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12% Vat Increase: Challenges And Opportunities For Stock Investors In Indonesia

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ABSTRACT

This research explores the impact of the policy on capital market dynamics and investment strategies. Through a qualitative approach, the research identifies declining consumer purchasing power as a key challenge affecting the profitability of the consumer and retail sectors and increasing market volatility. However, there are opportunities for investors through diversification into sectors that are more resilient to policy changes, such as technology and healthcare. The research also underscores the importance of more in-depth fundamental analysis to assess the impact of the VAT increase on projected corporate earnings. On the other hand, the government's efforts in maintaining economic stability through subsidies and effective policy communication are key to the successful implementation of this policy. This study aims to analyze the effects of the 12% VAT increase on investor behavior in the Indonesian stock market, identify sector-specific challenges, and formulate adaptive investment strategies. The findings reveal that while the VAT increase exerts downward pressure on consumer purchasing power and triggers market volatility, it also opens opportunities for diversification into resilient sectors and encourages more sophisticated fundamental analysis among investors. The results of this study are expected to assist investors in devising adaptive strategies to deal with fiscal policy changes and capitalize on emerging long-term opportunities.

INTRODUCTION

On January 1, 2025, the Government of Indonesia implemented a policy of increasing Value Added Tax (VAT) from 11% to 12% (Sri Rahayu & Djumena, 2024). This policy was deemed necessary to increase state revenue and fund sustainable development projects (Nabila, 2025). The implementation of this rate increase only applies to luxury goods and services, while basic goods and services remain free from VAT or are subject to lower rates. The government hopes that this policy will not disrupt people's basic needs and be able to maintain economic stability. As part of the fiscal reform grand plan, this increase is expected to improve the efficiency of tax collection. The public is expected to adjust to this new policy although they may face price increases on some products. This policy is also expected to have a long-term positive impact on the Indonesian economy (Coordinating Ministry

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for Economic Affairs of the Republic of Indonesia, 2025), given that tax revenue in Indonesia remains low compared to other countries, including those in ASEAN (Meilano et al., 2024).

The policy of increasing VAT to 12% has gone through various studies before being implemented. The government argues that by increasing the VAT rate, they can broaden the tax base and reduce dependence on certain sectors. It also allows the government to make a more equitable distribution of income. This policy falls under the broader tax reform program to create a more inclusive and progressive tax system. Entrepreneurs and the private sector are expected to support this policy to achieve national development goals. In several discussions, taxation experts emphasized the importance of effective communication to the public regarding the objectives and benefits of this policy. The implementation of this policy will also be closely monitored to ensure compliance and achievement of the government's expected targets.

The increase in VAT to 12% is driven by several key reasons related to urgent fiscal needs. First of all, the revenue from the VAT increase will be used to fund large infrastructure projects, such as toll roads, ports, and airports (Fitrah Ghaly Hasan, 2025; Fristia Maulana et al., 2024). In addition, the government also needs additional budget for social programs such as cash transfers and public health. Without an increase in VAT, the government may find it difficult to meet its public expenditure budget targets. With this policy, the government hopes to reduce the budget deficit and create more stable economic conditions. The second reason behind the VAT increase is to support sustainable development (Saka Saputra, 2024). Increasing state revenue through taxes allows the government to implement various development projects without the need to significantly increase debt. In addition to development needs, another reason that drives the VAT increase is tax reform that aims to create a more efficient and fair tax system (Fristia Maulana et al., 2024).

By implementing this VAT increase, the government wants to reduce distortions in the economy and create better incentives for the private sector. The reform also aims to reduce tax evasion practices and improve taxpayer compliance. With a better tax system, the government can ensure that state revenues are used for the public good. This policy is also expected to reduce income inequality among people with a more equitable distribution of taxes. Increasing the VAT rate is considered one of the most effective ways to achieve these goals without sacrificing economic growth.

The effect of the VAT increase policy on the economy is quite significant. The increase in the price of goods and services subject to VAT can reduce people's purchasing power, especially for goods that are not included in basic needs (Ridwan, 2025). This can have an impact on domestic consumption, which is one of the main pillars of economic growth. However, the government argues that this negative impact can be minimized by complementary policies such as subsidies and social assistance for vulnerable groups. However, some business sectors may face more challenges due to higher operating costs. On the other hand, higher VAT also means that more tax revenue can be allocated to infrastructure projects and other public investments. Government investment in these projects can boost economic growth in the long run.

In the capital market, the VAT increase policy can have various effects on investors. Investors may be more cautious in determining the sectors or companies they will invest in. Industries that are affected by the increase in prices of goods and services are likely to experience a decline in profitability in the near future. However, other sectors that are not affected by VAT increases or that enjoy increased government spending may become more attractive to investors. In addition, the increase in state revenue from VAT could provide more fiscal stability. This policy is also likely to affect investors' perception of economic risk and uncertainty in the capital market. Investors need to carefully consider this policy in their investment strategy to still be able to achieve long-term financial goals.

Although various studies have examined the economic implications of VAT adjustments, most have focused on macroeconomic stability, household consumption, or government revenue optimization. To date, there is a lack of research that specifically analyzes the implications of a 12% VAT increase in Indonesia from the perspective of equity investors and sector-based portfolio strategies. In comparison, best practices from other countries, such as Singapore and Japan, show that gradual VAT increases accompanied by targeted fiscal policies can minimize negative market shocks and even strengthen investor confidence in the long term.

This research addresses the gap by integrating policy analysis with sectoral investment strategy evaluation, offering a novel perspective that combines fiscal policy changes with capital market responses. Previous studies have not comprehensively mapped sectoral opportunities and risks following a VAT rate increase in the Indonesian context.

The novelty of this study lies in its approach to linking fiscal reform measures with adaptive investment strategies, providing practical insights for market participants and policymakers alike. Therefore, the main objective of this research is to assess the impact of the 12% VAT increase on the

Indonesian stock market, identify sector-specific risks and opportunities, and formulate strategic recommendations for investors in adapting to fiscal policy changes.

MATERIALS AND METHODS

Materials

Value Added Tax (VAT)

Value Added Tax (VAT) is one type of tax imposed on every sale and purchase transaction of certain goods and services. This tax is collected by Taxable Entrepreneurs (PKP), who are responsible for depositing the proceeds to the state treasury. The uniqueness of VAT lies in its indirect and non-cumulative nature, where the tax is only imposed on the added value at each stage of the production or distribution process (Fitriya, 2025). In practice, VAT is one of the significant sources of state revenue, because it is widely applied to various economic sectors. VAT also creates a more transparent mechanism, where each stage of production has documentation related to its tax obligations. In addition, this system ensures that the final tax burden is fully borne by the end consumer, so that the entrepreneur only acts as an intermediary. Thus, VAT is an important instrument to maintain the country's fiscal sustainability and support national development.

VAT Rates

VAT rates in Indonesia are divided into two main categories, namely general rates and special rates, which are adjusted based on the type of transaction. The current general rate of 11% came into effect on April 1, 2022, as part of the government's efforts to increase state revenue. Furthermore, the VAT rate will be increased to 12% on January 1, 2025, but will only be applied to luxury category goods and services to reduce the burden on the middle and lower classes (Nathaniel Chandra, 2025). Meanwhile, special rates include 0% VAT, which is applied to exports of goods and services to boost the competitiveness of Indonesian products in the global market. There is also flexibility in adjusting VAT rates, with a range of 5% to 15%, according to government policy through Government Regulations. This adjustment provides room for the government to respond to national and international economic dynamics. This flexible VAT rate policy reflects adaptive measures in maintaining economic stability and attracting investment.

Subjects Involved in VAT

In the implementation of VAT, there are two main categories of subjects, namely Taxable Entrepreneurs (PKP) and Non-PKP (Fitriya, 2025). PKP has the obligation to collect VAT from the transactions they carry out and deposit it to the state. To become a PKP, entrepreneurs must meet certain requirements, such as having a minimum turnover as stipulated in the tax regulations. On the other hand, Non-PKPs are not required to collect VAT, but they still pay the tax when purchasing goods or services that are subject to VAT. This shows that VAT is still imposed on every consumption of goods and services, regardless of the status of the entrepreneur. This arrangement is designed to ensure fairness in tax collection and minimize the potential for tax evasion. Thus, both VATable Person for VAT Purposes (PKP) and Non-PKP have their respective roles in supporting the implementation of VAT as part of the national taxation system.

Research Method

This research uses a qualitative exploratory approach to understand the phenomenon of the 12% VAT increase and its impact on stock investors in the new era. The exploratory methodology was chosen because the 12% VAT increase is a new topic and has not been widely researched (Creswell, 2018). This approach allows researchers to explore in depth the challenges and opportunities faced by equity investors in the context of the 12% VAT increase, as well as identify patterns and relationships that may not have been seen before.

The study employed documentary analysis by collecting data from multiple credible sources, including news articles, government reports, capital market analyses, and academic publications. Thematic analysis (Braun & Clarke, 2006) was then used to categorize findings into key themes such as consumer purchasing power, market volatility, and sectoral resilience. The primary data source consisted of policy documents and official government statements on VAT implementation, while secondary data included economic news portals, stock market performance reports, and previous research related to tax policy and investment behavior. This combination of data sources and analytical methods provides a comprehensive understanding of the impact and implications of the tax policy change.

RESULTS AND DISCUSSION

Challenges for Stock Investors

Decrease in Consumer Purchasing Power. The increase in VAT to 12% may significantly reduce consumer purchasing power (Tempo, 2024; Uswah, 2024). With rising prices of goods and services, people will be more cautious in their daily spending (Kartika Dewi, 2024). This has a direct impact on the sales of companies that rely heavily on public consumption, such as the consumer goods and retail sectors. Issuers such as PT Japfa Comfeed Indonesia Tbk (JPFA) and PT Ultrajaya Milk Industry & Trading Company Tbk (ULTJ) may see a decline in sales volume due to the effect of these additional costs (Damara Tonce, 2024; Malik, 2024). A decline in sales could potentially lower the company's profitability, which in turn affects the value of its shares and the dividends received by investors.

Furthermore, a decline in consumer purchasing power can also affect the overall dynamics of the stock market. In an environment where prices of goods and services continue to rise, investors are likely to be more skeptical in estimating a company's future earnings performance. This uncertainty may result in higher market volatility, as investors try to adjust their portfolios to avoid further losses. The long-term impact of a decline in consumer purchasing power could be a decrease in overall demand, which could slow economic growth and reduce profitable investment opportunities. Therefore, investors should pay attention to consumption trends and tax policy changes to make more informed decisions on investing in the stock market.

Stock Market Volatility. Stock market gaps may be further increased by policy uncertainty and changes in investor sentiment regarding the VAT increase. Investors may be anxious about sudden policy changes and their long-term impact on various economic sectors, particularly consumer and retail (Kartika Dewi, 2024). This volatility will be reserved for certain sectors that depend on consumer spending, causing erratic fluctuations in share prices. While this is a challenge, opportunities to acquire quality stocks at more attractive prices also arise if investors conduct careful analysis.

In addition, high market volatility can also create opportunities for short-term trading. Investors who have a flexible portfolio strategy may be able to capitalize on price fluctuations to make profits in a short period of time. However, this approach requires a deep understanding of market dynamics and the risks involved. Therefore, it is important for investors to stay alert to policy changes and economic developments that may affect market sentiment. By doing so, they can make more thoughtful and informed investment decisions, and minimize unwanted risks.

Complexity of Fundamental Analysis. VAT increases require adjustments to a company's revenue projections, which makes fundamental analysis more complex (Dovestory, 2024). Analysis groups must take into account the impact of tax changes on companies' net income, estimate the long-term impact of these changes on profitability, and adapt their business models according to new policies. For example, technology and healthcare sectors that are typically more resilient to tax changes may be better considered for portfolio diversification as a risk mitigation strategy.

Fundamental analysis should also consider the long-term impact of the VAT increase on various sectors of the economy (Febri Firmansyah, 2025; Purwanto, 2024). The technology and healthcare sectors, for example, are more resilient to tax policy changes and may offer better portfolio diversification opportunities. Analysis groups will need to adapt their business models and investment strategies to suit the new policies. Therefore, a deep understanding of fundamental analysis and the ability to adjust financial projections are critical for investors in managing their investment portfolios amid tax policy changes.

Opportunities for Equity Investors

Diversification into More Resilient Sectors. Facing a 12% VAT increase, investors have the opportunity to diversify their portfolios into sectors that are more resilient to tax changes, such as technology, healthcare, and utilities (Afditya, 2024). Companies that have quality management and adaptive business models may be able to survive better in the new tax environment. A diversification strategy with a focus on these sectors can reduce the risk and stability of investment portfolios in the long run. Some securities firms may take steps to absorb these rising costs to maintain the attractiveness of their services and remain competitive in the market. As such, savvy investors can take advantage of this opportunity to improve their portfolio diversification. A good diversification strategy not only helps in reducing risk, but also allows investors to take advantage of the growth potential that exists in different sectors of the economy. Therefore, diversification into more resilient sectors is an important step for investors in facing the challenges of the VAT increase.

Investment Strategy Adjustment. Investors should also adjust their investment strategies to focus on companies that are able to pass on cost increases to consumers without losing market share (Afditya, 2024). Companies that are able to manage costs efficiently and maintain product quality can be attractive options for investors. Issuers in the technology and infrastructure sectors, for example, may be better able to adapt to new regulations without compromising their profitability.

Research shows that companies that successfully implement operational efficiency measures and product innovation tend to perform better in the long run (Ramadhan & Nasito, 2023). Investors who focus on such companies can capitalize on the stability and sustainable growth in their portfolios. Therefore, adjusting investment strategies to deal with VAT increases is an important step that investors need to take. Identifying companies that have the ability to manage costs effectively is key to maintaining and increasing the value of an investment portfolio.

Utilization of Market Volatility. Increased stock market volatility may actually provide opportunities for investors to get into quality stocks at more affordable prices (Afditya, 2024). Some investors may see market conditions as an opportunity to buy undervalued or temporarily declining stocks, with the hope that prices will rise again as the market stabilizes (Dovestory, 2024). Careful analysis and knowledge of company fundamentals are key to taking advantage of these fluctuations and achieving higher returns over the long term.

Capitalizing on market volatility requires patience and rigor in conducting fundamental analysis (Charlie Kuncara Jati & Dorothea Ririn Indriastuti, 2024). Investors who are able to recognize the intrinsic value of a company and are willing to bear risks in the short term can usually obtain higher returns in the future. Therefore, it is important for investors to stay focused on proper research and analysis, and not be swayed by short-term market fluctuations. With the right strategy, market volatility can be turned into profitable opportunities for smart investors.

These findings emerged from thematic analysis of news reports, policy documents, and capital market data, consistent with the exploratory qualitative approach used in this study.

CONCLUSIONS AND SUGGESTION

The 12% VAT increase in Indonesia presents both challenges and opportunities for investors and economic sectors. While this policy aims to increase state revenue to support sustainable development, its impact on people's purchasing power, stock market volatility, and business sector profitability cannot be ignored. However, for investors who are able to analyze the market well, opportunities for diversification into more resilient sectors remain open. On the other hand, mitigation strategies from the government, such as subsidies and effective policy communication, need to be strengthened to ensure the successful implementation of this policy in supporting long-term economic growth.

Future research is expected to explore the impact of VAT increases on consumer behavior across different income groups and how these changes affect their preferences for local and imported products. Research can highlight the dynamics of shifting consumption in society, including the potential increase in the market for more cost-effective products or substitution of goods and services.

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