

POLITICAL ANALYSIS OF THE LEGAL INCREASE IN VALUE-ADDED TAX (VAT) RATES IN THE NATIONAL ECONOMIC RECOVERY

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Abstract

Corona Virus Disease (COVID-19) has been designated as a global pandemic since March 11, 2020, by the World Health Organization (WHO). COVID-19 is a national disaster in the Presidential Decree of the Republic of Indonesia Number 12 of 2020 concerning the determination of non-global disasters related to the spread of coronavirus disease (COVID-19). The massive transmission of COVID-19, designated as a global pandemic, has impacted various strategic sectors, including the international and national economic sectors. Therefore, this study examines the legal politics of the increase in Value Added Tax (VAT) rates in the recovery of the national economy affected by the global COVID-19 pandemic. The research uses normative juridical descriptive, statutory, and conceptual approaches from primary and secondary legal sources. The results of this study indicate that the legal politics of increasing Value Added Tax (VAT) rates is an inappropriate and risky national economic recovery strategy because it can cause inflation in a national economy that has not fully recovered. In the context of national economic recovery, efforts to suppress state spending are more efficient than increasing Value Added Tax (VAT), which is prone to risk.

Keywords: Legal Politics, National Economic Recovery, Value Added Tax.

INTRODUCTION

*Corona Virus Disease (COVID-19) has been declared a global pandemic since March 11, 2020, by the World Health Organization (WHO). In a short period, there was a thirteen-fold increase in the transmission of Covid-19 cases, with the number of countries tripling. Responding to the global pandemic status and the surge in transmission, various countries issued policies such as *lockdowns* to deal with and inhibit the transmission of COVID-19. Specifically in Indonesia, COVID-19 is designated as a National Disaster in the Presidential Decree of the Republic of Indonesia Number 12 of 2020 concerning the Determination of Non-Natural Disasters of the Spread of *Corona Virus Disease* (COVID-19), as a National Disaster followed by a large-scale social restriction strategy confirmed in Government Regulation Number 21 of 2020 concerning Large-Scale Social Restrictions in the Context of Accelerating Covid-19 Handling.*

The massive transmission of COVID-19, which is designated as a *global pandemic*, has an impact on various strategic sectors, one of which is the international and national economic sectors (Kartika, 2020). Countries affected by the *global pandemic* establish and implement multiple legal and political policies tailored to the conditions of their respective countries. The Indonesian government sets legal politics by issuing three policies as a preventive measure against the spread of the COVID-19 outbreak, including Indonesian Presidential Decree No. 11 of 2020 concerning the Determination of the *Corona Virus Disease* 2019 (COVID-19) Public Health Emergency, Government Regulation No. 21 of 2020 concerning Social Restrictions on Berserking. 21 of 2020 concerning Large-Scale

Social Restrictions in the Context of Accelerating the Handling of *Corona Virus Disease* 2019, and Government Regulation instead of Law (Perppu) No. 1 of 2020 concerning State Financial Policy and Financial System Stability for Handling the *coronavirus disease 2019 (COVID-19)* Pandemic and in the Context of Facing Threats Endangering the National Economy and/or Financial System Stability (Dewantara dan Nufitasari, 2021). Every political law chosen has an impact on economic growth, which has the potential to cause an economic crisis and affect the welfare of the people.

In Indonesia, the impact on the economic sector was evident in 2020 when Gross Domestic Product (GDP) growth plummeted to -2.07% from 5.02% the previous year. This decline in Gross Domestic Product (GDP) growth affects other economic sectors, such as unemployment, which increased by 6.90 million in 2020 and 15.72 million people affected by reduced working hours. In addition, for the government to focus on handling and overcoming the spread of Covid-19, it impacts the deficit in the State Budget (APBN). The impact of the COVID-19 pandemic is enormous on the economic growth sector, which can lead to a financial crisis, trigger an increase in crime and impact people's welfare.

In this case, the government created legal politics in policies to carry out National Economic Recovery (PEN). Many aspects are carried out in the recovery of the national economy; one of the strategies launched is an increase in the State Income Tax (VAT) rate from 10% to 11% to re-stabilize the State Budget (APBN) which is experiencing a deficit due to the *global Covid-19 pandemic*. The increase in the State Income Tax (VAT) rate will boost state revenue, which is almost 80% derived from taxes. As seen on the Ministry of Finance's website, tax revenue in 2020 has decreased significantly. However, the increase in the State Income Tax (VAT) rate as a manifestation of national economic recovery has drawn pros and cons. The political and legal policies taken by the government do not necessarily positively impact national economic recovery. Still, they are also vulnerable and risky to the national economy that has not fully recovered.

This research is aimed at examining the political influence of the law on the increase in Value Added Tax (VAT) rates as a manifestation of strategies in national economic recovery and efforts that can be made in national economic recovery.

METHODS

This research uses normative juridical legal research, which is descriptive with a statutory *approach (statute approach)* and conceptual approach (*conceptual approach*). Normative juridical legal research examines and analyses the legislative system and synchronizes legal regulations, principles, and concepts (Soekanto, 2003). Normative juridical legal research is sourced from primary legal materials, which are authoritative legal materials and secondary legal materials (Marzuki, 2014).

RESULTS AND DISCUSSION

The Political Effect of VAT Rate Increase on National Economic Recovery

Legal politics is a *legal policy* (Mahfud dan Gani, 2012). Legal policy is defined as the basis or guidelines for achieving a national goal (Mahfud, 2010). Political law as *legal policy* includes legal development by making and updating laws tailored to the needs and implementation of the provisions of the law. However, Bagir Manan argues otherwise, that legal politics is not a *legal policy* but a *policy behind legal policy* (Hermanto, 2019).

The description of legal politics, according to Satjipto Raharjodi, is defined as a way to achieve the goals of the nation and state and create specific laws in society (Rahardjo, 2013). In determining legal politics, Satjipto Raharja further explains the questions that form the basis of legal politics to be chosen, namely regarding what goals are to be achieved, what methods can be used, when policy or legal reforms need to be changed and formulations regarding patterns that can determine goals and ways or steps in achieving these goals.

Legal politics is a legal policy related to legal direction, legal form, and legal content that is determined as a way to achieve a nation and state goal. The purpose of legal politics as a tool, means or step that the government wants to become a legal system and is the realization of the legal system to achieve the goals or ideals of the state (Rahardjo, 2013, p.35).

Legal politics is inseparable from three parts: the process of reform, change and law-making. In the context of national economic recovery, legal politics is vital in paying attention to matters that policymaking aims to achieve, such as state stability, which is used as a legal, political product and must be placed as legal guidelines. Law or policy making, in this case, must be studied predictably whether this legal, political product can apply and be applied in society. The legal policy must prioritize the value of justice for all Indonesian people, not favouring certain parties. Given the objectives of the Indonesian state, as stated in the preamble of the 1945 Constitution of the Republic of Indonesia, in the fourth paragraph, one of the national goals of the Indonesian nation is to promote the general welfare. So, in making and determining policies, we must prioritize the value of welfare for the people of Indonesia.

National Economic Recovery (PEN) is one of the legal policies taken as a solution to the impact of the COVID-19 pandemic, which has affected the decline in national economic growth. This legal policy aims to restore the affected economy so that it can return to stability and create a healthy economy. Decreased national economic growth impacts state revenue, domestic economic activity and increased state spending. The legal politics carried out by the government in this case is to issue Government Regulation (PERPPU) No. 1 of 2020 concerning State Financial Policy and Financial System Stability for Handling the 2019 Corona Virus Disease Pandemic (COVID-19) and/or in the Context of Facing Threats that Endanger the National Economy and/or Financial System Stability.

In addition, the government adopted a policy to increase the State Income Tax (VAT) rate to increase state revenue, which is one of the legal politics in economic recovery. State revenue is needed to maintain the State Budget's (APBN) health, which affects national

development. Almost 80% of state revenue comes from taxes, the national backbone. In Indonesia, the tax ratio is still low compared to other developing countries. Based primarily on the data from the Ministry of Finance, tax revenue experienced a decline in 2020. One indication is the impact of the Covid-19 *pandemic*. In this case, tax reform is needed, as launched in Law Number 7 of 2021 concerning the Harmonization of Tax Regulations to boost the tax ratio, which affects state revenue to be optimal.

One legal policy implemented by the government is increasing the Value Added Tax (VAT) rate from 10% to 11% since April 1, 2022, as stated in Article 7 of Law Number 7 of 2021 concerning Harmonization of Tax Regulations. Indonesia's value-added tax (VAT) rate is relatively low because it is still below the world average of 15.4%. It is also lower than other countries, such as the Philippines at 12%, China at 13%, Saudi Arabia at 15%, Pakistan at 17% and India at 18%. The Value Added Tax (VAT) rate is planned to continue to rise gradually until 2025.

The Value Added Tax (VAT) rate increase was realized to create a more robust tax foundation. Since taxes are essential to the country's economy, the tax increase is intended to build a solid Indonesian economy in the long term. In addition, the reason for the rise in the Value Added Tax (VAT) rate was conveyed by Finance Minister Sri Mulyani to boost state revenue to improve the State Revenue and Expenditure Budget affected by the Covid-19 Pandemic (Nurhidaya, 2022). The increase in the Value Added Tax (VAT) rate as a solution to the State Budget (APBN), which is experiencing a deficit, is considered the right step, assuming there is still room because the Value Added Tax (VAT) rate in Indonesia is still relatively low. State revenue from taxes has a significant role. It is needed to finance state expenditures and development, including one of the strategies taken by the government, namely the National Economic Recovery (PEN), which is affected by the pandemic.

However, the government's assumption that an increase in the Value Added Tax (VAT) rate in line with the potential increase in state revenue will not necessarily boost economic recovery. The Value Added Tax (VAT) rate increase also pushes up other commodities and potentially pushes up inflation. At the end of 2021, domestic commodity prices increased in line with the increasing global commodity prices, including the prices of necessities such as cooking oil, LPG gas, flour and fuel. A 1% increase in the Value Added Tax rate impacts the prices of various products and services.

The political policy of the law in increasing Value Added Tax (VAT) also forms a pattern in the community of feeling the additional tax burden that must be paid, thus impacting people's purchasing power. The decline in people's purchasing power aligns with the decline in consumption levels and can affect slowing economic growth. In addition, a decrease in people's purchasing power has implications for weakening sales levels and has the potential to result in an increased unemployment rate.

The legal politics of increasing the Value Added Tax (VAT) rate has drawn pros and cons, especially amid the National Economic Recovery (PEN) due to the *global* COVID-19 *pandemic*. The government's view of increasing Value Added Tax (VAT) is to boost state revenue and restore and stabilize the State Budget (APBN), which has experienced a deficit.

However, on the other hand, the 1% tax rate increase is very impactful and spreads to several commodity prices that also increase and can encourage inflation. This is in line with the two functions of tax that can be contradictory, namely, tax as a *budgetary instrument* and tax as a *regulated instrument*. Tax as a *fiscal instrument* has the function of collecting state revenue. Meanwhile, tax as a *regular instrument* regulates and encourages economic growth to create a balance in the community's economy.

This political law-making requires precise policies to achieve a goal by still prioritizing the Indonesian nation's primary goal, namely the people's welfare. The value-added tax (VAT) increase is inappropriate in the economic conditions of Indonesian people who have not fully recovered. This policy suppresses people's purchasing power because Value Added Tax (VAT) is a tax charged by the final consumer. It also encourages inflation. Given the unstable state of the national economy, this is vulnerable and has the risk of pushing economic growth in a negative direction.

National Economic Recovery Efforts

The legal politics of increasing the value-added tax (VAT) rate amid economic recovery, with a society's financial situation not fully stabilized, is an inappropriate and risky strategy. This legal policy is not in line with improving the welfare of the Indonesian people because it can potentially burden the community with inflation in several commodity prices. Moreover, it can reduce people's purchasing power, which also has implications for increasing the unemployment rate. Amid an economy that has not fully recovered and stabilized, more precise policy efforts or legal politics are needed by looking at and prioritizing the welfare of the people.

Looking at research conducted by Ernst and Young LLP (2010) on the effectiveness of policies in reducing the budget deficit through efforts to increase the National Value Added Tax (VAT) and reduce government spending in the United States can be taken into consideration (Pratiwi, 2022). The study shows that an increase in the National Value Added Tax (VAT) rate has implications for increasing unemployment and losing 850,000 jobs. On the other hand, limiting or reducing government spending has more positive implications, with an increase of 250,000 jobs. This can be one of the considerations in an effort for a more efficient national economic recovery. The impact of the rise in the National Value Added Tax (VAT) rate is still vulnerable in an economy that has not yet recovered and stabilized.

In addition, Article 7 paragraph (3) of Law Number 7 of 2021 concerning Harmonization of Tax Regulations explains that the Value Added Tax rate can be changed by a minimum of 5% and a maximum of 15%. With this policy, it can be seen that there is little leeway for the government to establish legal politics regarding Value Added Tax (VAT) rates that can be adjusted to current economic conditions. This is to accelerate national economic recovery. If the legal policy of increasing the value-added tax (VAT) rate is forced amid unstable economic conditions, it will have impacts that have the potential to hinder economic recovery.

CLOSING

Conclusions

The legal policy of increasing the value-added tax (VAT) rate is intended to be one of the national economic recovery strategies. This is to increase state revenue to support the State Budget (APBN), which is experiencing a deficit due to the *global COVID-19 pandemic*. However, this political law policy is inappropriate and risky amidst Indonesia's economic conditions that have not fully recovered and stabilized. The increase in value-added tax (VAT) rates can hinder economic recovery because the rise in value-added tax rates can potentially encourage inflation and reduce people's purchasing power. Efforts that can be made in national economic recovery, apart from increasing the National Value Added Tax (VAT) rate, are to reduce the efficiency of state spending, which is considered from the results of Ernst and Young LLP research (2010) in the United States showing that suppressing the efficiency of state spending is more efficient than increasing the National Value Added Tax rate. In addition, referring to Article 7 (paragraph 3) of Law Number 7 of 2021 concerning Harmonization of Tax Regulations provides leeway for determining Value Added Tax (VAT) rates. This can be a reference for setting Value Added Tax (VAT) rates adjusted to national economic conditions that have not fully recovered.

Recommendation

The legal policy of increasing the Value Added Tax (VAT) rate amid national economic recovery is risky. The government should be able to make policies that stabilize commodity prices and create policies to reduce the efficiency of state spending to boost national economic recovery.

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