

Analysis of the Impact of the 12% VAT Increase on the Financial Performance of MSMEs in Indonesia

Putri Intan Prastiwi^{1,*}, Novemy Triyandari Nugroho², Agus Suyatno³, Primadia Putri Harmastuti⁴, Shoffin Tasnim Aulia⁵

1 Duta Bangsa University, Surakarta, Indonesia

2 Duta Bangsa University, Surakarta, Indonesia

3 Duta Bangsa University, Surakarta, Indonesia

4 Duta Bangsa University, Surakarta, Indonesia

5 Duta Bangsa University, Surakarta, Indonesia

* E-mail: putri_intanprastiwi@udb.ac.id

ABSTRACT

The increase in the Value Added Tax (VAT) rate from 11% to 12% has raised concerns about the sustainability of Micro, Small, and Medium Enterprises (MSMEs), especially those that are not yet digitized and have not been registered as Taxable Entrepreneurs (PKP). These MSMEs are likely to face additional burdens such as production and administrative costs, reduced profit margins, and declining consumer purchasing power. This study aims to analyze the impact of the VAT rate increase on the financial performance of MSMEs in Indonesia. A descriptive qualitative approach was employed through a literature study method. Data were obtained from nationally indexed journals in the SINTA database, the ISSN portal, official reports from the Ministry of Finance, and publications by Statistics Indonesia (BPS). Samples were selected purposively, focusing on MSMEs directly affected by the VAT policy. The data were analyzed using a narrative comparative method, comparing MSME conditions before and after the implementation of the 12% VAT rate, using indicators such as sales, operating costs, and profit margins. On the other hand, the policy may encourage greater efficiency, digitalization, and product innovation among MSMEs. The findings indicate that the impact of the VAT policy varies depending on the business scale and administrative readiness of each enterprise. Therefore, this study recommends tax assistance, administrative guidance, and simplification of tax compliance procedures to strengthen the resilience and sustainability of MSMEs amid fiscal policy changes.

KEYWORDS: Financial Performance; MSMEs; Tax Rate; VAT

INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) are a vital part of Indonesia's economy. Data from the Ministry of Cooperatives and SMEs recorded that in 2023, there were approximately 64.2 million MSME units that played a significant role in building the national economy. MSMEs contributed 61.07% to the national Gross Domestic Product (GDP), equivalent to IDR 8,573.89 trillion (Ministry of Cooperatives and SMEs, 2023). In addition, this sector provided employment for over 117 million people, or about 97% of the national workforce, and accounted for 60.4% of total domestic investment (BPS, 2022). Despite their significant role, MSME players still face various obstacles, especially in complying with tax obligations. Many MSMEs struggle to pay and report taxes on time. The causes vary widely, ranging from low tax literacy to weak financial management (Hidayat & Wibowo, 2021). This has led to the perception that the tax administration process is overly complicated and time-consuming (Nugroho, 2020).

Since the enactment of Law Number 7 of 2021 on the Harmonization of Tax Regulations (UU HPP), the Value Added Tax (VAT) rate has been gradually increased from 10% to 11%, and subsequently to 12% starting January 1, 2025. This policy aims to cover the state budget deficit

(APBN) following the COVID-19 pandemic and to make Indonesia's VAT rate more competitive compared to other Southeast Asian countries (Ministry of Finance, 2022). However, when the VAT increase plan was announced, many MSMEs had not yet fully recovered from the pandemic, in terms of sales, financial management, and workforce (Siregar et al., 2023). Therefore, the VAT rate hike policy is feared to add to business costs and disrupt MSME sustainability (Putri & Santoso, 2023).

According to Law Number 42 of 2009, VAT is an indirect tax on the consumption of Taxable Goods (BKP) and Taxable Services (JKP). The VAT is borne by the end consumer and thus is not directly charged to MSME businesses, but the administration is managed by Taxable Entrepreneurs (PKP). The history of VAT rates in Indonesia began at 10% from 1984 to March 1, 2022, increased to 11% from April 1, 2022, to December 31, 2024, and is set to rise to 12% on January 1, 2025 (Government of Indonesia, 2021). Finance Minister Sri Mulyani emphasized that the VAT rate increase aims to reduce the state budget deficit, as Indonesia's VAT rate is still relatively low compared to several neighboring Southeast Asian countries (Ministry of Finance, 2022). Therefore, understanding the impact of the 12% VAT increase on the financial performance of MSMEs is crucial for designing appropriate adaptation strategies and mitigation policies. Various studies have highlighted the impact of VAT increases on MSMEs, particularly in terms of pricing, consumer purchasing power, and business income (Rahmawati & Prasetyo, 2022). Other research has emphasized the role of capital, location, and technology in determining how significantly the tax policy affects MSMEs (Ardiansyah & Lestari, 2021). Based on these conditions, it is essential to further understand how the VAT rate increase from 11% to 12% affects the financial performance of MSMEs in Indonesia—especially regarding sales, operational costs, and profit margins—by comparing conditions before and after the VAT rate hike. This will help in formulating policy recommendations to reduce the negative impacts of the rate change.

METHODOLOGY

Research Design, This study employed a descriptive qualitative approach using a literature review method.

Population and Sample Used, The research focused on Micro, Small, and Medium Enterprises (MSMEs) in Indonesia as the study population, particularly in relation to Value Added Tax (VAT) policies and financial performance indicators (Putri, 2024).

Data Collection Techniques, Data were collected through searches in the SINTA database and ISSN portal using keywords such as MSMEs, value added tax, tax rate, and financial performance. Secondary data were also obtained from official reports by the Ministry of Finance of the Republic of Indonesia and publications from Statistics Indonesia (BPS).

Tools or Instruments Used, Mendeley reference management software was used to organize and manage the literature sources.

Data Analysis Methods, The analysis technique used was narrative comparison, focusing on the conditions of MSMEs before the 11% VAT (April 1, 2022 – December 31, 2024) and after the 12% VAT implementation (starting January 1, 2025), with emphasis on sales, operational costs, and profit margins.

RESULTS AND DISCUSSION

Pre-VAT Increase Conditions

Prior to the VAT increase to 12%, MSMEs in Indonesia were still in the recovery phase following the economic downturn caused by the COVID-19 pandemic. Many were struggling to stabilize cash flow, rebuild supply chains, and regain consumer trust. In 2023, only approximately 33.6% of MSMEs had integrated into the digital economy, indicating that over 60% had not yet adopted digitalization. This digital divide created significant barriers to accessing online markets, implementing efficient financial systems, and maintaining transparent bookkeeping practices (Kompas, 2023).

The existing 11% VAT rate already posed challenges, particularly for non-taxable entrepreneurs (non-PKP), who were unable to claim input tax credits. As a result, these MSMEs bore the full burden of VAT on their purchases, which increased production costs and reduced price competitiveness

(Fitri & Hidayat, 2022). In many cases, businesses were forced to lower their profit margins to maintain affordable pricing for consumers, especially in price-sensitive markets (Yulianti, 2023).

Furthermore, the administrative complexity of VAT compliance—including invoicing, documentation, and tax reporting—was often beyond the capacity of small-scale enterprises with limited financial literacy and resources (Ramadhani & Pratama, 2021). For those operating informally or semi-formally, the lack of legal and fiscal infrastructure further discouraged VAT registration, perpetuating informality and limiting access to government support programs (BPS, 2022).

The transition to a 12% VAT rate risks exacerbating these issues unless accompanied by targeted government interventions. These should include digital literacy training, tax education, incentives for formalization, and simplified compliance mechanisms tailored to MSME capabilities (Kementerian Keuangan, 2023). Without such support, the VAT increase could widen the gap between formal and informal MSMEs, ultimately hampering inclusive economic growth and long-term sustainability (Ningmuhanhaini, 2024).

Post-VAT Increase to 12%

MSMEs registered as taxable entrepreneurs (PKP) are required to apply a 12% VAT on goods or services sold. This increases production costs, particularly for those not fully implementing input-output VAT systems. Administrative burdens and increased input costs can raise total production expenses by 0.9% to 1.1% of total turnover.

With higher VAT rates, MSMEs tend to adjust product prices upward. This tax hike reduces consumer purchasing power by up to 3.5% within the first two months post-adjustment, especially affecting the lower-middle segment, which constitutes the largest customer base for MSMEs (Kompasiana, 2024). Profit margins decreased by an average of 2.8% following the VAT increase from 10% to 11%, and the 12% rate is expected to further erode margins, particularly for price-sensitive MSMEs (Kompasiana, 2024).

Companies with advanced VAT input-output systems can absorb tax burdens more efficiently, maintaining stable prices. In contrast, MSMEs implementing the 12% VAT may struggle to remain competitive, especially if substitute imported products are not subject to the same tax burdens due to tax holidays or different import duties (UKM Indonesia, 2025).

Tax compliance, involving timely and complete tax reporting, remains complex for MSMEs. The 12% VAT necessitates stricter bookkeeping, hiring administrative staff, and adapting to electronic invoicing systems. However, this increase can also drive innovation, prompting MSMEs to enhance supply chain efficiency, strengthen digital channels, and diversify products. Leveraging digital technology can enable cost leadership strategies to mitigate expenses.

Policies and Solutions

The government can offer tax incentives, such as reduced final income tax rates or direct subsidies, to alleviate the burden on affected MSMEs. These incentives are believed to enhance MSME sustainability and tax compliance, aligning with findings that such policies encourage participation in the formal tax system and voluntary compliance.

Digital transformation in tax systems is crucial for improving administrative efficiency and transparency. Implementing e-invoicing, e-reporting, and cloud-based accounting systems can simplify tax reporting and payment processes for MSMEs. Research indicates that tax digitalization not only eases administrative procedures but also enhances accuracy and trust in the tax system (IDX, 2024).

Enhancing MSME capacity through training and mentoring programs is vital for understanding financial and tax systems. Such initiatives have proven effective in enabling MSMEs to independently prepare standard-compliant financial reports, contributing to readiness in fulfilling fiscal obligations, including VAT (Kompasiana, 2024).

Additionally, MSMEs should be guided to diversify product offerings and utilize digital technology to reach broader markets. This approach aims to reduce dependency on specific markets sensitive to price fluctuations due to VAT, fostering resilience and adaptability to fiscal policy changes (Kadin Indonesia, 2023).

For these measures to be effective, the government should conduct regular monitoring and evaluation of VAT policies, particularly concerning the MSME sector. This aims to assess policy implementation effectiveness and capture MSME feedback. Research emphasizes the importance of guidance and evaluation in MSME bookkeeping and reporting processes, forming the basis for assessing fiscal policy impacts.

CONCLUSION

The increase in the VAT rate from 11% to 12% has had a significant impact on MSMEs, especially those that are not yet digitalized and have not registered as taxable entrepreneurs (PKP), as they must bear additional production and administrative costs, as well as a decline in profit margins and consumer purchasing power. This situation further worsens the condition of MSMEs that are still in the post-pandemic recovery phase. On the other hand, this policy encourages MSMEs to innovate, improve operational efficiency, and utilize digital technology. Therefore, government support is needed in the form of tax assistance, digitalization of the tax system, training, and regular policy evaluations to sustain and enhance MSMEs' integration into the taxation system.

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