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Taxing Consumption, Protecting Welfare: A Distributional Analysis of Indonesia's 12 Percent VAT Policy

Danang Hermawan*
Universitas Muhammadiyah Tangerang, Indonesia
dananghermawan.mhs@gmail.com

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*Corresponding Author

Abstract

Value-added tax is widely regarded as an efficient source of public revenue, but its consumption-based structure raises important questions concerning distributional fairness. This study examines the welfare and distributional implications of Indonesia's 12 percent value-added tax policy, focusing on whether higher consumption taxation disproportionately affects lower- and middle-income households. The study adopts a distributional policy-analysis framework combining tax policy analysis with household consumption patterns and socioeconomic characteristics. Secondary data on household expenditure, consumption composition, and fiscal policy are used to assess the potential incidence of the VAT burden across income groups. The analysis distinguishes between essential and discretionary consumption to identify differences in effective tax exposure among households. The study further examines whether exemptions, exclusions, or compensatory fiscal measures can mitigate potentially regressive outcomes. Rather than assessing VAT solely in terms of revenue generation, the study evaluates the policy through the broader principles of vertical equity and welfare protection. The analysis suggests that the distributive consequences of VAT depend not only on the statutory rate but also on the composition of household consumption and the design of compensatory policies. The study contributes to the literature by framing VAT reform as an issue of fiscal justice and by highlighting the importance of distribution-sensitive tax design in Indonesia.

[*Pajak pertambahan nilai (PPN) secara luas dianggap sebagai sumber pendapatan publik yang efisien, tetapi strukturnya yang berbasis konsumsi menimbulkan pertanyaan penting mengenai keadilan distribusi. Studi ini meneliti implikasi kesejahteraan dan distribusi dari kebijakan PPN 12 persen di Indonesia, dengan fokus pada apakah pajak konsumsi yang lebih tinggi secara tidak proporsional memengaruhi rumah tangga berpenghasilan rendah dan menengah. Studi ini mengadopsi kerangka analisis kebijakan distribusi yang menggabungkan analisis kebijakan pajak dengan pola konsumsi rumah* *tangga dan karakteristik sosial ekonomi. Data sekunder tentang pengeluaran rumah tangga, komposisi konsumsi, dan kebijakan fiskal digunakan untuk menilai potensi dampak beban PPN di berbagai kelompok pendapatan. Analisis ini membedakan antara konsumsi esensial dan diskresioner untuk mengidentifikasi perbedaan paparan pajak efektif di antara rumah tangga. Studi ini selanjutnya meneliti apakah pembebasan, pengecualian, atau langkah-langkah fiskal kompensasi dapat mengurangi potensi dampak regresif. Alih-alih menilai PPN semata-mata dari segi perolehan pendapatan, studi ini mengevaluasi kebijakan tersebut melalui prinsip-prinsip yang lebih luas tentang kesetaraan vertikal dan perlindungan kesejahteraan. Analisis ini menunjukkan bahwa konsekuensi distribusi PPN tidak hanya bergantung pada tarif yang ditetapkan, tetapi juga pada komposisi konsumsi rumah tangga dan rancangan kebijakan kompensasi. Studi ini berkontribusi pada literatur dengan membingkai reformasi PPN sebagai isu keadilan fiskal dan dengan menyoroti pentingnya desain pajak yang sensitif terhadap distribusi di Indonesia.*]

Keywords: value-added tax, consumption taxation, fiscal justice, household welfare, Indonesia

Introduction

Value-added tax has become one of the central instruments of modern fiscal systems because it can generate substantial revenue from a broad consumption base while maintaining a relatively neutral treatment of production decisions. Its importance is particularly pronounced in developing economies, where personal income taxation may be constrained by informality, limited administrative capacity, and a relatively narrow formal tax base. Indonesia is no exception. Indirect taxes, including VAT and excise, have historically constituted a significant component of government revenue, making consumption taxation an important element of the country's fiscal consolidation strategy (Tiwari et al. 2021). The attraction of VAT, however, creates a persistent policy tension. The same broad base that makes VAT productive and administratively valuable can also expose households to fiscal burdens through everyday consumption. The relevant policy question is therefore not simply whether VAT raises revenue efficiently, but whether the resulting burden is compatible with the government's responsibility to protect household welfare and maintain an equitable tax system.

Indonesia's recent VAT reform illustrates this tension particularly clearly. Law No. 7 of 2021 concerning Harmonization of Tax Regulations established a staged increase in the VAT rate, from 10 percent to 11 percent in April 2022 and to 12 percent beginning in January 2025. Yet the implementation of the 12 percent statutory rate was subsequently differentiated through Minister of Finance Regulation No. 131 of 2024. For non-luxury taxable goods and services, the government applies a tax base equal to 11/12 of the relevant transaction value, resulting in an effective burden equivalent to 11 percent. The full 12 percent calculation applies principally to taxable luxury goods and services within the relevant PPnBM framework. This distinction is important for distributional analysis. Describing the policy simply as a universal 12 percent increase risks overstating the immediate tax burden on ordinary consumption, while ignoring the broader question of whether the reform changes the effective distribution of taxation across income groups.

The normative debate surrounding VAT is complicated by competing ways of measuring tax incidence. When VAT is measured as a percentage of current income, it can appear regressive because lower-income households generally consume a larger proportion of their income than wealthier households, which can save or invest a greater share. Caspersen and Metcalf (1994) demonstrated that the apparent regressivity of VAT is partly dependent on the choice of economic-well-being measure. When consumption or lifetime income is used instead of annual income, VAT can appear proportional or only modestly regressive. Thomas (2022) similarly argues that expenditure-based measures may provide a more appropriate picture of VAT incidence because they reduce the influence of differences in saving behavior. Nevertheless, this methodological qualification does not eliminate welfare concerns. Even a broadly proportional VAT can place substantial pressure on households with little capacity to absorb reductions in purchasing power, particularly when taxation affects essential consumption.

The Indonesian context provides further reasons for a distribution-sensitive approach. Earlier evidence suggests that the incidence of VAT in Indonesia has not necessarily been strongly regressive under the existing structure. World Bank analysis found that VAT incidence was broadly neutral relative to market income, while existing exemptions moderated the burden on poorer households. At the same time, eliminating exemptions was projected to make the tax more regressive, demonstrating that the structure of the tax base matters significantly for distributional outcomes. More recent fiscal analysis has also emphasized that indirect taxation can worsen poverty even when the broader fiscal system produces offsetting benefits through transfers and public expenditure. These findings suggest that the distributional effect of VAT cannot be assessed independently of exemptions, household consumption patterns, and compensatory government spending.

Previous studies have consequently produced two broad strands of analysis. The first emphasizes the efficiency and revenue-generating advantages of VAT and questions whether apparent regressivity is overstated when income-based incidence measures are used (Caspersen and Metcalf 1994; Thomas 2022). The second focuses on the practical limitations of VAT in developing economies, including informality, administrative weaknesses, uneven compliance, and the potential for indirect taxation to impose disproportionate burdens on vulnerable households (Emran and Stiglitz 2007; Keen 2013; Brockmeyer et al. 2024).

Research on Indonesia has further highlighted the importance of exemptions and the interaction between taxation and social expenditure (Tiwari et al. 2021). However, relatively limited attention has been devoted to the distributional implications of Indonesia's specific 2025 transition to a statutory 12 percent VAT rate, particularly when the distinction between nominal and effective rates is incorporated into the analysis.

This article addresses that gap by examining Indonesia's 12 percent VAT policy through the combined lenses of vertical equity, household welfare, and tax incidence. Rather than assuming that a higher statutory rate automatically produces a proportionally higher burden across all households, the article investigates how the burden depends on what households consume, how much of their income is devoted to consumption, which goods and services are subject to VAT, and whether compensatory fiscal measures are sufficiently targeted. The central argument is that the justice of VAT reform cannot be determined from the statutory rate alone. A consumption tax may be economically efficient and approximately proportional when measured against expenditure while nevertheless creating serious welfare risks for households with low disposable income and limited substitution possibilities. Consequently, VAT policy should be evaluated within the broader tax-and-transfer system.

The study uses a qualitative distributional policy-analysis methodology. It combines normative analysis of Indonesia's VAT legislation and implementing regulations with secondary evidence from household consumption, fiscal incidence, tax administration, and socioeconomic research. The analysis applies three principal dimensions: vertical equity, which considers whether tax burdens correspond reasonably to differences in economic capacity; horizontal equity, which asks whether households in comparable circumstances receive comparable treatment; and welfare protection, which considers whether taxation creates avoidable reductions in the ability of vulnerable households to meet essential needs. The approach is not intended to generate a new microsimulation estimate. Instead, it identifies the legal and policy mechanisms through which the 12 percent VAT framework can produce differentiated effects and evaluates whether existing and potential compensatory measures are adequate to address those effects.

VAT Reform, Fiscal Efficiency, and the Meaning of the 12 Percent Rate

The economic case for VAT rests principally on its capacity to mobilize revenue through a broad consumption base. Unlike direct taxation of income or wealth, VAT is collected throughout the production and distribution chain, with the input-tax credit mechanism intended to prevent cascading taxation. In theory, this structure makes VAT comparatively neutral toward production decisions and capable of generating substantial revenue without imposing the same distortions associated with some alternative taxes. Keen (2013) identifies the VAT as one of the most important fiscal innovations of the modern era, particularly because its design allows governments to combine broad coverage with a self-enforcing chain of transactions. Empirical research likewise shows that VAT remains superior to simpler turnover taxes in many practical settings despite substantial administrative weaknesses in developing economies (Brockmeyer et al. 2024).

The efficiency argument, however, does not settle the question of equity. Taxation inevitably allocates economic costs among individuals and firms, and a policy that is efficient in aggregate may still produce inequitable consequences for particular groups. This is particularly relevant when the tax is imposed on consumption rather than income. Lower-income households generally have fewer opportunities to save and therefore devote a larger proportion of their available resources to current consumption. As a consequence, the VAT burden can consume a greater proportion of their disposable resources even when the statutory rate is identical for all consumers. Emran and Stiglitz (2007) caution that tax reforms centered on consumption taxation may have adverse equity consequences in developing economies when the formal sector is limited and vulnerable households have restricted opportunities to adjust their consumption patterns.

The Indonesian government's implementation of the 12 percent rate demonstrates an attempt to reconcile these competing objectives. The statutory rate is indeed 12 percent, but PMK No. 131 of 2024 establishes a differentiated tax-base mechanism. For taxable goods and services that are not classified as luxury items, VAT is generally calculated using a tax base equivalent to 11/12 of the transaction value. The resulting effective burden is therefore 12 percent Ч 11/12, or 11 percent. By contrast, luxury taxable goods subject to the relevant PPnBM framework use the full transaction value as the tax base, generating an effective 12 percent burden.

This distinction changes the distributional interpretation of the reform. The policy should not be characterized simply as a generalized one-percentage-point increase affecting all taxable consumption. For ordinary taxable consumption, the immediate effective burden was maintained at approximately the previous 11 percent level. The additional effective burden is concentrated more heavily on luxury consumption. From a fiscal-justice perspective, this differentiation has an important normative rationale: taxpayers purchasing high-value discretionary goods are more likely to possess greater economic capacity than households whose expenditure is dominated by necessities. The design therefore moves the VAT system away from a purely uniform nominal-rate structure toward a differentiated incidence structure.

Nevertheless, the distinction does not make distributional concerns irrelevant. First, the boundary between luxury and non-luxury consumption does not perfectly correspond to household income. Second, households may differ significantly in their exposure to taxable goods and services even within the same income group. Third, the tax burden can be transmitted through prices and supply chains, meaning that legal liability at the business level does not necessarily determine the ultimate economic incidence. VAT should therefore be analyzed as an economic burden on consumption rather than simply as a statutory obligation of registered businesses.

The broader lesson is that the nominal VAT rate is an incomplete measure of fiscal pressure. Distributional assessment must examine the effective tax base, taxable consumption, household behavior, and the interaction between VAT and other fiscal instruments. A policy that formally raises the VAT rate but maintains the effective burden for ordinary consumption while increasing taxation of luxury goods has a different distributional profile from a uniform 12 percent VAT. Indonesia's 2025 reform therefore demonstrates why legal analysis and incidence analysis must be integrated when evaluating tax justice.

Household Consumption, Vertical Equity, and the Regressivity Debate

The central distributional issue in VAT policy concerns vertical equity: whether taxpayers with greater economic capacity should bear relatively greater fiscal burdens. A uniform consumption-tax rate does not necessarily violate vertical equity because the tax base itself may vary considerably across households. Wealthier households generally consume more in absolute terms, meaning that they can contribute more total VAT even when the rate is identical. Yet the relevant question is whether the tax burden is proportionate to economic capacity. If poorer households spend nearly all of their income on consumption while wealthier households save a substantial share, VAT payments as a proportion of current income may be larger for the poor.

This is the classic basis for describing VAT as regressive. Caspersen and Metcalf (1994), however, demonstrate that annual-income measures can exaggerate regressivity because income fluctuates over the life cycle and savings are not taxed when they are earned. When consumption is used as a proxy for lifetime resources, VAT can appear approximately proportional. Thomas (2022) reaches a similar conclusion from evidence across 27 OECD countries, finding that VAT is broadly proportional or slightly progressive in many jurisdictions when measured against expenditure rather than current income. These findings are important because they caution against treating the word "regressive" as a complete description of VAT's welfare effects.

Yet an expenditure-based approach should not be used to dismiss the concerns of low-income households. Current liquidity matters for welfare. A household living close to subsistence cannot necessarily postpone consumption or smooth expenditure in the same way as a high-income household. Essential food, transportation, electricity, education-related expenditure, and other necessities can have low short-term substitutability. Consequently, even a modest increase in the effective price of taxable consumption can reduce real purchasing power. The policy problem becomes particularly serious when the household lacks savings or access to credit and cannot respond by reducing discretionary consumption.

Indonesia's socioeconomic structure makes this distinction particularly relevant. Household expenditure patterns differ substantially across income groups, and poorer households devote relatively larger shares of their resources to basic consumption. OECD analysis of Indonesian consumption patterns found that poorer households spend larger shares of their budgets on basic food categories such as cereals and tubers, while wealthier households spend considerably more on some categories such as meat. The analysis concluded that Indonesia's VAT had broadly neutral distributional effects under the prevailing structure but also emphasized that the design of exemptions strongly influences equity outcomes.

This evidence suggests that the distributional consequences of VAT depend less on the rate in isolation than on the composition of the tax base. A uniform tax on luxury consumption may be relatively progressive in practical terms because high-income households account for a larger share of such expenditure. Conversely, taxation of essential goods can produce stronger welfare effects for lower-income households because these households have fewer opportunities to substitute away from taxed consumption. This explains why tax policy debates often focus on exemptions, zero-rating, and reduced rates even though such mechanisms can introduce administrative complexity and create benefits for higher-income households as well.

The problem with broad exemptions is precisely that they do not necessarily target those most in need. Higher-income households consume more in absolute terms, so an exemption on a broadly consumed product can provide a larger monetary benefit to wealthy households even if poorer households receive a larger benefit relative to their income. IMF analysis emphasizes that exemptions and reduced rates often perform poorly as instruments of redistribution because high-income households can capture substantial absolute benefits from tax preferences. Direct transfers can often achieve redistribution more effectively because they can be targeted according to household circumstances rather than consumption categories (IMF 2023).

The appropriate policy response is therefore not necessarily to reject VAT because of its potential regressivity. Instead, the relevant question is whether the overall fiscal system compensates households whose welfare is disproportionately affected. VAT should be considered together with income taxation, social transfers, subsidies, and public services. A consumption tax can coexist with distributive justice when its revenue finances sufficiently progressive public expenditure or when targeted transfers offset the burden on vulnerable households. The distributional assessment must consequently move beyond the tax side of the fiscal equation and examine the combined effect of taxation and government spending.

Essential Consumption, Tax Exemptions, and the Limits of Tax-Based Redistribution

The treatment of essential consumption represents one of the most difficult choices in VAT design. Exempting or zero-rating basic goods appears intuitively attractive because poorer households allocate a large share of their resources to necessities. However, the policy creates a targeting problem. Wealthier households also consume necessities, often in larger absolute quantities. Consequently, a universal exemption may generate substantial fiscal costs while directing a significant portion of the benefit toward households that do not require assistance.

Indonesia's experience illustrates this dilemma. Earlier evidence indicates that existing VAT exemptions have contributed to reducing the relative burden on poorer households, but the distribution of the benefit is imperfect. World Bank analysis found that eliminating exemptions would increase VAT payments relative to income across the distribution and would produce a particularly large increase for the lowest-income households. At the same time, the value of existing exemptions was not exclusively captured by poor households. The implication is not that exemptions are ineffective in all circumstances, but that they represent an imprecise redistribution mechanism.

The distinction between exclusion and compensation is therefore important. Exemptions operate through the tax base and benefit consumers whenever they purchase the exempt product. Compensatory transfers operate through household characteristics and can be directed more specifically toward people experiencing economic vulnerability. From a distributional perspective, the second mechanism can be more precise. If the objective is to protect a household because of low income, disability, unemployment, or exposure to economic shocks, a transfer designed around that characteristic can provide support regardless of whether the household consumes a particular exempt product.

This does not mean that all VAT exemptions should be eliminated. Administrative feasibility, social acceptability, and the importance of particular goods may justify differentiated treatment. Some necessities may be difficult to exclude from VAT without significant welfare consequences. Moreover, the practical effectiveness of targeted transfers depends on the quality of beneficiary databases, payment infrastructure, institutional coordination, and the government's ability to identify vulnerable households. A theoretically superior transfer system cannot compensate for weak implementation.

The appropriate approach is therefore one of policy sequencing. Where social-protection systems are sufficiently capable, governments can rely more heavily on a broad and administrable VAT while using targeted transfers to mitigate adverse distributional consequences. Where social protection remains incomplete, carefully designed exemptions for clearly defined necessities may continue to have a role. OECD analysis of Indonesia has similarly suggested that reduced or zero

VAT rates for necessities can function as a second-best instrument of social protection where coverage of targeted social programs is incomplete.

The distributional assessment of Indonesia's 12 percent policy should consequently distinguish between legal protection and economic protection. A product may be excluded from the full 12 percent treatment, yet the household consuming other taxable products may still experience a loss of purchasing power. Conversely, a household subject to VAT may not experience a net welfare loss if the resulting government revenue finances transfers or services that exceed the household's tax contribution in welfare terms. This reinforces the importance of fiscal incidence analysis. Tax justice is ultimately a question of the combined distribution of fiscal burdens and fiscal benefits.

Another relevant consideration is substitution. If taxation raises the relative price of discretionary goods, households may adjust their consumption with limited welfare consequences. If taxation affects essential goods for which substitutes are scarce, the welfare effect can be considerably larger. The same nominal tax rate can therefore produce different welfare losses depending on the elasticity of demand. A distribution-sensitive VAT policy should prioritize minimizing burdens on low-income households' essential consumption while ensuring that higher-income discretionary consumption contributes appropriately to fiscal capacity.

Compensatory Fiscal Policy and a Welfare-Protective VAT Framework

A sustainable VAT system requires a clear understanding of the relationship between revenue mobilization and welfare protection. Revenue from VAT can finance public services that benefit low-income households, including health, education, infrastructure, and social assistance. Consequently, it would be misleading to assess the VAT burden without considering the expenditure side of fiscal policy. World Bank research on Indonesia has emphasized that the distributional impact of fiscal policy depends on the interaction between taxes and spending. Although indirect taxes can increase poverty, public expenditure and direct transfers can counterbalance these effects when they are sufficiently targeted.

This perspective changes the appropriate policy objective. The government should not necessarily attempt to make VAT itself highly progressive. A broad-based VAT is valuable precisely because it can raise revenue relatively efficiently. Attempting to transform VAT into a major redistributive instrument through multiple exemptions and reduced rates can weaken the tax base, increase administrative complexity, and generate poorly targeted tax expenditures. IMF analysis emphasizes that the redistributive function is generally better served through direct transfers and expenditure policies than through extensive VAT preferences (IMF 2023).

The first pillar of a welfare-protective VAT framework should therefore be a broad and predictable tax base. Predictability reduces uncertainty for consumers and businesses and improves the capacity of households to adapt to fiscal changes. Indonesia's use of a reduced tax base for non-luxury goods and services provides one example of how a statutory rate increase can be implemented without mechanically increasing the effective burden on ordinary consumption. Such differentiation can preserve revenue architecture while concentrating the stronger effective rate on luxury consumption.

The second pillar should be targeted compensation. Where VAT creates identifiable pressure on low-income households, assistance should be delivered through instruments capable of reaching those households directly. Cash transfers, food assistance, electricity support, or other targeted measures can potentially compensate for lost purchasing power more precisely than universal VAT exemptions. The design of these measures must nevertheless address inclusion and exclusion errors. If vulnerable households are omitted from beneficiary databases, the theoretical progressivity of the system may fail in practice.

The third pillar is continuous distributional monitoring. VAT reform should not be evaluated only before implementation. Consumption patterns change over time, prices fluctuate, and household responses to taxation can alter the incidence of the tax. Regular analysis by expenditure decile, income group, household type, geographic region, and essential-versus-discretionary consumption would allow policymakers to identify emerging welfare pressures. The methodological choice between income and expenditure denominators should also be made explicit because the same VAT structure can appear differently distributed depending on the chosen measure of economic well-being (Caspersen and Metcalf 1994; Thomas 2022).

The fourth pillar is administrative capacity. A VAT system only approaches its theoretical neutrality when input credits, invoices, registration, refunds, and compliance mechanisms function effectively. Research across developing countries shows that real-world VAT systems frequently diverge from the textbook model because of incomplete chains, reporting inconsistencies, informality, and administrative constraints (Brockmeyer et al. 2024). Indonesia faces the same general challenge. Evidence on Indonesia's VAT and corporate income tax gaps indicates substantial forgone revenue associated with non-compliance, demonstrating that revenue increases cannot be achieved solely through statutory rate changes (Qian and Poniatowski 2024). Strengthening compliance can therefore represent a more equitable revenue strategy than repeatedly increasing rates, because better enforcement distributes obligations more broadly across the existing tax base.

The fifth pillar is transparency concerning the social use of VAT revenue. Taxpayers are more likely to regard taxation as legitimate when the connection between fiscal contributions and public benefits is visible. This is especially important for consumption taxation because VAT is embedded in ordinary economic transactions and can therefore be less visible as a direct fiscal obligation than income taxation. Government reporting on how additional VAT revenue contributes to social protection, health, education, and public infrastructure can strengthen fiscal legitimacy and make the tax-and-transfer relationship more intelligible.

Finally, Indonesia should institutionalize a distributional-impact test for major VAT reforms. Before changing rates or significantly altering exemptions, policymakers should assess the expected burden across household expenditure deciles and identify the categories of essential consumption most affected. The assessment should also consider inflationary transmission, substitution possibilities, and compensatory fiscal measures. Such an approach would move VAT reform beyond the binary debate between "higher taxation" and "lower taxation." The more relevant question is whether the structure of taxation and compensation produces an acceptable distribution of fiscal costs and benefits.

In this framework, the 12 percent VAT policy can be understood not as an isolated rate increase but as part of a broader restructuring of Indonesia's consumption-tax architecture. The policy's distributional character depends on the distinction between statutory and effective rates, the concentration of the full rate on luxury consumption, the treatment of essential goods, the functioning of exemptions, the incidence of prices, and the strength of compensatory social policies. Fiscal justice therefore requires a system-level assessment. A VAT policy can be compatible with welfare protection when its revenue productivity is accompanied by carefully designed measures that prevent the tax from undermining the consumption capacity of economically vulnerable households.

Conclusion

Indonesia's 12 percent VAT policy demonstrates that the distributional consequences of consumption taxation cannot be inferred from the statutory rate alone. Although Law No. 7 of 2021 established a 12 percent VAT rate from 2025, the implementing framework under PMK No. 131 of 2024 maintained an effective 11 percent burden for non-luxury taxable goods and services through the application of an 11/12 tax base, while applying the full 12 percent treatment to relevant luxury goods. This differentiation gives the reform a more nuanced distributional profile than a uniform 12 percent tax on all consumption. Nevertheless, household welfare remains sensitive to the composition of consumption, the availability of substitutes, and the proportion of household resources devoted to taxable goods and services. VAT may appear broadly proportional when measured against expenditure, but low-income households can still experience significant welfare pressure because they possess fewer opportunities to reduce or postpone essential consumption. The appropriate assessment of the policy must therefore distinguish between aggregate revenue efficiency and the distribution of welfare costs.

The analysis further demonstrates that VAT justice should be pursued through the broader fiscal system rather than by transforming VAT itself into a highly progressive instrument. A broad and administrable VAT can remain an important source of public revenue, while targeted transfers and well-designed social protection can address the distributional consequences that a consumption tax cannot efficiently resolve through exemptions alone. Indonesia should therefore combine predictable VAT administration, accurate monitoring of household incidence, carefully limited treatment of essential consumption, stronger tax compliance, and targeted compensation for vulnerable households. Such a framework would allow the government to preserve the revenue and efficiency advantages of VAT while reducing its potential to undermine purchasing power. Ultimately, the legitimacy of Indonesia's VAT reform should be measured not merely by how much revenue it raises, but by whether the fiscal system as a whole converts that revenue into public benefits without imposing disproportionate welfare costs on households with the least capacity to absorb them.

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