



The Review of Legal Politics of Increasing Value Added Tax (VAT) Rates in the National Economic Recovery

Sudiyana Sudiyana^(✉) and Sunarya Raharja

Faculty of Law of Janabadra University, Yogyakarta, Indonesia
Sudiyana@janabadra.ac.id

Abstract. The aims of this research is to examine the legal politics of increasing Value Added Tax (VAT) rates in the recovery of the national economy affected by the global Covid-19 pandemic. This research uses a descriptive normative juridical and uses a statutory and conceptual approach that comes from primary and secondary legal sources. The results of this research indicate that the legal politics of increasing the rate of Value Added Tax (VAT) as a national economic recovery strategy is less precise/incorrect and risky, since it can cause inflation in the state of the national economy that has not fully recovered. In the context of national economic recovery, the efforts to suppress state spending are more efficient than the increase in Value Added Tax (VAT) which is prone to risk.

Keywords: Legal Politics · National Economic Recovery · Value Added Tax

1 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 of time, there has been a thirteen-fold spike in transmission of Covid-19 cases with the number of countries increasing three times. In response to the status of the global pandemic and the surge in transmission, various countries have issued policies such as lockdowns to handle and inhibit the transmission of Covid-19. Especially in Indonesia, Covid-19 is designated as a National Disaster in Presidential Decree of the Republic of Indonesia Number 12 of 2020 concerning the Determination of Non-Natural Disasters for the Spread of Corona Virus Disease (Covid-19) as a National Disaster, followed by a large-scale social restriction strategy which was confirmed in Regulation Government Number 21 of 2020 concerning Large-Scale Social Restrictions in the Context of Accelerating the Handling of Covid-19.

The massive transmission of Covid-19 which is designated as a global pandemic has an impact on various strategic sectors, one of them is the global and national economic sector [1]. The countries that affected by the global pandemic establish and implement various legal political policies that are adapted to the conditions of their respective countries. The Indonesian government establishes legal politics by issuing three policies as a

preventive measure against the spread of the COVID-19 outbreak, including Presidential Decree No. 11 of 2020 concerning the Determination of Public Health Emergency for Corona Virus Disease 2019 (COVID-19), Government Regulation No. 21 of 2020 concerning Large-Scale Social Restrictions in the Context of Accelerating the Handling of Corona Virus Disease 2019, and Government Regulation in Lieu of Law (Perppu) No. 1 of 2020 concerning State Financial Policy and Financial System Stability for Handling the 2019 Corona Virus Disease (COVID-19) Pandemic and/or In Facing Threats to Endanger the National Economy and/or Financial System Stability [2]. Every legal policy 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 is clearly visible in 2020 the growth of Gross Domestic Product (GDP) fell to -2.07% from the previous year at 5.02%. This decrease in Gross Domestic Product (GDP) growth affected other economic sectors such as unemployment which increased by 6.90 million people in 2020 and 15.72 million people were affected by the reduction in working hours. In addition, in order for the government to focus on handling and overcoming the spread of Covid-19, it has an impact on the deficit in the State Revenue and Expenditure Budget. The impact of the Covid-19 pandemic is very large on the economic growth sector which can lead to an economic crisis and trigger an increase in crime and impact on people's welfare.

In this case, the government creates legal politics in policies to carry out National Economic Recovery. Many aspects were carried out in the recovery of the national economy, one of the strategies that was launched is an increase in the rate of State Income Tax (VAT) from 10% to 11% in order to re-stabilize the State Revenue and Expenditure Budget which experienced a deficit due to the global Covid-19 pandemic. The increase in the rate of State Income Tax (VAT) is aimed to boost the state's revenue, which almost 80% comes from taxes. Seen on the Ministry of Finance website, tax revenue in 2020 has decreased significantly. However, the increase in the rate of State Income Tax (VAT) as a manifestation of the national economic recovery has brought pros and cons. The legal political policies taken by the government do not necessarily have a positive impact on the recovery of the national economy, but are also vulnerable and risky to the national economy which has not yet fully recovered.

This study aims to examine the legal political influence of increasing the rate of Value Added Tax (VAT) as a manifestation of the strategy in the national economic recovery as well as the efforts that can be made in the national economic recovery.

2 Research Method

This study uses a descriptive normative juridical law research with a statutory approach (statue approach) and a conceptual approach (conceptual approach). Normative juridical law research is research conducted by examining and analyzing the legal system and synchronization of legal regulations and legal principles and legal concepts [3]. Normative juridical research is sourced from primary legal materials, which are authoritative legal materials and secondary legal materials [4].

3 Findings and Discussion

A. The Impact of Legal Politics of VAT Rate Increase on National Economic Recovery

Legal politics is legal policy [5]. Legal policy is defined as the basis or guideline in achieving a national goal [6]. Legal politics as legal policy includes legal development by making and updating laws that are customized to the needs and implementation of these legal provisions. However, Bagir Manan has another opinion that legal politics is not a legal policy but a policy behind legal policy [7].

The description of legal politics according to Satjipto Raharjo is interpreted as a way to achieve the goals of the nation and state and also to create certain laws in society [8]. In determining legal politics, Satjipto Raharjo explained further regarding the basic questions in legal politics to be chosen, which was what are the goals to be achieved, what methods can be used, when to reform policies or laws that need to be changed and the formulation of the law. About patterns that can determine goals and ways or steps in achieving these goals [9].

Legal politics is a legal policy related to the direction of the law, the form of law and the content of the law that is determined as a way to achieve a goal of the nation and state. The purpose of legal politics is as a tool, ways or step that the government wants to become a legal system and is the embodiment of the legal system in order to achieve the goals or ideals of the state [10].

Legal politics cannot be separated from three parts, which is the process of renewal, modification and law-making. In the context of national economic recovery, legal politics has a very important role by paying attention to the things that policy making aims to achieve state stability which is used as a product of legal politics and must be placed as a legal guideline. Creating laws or policies in this case must be studied predictably whether these legal political products can be used and applied in society. The legal policy that will be used must prioritize the value of justice for all Indonesian people, not attaching importance to certain parties. Bearing in mind, in accordance with the objectives of the Indonesian state as stated in the preamble to the 1945 Constitution of the Republic of Indonesia in the fourth paragraph, it is stated that one of the national goals of the Indonesian nation is to promote public welfare. So, in making and determining policies, the value of welfare for the Indonesian people must be prioritized.

National Economic Recovery is one of the legal policies taken as a solution to the impact of the Covid-19 pandemic which has an impact on the decrease of national economic growth. The purpose of this legal policy is to be able to restore the affected economy so that it can return to stability and create a healthy economy. The declining national economic growth has an impact on state revenues, domestic economic activity and increased state spending. The legal politics carried out by the government in this case is to issue a Government Regulation no. 1 of 2020 concerning State Financial Policy and Financial System Stability for Handling the Corona Virus Disease 2019 (Covid-19) Pandemic and/or In Facing Threats That Endanger the National Economy and/or Financial System Stability.

In addition, the government has taken a policy to increase the rate of State Income Tax (VAT) in order to increase state revenue as one of the legal policies in economic recovery.

State revenue is needed to maintain the health of the State Revenue and Expenditure Budget which affects national development. From almost 80% of state revenue comes from taxes, which in this case taxes are the national backbone. In Indonesia, the tax ratio is still low compared to other developing countries. Moreover, based on data available at the Ministry of Finance, tax revenues has decreased in 2020. One of the indication is the impact of the global Covid-19 pandemic. In this case, a tax reform is needed which is proclaimed in Law Number 7 of 2021 concerning the Harmonization of Tax Regulations in order to boost the tax ratio that affects state revenue so that it is optimal.

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

The increase in the Value Added Tax (VAT) rate was realized to create a stronger tax foundation. Considering that taxes have an important role in the country's economy, so the tax increase is aimed at creating a strong Indonesian economy in the long term. In addition, the reason for the increase in the Value Added Tax rate was conveyed by the Minister of Finance Sri Mulyani to boost state revenue in order to improve the State Revenue and Expenditure Budget affected by the Covid-19 Pandemic [10].

An increase in the rate of Value Added Tax as a solution to the State Budget which has a deficit is considered the right step considering that there is still room because the rate of Value Added Tax (VAT) in Indonesia is still relatively low. State revenues from taxes have a big role and are needed to finance state expenditures and development, including one of the strategies taken by the government, which is the National Economic Recovery which has an impact due to the pandemic.

However, the government's assumption about the increase in Value Added Tax rates in line with the potential for increasing state revenues does not necessarily encourage economic recovery. The increase in the Value Added Tax (VAT) rate will also encourage increases in other commodities and has the potential to push up inflation. As seen at the end of 2021, domestic commodity prices will increase in line with rising global commodity prices, including prices for basic necessities such as cooking oil, gas, flour and fuel oil. The 1% increase in the Value Added Tax rate has an impact on the prices of various products and services.

The policy of legal politics in increasing the Value Added Tax (VAT) also forms a pattern in which people feel that there is an increase in the tax burden that must be paid, so that it has an impact on people's purchasing power. The decreasing in people's purchasing power is in line with the decreasing in consumption levels and can have an effect on slowing economic growth. In addition, the decreasing in people's purchasing power has implications for weakening sales levels and has the potential to cause an increase in the unemployment rate.

The legal politics of increasing the Value Added Tax (VAT) rate is reaping the pros and cons, especially in the midst of the National Economic Recovery due to the global

Covid-19 pandemic. The government has increased the Value Added Tax to boost state revenue and restore and stabilize the State Revenue and Expenditure Budget which has experienced a deficit. However, on the other hand, the increase in the 1% tax rate has had an impact and spread to several commodity prices which also rose and could encourage inflation. This is in line with two tax functions that can be contradictory, namely tax as a budgetary instrument and tax as a regulatory instrument. Taxes as a budgetary instrument have a function to collect state revenues. Meanwhile, taxes as a regular end instrument function to regulate and encourage economic growth so as to create a community economic balance.

The adoption of this legal policy requires precise policies in order to achieve a goal and while still prioritizing the basic goals of the Indonesian nation, which is the welfare of the Indonesian people. The increase in Value Added Tax (VAT) is not appropriate for the economic conditions of the Indonesian people, which have not fully recovered. This policy suppresses people's purchasing power, because Value Added Tax (VAT) is a tax charged by the final consumer. In addition, it also encourages inflation. This is vulnerable and risky to push economic growth in a negative direction considering that the national economy is not yet stable.

B. National Economic Recovery Efforts

The legal politics of increasing the rate of Value Added Tax (VAT) in the midst of economic recovery with people's economic conditions that are not yet fully stable has become a less precise and risky strategy. This legal political policy is not in line with the aim of the welfare of the Indonesian people because it can potentially burden the community with inflation in some commodity prices. Moreover, it can suppress people's purchasing power which has implications for increasing the unemployment rate. In the midst of an economic situation that has not yet fully recovered and is stable, more precise policy or legal policies are needed by observing and prioritizing the welfare of the people.

Judging from the research conducted by Ernst and Young LLP (2010) regarding the effectiveness of policies in efforts to reduce the budget deficit through efforts to increase the National Added Tax (VAT) and reduce government spending in the United States, it can be taken into consideration [11]. The research shows that increasing the National Added Tax (VAT) rate has implications for an increase in unemployment and the loss of 850,000 jobs. Meanwhile, the restriction or efficiency of state spending is considered to have more positive implications, which is aimed at increasing 250,000 jobs. This can be considered as an effort for a more efficient national economic recovery. The impact of the increase in the National Added Tax (VAT) rate is still vulnerable in the economic situation that has not yet recovered and is stable.

In addition, in Article 7 paragraph (3) of Law Number 7 of 2021 concerning Harmonization of Tax Regulations it is explained that the rate of Value Added Tax can be changed to a minimum of 5% and a maximum of 15%. With this policy, it can be seen that there is a bit of leeway for the government to be able to determine legal politics regarding Value Added Tax (VAT) rates that can be adjusted to current economic conditions. This is in order to accelerate the recovery of the national economy. If the legal politics of increasing the rate of Value Added Tax (VAT) is imposed in the midst of

this unstable economic condition, it will have impacts that have the potential to hamper economic recovery.

4 Conclusion

Conclusion

The legal politics of increasing the rate of Value Added Tax (VAT) is intended as one of the national economic recovery strategies. This is to increase state revenue to support the State Revenue and Expenditure Budget which is experiencing a deficit due to the global Covid-19 pandemic. However, this policy of legal politics is less precise and is vulnerable to risk in the midst of Indonesia's economic condition which has not fully recovered and is stable. The increase in Value Added Tax (VAT) rates has an impact that can hamper economic recovery, because the increase in Value Added Tax rates has the potential to encourage inflation and can suppress people's purchasing power.

Efforts that can be made in the recovery of the national economy, in addition to increasing the rate of National Added Tax (VAT) is to suppress the efficiency of state spending, which is considered from the results of research by Ernst and Young LLP (2010) in the United States which shows that the emphasis on efficiency of state spending is more efficient than increasing the tax rate. National Increase. In addition, referring to Article 7 (paragraph 3) of Law Number 7 of 2021 concerning Harmonization of Tax Regulations, it provides leeway for determining the rate of Value Added Tax (VAT). This can be used as a reference for setting the rate of Value Added Tax (VAT) which is adjusted to the condition of the national economy which has not yet fully recovered.

5 Recommendations

The legal politics of increasing the Value Added Tax (VAT) rate in the midst of the national economic recovery is vulnerable to risk. The government should be able to make policies that can stabilize commodity prices, suppress inflation so that it can boost people's purchasing power and encourage acceleration of national economic recovery.

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