allowances and tax holidays. This policy will help MSMEs to innovate to increase production, improve the quality of goods and services.

Keywords: Economic; Tax Policy; Tax Incentive; MSMEs; COVID-19

## 1 Introduction

People were frightened even more in the middle of such a terrible economic situation when the administration published a discourse on the application of VAT on essential requirements and other fundamental necessities. Of course, as a layperson, this causes consternation and debate. How can the government impose the burden on its people in the middle of an economic crisis like this? In an ironic twist, Forbes, a US business magazine, published a list of the world's wealthiest persons, 19 of whom are Indonesian natives. This indicates that even in the middle of a challenging economy like this one, some people will see a final boost [1].

Every country in the world is in a crisis, and the economy is shrinking, but the number of individuals whose economic class has reduced or has become poorer is significantly bigger. All nations are in about the same situation when it comes to the epidemic [2]. The difference, though, is how robust each country's economy is in the face of this catastrophe. How the government and its employees devise a strategy to overcome the economic issues they are facing. However, it is not suitable if the state, particularly Indonesia, is forced to raise its debt in order to overcome the economic crisis [3]. If Indonesia expands its foreign debt today, it would just add to the long-term burden. One of the better strategies for the time being is to

maximize domestic tax collection, with the goal of targeting wealthy individuals or business owners. In addition, an assessment of the amount of VAT that will be imposed can be performed. To aid the community's economy, the government should enact tax policies. The policy at issue is both directed and comprehensive. It is not a policy that creates commotion or upsets the people. As an example, consider the governmental proposal to levy a 12% VAT on essential commodities [4]. It would not only increase public worry, but it will also restrict prospects for state tax income and undermine people's faith in the government. Because, thus far, the community's social and economic activities have exploded and have had an impact on tax revenues.

The Indonesian economy shrank by 2.07 percent in 2020, with GDP at current prices reaching Rp 15,434.2 trillion and GDP per capita reaching Rp 56.9 million (US\$ 3,922.7) [5]. The true consequence of the economic slump is the termination of employment by various enterprises as a result of dropping demand, which leads the production process to decline as well, leaving them unable to pay employees. However, in reality, the government needs more funds to tackle the ongoing pandemic. One of them is to improve health facilities, bring in vaccines and disburse social assistance funds for people from lower economic groups so they don't get worse. Meanwhile, the state's finances are in deficit. At the beginning of June 2020, the Minister of Finance predicted that the budget deficit of state revenues and expenditures would widen to a level of 6.34% or equal to Rp. 1,039.2 trillion from the previous 5.07% of GDP [6].

Many industries have been impacted by the epidemic. The economy, transportation, and tourism have all taken a hit. People are obliged to embrace new healthy lifestyle habits, decrease mobility, and avoid or avoid crowds. However, this has an effect on the community's economy by causing it to halt and become unenthusiastic. While government support is not properly dispersed, it is becoming increasingly difficult for low-income people to earn a living.

#### Literature Tax

Taxes can be referred to as mandatory contributions that must be paid by the people to be deposited into the state treasury, then the funds are used to finance the needs of the state. Taxes are regulated in law, there is no reciprocity that can be directly shown and used to finance general state expenditures [7]–[9]. Tax is an important component in the source of state finance, included in the post of state income where the funds are used to build public facilities such as health, education and other productive sectors. People are expected to pay taxes obediently, because this tax is beneficial for the general public's livelihood[8], [9]. Every citizen who meets the subjective and objective requirements is obliged to contribute in paying taxes, it is mandatory, meaning that if he does not contribute, he will get administrative and criminal sanctions. From this description, the researcher can conclude that taxes are mandatory contributions for all citizens who meet the requirements to pay a certain amount of money to the state treasury regulated by law, then the money is used to finance state expenditures in the form of public facilities.

## Value-Added Tax (VAT)

Value added tax (VAT) is a central tax imposed on the use or consumption of an item. VAT is imposed on Taxable Goods or Taxable Services within the Indonesian customs area. Individuals, entities or governments that consume taxable goods or taxable services are required to pay taxes [10], [11]. Because basically all goods and services are taxed.

The objects of VAT according to the law are as follows: a). Delivery of Taxable Goods in the customs area carried out by entrepreneurs. b). Import Taxable Goods. c). Delivery of Taxable Services in the Customs Area carried out by entrepreneurs. d). Utilization of intangible Taxable

Goods from outside the Customs Area into the Customs Area.e). Utilization of Taxable Services from outside the Region into the Customs Area. f). Export of tangible Taxable Goods by taxable entrepreneurs. g). Export of intangible Taxable Goods by Taxable Services. h). Export of Taxable Services by taxable entrepreneurs.

## Tax Intensive During the Pandemic

One of the economic policies taken by the government is to provide tax incentives. This is done to boost investment by providing measurable convenience to the private sector [12]. To attract new investors or retain existing investors. Tax incentives are one of many government policies in the field of finance [13]. This is an instrument created by the government to attract investors and ease the burden on entrepreneurs. This policy is not only used in Indonesia but is used by many developing countries in the world with the same goal of attracting investors.

During the pandemic, tax incentives are again the talk. The reason is that tax incentives are applied to all types of taxes [4]. Especially for VAT, the government provides a special policy in the form of tax refunds (restitution) to PKP exporters and non-exporters. For PKP exporters there is no minimum amount of return. Meanwhile for non-exporters, the acceleration value offered reaches Rp 5 billion. During 2020, as many as 20,000 taxpayers have enjoyed tax incentives, which are generally engaged in the manufacturing, construction and real estate sectors to trading. For this type of tax incentive (VAT) alone, the amount of funds disbursed by the government reaches Rp. 3.57 trillion [14].

Furthermore, with the second wave of the pandemic in Indonesia, the Minister of Finance again issued a policy in the form of extending tax incentives until December 2021[3]. The policy is contained in the Minister of Finance Regulation (PMK) number 82/PMK/.03/2021 regarding amendments to the Minister of Finance Regulation number 9 /PMK.03/2021 regarding tax incentives for taxpayers affected by the COVID-19 pandemic. For VAT in the form of accelerated tax refund incentives. Low-risk Taxable Entrepreneurs (PKP) who are engaged in one of 132 business fields (previously 725) received incentives in the form of accelerated returns up to a maximum payment of IDR 5 billion [5]. Tax incentives are very helpful for business actors in increasing sales of goods, but it turns out that this policy also has a bad impact on other business actors. Such as the business of buying and selling used vehicles which has been eroded due to the policy of eliminating the PPNbm tax.

## Alternative to increase in VAT rate

Indonesia's economic growth in the first quarter of 2021 was recorded to grow minus 0.74 percent compared to the previous period [3]. Indonesian economy in the second quarter could grow to reach 7%, This projection is in line with economic growth in April to early June 2021 [15]. However, in mid-June 2021, the epidemic condition worsened again, a wave 2 pandemic occurred where positive cases experienced a significant increase of up to 381 percent or 5 times the previous number [16]. This of course has an effect on economic growth which has just "squirmed". The government re-imposed restrictions on community activities which automatically crippled economic activity. This time the government also has to rack its brains to find ways to reduce the deficit, one of which is to increase revenue from the tax sector.

Raising the VAT rate is one alternative. By increasing the VAT rate, it is hoped that it will contribute to state revenue from the tax sector. Ideally, the VAT rate will be increased from 10% to 12% to save the state budget [4]. The imposition of this new tariff should be imposed only for certain groups in accordance with the criteria determined later by the government.

#### 2 Method

This study uses qualitative research methods by collecting data through interviews. The data obtained were then processed and presented descriptively. This research is said to be qualitative because it basically aims to examine an issue without any manipulation in it.

Interviews are one of the methods used to collect data in order to find information on the problems that must be studied. also if researchers want to know things from respondents more deeply, about behavior, and the meaning of that behavior [17]. The author conducts interviews in order to find out more about how the community responds to the subject being studied. In addition, this technique was used, because the informants came from various circles, so this method was considered the most appropriate and easy to understand because the interview was presented with the concept of informal and simple conversation.

#### **Data Analysis Method**

Furthermore, the data obtained from the interviews will be observed, associated with various sources. The data obtained in the field are recorded clearly and in detail, the collected material is analyzed, arranged systematically and grouped based on relevance according to the topic. Data analysis can be done in three ways, namely: Data Reduction, Data Display, Conclusion Drawing / Verification.

## Research subject

Research subjects are sources of information on research needed to collect data. In this study, the research subjects were the general public with various professions, ages and educational backgrounds. The study was conducted on 20 people in the community around the author's residence. The interviews were conducted in the period 23-25 July 2021. The interviews were conducted separately only between the author and the resource person. According to Sugiyono, an interview can be regarded as a meeting held by two people to exchange information or ideas by means of question and answer. So that it can be narrowed into a conclusion about the topic being researched.

The author uses a semi-structured interview technique. That is by using interview guides derived from the development of research topics and asking questions flexibly but still referring to the guidelines. This interview technique allows the birth of new questions from the answers of the interviewees so that they can dig deeper and detailed information. Semi-structured interview is an interview technique used to find problems openly, where sources can be asked for opinions and ideas [17].

Because it was conducted with a casual interview pattern, this interview took a longer time so that it allowed the writer to be able to revise the questions as needed to get a more open perspective from the interviewees.

#### 3 Result & Discussion

To facilitate the analysis, the authors grouped the resource persons into 3 categories, namely the category of housewives, entrepreneurs and civil servants/employees. Each of them was asked to respond to questions regarding the increase in VAT rates to help restore state finances during the pandemic.

#### a. Group I, consists of 3 housewives

In the opinion that increasing the VAT rate during the pandemic is a decision that is not pro-people, the VAT increase will have an effect on the increase in the price of basic commodities which will burden the economy. They argue that an increase in the VAT rate is not a solution but will make small communities worse off while their husbands' incomes have decreased, and some have even experienced layoffs.

# b. Group 2, consisting of 4 entrepreneurs and 1 craftsman for educational aids

Responding to the increase in VAT as a natural step taken by the government to restore the country's economy, they objected if the VAT rate increase was properly carried out. The increase in the VAT rate is the same as the increase in production raw materials, fuel, orational costs and affects the selling price of the merchandise. This condition is not yet possible because people's purchasing power is not as stable as before the pandemic. If people's purchasing power decreases, entrepreneurs are worried that they will not be able to pay their employees so they have to lay off. During the pandemic they experienced a very significant decrease in turnover, if it was added to the increase in the VAT rate, it was feared that they would go bankrupt. Moreover, the existence of PPKM also makes business operating hours shorter.

## c. Group 3, consisting of 6 private employees, 3 civil servants, 1 dentist and 1 freelancer

Generally they understand if the government is right to increase the VAT rate because it is one of the government's efforts to increase the state treasury. But object if the increase is done now. Because the increase in tariffs will increase the burden on household expenses while income remains. If you force food, your family's consumption will decrease while many expenses cannot be ignored. If the government is going to increase the VAT rate, it should only be done for luxury goods because it will not affect people from small economic groups. Like a car purchase tax or other luxury goods. So they hope the increase is only for a few categories, not the same for all groups.

For example, the existence of a tax incentive for buying and selling new cars, indeed increases sales of new vehicles but indirectly affects the decline in sales of used cars, because they think buying a new car is cheaper because it is tax free.

All sources have the same opinion, namely that they object to the government increasing the VAT rate. The interviewees understood the government's various efforts to restore the country's economy, but they hoped that the government would take other policies that would not add to the burden on the people.

## 4 Conclusion

After conducting the analysis and discussion, the author can draw the conclusion that increasing the VAT rate is not the right step to take at this time. Currently, people's purchasing power is weakening due to the pandemic. When the government raises the VAT rate, it will automatically be followed by an increase in basic needs. This will cause the level of consumption and purchasing power of the people to decrease, the people are increasingly difficult. This will also have an effect on rising inflation and it is certain that the rate of economic growth will also slow down because people have no choice but to postpone or save on spending. For now, holding back the pace of public consumption to keep it stable is already a big homework, let alone increasing it.

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