

## Economic Analysis of Law in Increasing Value Added Tax Rate Policy

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### ABSTRACT

The policy of increasing the value-added tax (VAT) rate by 11% was implemented in 1<sup>st</sup> April 2022, with further increase to 12% scheduled by Januari 2025. This policy sparked both support and criticism. This study aims to analyze the concept of VAT rate increase policy aligns with the utility principle through the lens of economic analysis of law. The research adopts a juridical-normative methodology, utilizing statutory and conceptual approaches. Legal issues requires an interdisciplinary approach, which integrates law with other disciplines, especially economics, to provide a comprehensive solution. This approach elucidates economic consequences of legal implementation and examines how law can shape economic behavior. The policy of increasing the VAT rate must lead to an increase in state revenue to enhance public welfare through efficient public service programs and effective redistribution of tax revenue, thereby improving the quality of life for the population without causing significant harm to specific groups.

### Keywords:

Economic Analysis of Law; Value Added Tax; Policy.

### INTRODUCTION

J.J.A Adriani, a Professor of Tax Law at The University of Amsterdam, stated that taxes are legally enforced levies by the government to obtain funds to cover general expenditures (budgeting) without providing specific direct compensation to the taxpayers (Belasting, de befig, weer door de overheid zich door middel van juridische dwangmiddelen verschaft, om de publieke but gaven te bestriden, zulke zonder enige prestatie daartegenover te stellen) (Anis et al., 2018). According to Jajadiningrat, taxes are obligations to surrender a portion of wealth to the state based on conditions, events, and actions that confer a certain status. This levy is not a sanction but regulated by government-enforced rules and can be imposed. In return, the state does not provide direct services, but rather maintains public welfare (Yolifia, 2024).

Referring to aforementioned definition of tax, the elements of the definition can be understood as follows: (a) One of the benefits of tax is its mandatory nature, accompanied by fines, administrative sanctions, and legal sanctions. This gives the government an ability to enforce regulations and ensure that taxpayers fulfill their obligations. Consequently, tax dues in accordance with legal provisions can always be enforced. The use of a compulsory Order to Collect taxes from taxpayers is a method of enforcement used in Indonesia; (b) Taxes must be based on statutory regulations as the legal foundation for the state to levy taxes. Without laws governing tax collection, the government cannot do so. Taxes are collected based on law; this is an essential element in the definition of tax; (c) taxpayers do not receive direct benefits from their tax payments, it means that they do not receive direct return for their contributions after paying taxes. When someone pays a levy, they receive direct benefits at that moment. However, this is different from taxes; (d) tax revenues are used to fund government operations. The tax revenue collected by the government from citizens who are taxpayers will be used for government administration, including

paying salaries of state officials, making state expenditures, and building infrastructure that serves as a cash source for those in need (Putri & Taun, 2023).

Soeparman Soemohamijaya has a different opinion regarding the definition of tax. He argues that taxes are compulsory contribution in the form of money or good collected by authorities based on legal norms to cover the costs of producing collective goods and services in achieving public welfare. According to him, the term "coercion" should be avoided, and the term "compulsory contribution" is deemed more appropriate, as it is hoped to reflect the characteristic that taxes are collected with the assistance and cooperation of taxpayers. Emphasizing the importance of coercion is considered excessive as it gives the impression that there is no public awareness to fulfill their obligations. Therefore, according to Soeparman Soemohamijaya, it is unnecessary to add the phrase "that can be enforced", but it is sufficient to use the phrase "compulsory contribution" (Tunggul Anshari Setia Negara, 2017).

In 2021, The Indonesian Government enacted Law Number 7 of 2021 concerning The Harmonization of Tax Regulations, which includes amendments to several provisions in Law Number 8 of 1983 on Value Added Tax on Goods and Sales Tax on Luxury Goods, as last amended by Law Number 42 of 2009 on The Third Amendment to Law Number 8 of 1983 on Value Added Tax on Goods and Sales Tax on Luxury Goods. One of the notable amendments is the policy of increasing VAT to 11%, which previously set at 10% under article 7 paragraph (1) of Law Number 8 of 1983 on Value Added Tax on Goods and Sales Tax on Luxury Goods.

This change in VAT policy caused a reaction in society. The government believes that the 11% VAT rate increase is a solution and is expected to help economic recovery. However, there are several opposing opinions towards the policy of increasing the VAT rate, such as that this provision applies at the wrong time, even though the COVID-19 pandemic has improved, there are still many people whose incomes are not yet stable. The 11% increase in VAT has an impact on increasing the prices of goods and services, because the parties affected by this policy are final consumers or buyers. The increase in VAT will affect people's purchasing power because VAT causes production and consumption costs to rise, so that people's purchasing power will weaken. If this happens, utilities and sales will weaken so that financial performance will also be affected and employment will decrease. It is possible that if people's purchasing power decreases it will have an impact on slow economic growth. Seeing that the Indonesian economy is controlled by household consumption, the decline in people's purchasing power can cause inflation (Julito & Ramadani, 2023).

The increase in value added tax will continue, a 12% VAT increase will certainly occur in 2025.<sup>[6]</sup> This is stated in article 7 paragraph (1) letter (b) Law Number 7 of 2021 concerning Harmonization of Tax Administration: "amounting to 12% (twelve percent) which will come into effect no later than January 1, 2025." Economists expressed concern over the planned 12% VAT increase which they considered would cause problems. Executive Director Center Economic and Law Studies (CELIOS) Bhima Yudhistira revealed that this policy would impose a burden on society, especially the middle class, because the increase in VAT rates could be higher than the increase in wages. This statement was attributed to the difficult job search process, intense competition, and a modest increase in the minimum wage. Meanwhile, the government will implement an increase in the VAT rate which will have an impact on reducing people's purchasing power and household consumption. Bhima believes that

the impact of the VAT increase will mean that the middle class will reduce their spending and will even be forced to use savings because the goods they buy will become more expensive. If savings are no longer there but there are still things that need to be bought, it is feared that new poor people will emerge (CNN Indonesia Tim, 2024).

The principle of utility in tax collection was put forward by W. J Langen, which emphasized that taxes must be used optimally for the public interest. This means that taxpayers who have fulfilled their obligations to the state can feel the benefits of what they have provided to the state (Sandra, 2021). Referring to the problems that have been explained, there is an inconsistency between the concept of the benefit principle and the policy of increasing value added tax rates in article 7 paragraph (1) of Law Number 7 of 2021 concerning Harmonization of Tax Regulations. If you look at the opposing opinions regarding the implementation of the increase in the VAT rate and the opinions of economists which have been explained previously, that the increase in the VAT rate can affect people's purchasing power, it is also related to how much people's income is, so it will have an impact on state tax revenues. Seeing this opinion raises the question of whether the VAT increase regulation can provide the greatest benefit to society so that it can realize equal prosperity.

The gap in this research is that the increase in value added tax rates is an actual issue in Indonesia. Analysis of the benefits of implementing this policy can provide valuable insight for policy makers, especially in the context of post-pandemic economic recovery. Further discussion will use Economic Analysis of Law (EAL) as a theory to analyze problems related to the VAT rate increase policy. This EAL approach is closely related to legal justice, to do so, the law is used as a law economic tools in order to achieve maximization of happiness. The approach and use of this analysis must be prepared using economic considerations that do not eliminate the element of justice, where this element of justice is used as economic standard which is based on four basic elements, namely value (value), use (utility), and efficiency (efficiency) which is based on rationality (rationality) man. Referring to the basic concept of EAL developed by Richard Posner, it is known as the economic conception of justice which confirms that law is created and implemented for the purpose of increasing the broadest public interest (maximizing overall social utility). The economic concept of justice is used as a reference for examining the impact of the enactment of a legal policy or statutory regulation on society, so that it will be easier to know the public's reaction and see the benefits that the policy can provide (Fajar Sugiantoro, 2014). A legal and economic approach can be used by applying economic principles to analyze law. Theory Economic Analysis of Law (EAL) can be used as a theory to analyze the elements of benefits that can be provided by the enactment of a legal regulation.

The following is some previous research with the same problem theme, namely discussing the increase in VAT rates in Indonesia. Albert Siahaan's research in 2023 with the title "Examining the 11% VAT Rate Increase in Indonesia with a research focus discussing the positive and negative impacts of implementing the 11% VAT regulation." Nur Farida Liyana's research in 2021 with the title "Examining Plans to Increase VAT Rates Based on Empirical Evidence and Macroeconomic Impact" with the research focus examining the relationship between VAT and macroeconomic growth with the implementation of tax increases in Japan. Furthermore, Rifky Zahran Pradana's research in 2022 with the title "Problematics of Post-Pandemic National Economic Recovery with the Implementation of Value Added Tax Rate Increases", the

focus of this research is to examine the effect of increasing VAT rates on national economic recovery.

The difference between this research and research that has been carried out previously lies in the use of economic analysis of law theory to analyze how the policy concept for increasing value added tax is in accordance with the benefit principle based on the theory of economic analysis of law. The aim of this research is to find out how the policy concept for increasing value added tax rates as regulated in article 7 paragraph (1) in Law Number 7 of 2021 concerning Harmonization of Tax Regulations is based on the Economic Analysis Theory of Law. Based on the background that has been presented earlier, the problem formula in this study is how the concept of value added tax policy that matches the principle of utility is based on the theory of economic analysis of law.

### **METHOD**

To analyze the problems described in the background section, the researcher chose a research method that was appropriate to the research objectives. This research uses a type of juridical-normative research, where the law is positioned as the object of research to find the truth from a normative perspective. This research not only focuses on statutory regulations, but also carries out a more in-depth analysis of the normative system. This research uses a conceptual approach to examine the validity of legal norms or rules. In this case, the value added tax rate increases. Sources of legal materials in this research include primary, secondary and tertiary legal materials, which were obtained through literature studies to obtain relevant legal regulations, articles and journals online. Analysis of these legal materials is carried out using interpretation techniques which are carried out either grammatically, extensively, restrictively, teleologically, systematically.

### **RESULTS AND DISCUSSION**

Law is often considered an independent scientific discipline. However, this approach often ignores the relationship between law and other fields, especially in the economic field. In reality, law cannot stand alone because not all legal theories can be comprehensively used to analyze problems that exist in society. Legal theory in the flow of positivism which conceptualizes law as written rules containing orders made by the state as ruler, accompanied by sanctions for violators. This concept shows that legal theory in positivist legal philosophy seems textual and rigid. When resolving cases, judges are often caught between formalities, of course this affects the judge's main goal, which is to uphold justice. The value of justice in positivism tends to be more towards procedural or formal justice (Islamiyati, 2018). Therefore, to understand and solve legal problems comprehensively requires an interdisciplinary approach that combines law with other scientific disciplines, especially economics, which can explain the economic impact as a result of the application of law and how law can influence economic behavior.

To achieve a discussion of the background related to the concept of a value added tax increase policy that is in accordance with the benefit principle based on theory economic analysis of law, it is necessary to understand several things so that the discussion can be structured systematically. These things will be explained in the following sub-chapters:



## 1. Characteristics of Value Added Tax

There are four functions of taxes for the state, namely as a budget or revenue (budgets), function set (regulatory), stability function, and as income redistribution. Budget function (budgets) explains that taxes are one source of revenue that the government uses to finance state expenditure. This tax sector is included in the domestic revenue component of the APBN (State Revenue and Expenditure Budget). Set function (regulatory) explains that taxes are used as a tool to regulate government policy. For example, there is the imposition of import duties and sales taxes on luxury charcoal and certain imported products in order to protect domestic products and the provision of tax incentives in order to increase investment. The stability function explains that taxes, which are a source of state income, can be used to carry out government policies, such as maintaining price stability, which aims to reduce the rate of inflation by regulating the circulation of money in society through collecting and using taxes more efficiently and effectively. The fourth function is tax as a redistribution of income. This function explains that the main source of income is tax which is used to finance various public programs and services. So that employment opportunities will increase and ultimately be able to create a positive economic cycle and realize people's welfare (Ariffin & Sitabuana, 2022).

There are two types of taxes from a tax administration perspective, namely direct taxes and indirect taxes. From a juridical perspective, direct taxes are taxes that are collected periodically, that is, repeatedly based on a determination and conclusion. For example, income tax (PPh). Indirect taxes from a juridical perspective are taxes that are collected incidentally (not repeatedly) and do not use cohirs, namely taxes that are only collected occasionally when there are fact (in the form of a situation, action and event that results in a tax debt arising. For example Stamp Duty and Value Added Tax on Goods and Services. luxury goods(Tunggul Anshari Setia Negara, 2017) Value added tax (VAT) is a type of tax imposed when delivering taxable goods (BKP) and/or taxable services (JKP). In simple terms, VAT is a tax that is added and charged on every transaction. In its implementation, sellers who have been confirmed as Taxable Entrepreneurs (PKP) must create an electronic tax invoice as proof of VAT collection and report it every month through the Periodic VAT SPT. However, this tax is actually paid by the buyer (Haddawi, 2023).

Francois Geard and Joana Naritomi (2018) quoting from Keen (2016) stated that around 80 percent of countries belonging to Sub-Saharan Africa have implemented value added tax collection, and this has made a positive contribution to the country because it has succeeded in increasing a quarter of the country's income. comes from taxes (Francois Geard & Joana Naritomi, 2018). The same thing also happens in Indonesia as a developing country, the following is data on the realization of Indonesian state income in billions of rupiah originating from value added tax and sales tax on luxury goods from 2018 to 2024:

**Table I** The Realization of Indonesian State Income.

2018	2019	2020	2021	2022	2023	2024
536.267,90	531.577,30	450.328,06	551.900,50	687.609,50	742.264,50	811.365,00

Source: (Badan Pusat Statistik Indonesia, 2024)

Referring to the Central State Statistics Agency of the Republic of Indonesia, the realization of state income originating from value added tax and sales tax on luxury goods is the third largest source of income after income tax and domestic tax.

## **2. Policy concept for increasing value added tax in accordance with the principle of utility based on the theory of economic analysis of law**

The concept of economic analysis of law (EAL) is closely related to the utilitarianism thought put forward by Jeremy Bentham, where this concept emphasizes expediency as a doctrine in legal science. Richard Posner responded to this concept of utilitarianism, but still has the same basis as Jeremy Bentham's thinking. Posner's thinking regarding EAL begins with a basic understanding which states that humans are actually living creatures economic man, meaning they prioritize economic value with economic reasons and considerations in making a decision. According to the scientific field, the economic concepts used in economic analysis of law is in the realm of microeconomics which is a branch of economics (Fajar Sugiantoro, 2014).

According to Posner, EAL can be used as an approach to answer legal problems by expressing different definitions and different legal assumptions to get a picture of satisfaction and increased happiness. This EAL approach is closely related to legal justice, to do so, the law is used as a law economic tools in order to achieve maximization of happiness. The approach and use of this analysis must be prepared using economic considerations that do not eliminate the element of justice, where this element of justice is used as an economic standard which is based on four basic elements, namely value (value), use (utility), and efficiency (efficiency) which is based on rationality (rationality) man. Referring to the basic concept of EAL developed by Richard Posner, it is known as the economic conception of justice which confirms that law is created and implemented for the purpose of increasing the broadest public interest (maximizing overall social utility). Draft the economic of justice It is used as a reference for examining the impact of the enactment of a legal policy or statutory regulation on society, so that it will be easier to know the public's reaction and see the benefits that the policy can provide (Fajar Sugiantoro, 2014). These four basic concepts of economic analysis of law are related to each other and cannot be separated, each concept cannot stand alone in the process of evaluating a problem. As in reviewing the effectiveness of regulations and legal provisions. The existence of legal provisions can be said to be effective if they contain value, their implementation can be enforced), are effective or beneficial (they serve the purpose for which the provisions were made) and are efficient where the enactment of these provisions can provide welfare for the wider community.

Benefits will always be associated with the theory of utilitarianism put forward by Jeremy Bentham. Jeremy Bentham's famous adage is "The greatest happiness of the greatest number". The general theory of utilitarianism is how to maximize the effectiveness or utility of an action, so that the process can provide enjoyment of benefits, profits and happiness (Pratiwi et al., 2022). The principle of utility in the context of law and public policy refers to the goal of achieving maximum welfare for society at large. So, this principle emphasizes that every policy or legal action must be assessed based on the benefits it will provide to society. Next, we will discuss the concept of a VAT rate increase policy that is in accordance with the principle of utility based on four basic concepts of economic analysis of law, namely the concept of rational choice (rational choice), the concept of value (value), the concept of efficiency (efficiency) and the concept of utility (utility).

a) The concept of rational choice (rational choice)

This concept of rational choice is the basic assumption in the analysis of the framework for developing economic analysis of law. The rational thinking ability inherent in each individual is applied when the individual faces several choices, so that he has to choose what will provide good and maximum results.

The economic approach with the concept of rational choice, is based on individual decision theory, criticism of this theory usually revolves around how a decision is made. The concept of rational choice does refer to the theory of individual choice, but does not absolutely only refer to one individual. This theory can be used at the micro level as a powerful tool to provide implications at the macro or group level. Rational individual choices are combined with assumptions about factors such as chance, balance of market or non-market situations, laws, norms, and traditions to obtain outcomes that can be addressed on a group scale (Gary S. Backer, 1992).

Economics implicitly assumes that human behavior is consistent with rational choice theory. Although the theory lacks a clear definition, most definitions suggest that an individual will use all available information to choose the action that maximizes their expected benefits. Rationality, according to economists, means that people seek to maximize their desired outcomes and choose the alternative that is best and has acceptable consequences. Decisions related to divorce, litigation, and crime are based on rational choice theory and the maximization principle. All individuals will try to maximize something. For example, consumers maximize utility, firms maximize profits, politicians maximize votes, and charities seek to maximize social welfare (ミユ一, 2007).

The concept of rationality is the main analytical framework in understanding human behavior. The basic assumption is that humans are rational maximizing creatures of their satisfaction, their activities involve choices. They are able to calculate (based on their rationality) what should be chosen to achieve the best results and it can be said that these decisions are rational. Since most people are rational, and rationality requires maximization, economic agents can rank alternatives as the next best alternative. Another common way to understand this conception of rational behavior is to recognize that people choose the alternative that best meets their needs. Here's another economic fact, most people want more than they can have with the resources they currently have. This is scarcity, people wanting more than they can satisfy with available resources. Scarcity forces people to make the most valuable choices. This suggests that if people had not made the "right" choice as they did, they would have chosen the next best alternative. The definition of appropriate choice varies from one individual to another, again, based on their rationality and needs. Thus, the right choice in economic activity is closely related to the most valuable goals (Sugianto et al., 2020).

In terms of the policy of increasing the VAT rate, the government stated that this increase is expected to increase state revenue to finance public programs and restore weak post-pandemic economic conditions (Mia Wulandari, 2022). The increase in VAT rates triggered a consumer reaction. As rational individuals, consumers will adjust their consumptive behavior to maximize the utility they will get. If the increase in VAT causes the prices of goods and/or services to rise,

then consumer consumptive behavior will decrease because brands will tend to reduce purchases of goods affected by the increase in VAT rates by looking for other alternatives or by reducing unnecessary spending.

Business actors, both legal entities and individuals, will react and think rationally to adapt to changes in VAT rates. They tend to increase product prices to cover the additional costs of increased VAT. As experienced by PT. Surabaya Fashion Award. The PT was affected by the increase in the VAT rate from 10% to 11%. The decline in sales was caused by an increase in the price of raw materials which caused the selling price of products to also increase by around 7% -11%, an increase in the price of goods produced by the company which caused people's buying interest to decrease, and people's buying interest to decrease due to restrictions on shopping activities. still in the midst of the Covid-19 pandemic (Karisma, 2023).

The concept of rationality in the economic analysis of law theory shows that every party in the economy, namely the government, consumers and business actors, will act based on rational considerations to maximize the profits they get. The government assesses that this increase in VAT rates will help improve national economic conditions, consumers will adapt their consumptive needs to the resources they have, and business actors will adapt to the increase in raw materials due to the increase in VAT rates by adjusting their business strategies to continue to achieve targeted profits.

In the context of this policy of increasing the VAT rate, the government is faced with the choice of increasing state revenue through taxes which will later be used to finance various important public programs. From the perspective of the rational concept in EAL, the policy of increasing the VAT rate is considered reasonable if the government assesses that this policy will provide greater benefits to state income than the negative impact on consumption and investment.

Research conducted by (Liyana, 2021) provides a deeper explanation regarding the impact of increasing VAT rates by referring to the previous experience of Japan. Japan has carried out a policy of increasing VAT rates three times in the past 15 years, where the main aim of increasing VAT rates is to increase the debt to GDP ratio which reached 200%. However, during the 6 years after the VAT increase in 2014, the debt ratio actually decreased from 235.8% to 231.3% in 2015. Then the ratio rose to 236.4% in 2016 then fell again to 234.5% and then continued to rise to 266.2% in 2020. Looking at this data, it can be concluded that Japan has not been able to achieve its hope of reducing the debt ratio by increasing the VAT rate.

If the main goal of the Indonesian government is the same, namely to reduce the national debt ratio, then looking at what Japan has experienced, Indonesia will not necessarily succeed and will not necessarily fail. However, what can influence this success are the different conditions between Indonesia and Japan. Japan's failure was motivated by the population aging it has experienced over the last 20 years, resulting in Japan having large expenditures on its social programs. When compared with Indonesia, there will still be a significant increase until 2045 for the upper middle class. If we refer to this rational concept, further research is needed on the extent of the impacts that will



arise in the short and long term, by prioritizing the conditions currently being experienced by Indonesia.

b) The concept of value

Referring to Posner's opinion, a value (value) can be interpreted as something meaningful or important (significance), desire or desire (desirability) towards something, either monetary or non-monetary, so that the nature attached to it is personal interest (self-interest) humans to achieve satisfaction. Basically, economic value can be seen from human desires for something, by knowing the extent to which humans are willing to get it, either with money, actions or other contributions that they can make.

A value can be identified by the characteristics attached to it, namely an expectation of profit (expected return) or loss. For example, the expected loss and gain of money, multiplied by the probability of what will happen. "An expected cost or benefit, i.e., the cost and benefit in dollars, multiplied by the probability that it will actually materialize".

Human considerations in determining value are ultimately always aimed at the relevance of increasing prosperity. Wealth generally interpreted as wealth, prosperity, generally something more. There are various benefits felt by both the government and society, starting from improving the quality of education, health facilities, public transportation and other public facilities. Considering that it is the largest source of state income collected through the state revenue and expenditure budget (APBN), the existence of a tax collection policy can help the national development process (Lathifa, 2023).

Likewise with the policy of increasing VAT rates. Referring to the concept of value proposed by Posner, a value can be identified by the characteristics attached to it, namely an expectation of profit (expected return) or loss. The VAT rate increase policy must have monetary and non-monetary value which is expected to help achieve maximum profits. By looking at the purpose of tax collection, this increase in the VAT rate must also be considered as being able to increase state revenue which can be used to finance various programs for public needs.

This value concept emphasizes the importance of considering the value of the VAT rate increase policy, both in terms of monetary and non-monetary value. The monetary value seen from the implementation of this policy will increase state income originating from taxes. Meanwhile, the non-monetary value that should be considered in implementing the VAT rate increase is that the benefits obtained can be felt for a lengthy period, such as improving the quality of health, education and transportation services will help improve the quality of life of the community as well. In essence, based on the value concept in EAL, it is hoped that the policy of increasing the VAT rate will not only be possible. Increasing state income will also support the development of public services which will ultimately be able to improve people's welfare.

c) The concept of efficiency (efficiency)

Economists have different definitions of efficiency. A production can be said to be productively efficient if one of the following two conditions: first, it is impossible to produce quantities output the same as a cheaper input combination. Second, it is impossible to produce more output when using the same combination of inputs. Robert Cooter and Thomas Ullen provide an

illustration of this definition by considering a company that uses labor and machines to produce consumer goods called “widgets”. For example, a company currently produces 100 widgets per week using 10 workers and 15 machines. The company will be productively efficient by producing 100 widgets per week if it uses 10 workers and less than 15 machines, or it could be said that it is impossible for the company to produce more than 100 widgets per week if it uses 10 workers and 15 machines (Robert cooter & Thomas Ulen, 2016).

Vilfredo Pareto provides an opinion regarding the concept allocative efficiency or what is known as Pareto efficiency. Basically, this concept emphasizes achieving one's satisfaction. According to Pareto, an event can produce efficiency value if it can make the parties involved better, or at least make none of the parties disadvantaged or miserable.

Allocative efficient which was built by Pareto has two kinds of concepts, namely superiority and optimality. First, pareto superiority is a situation where the exchange does not give a profit to someone, and also does not harm each of those people. "An economic situation in which an exchange can be made that benefits someone and injures no one". Second, pareto optimality is an economic situation that does not make anyone better off without harming or making someone worse off. If pareto superiority cannot be implemented, then the condition will enter Pareto optimality. "When such exchange can no longer be made, the situation becomes one of Pareto optimality. Pareto optimality: an economic situation in which no person can be made better off without making someone else worse off" (Fajar Sugiantoro, 2014).

There is criticism of the concept of Pareto efficiency. Basically, Pareto efficiency offers a method for trying to provide an advantage to someone or at least not provide a loss to someone else. However, in practice this is doubtful. How can you make someone better or benefit without causing other people to be harmed? Imagine if in the world there was one person who had most of the wealth, and seven billion others lived in poverty. This distribution would be unfair, but it would be Pareto superior if it were not possible to make the other seven billion people better off (see benefits) without making the rich worse off.

As a result, efficiency benchmarks in the legal and economic literature remain important but not absolute. Economists do not dispute that distributive justice is important, but the majority of them argue that the tax system is a superior mechanism for redistributing wealth than law. According to them, courts and legislators should be able to create laws aimed at maximizing wealth where this wealth can be distributed by the government in accordance with its policies (Alan Devlin, 2015). In terms of the policy of increasing the VAT rate by referring to the Pareto efficiency concept, the policy must consider whether it is able to improve general welfare without causing significant losses for certain parties, especially the lower middle class. Then, in relation to the principle of utility, the 1% increase in VAT must be used effectively for public service programs that can improve the quality of life of the community, so this policy can be considered in accordance with the principle of utility and taking into account the value of efficiency in it.

Criticism of the concept of Pareto efficiency shows that it is almost impossible to design policies that completely help one party without harming other parties. In the context of this increase in VAT rates, the loss in question is

that the other burden will be felt by groups of people with low incomes where a larger part of their income is spent on consumption compared to groups of people with high incomes. Meanwhile, the benefit in question is how the increase in the VAT rate will increase state income. Therefore, the government is obliged to always consider compensation measures, for example with social protection programs or tax reductions for necessities.

d) The concept of utility (utility)

Utility or also known as usability can be seen through its function which can produce more useful profits (meritorious). The concept of utility or usefulness used in economic analysis of this law means the usefulness or benefits of economic goods that can produce results in the form of profits that lead to prosperity or well-being. The benefits referred to here have freedom of context in their interpretation, namely monetary and non-monetary benefits.

There are two types of understanding of utility in economic analysis of law. First, expect usability (expected utility) as defined in economics and utility which has the meaning of happiness as proposed by utilitarian philosophers. Posner believes that utility in economics is used to see the uncertainty of profits and losses which leads to the concept of risk. The inherent characteristic is a reasonable value for rewarding profits and losses (the worth of expected cost and benefit). The second meaning is utility in the sense used by utilitarian philosophers, namely happiness.

Discusses the utility of the VAT rate increase policy regarding the redistribution of government income originating from this tax. Income redistribution is one of the functions carried out by the government to equalize the welfare of society (klikpajak & Editorial, 2022). This utility concept shows that the policy of increasing VAT rates must be able to provide benefits to the state, namely by increasing state income. The benefits of implementing this policy must be felt by the wider community through the redistribution of state income originating from taxes allocated for social programs, such as health subsidies, education and various types of social assistance. The implementation of the redistribution process must also be measurable, sustainable, and in accordance with the characteristics of the community so that it can be distributed well (Frisca Aurelia Amanda Khoirul, 2024).

This utility concept shows that the policy of increasing VAT rates must be able to provide benefits to the state, namely by increasing state income. The benefits of implementing this policy must be felt by the wider community through the redistribution of state income originating from taxes allocated for social programs, such as health subsidies, education and various types of social assistance. The implementation of the redistribution process must also be measurable, sustainable, and in accordance with the characteristics of the community so that it can be distributed well (Ishaqi & Mastor, 2024). So, this policy will be considered successful if it is able to optimize broad social benefits, not just from its ability to increase state income.

To understand more deeply the implications of the results of this research, both theoretically and practically, a comprehensive analysis is needed regarding how these findings contribute to the development of the Economic Analysis of Law (EAL) theory and its application in tax policy, especially in the context of increasing VAT rates. Thus, the implications of this research will be analyzed further to see to what

extent it can influence existing theory and make a real contribution to making better public policies.

The theoretical implications of research results on EAL theory can strengthen the implementation of the concept of rationality in policy decision making, such as in the context of formulating policies to increase VAT rates which are based on the rationality of the government and business actors who must adapt to changes in VAT rates where this requires new business strategies. so that they can continue their business activities. Moreover, referring to this rational concept, shows that *rational choice* not only applies at the individual level, but must also be applied to policies taken by the government. The concept of value in EAL emphasizes that the policy of increasing VAT rates must consider monetary and non-monetary values. So, the EAL concept can be expanded by integrating aspects of redistribution with justice. Referring to the concept of Pareto efficiency which shows that it is impossible for public policy to always guarantee overall distributive justice. Therefore, of course the EAL Theory can be developed to be more inclusive of aspects of social justice and wealth distribution. Then, by looking at the importance of utility, this research can contribute to the development of utility theory in EAL by emphasizing that utility in public policy must cover social welfare broadly, which is not only limited to financial benefits.

The practical implications of the results of this research include consumers needing to adapt and adjust their consumption behavior. Referring to the concept of rationality, consumers as rational individuals will tend to control consumption levels by reducing their consumptive behavior. State income is used for social programs, based on the concept of value and utility, state income obtained from the increase in VAT rates must be used effectively for public service programs such as in the health, education and infrastructure sectors and carry out effective redistribution so that the benefits from the increase in VAT rates This can be felt by all levels of society. Then, referring to the concept of efficiency which emphasizes a balance between increasing state income and its impact on society, the government must ensure that this policy does not cause significant inequality of justice, especially for lower groups of society. In order to ensure that the increase in VAT rates truly provides benefits based on the concept of value and utility, there needs to be ongoing monitoring and evaluation of inflation, consumption levels and investment, as well as the implementation of social programs that use state revenue funds to ensure they are on target as well. The benefits can be felt maximally by the target community.

## CONCLUSION

The concept of a VAT rate increase policy that is in accordance with the principle of utility from the Economic Analysis of Law (EAL) Theory perspective must fulfill four basic concepts, namely the concepts of rationality, value, efficiency and utility. The policy of increasing the VAT rate will be considered rational if the results of tax revenue can provide a realistic increase and can be used for public service programs that can be felt by the wider community. The policy of increasing the VAT rate must have significant good value that can increase state income and the quality of public welfare. This policy is considered efficient if it can improve public welfare without causing significant harm to certain individuals or groups. Lastly, the policy must be able to increase the utility felt by the government, society and business actors through the redistribution of tax revenues to improve public services and social programs that can improve the quality of life of the wider community



The author recommends that the government should maximize the utility perceived by the public effectively, by utilizing state revenues which derived from taxes to enhance public services and general welfare. The legal sources for this research were obtained through a literature review of previous studies which relevant to the research topic. Future research could adopt a socio-legal approach to examine the effectiveness of the VAT rate increase, thereby providing comprehensive insights for both the government and the general public.

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