

## Optimizing Value Added Tax (VAT) Revenue in Indonesia

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### Abstract

This paper discusses the Optimization of Value Added Tax (VAT) Revenue in Indonesia, highlighting the importance of taxes as a source of funding for the state. Taxes serve as a tool to support national development and meet the needs of society. In this context, VAT becomes one of the largest sources of tax revenue after Income Tax (PPh), contributing approximately 30% of total tax revenue. Changes in tax regulations, particularly through the Draft Law on Harmonization of Tax Regulations (HPP), have sparked controversy in society, especially concerning the increase in VAT rates from 10% to 12% and the introduction of a multi-rate scheme. This paper also identifies factors that hinder the optimization of VAT revenue, including taxpayer compliance and operational costs of the tax system. An analysis is conducted on the impact of tax policy on the economy and the effectiveness of tax collection in supporting national financial stability. By understanding the dynamics and challenges in VAT revenue collection, it is hoped that solutions can be found to enhance tax contributions to national development.

**Keywords:** Value Added Tax (VAT); Revenue Optimization; Tax Regulations; Draft Law on Harmonization of Tax Regulations (HPP); Taxpayer Compliance



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### Introduction

Taxation Regulations in Indonesia will experience many changes over time and changes in the era. The influence of the economy, the basic needs of the State, development needs and others require the community to work together to build the State with its various needs through Taxes. (Putri & Subandoro, 2022)

Taxes are used as a vital source of state finance for the running of the state. Therefore, the state makes tax collection a public obligation. In addition, it is also one of the forms of state financing in realizing the implementation of national development. In the State Budget or (APBN) we can see the strategic and important role of taxes in the implementation of government and its Draft APBN from year to year there is an increase in the percentage of tax contributions (Agustina, 2019).

State revenues derived from taxes consist of several types of tax sources such as Value Added Tax (PPN), Income Tax (PPh), Land and Building Tax (PBB), Luxury Goods Sales Tax (PPnBM), also derived from Stamp Duty, Excise, Import Duty, and Export Duty. To finance expenditures, income tax has made the largest contribution to assisting the state in financing expenditures, although income tax is only imposed on certain taxpayers, namely someone who already has income and whose income is above non-taxable income that can be made a taxpayer for income tax. Unlike value added tax, this tax is delegated or imposed on other people (tax amnesty)(Migang, S., & Wahyuni, 2020)

Value Added Tax in this case VAT which is a consumption tax, where the tax is directed at consumers who use the goods and services based on the imposition of goods and services that are taxable objects in the customs area. The imposition of this tax is directed at the value of goods and services that are identified as circulating from producers to consumers. Value Added Tax is the second largest source of tax revenue after Income Tax (PPh), the contribution given by value added tax or VAT is around 30% of tax revenue. The party that has the obligation to calculate, report, and account for VAT is the trader, while the end product user is the party that pays VAT(Agasie & Zubaedah, 2022)

Policy-making institutions consist of two categories: official and unofficial policymakers. Official policymakers include various government institutions such as administrative bodies, executive bodies (president), legislative, and judiciary. While unofficial policymakers include interest groups, political parties, and individual citizens. In 2021, the General Provisions and Tax Procedures Bill (KUP) which was later transformed into the Harmonization of Tax Regulations Bill (HPP) caused polemics in society, especially regarding changes to the Value Added Tax (VAT) regulations. The draft bill was circulated through the mass media and contained significant changes in article 44E. Key changes include an increase in the VAT rate from 10% to 12% and the introduction of a multi-tariff scheme that allows for the imposition of tax at different rates on certain VAT objects. The rate range in the new scheme ranges from 5% to 25%. This change amends the provisions in Law Number 8 of 1983 concerning VAT and Sales Tax on Luxury Goods (PPnBM), which was last amended through Law Number 11 of 2020 concerning Job Creation.(Aryani & Tambunan, 2022)

The imposition of VAT is calculated using the indirect subtraction method, namely by subtracting the VAT collected by the seller (PK) from the amount of VAT paid to other sellers (PM) (Sukardji, 2009:26). This reduction causes a difference in the form of a shortage or excess payment between the amount of VAT collected and that paid. Taxpayers (WP) who are Taxable Entrepreneurs (PKP) who have a VAT underpayment are required to pay off the amount of the VAT underpayment, while for PKP who receive an overpayment can compensate the overpayment to the next tax period or

submit an application for a refund of the excess VAT payment known as VAT restitution.(Octavia et al., 2015)

#### **Tax System Operating Costs**

The operating costs of a tax system include various types of costs related to the management and implementation of a tax system in a country. Based on the results of the search and existing knowledge, here are some important points regarding the operating costs of a tax system: Non-Refundable Fees (Fees charged in calculating profit sharing and Income Tax, which cannot be refunded to the taxpayer), Company Operating Costs (Costs related to corporate income tax are regulated in Article 6 paragraph 1 of the Taxation Law. These costs can include various expenses required to run the company's operations).

**Legal and Policy Aspects :** Operational costs that can or cannot be claimed in tax calculations are regulated by applicable tax laws. This is important to ensure effective tax compliance and management and high operating costs can affect a company's net profit and, in turn, the amount of tax to be paid. Therefore, companies need to manage these costs well to minimize the tax burden.(Octavia et al., 2015)

**Examples of Operating Cost :** Salaries and Wages (Payments to employees involved in tax management), Administrative Cost (Expenses for tax information systems, software, and staff training), Consulting Fees (Expenses for tax consultant services that assist companies in tax planning and compliance).

## **Methodology**

The inclusion of this approach is optional for original research articles. It is presented in a descriptive manner. The approach, method, or process being discussed is explained in a way that provides a clear and detailed description. It is crucial to provide a general, step-by-step explanation of the research methodology. The primary purpose of employing this method is to offer readers a comprehensive understanding of the techniques employed in the study. It is important to note that this is only applicable to original research articles; it is not required in papers categorised as General Reviews.

## **Results and Discussion**

### ***Realization of Value Added Tax (VAT) Revenue in Indonesia***

According to Supramono and Damayanti, Value Added Tax (VAT) is a tax imposed on domestic consumption (customs area), both consumption of Taxable Goods (BKP) and consumption of Taxable Services (JKP) (Supramono and Damaryati, 2010).(Supramono dan Damayanti.(2010). Theresia Woro, 2010)VAT must be collected, deposited, and reported by taxpayers who are sellers, but in fact the ones who pay VAT are the buyers or consumers themselves because VAT is included in transactions carried out by consumers as regulated in Article 6 paragraph (1) letter a of PERPU Number 1 of 2020 where VAT is imposed on both goods and services originating from

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outside the customs area. VAT is one of the most important and significant national assets in terms of national development. VAT has dynamic tax characteristics that are observed at every stage of production and distribution of goods and services (Mardiasmo, 2023), (Prof. Dr. Mardiasmo, 2023) which means that every product or service that then moves from one party to another, then VAT will be lost and paid. so that VAT is considered an effective tool to regulate public consumption and income distribution because the burden of this tax is borne by consumers. the effectiveness of VAT in increasing state revenue is very dependent on taxpayer compliance.

NJ Feldmann in his book *The Overheidsmiddelen van Indonesia*, Leiden, 1949, reads: "Belastingen zijn aan de Overheid (volgens generalgemene, door haar vastgestelde norms) verschuldigde afdwingbare prestaties, waargeen tegenprestatie tegenover state and uitsluitend dienen tot dekking van public uitgaven ("Tax is a performance that is unilaterally imposed by and owed to the ruler (according to norms that are generally determined by him), without any counter-performance, and is solely used to cover general expenses".) Feldmann (as well as Seligman) is of the opinion that with regard to tax payments, there is no counter-performance from the state.

MJH Smeets in his book *De Economische Betekenis der Belastingen*, 1951, reads: "Belastingen zijn aan de overheid (volgens normen) verschuldigde, afdwingbare prestaties, zonder dat hiertegenover, in het individuele geval, aanwijsbare tegen-prestaties staan; zij strekken tot dekking van publieke uitgaven". ("Taxes are achievements owed to the government through general norms, and which can be enforced, without any counter-performance being demonstrated in individual cases; the purpose is to finance government expenditure.")

PJA Adriani in R. Santoso Brotodihardjo, stated as follows: "Tax is a contribution to the state (which can be enforced) which is owed by those who are obliged to pay it according to regulations, without receiving any repayment, which can be directly appointed, and the purpose of which is to finance general expenditures related to the state's task of organizing government."

Sommerfeld, defines it as: "tax is a mandatory transfer of resources from the private sector to the government sector based on regulations without any direct and balanced return, so that the government can carry out its duties in running the government."

According to Rochmat Soemitro, there are 3 tax functions, namely: Budget function; function to regulate and to overcome inflation. In general, the function of taxes imposed on the community has 4 (four) functions, namely:

- a Financial function (budgeter), The function of the budget is that taxes are a tool (or source) to put as much money as possible into the state treasury which in time will be used to finance state expenditure. (Rohendi, 2014)
- b Regulating function (regulerend), tax as a tool to regulate or implement government policies in the social and economic fields. Example: high

taxes on alcoholic beverages to reduce alcoholic beverage consumption.(Rohendi, 2014)

- c Stability function, with taxes the government has funds to implement policies related to price stability so that it is controlled. inflation This can be done, among others, by regulating the circulation of money in society, tax collection, effective and efficient use of taxes.(Octaviany et al., 2021)
- d Funding redistribution function, Taxes that have been collected by the state will be used to finance all public interests, including to finance development, so that they can open up job opportunities that will ultimately increase people's income.(Sinaga, 2014)

Tax distribution can be done based on group, collector's authority, or nature:

- a According to the group
    - 1. Direct tax, is a tax whose burden must be borne by the taxpayer concerned and cannot be transferred to another party, for example: income tax. Income tax is a tax imposed on income, can be imposed periodically and repeatedly within a certain period of time, either a tax period or a tax year.(DR. Niru Anita Sinaga, SH, 2014)
    - 2. Indirect tax, is a tax whose burden can be transferred or shifted to another party so it is often referred to as indirect tax. For example: Value Added Tax and Luxury Goods Sales Tax. In this tax the tax burden is shifted from producer/seller to buyer/consumer, from to because this shift is in the same direction as the flow of goods, namely from producer to consumer, the shift is called forward (forward shifting). In addition, there is also something called backward shifting, namely a shift in tax that is opposite to the flow of goods.
  - b Based on the authority of the collector.
    - 1. Central/state tax, is a tax whose collection is the authority of the central government, the implementation of which is carried out by the Ministry of Finance through the Directorate General of Taxes, the central government is regulated by law and the results will go to the State Budget (APBN). Central/state taxes are as follows: Income Tax, Value Added Tax and Sales Tax on Luxury Goods, Land and Building Tax, Stamp Duty, Land and Building Acquisition Fee.(Asiva Noor Rachmayani, 2015)
    - 2. Regional taxes, are taxes whose collection authority lies with the regional government and are implemented by the Regional Revenue Service. Provincial taxes, for example: Motor Vehicle and Water Vehicle Tax, Motor Vehicle and Water Vehicle Transfer Fee, and others. Regency/city regional taxes, for example: Hotel tax, restaurant tax, and others.(Asiva Noor Rachmayani, 2015)
  - c According to its nature
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1. Subjective tax, is a tax that takes into account the condition/circumstances of the Taxpayer. In determining the tax, there must be objective reasons that are closely related to the material circumstances, namely the bearing force. The bearing force is the ability of the Taxpayer to bear tax after deducting the minimum cost of living, for example: Income Tax.
2. Objective tax, is a tax that initially pays attention to the object that causes the obligation to pay, then the subject is sought, either an individual or a corporation. So in other words, objective tax is a tax that only pays attention to the object.

So that tax collection does not cause obstacles or resistance, tax collection must meet the requirements for tax collection, including: (1) fairness requirements, tax collection must be fair in accordance with the objectives of the law, namely achieving justice based on laws and other regulations in imposing taxes generally and immediately, and adjusted to the ability of each. While its implementation is fair, namely by giving the right to Taxpayers to file objections to the Head of the local Tax Service Office, and to file an appeal to the Tax Court. (DR. Niru Anita Sinaga, SH, 2014) (2) Legal requirements, tax collection must be based on law. (3) Economic requirements, tax collection must not disrupt the smooth running of economic activities, both products and trade, so that it does not cause a sluggish economy in the community. (4) Financial requirements, tax collection must be efficient according to the budgetary function. Tax collection costs must be reduced so that they are lower than the collection results. (5) The tax collection system must be simple. A simple tax collection system will facilitate and encourage the public to fulfill their tax obligations. (Wirawan B. Ilyas & Richard Burton, 2007)

Wirawan B. Ilyas and Richard Burton in their book Tax Law state that basically there are 4 (four) types of tax collection systems, namely: (1) Official assessment system is a tax collection that determines the amount of tax that must be paid (tax payable) by a person. With this system, the community (Taxpayers) are passive and wait for a tax determination to be issued by the Tax Office. The amount of a person's tax debt is only known after a tax determination letter is issued. (2) Semi self assessment system is a tax collection system that authorizes the tax authorities and Taxpayers to determine the amount of tax owed by a person. In this system, at the beginning of each tax year, Taxpayers determine the amount of tax owed for the current year, which is an installment for Taxpayers that must be paid by themselves. Only then, at the end of the tax year, the Tax Authorities determine the actual amount of tax owed based on data reported by Taxpayers. (3) Self-assessment system is a tax collection system that gives full authority to Taxpayers to calculate, account for, deposit, and report the amount of tax debt themselves. In this system, the Taxpayer is active while the Tax Office does not interfere in determining the amount of tax owed by a person, unless the Taxpayer violates the applicable provisions. (4) Withholding system is a tax collection system that authorizes a third party to



deduct/collect the amount of tax owed. The designated third party then deposits and reports it to the Tax Office. In this system, the Tax Office and Taxpayers are not active, the Tax Office is only tasked with supervising the implementation of deductions/collections carried out by third parties.

To achieve these goals, tax collection is based on:

a. Principle of justice. In seeking justice, one of the paths that must be taken is to ensure that tax collection is carried out generally and evenly. In relation to tax collection, Smith (1723-1790) in Santoso outlined the principles of tax collection better known as The Four Maxims, with the following description:

1) The distribution of tax pressure among each Tax Subject should be balanced with their ability, namely balanced with the income enjoyed by each, under the protection of the government (principle of distribution/principle of interest). "Equality" is permitted. In this principle, no country discriminates between fellow taxpayers, in the same circumstances, Taxpayers must be subject to the same tax;

2) Taxes that must be paid by a person must be clear (certain) and not arbitrary. In this principle of "certainty", the legal certainty that is important is regarding the subject, the amount of tax, the object, and also the provisions regarding the time of payment;

3) "Every tax ought to be levied at the time, or in the manner, in which it is most likely to be convenient for the contributor to pay it". This recommended tax collection technique (also called "convenience of payment") stipulates that taxes should be levied at the time most convenient for the taxpayers, namely as close as possible to the receipt of the income in question;

4) Every tax ought to be so contrived as both to take out and to keep out of the pockets of the people as little as possible over and above what it brings into the public treasury of the State". This principle of efficiency stipulates that tax collection should be carried out as economically as possible; the cost of collection should never exceed the tax revenue.

b. Principles according to legal philosophy It has been explained above that tax law must serve justice. This justice is what we call the "principle of tax collection". Apart from the fact that in its implementation, tax law makers must always adhere to the principle of justice, it is often questioned whether tax collection by a country is also based on justice. Since the 18th century, theories have emerged to provide a basis for stating justice (justification) for the state's right to collect taxes from its people, including:

1) Insurance theory (Verzerings theory) This theory states that it is part of the state's duty to protect people and all their interests, the safety and security of their lives, as well as their property.

2) Interest theory (Belangen theory) This theory in its original teachings, only paid attention to the distribution of tax burdens that must be collected from the entire population. The distribution of this burden must be based on the interests of each person in government tasks (which are beneficial to him), including the protection of the lives of those people and their property.

3) The theory of bearing force. The main basis of this theory is the principle of justice, namely that the tax burden must be the same for everyone.

4) The theory of absolute tax obligations or the theory of devotion. In contrast to the three theories above, which do not prioritize the interests of the state over the interests of its citizens, this theory is based on the Organische Staatsleer understanding, so it is taught by him that it is precisely because of this nature of the state that the absolute right to collect taxes arises.

5) Theory of purchasing power principle. This theory teaches that the implementation of the interests of society is what can be considered as the basis for fairness in tax collection; not individual interests, nor state interests, but rather the interests of society which include both.

c. Legal principle. Tax law must be able to provide the necessary legal guarantees to state strict justice, both for the state and for its citizens. Therefore, regarding taxes in a state of law, everything must be determined, the imposition and collection of taxes (including customs and excise) for state purposes may only occur based on law.

d. Economic principles. In addition to the budgetary function, taxes are also used as a tool to determine economic policies. may require a country to decline the economic life of the community.

e. Financial principle. In accordance with the budget system, it is certain that the costs for imposing and collecting them must be as small as possible, especially in comparison to the income.(DR. Niru Anita Sinaga, SH, 2014)

### ***Problems in Tax Collection in Indonesia***

The law governing taxation has been established and enforced in Indonesia, but there are still many fundamental problems or obstacles in its implementation. This greatly affects the results of tax revenue as a source of state revenue. Various obstacles are caused by various factors which will be outlined below. Lack of government socialization to the community as Taxpayers regarding the importance of paying taxes, the benefits of paying taxes, and the sanctions that will be received if Taxpayers neglect their obligations.

In addition to the low awareness of Human Resources (HR) knowledge, it also influences, where Taxpayers do not understand the importance of paying taxes, do not know the procedures for registering, calculating and reporting their own Tax Objects that they control, utilize, and the very low economic level of some Taxpayers greatly influences, where Taxpayers still prioritize basic costs, such as: School fees, health costs and so on, rather than paying taxes. The database is still far from international standards. In fact, the database is very important for testing the truth of tax payments with a self-assessment system.

Conditions like this make it difficult for empirical research aimed at testing taxpayer compliance. Taxpayers can provide information and report that is



not in accordance with the actual conditions. A complete and accurate database affects the effectiveness of law enforcement and taxpayer compliance. Furthermore, taxpayer compliance affects tax revenue. The lack or absence of public awareness as taxpayers to pay taxes to the state is a form of resistance. The perception of taxpayers that it is useless to pay taxes in an orderly manner, because in the end it will be used wastefully and not on target and will even be corrupted by some tax officials. The low level of taxpayer compliance will cause the difference between the amount of tax paid by taxpayers and the amount of tax that should be paid to be even greater.

Taxpayers with large incomes tend to be more compliant than those with low incomes because those with large incomes tend to be conservative in reporting their tax obligations. The application of high tax rates is also an obstacle, because it burdens Taxpayers. Other obstacles are: Implementing regulations of laws are often inconsistent with the law; many official and unofficial levies both at the center and in the regions; weak law enforcement; convoluted bureaucracy and so on which if carried out properly would certainly help in realizing good governance in the form of a clean and authoritative government. The existence of Resistance to taxes is an obstacle that exists or occurs in efforts to collect taxes. Tax resistance can be divided into two parts, as follows.

1. Passive Resistance. This passive tax resistance is closely related to the socio-economic conditions of the people in the country concerned. In general, people do not make systematic efforts to hinder state revenues, but rather because of the habits that apply in the community. but because they are not yet accustomed to banking.

2. Active Resistance. This active tax resistance is a series of efforts made by Taxpayers to not pay taxes or reduce the amount of taxes that should be paid. Active resistance can be divided into two, as follows : tax avoidance and tax evasion.

3. Tax Avoidance. Tax avoidance is a legal reduction effort carried out by optimally utilizing provisions in the field of taxation such as, exemptions and deductions that are allowed or benefits of things that have not been regulated and weaknesses in the applicable tax regulations.

4. Tax Evasion. Tax evasion is a tax reduction that is done by violating tax regulations such as providing false data or hiding data. Thus, tax evasion can be subject to criminal sanctions. For example: the habit of villagers who save money at home or not buy gold to avoid Income Tax from interest

#### Efforts Made to Overcome Tax Problems in Indonesia

In order to ensure the continuity of tax revenue as the main source of the APBN and provide fairness in business (level of in playing fields), the government needs to expand the tax base by increasing the number of taxpayers registered to have NPWP and at the same time their compliance. The government will continue to try to explore tax potential (tax coverage) as

optimally as possible and also increase taxpayer compliance (taxpayers' compliance).

To overcome the above problems, the government is doing what is called Tax reform. In this case, the government is making various efforts by issuing a series of laws to change existing laws. This is done to provide a greater sense of justice and legal certainty. The purpose of improving tax laws is in the context of extensification and intensification of tax imposition and collection which is also an effort to increase the fairness of the tax burden, eliminate tax facilities that have no legal basis that will harm the national economy and close opportunities for tax avoidance (loopholes).

Therefore, in accordance with the general regulatory function, it can be stated that the tax system must be able to encourage national economic activities and growth by encouraging investment from abroad and securing state revenues. Meanwhile, to carry out the budgetary function as the main pillar of state revenues, it is done by expanding the scope of tax subjects and objects, and minimizing the possibility of transfer pricing and limiting the imposition of final Income Tax.

All of these policies in the long term are expected to improve tax compliance, increase investment and state revenues towards independent development financing. Encourage counseling in the field of taxation. This is done to increase the insight of taxpayers. With increased knowledge, it is expected to raise awareness to pay taxes. Thus, it is expected that state revenues through the tax sector can increase. Improve the legal culture for both taxpayers and tax officers. The parties are expected to be able to carry out their respective obligations in accordance with applicable tax provisions. The government must carry out strict supervision of tax collection. If deviations are found, strict sanctions must be given. This is necessary to provide a deterrent effect for both taxpayers and tax officers.

Value Added Tax has been implemented in more than 160 countries worldwide, including developing countries (Gerard and Naritomi, 2018). Alavuotunki et al. (2019) stated that after the implementation of Personal Income Tax and Income Tax deductions, Value Added Tax has become one of the most important tax policy innovations. Tax revenues in European Union countries are 20% from Value Added Tax (European Commission, 2006). In optimizing Value Added Tax revenues in Indonesia, there are obstacles where

1. Low Taxpayer Awareness: Many business actors, especially in the e-commerce sector, still do not understand their tax obligations. This causes many to not report or pay taxes according to applicable provisions, thus reducing the potential for state revenue, (Mardiasmo, D., & Rahayu, 2020)

2. Then there is the weakness of law enforcement against tax violations which is still weak so that without firm sanctions and consistent enforcement, many taxpayers feel no need to fulfill their obligations. (Prabowo, H., & Setiawan, 2021)

3. With the increase in digital transactions, VAT monitoring and collection has become more difficult. Tax authorities often do not have enough

information to determine the identity of the end consumer in cross-border transactions, making tax collection difficult.(Sari, R., & Rahman, 2022)

4. Inadequate Regulation:

Despite efforts to expand VAT objects, existing regulations have not fully accommodated the development of the digital economy. This creates loopholes in the tax system that can be exploited by business actors to avoid tax obligations.(Wibowo, E., & Indriani, 2023)

5. Impact of VAT Rate Increase:

The increase in VAT rates can increase the burden of people's lives, especially for the lower middle class. This has the potential to reduce people's purchasing power and create social dissatisfaction, which in turn can affect tax compliance.(Nurhayati, S., & Santoso, 2020)

6. Administrative Burden for Taxpayers:

The expansion of VAT objects and changes in tax regulations can increase the administrative burden for taxpayers, including the need to issue tax invoices with high accuracy. Delays or errors in issuing invoices can result in fines.(Kusnadi, A., & Putri, 2021)

## **CONCLUSION**

In the context of national taxation, Value Added Tax (VAT) is a fundamental instrument in the state financial system that has a very high complexity and significance. A comprehensive review of the dynamics of VAT in Indonesia reveals a series of very complex and multidimensional findings, which cannot be simply understood through conventional approaches. The level of realization of Value Added Tax revenue in Indonesia actually reflects a systemic portrait of the economic structure and administrative complexity of national taxation. This phenomenon cannot be interpreted simply, but requires in-depth analysis that considers various external and internal variables that interact dynamically. Fundamentally, the main obstacle in optimizing VAT revenues stems from the institutional system that still has structural weaknesses. The national tax administration system faces significant challenges in integrating a comprehensive database. The limited capabilities of information technology and tax information systems are the main obstacles in accurately identifying, validating, and calculating potential tax revenues. The complexity of tax regulations that are always changing creates uncertainty for business actors, especially on a small and medium scale. Complicated tax mechanisms and high administrative burdens often act as disincentives for taxpayer compliance. This encourages some business actors to take a pragmatic stance by seeking legal loopholes or even engaging in tax avoidance practices.

Indonesia's highly heterogeneous economic structure dominated by the informal sector is a challenge in itself in VAT collection. The economic characteristics that mostly operate outside the formal mechanism make it difficult for tax authorities to carry out comprehensive monitoring and

collection mechanisms. This phenomenon is not only related to the technical aspects of taxation, but also to complex socio-economic dimensions. Macroeconomic factors also play a crucial role in the dynamics of VAT revenue. Fluctuations in economic growth, inflation rates, people's purchasing power, and global economic conditions simultaneously affect transaction volumes and taxpayers' ability to fulfill their tax obligations. Every economic change has significant direct implications for tax revenue. Indonesia's geographic and demographic challenges also add to its complexity. As an archipelagic country with diverse regional characteristics, implementing a uniform taxation system is very difficult. Differences in the level of economic development between regions, accessibility, and economic infrastructure require a very adaptive and flexible approach. Strategic efforts to optimize VAT revenue require a comprehensive transformation at the policy, institutional, and system levels. A holistic approach is needed that does not only focus on the technical aspects of taxation, but also considers the social, economic, and cultural dimensions.

Advice from our group To optimize Value Added Tax (VAT) revenue, the government needs to implement several key strategies. First, digitizing the tax system is the key. A modern and integrated information technology system will facilitate transaction tracking, identify potential taxes, and minimize tax avoidance loopholes. Second, simplification of tax regulations is very important. Complex tax regulations often hinder taxpayer compliance. By making regulations simpler and easier to understand, it is expected to increase awareness and compliance of business actors. Tax education is the third crucial strategy. The low level of public understanding of taxes is one of the main obstacles. A comprehensive education program from the basic level to business actors can change the perception of taxes from merely an obligation to a contribution to national development. Strengthening the capacity of tax officials is the next step. Tax officials need to be equipped with the latest technical skills, understand the dynamics of the digital economy, and have high integrity. A good recruitment and competency development system will produce professional tax officials.

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