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Analysis of the Impact of VAT Rate Increases and Tax Literacy on the Purchasing Power of Communities Around the Karawang Industrial Area

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Abstract

The increase in Value Added Tax (VAT) rates is a fiscal policy that has the potential to affect people's purchasing power through changes in the prices of goods and services. The purpose of this study is to evaluate the impact of the increase in Value Added Tax (VAT) rates on people's purchasing power by considering the role of tax literacy as a mediating variable. The study used a quantitative approach with a purposive sampling technique on 98 respondents around the Karawang industrial area. Data analysis was conducted using SPSS version 26. Based on the analysis results, partially, the increase in VAT rates and tax literacy did not show a significant effect on people's purchasing power. However, when tested together, both variables were proven to have a significant effect on people's purchasing power.

Keywords:value added tax, purchasing power, tax literacy, fiscal policy

INTRODUCTION

Taxes are one of the largest sources of state revenue, playing a vital role in financing national development and maintaining economic stability (Mardiasmo, 2019). Law of the Republic of Indonesia Number 28 of 2007 defines taxes as a form of obligation to the state, the implementation of which is regulated by law and is mandatory, without direct compensation to taxpayers, with the primary goal of improving public welfare.

One type of tax that contributes significantly to state revenue is value-added tax (VAT). Through Law of the Republic of Indonesia Number 7 of 2021 concerning the Harmonization of Tax Regulations, the government has implemented a policy of increasing the VAT rate from 10% to 11% as part of fiscal reform. This policy aims to

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increase state revenue, but on the other hand, it has the potential to impact the economy through increased prices for goods and services, as VAT is charged to end consumers.

Price increases resulting from changes in VAT rates can impact people's purchasing power, particularly those in the lower-middle income group, who tend to be more sensitive to changes in the prices of basic necessities. Purchasing power is an important indicator in assessing an individual's or household's ability to meet their living needs based on their income level.

Besides the increase in VAT rates, another factor that can influence people's purchasing power is the level of tax literacy. Tax literacy reflects the public's understanding of the function of taxes, tax policies, and the benefits of taxes for national development. A good understanding of taxation can influence how people respond to changes in fiscal policy, including rationally managing household consumption and spending patterns.

This phenomenon is also evident in the communities surrounding the Karawang industrial area, most of whom are laborers, private sector employees, and small business owners. Despite relatively high wages in this area, some groups still experience limited purchasing power due to economic pressures.

Several previous studies have described the influence of changes in VAT rates on consumption patterns and purchasing power. However, studies examining the relationship between VAT rate increases, tax literacy, and purchasing power among lower-middle-income communities around industrial areas are still limited, particularly in the Karawang region. Therefore, this study aims to determine the extent to which changes in Value Added Tax (VAT) rates and public understanding of taxation affect purchasing power in the Karawang industrial area.

LITERATURE REVIEW

Theory of Planned Behavior (TPB)

The Theory of Planned Behavior (TPB) developed by Icek Ajzen explains that individual behavior is influenced by intentions formed from attitudes, subjective norms, and perceived behavioral control (Ajzen, 1991). In this study, the TPB is used to explain public response to increases in Value Added Tax (VAT) rates. Tax literacy levels are seen as influencing how people understand tax policies and adjust their consumption behavior, thus impacting purchasing power.

Value Added Tax (VAT)

Value Added Tax (VAT) is an indirect levy imposed on the use of goods and services within the customs area. Although collected through businesses, the tax burden is generally passed on to end consumers through the price mechanism, so changes in

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tax rates can directly affect the prices of goods and services consumed by the public. In the Indonesian tax system, VAT is a source of state revenue that makes a significant contribution to the state budget (APBN).

The Indonesian government has amended the VAT rate through a fiscal policy stipulated in the Law on the Harmonization of Tax Regulations (UU HPP). The VAT rate, previously at 10%, was raised to 11% on April 1, 2022, and is planned to increase to 12% as part of the national tax information strategy. This policy aims to increase state revenue, maintain fiscal sustainability, and support national development financing.

According to research by Fadhilah et al. (2025), changes in VAT rates have direct implications for the prices of goods and services because the tax is levied on public consumption. Consequently, increases in VAT rates have the potential to increase household consumption costs, particularly for groups with limited incomes.

Tax literacy

Tax literacy is an individual's level of understanding of the concepts, functions, benefits, and applicable tax regulations. Tax literacy reflects the public's ability to understand the role of taxes as a fiscal instrument and their implications for economic activity. According to Sustiyo (2022), tax literacy includes not only general knowledge about taxation, but also an understanding of specific types of taxes, including Value Added Tax (VAT), the imposition mechanism, rates, and their impact on the prices of goods and services.

In the context of this research, tax literacy relates to the public's ability to understand the VAT rate increase policy and its impact on household spending. A good level of tax literacy can help the public respond more rationally to changes in tax policy, including adjusting consumption patterns and managing household finances. Therefore, tax literacy is suspected to influence the purchasing power of residents around the Karawang industrial area.

Public Purchasing Power

Purchasing power reflects an individual's or household's ability to access goods and services, influenced by income and prevailing price conditions. According to Iskandar Potong (2013), purchasing power reflects a person's ability to purchase goods and services, which is influenced by income levels and price changes. Meanwhile, according to Prathama Rahardja and Mandala Manurung (2008), purchasing power relates to a consumer's ability and willingness to consume during a given period.

People's purchasing power is influenced by several factors, such as income level, prices of goods and services, inflation, and government economic policies. In the context of this research, an increase in the Value Added Tax (VAT) rate has the potential to

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increase the price of goods and services, thereby affecting people's consumption ability, particularly among lower-middle income groups. Therefore, purchasing power, the focus of this research, is understood as the ability of people to meet consumption needs following the VAT rate increase.

Hypothesis Development

The impact of increasing VAT rates on people's purchasing power

In economic theory, an increase in VAT rates has the potential to increase the prices of goods and services because VAT is passed on to end consumers through the price mechanism. This price increase can reduce people's consumption capacity, especially among lower-middle-income groups who tend to be more sensitive to price changes. Research by Widana et al. (2025) shows that the increase in VAT rates impacts changes in consumption patterns and reduces people's purchasing power. Therefore, the increase in VAT rates is suspected to affect the purchasing power of people around the Karawang industrial area.

H1: The increase in VAT rates has an impact on people's purchasing power.

The influence of tax literacy on people's purchasing power

Tax literacy reflects the public's level of understanding of tax policies, including the impact of VAT rate increases on economic activity. A high level of tax literacy can help people make more rational consumption decisions and manage household expenses more effectively. Previous research has shown that tax understanding influences public response to fiscal policy and consumption behavior. Therefore, tax literacy is suspected to influence public purchasing power.

H2: Tax literacy has an impact on people's purchasing power

The Impact of Increased VAT Rates and Tax Literacy on People's Purchasing Power

VAT rate increases and tax literacy are factors that can influence consumer behavior. VAT rate increases have the potential to increase the prices of goods and services, while tax literacy can influence the public's ability to understand and adapt to changes in tax policy. Therefore, these two variables are suspected to jointly influence purchasing power.

H3: Increases in VAT rates and tax literacy have an impact on people's purchasing power.

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RESEARCH METHODS

Types of research

This study employed a quantitative approach with a causal associative approach. Causal associative research aims to determine the causal relationship between independent and dependent variables (Sugiyono, 2020). This study was conducted to analyze the impact of increasing value-added tax (VAT) rates and tax literacy on the purchasing power of lower-middle-income communities around the Karawang industrial area. A quantitative approach was used because the research data was measured numerically and analyzed statistically.

Research Variables

This study uses two main variables, namely the independent variable and the dependent variable.

1. **Independent Variable (X1): Increase in VAT Rates**

   An increase in the value-added tax (VAT) rate represents a change in the tax rate on the consumption of goods and services, ultimately passed on to end consumers. In this study, the VAT rate increase variable is measured based on public perception of changes in the prices of goods and services following the VAT rate increase and its impact on consumer spending.

2. **Independent Variable (X2): Tax Literacy**

   Tax literacy is the public's understanding of taxation, including its functions, benefits, and policies. In this study, tax literacy is measured based on the public's level of understanding of value-added tax (VAT) policies and their impact on economic activity.

3. **Dependent Variable (Y): Community Purchasing Power**

   Purchasing power is defined as the ability of people to purchase goods and services based on their income. This variable is measured based on the ability to meet needs, changes in consumption patterns, reductions in purchases, and price preferences following the VAT increase.

Research Data

The population in this study is the lower middle income community who live around the Karawang industrial area, especially in the Teluk Jambe Timur sub-district. The sampling technique used purposive sampling, namely a method of selecting respondents based on certain criteria, including; (1) at least 19 years old, (2) domiciled around the Karawang industrial area, (3) acting as consumers of goods and services subject to VAT, and (4) Willing to participate as research respondents. Determination of the number of

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samples was carried out using the Slovin formula with a 10% error rate so that 98 respondents were obtained.

Data Analysis Techniques

This study uses primary data obtained through online and offline questionnaires distributed to residents around the Karawang industrial area. Data analysis methods used include descriptive statistics, validity tests, reliability tests, and classical assumption tests consisting of normality, multicollinearity, and heteroscedasticity. Furthermore, multiple linear regression analysis, t-test (partial), F-test (simultaneous), and coefficient of determination (R^2) were conducted to measure the magnitude of the effect of the increase in VAT rates and tax literacy on public purchasing power.

RESULTS AND DISCUSSION

Table 1. Descriptive statistical results

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
KENAIAKAN TARIF	98	6.00	20.00	15.1837	3.15688
LITERASI PAJAK	98	11.00	20.00	17.3469	2.22961
DAYA BELI MASYARAKAT	98	5.00	25.00	17.7245	3.23888
Valid N (listwise)	98				

Data Quality Test

1. Reliability Test

Table 2. Test Results Reliability

VARIABLES	CRONBACH'S ALPHA	N OF ITEMS	INFORMATION
X.1	0.711	4	Reliable
X.2	0.778	4	Reliable
Y	0.704	5	Reliable

Source: SPSS 26 Output Results, Processed (2026)

An instrument is considered reliable if it has a Cronbach's Alpha value > 0.70. Based on Table 2, all research variables had Cronbach's Alpha values above 0.60, thus being deemed reliable and suitable for use in research.

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2. Validity Test

Table 3. Test Results Validity

Variabel	Butir Pertanyaan	r hitung	r tabel	Keterangan
X.1	X1.1	0.705	0.198	Valid
	X1.2	0.748	0.198	Valid
	X1.3	0.807	0.198	Valid
	X1.4	0.736	0.198	Valid
	Butir Pertanyaan	**r hitung**	**r tabel**	**Keterangan**
X.2	X.2.1	0.673	0.198	Valid
	X.2.2	0.644	0.198	Valid
	X.2.3	0.707	0.198	Valid
	X.2.4	0.756	0.198	Valid
	Butir Pertanyaan	**r hitung**	**r tabel**	**Keterangan**
Y	Y.1	0.728	0.198	Valid
	Y.2	0.812	0.198	Valid
	Y.3	0.789	0.198	Valid
	Y.4	0.772	0.198	Valid

Source: SPSS 26 Output Results, Processed (2026)

An instrument is said to be valid if the calculated r value is greater than the table r. Based on Table X, all question items in variables X1, X2, and Y have a calculated r value greater than the table r (0.198), so all question items are declared valid.

Classical Assumption Test

1. Normality Test

Table 4. Test Results Normality

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		98
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	3.11822701
Most Extreme Differences	Absolute	.065
	Positive	.054
	Negative	-.065
Test Statistic		.065
Asymp. Sig. (2-tailed)		.200[c,d]

a. Test distribution is Normal.
b. Calculated from data.
c. Lilliefors Significance Correction.
d. This is a lower bound of the true significance.

Source: SPSS 26 Output Results, Processed (2026)

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The results of the Kolmogorov-Smirnov normality test show an Asymp. Sig. (2-tailed) value of 0.200 > 0.05, so that the research residuals are normally distributed and the regression model meets the normality assumption.

2. Multicollinearity Test

Table 5. Test Results Multicollinearity

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
		B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1	(Constant)	10.565	2.675		3.950	.000		
	kenaikan tarif ppn	.145	.105	.142	1.385	.169	.933	1.072
	literasi pajak	.286	.149	.197	1.922	.058	.933	1.072

a. Dependent Variable: daya beli masyarakat

Source: SPSS 26 Output Results, Processed (2026)

The results of the multicollinearity test show that the tolerance value for the VAT rate increase and tax literacy variables is 0.933 > 0.10, while the VIF value is 1.072 < 10. This means that it can be concluded that this research model does not experience multicollinearity.

Simple Linear Regression Test

Table 6. Test Results Coefficient of determinant (R2)

Model Summary				
Model	R	R Square	Adjusted R Square	Standard Error of the Estimate
1	.270a	.073	.054	3.15088
a. Predictors: (Constant), tax literacy, increase in VAT rates				
b. Dependent Variable: people's purchasing power				

Source: SPSS 26 Output Results, Processed (2026)

The table shows an R value of 0.270 with a coefficient of determination (R Square) of 0.073. This indicates that the variables of VAT rate increases and tax literacy influence people's purchasing power by 7.3%, while 92.7% is influenced by other factors outside the study.

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Table 7. Test Results Feasibility of the research model (F-Test)

ANOVA						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	74,397	2	37,199	3,747	.027b
	Residual	943,164	95	9,928		
	Total	1017,561	97			
a. Dependent Variable: people's purchasing power						
b. Predictors: (Constant), tax literacy, increase in VAT rates						
Source: SPSS 26 Output Results, Processed (2026)						

Based on Table X, the calculated F value is 3.747 with a significance level of 0.027 < 0.05, so it can be concluded that the increase in VAT rates and tax literacy simultaneously have a significant effect on people's purchasing power. Thus, Hypothesis 3 (H3) is accepted.

TABLE 8. Test Results Partial T

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	10.565	2.675		3.950	.000		
	kenaikan tarif ppn	.145	.105	.142	1.385	.169	.933	1.072
	literasi pajak	.286	.149	.197	1.922	.058	.933	1.072

a. Dependent Variable: daya beli masyarakat

Source: SPSS 26 Output Results, Processed (2026)

Based on the results of the t-test, the variable of the increase in VAT rates obtained a calculated t-value of 1.385 with a significance level of 0.169 > 0.05, thus indicating that the increase in VAT rates did not have a significant effect on people's purchasing power. Thus, these results indicate that the increase in VAT rates did not have a significant effect on people's purchasing power, so Hypothesis 1 (H1) was rejected.

Based on the t-test results, the tax literacy variable obtained a calculated t-value of 1.922 with a significance level of 0.058 > 0.05, indicating that tax literacy does not have a significant effect on people's purchasing power. These results also indicate that tax literacy does not significantly influence people's purchasing power, so Hypothesis 2 (H2) is rejected.

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DISCUSSION

The impact of increasing VAT rates on people's purchasing power

The research results show that the increase in VAT rates did not significantly impact people's purchasing power. This indicates that changes in VAT rates have not yet become a major factor influencing consumption decisions in the Karawang industrial area. This could be due to adjustments in people's consumption patterns, such as reducing purchases of certain goods, choosing substitute goods, or prioritizing basic needs over secondary needs.

This finding aligns with research by Zein et al., which states that the impact of VAT increases on public consumption is not always significant because it is influenced by households' ability to adapt to managing expenses. However, this finding contradicts research that found that VAT increases directly reduce purchasing power due to rising prices of goods and services.

The influence of tax literacy on people's purchasing power

The research results show that tax literacy does not significantly impact people's purchasing power. This suggests that the public's level of understanding of taxation does not directly influence their ability or consumption decisions. In this context, people's purchasing power is more influenced by economic factors such as income level, prices of basic necessities, and household economic conditions than by an understanding of tax policy.

The results of this study indicate that even if people understand taxes, this doesn't necessarily significantly impact consumption behavior. Therefore, tax literacy plays a greater role in tax compliance than in changes in people's purchasing power.

The Impact of Increased VAT Rates and Tax Literacy on People's Purchasing Power

The research results show that the increase in VAT rates and tax literacy simultaneously have a significant impact on public purchasing power. This indicates that although neither variable has a significant effect individually, when combined, they are able to explain changes in public purchasing power.

These findings indicate that people's purchasing power is not influenced by a single factor, but rather by a combination of interrelated factors. Increases in VAT rates can affect the prices of goods and services, while tax literacy can shape people's understanding of fiscal policy. Therefore, the interaction of these two variables can collectively influence people's purchasing power.

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CONCLUSION

Based on the results of research regarding the impact of increasing VAT rates and tax literacy on the purchasing power of people around the Karawang industrial area, it can be concluded that:

1. The increase in VAT rates did not significantly impact people's purchasing power (sig. 0.169 > 0.05; t-test 1.385). This finding indicates that purchasing power is more influenced by adjustments in consumption patterns and household need priorities.
2. Tax literacy also does not show a significant influence on people's purchasing power (sig. 0.058 > 0.05; t count 1.922), because the level of purchasing power tends to be more determined by economic conditions such as income and prices of basic necessities.
3. Simultaneously, the increase in VAT rates and tax literacy were proven to have a significant influence on people's purchasing power (sig. 0.027 < 0.05; F count 3.747).
4. The R^2 value of 0.073 indicates that the two variables are only able to explain 7.3% of the variation in people's purchasing power, while the remaining 92.7% is influenced by other factors outside this research model.

SUGGESTION

Based on the results of the research that has been conducted, the suggestions that can be given are as follows:

1. The government needs to consider the impact of the VAT increase on lower-middle-income communities and strengthen social protection policies and stabilize the prices of basic necessities.
2. The public needs to improve tax literacy and financial management to be more adaptive to changes in fiscal policy and economic conditions.
3. Further researchers are advised to add other variables such as income, inflation, prices of basic necessities, and lifestyle to obtain more comprehensive results.

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