

# The Impact of VAT Increase on Purchasing Decision: Evidence from Smartphone Market in Indonesia

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## ABSTRACT

The objectives of this study are to determine the effect of the VAT increase on smartphone purchasing decisions. The data used in this study were obtained from the responses to filling out a questionnaire with a linear scale by Surabaya people aged 18-25 years as many as 120 respondents who use smartphones by responding to the increase in VAT rates. The questionnaire distributed consists of 2 parts, including (1) knowledge about VAT rate increase, and (2) smartphone purchase decisions. This study found that the imposition of 11% VAT has an insignificant effect on the decision to purchase smartphone commodities. The low influence between these variables is due to several things, including the high level of importance of smartphone commodities to support daily life and other variables such as an increase in customs tariffs or increasingly rapid technological developments.

**KEYWORDS** – *VAT, Smartphone, Purchase, Decision, Tax.*

## 1. INTRODUCTION

The VAT rate increase is expected to rebalance the Indonesian economy after the pandemic, where the VAT increase has shown a positive increase in state revenue marked by the success of vaccination programs, government social assistance programs, and other programs. In addition, the VAT increase can realize the function of taxes, namely the regulerend function (regulating) so that people use the goods affected by the VAT increase more effectively and efficiently.

The increase in Value Added Tax affects almost all goods. Examples of goods that have experienced VAT increases include smartphones. It is undeniable that these two things are one of the daily needs of Indonesians given the pandemic that has been running for the past two years. The urgency of using smartphones and internet packages has increased drastically in recent years. Both the lower middle class and upper middle class need smartphones and internet packages for survival and daily activities.

Reporting from data from detik.com in 2021, there was a significant increase in the level of smartphone purchases, which increased from 16% to 19.2% since the beginning of the pandemic. The increase in commodity purchases is based on the implementation of restrictions on community activities (PPKM) in Indonesia which makes all activities based online or online. One of them is conducting distance learning such as using video calls or online meetings. The high level of activity increases one's urgency to switch to a smartphone that has adequate features. One of the largest users of smartphones in Indonesia is among students, based on data from the Good stats page in 2022, the highest smartphone users are in the age range of 20-29 years with a percentage of 75.59%. As for internet penetration in Indonesia according to the dataindonesia.id website, ages 19-34 occupy the two highest positions, where the achievement rate reaches 98.64%. Students use smartphones to communicate, to support learning, and for entertainment. Apart from the age range, smartphone users in Indonesia are mostly spread on the island of Java, with a percentage of 86.6% (Goodstats.id). Based on the data that has been attached, it can be concluded that people who are spread across the island of Java and have status as students are the highest users of smartphones.

One of the cities on the island of Java, especially in Surabaya, is one of the cities in Indonesia with a high level of students, which consists of various students with different levels of smartphone and internet package needs. Based on data obtained from BPS in 2021, Surabaya City has the highest total number of students in East Java. This total number of students includes 276,113 students from public and private universities. Therefore, based on

the background, the researcher will conduct a study on the Effect of VAT Increase on Smartphone and Internet Package Purchasing Decisions. The objectives of this study are to determine the effect of the VAT increase on smartphone purchasing decisions.

## 2. LITERATUR REVIEW

### Value Added Tax (VAT)

Value Added Tax (VAT) is a tax imposed on domestic consumption, both consumption of Taxable Goods (BKP) and consumption of Taxable Services (JKP). According to Waluyo (2011), VAT is a tax imposed on the consumption of goods and services in the country (within the customs area). Based on Law Number 7 of 2021 concerning Harmonization of Tax Regulations (HPP Law), where the applicable VAT rate is contained in article 7 Paragraph (1), namely with a tax rate of 11% which comes into effect on April 1, 2022.

### Purchase Decision

According to Kotler & Armstrong (2018), consumer purchasing decisions are decisions to buy the most preferred brand, but two factors can arise between purchase intention and purchase decision. According to Firmansyah (2019), purchasing decisions are problem-solving activities carried out by individuals in selecting appropriate alternative behaviors from two or more alternative behaviors and are considered the most appropriate action in buying by first going through the stages of the decision-making process. According to Tanady & Fuad (2020), consumer purchasing decisions are influenced by how a purchasing decision-making process is carried out. According to Yusuf (2021), a purchasing decision is a thought in which individuals evaluate various options and make a choice on a product from many choices.

It can be concluded that purchasing decisions are one of the stages of consumer behavior that underlie consumers to make purchasing decisions before post-purchase behavior and how individuals, groups, and organizations choose, buy, use, and how goods or services satisfy their needs and wants. According to Kotler and Armstrong (2016), there are five stages to the decision-making process. The following five stages include: (1) Problem identification, (2) Information gathering, (3) Alternative evaluation, (4) Purchase decision, and (5) Attitude after purchase. Also, according to Kotler and Armstrong (2008: 181) the indicators of purchasing decisions are: (1) Steadiness to buy after knowing product information, (2) Deciding to buy because of the most preferred brand, (3) Buy because it suits your wants and needs, (4) Purchased because of a recommendation from someone else.

### Previous Research

There are several previous studies used in this study. Yovita Purwanto Puteri (2021) conducted a study entitled "Problematics of the law on the imposition of credit tax and starter pack cards." In this normative juridical concept, legal research is directed as writing based on laws and regulations, and in this study, it is focused on PMK No. 6 of 2021. PMK No. 6 of 2021 will become a rule or norm that becomes a benchmark for the tax collection process in Indonesia, and in this study, it is focused on the imposition of Credit Tax and Starter Pack Cards. This research is based on primary and secondary legal materials, in selecting primary data, the focus is on the use of legal documents, which normatively the imposition of VAT on Credit and Prime Cards is regulated in PMK No.6 of 2021 associated with related tax law theories. Secondary data comes from several online news related to the pros and cons of the imposition of VAT on Credit and Starter Pack Cards. The reference in writing is on primary data, to understand the purpose and usefulness of the imposition of VAT on Credit and Prime Cards for the people of Indonesia associated with input and criticism from the opinion of the DPR and / or other community institutions. And a conclusion can be drawn regarding the regulation of the imposition of VAT on Credit and Prime Cards that remains clear, certain and transparent and takes into account the welfare of the community, especially in terms of the economy.

## 3. RESEARCH METHOD

### Data Collection

Data collection technique is one of the ways carried out for research to obtain data used to achieve research objectives. The data collection technique used in this study was to use a questionnaire (questionnaire). The questionnaire used in this study is a questionnaire with a Likert scale. The questionnaire distributed to 120 students who use smartphones in Surabaya, Indonesia.

### Research Design and Stages

The stages of this research include:

1. Problem identification  
The first step is to identify the problem. Where, from this stage the researcher will obtain an overview of the responses of smartphone and internet package users regarding the effect of the 11% VAT increase on the purchasing decisions of the two BKPs. From these results, problem identification can be carried out related to the 11% VAT policy, namely the effect of the VAT increase on people's purchasing decisions on smartphones.
2. Identification of research questions  
After identifying problems, the second step is to identify questions. From this stage, questionnaire questions will be formulated to obtain the data needed for this research.
3. Data collection  
The next step is data collection and quantification. In this stage, what was done was distributing questionnaires to 120 respondents who were students and domiciled in Surabaya.
4. Data management and data analysis  
In this stage, the results of the questionnaire that has been filled in by the respondents are processed. From the results of this processing, data analysis is carried out to find answers to problems related to the research.
5. Interpretation and communication of research results  
Interpretation and communication of research results is the last stage of the research process. From this stage, it is expected that the results of data analysis will be interpreted and communicated through research reports.

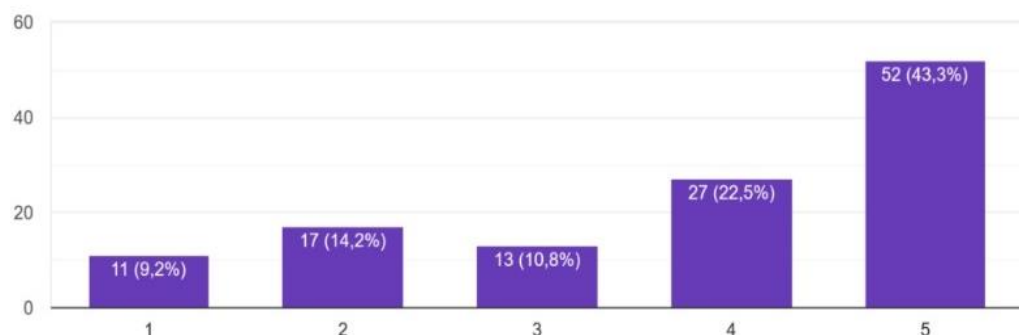
## 4. RESULT AND DISCUSSION

### Data Description

The data used in this study were obtained from the responses to filling out a questionnaire with a linear scale by Surabaya people aged 18-25 years as many as 120 respondents who use smartphones by responding to the increase in VAT rates. The questionnaire distributed consists of 2 parts, including (1) knowledge about VAT rate increase, and (2) smartphone purchase decisions, Data was collected using a Likert scale with values of 1-5 for each statement. For the first section related to VAT knowledge, a score of 1 indicates "very ignorant" and a score of 5 indicates "very knowledgeable." Meanwhile, for the second sections related to smartphone purchase decisions, a value of 1 indicates "strongly disagree" and a value of 5 indicates "strongly agree." The results obtained from the questionnaire responses are described as follows:

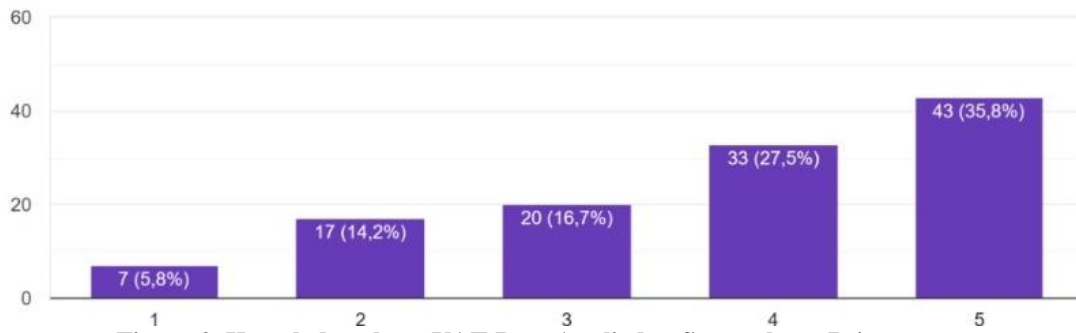
#### 1. VAT Knowledge

Based on the questionnaire results, of the 120 student respondents, 65.8% or as many as 73 respondents knew that the VAT rate had increased as of April 1, 2022. Then it was found that 10.8% or as many as 13 students knew enough about it. Then the remaining 23.4% or 28 respondents did not or did not know that the VAT rate had increased. It can be concluded that most respondents are aware of the information about the increase in VAT rates, but there are some students who are not aware or know that VAT has increased since 2022.



**Figure 1. Knowledge about VAT Increase**

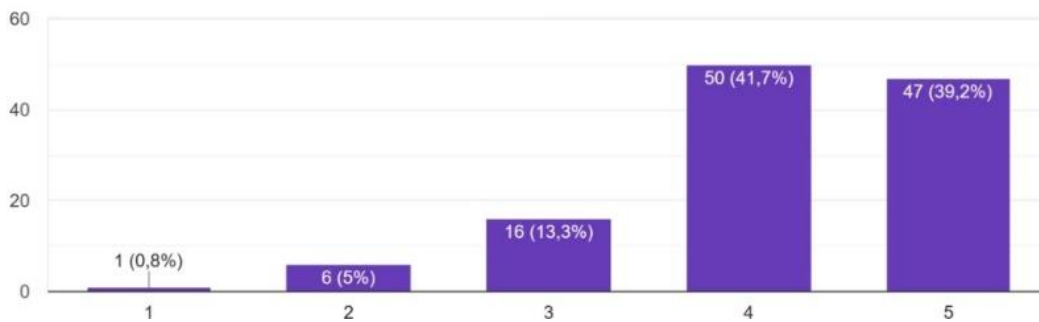
Based on the questionnaire results, out of 120 student respondents, 63.3% or 76 respondents knew that the 11% VAT rate applied to *smartphone* prices. Then it was found that 16.7% or as many as 20 students knew enough about it, then the remaining 20% or as many as 24 respondents did not or did not know that the VAT increase had an impact on *smartphone* prices. It can be concluded that most respondents already know that *smartphone* prices have increased due to an increase in VAT rates.



**Figure 2. Knowledge about VAT Rate Applied to Smartphone Prices**

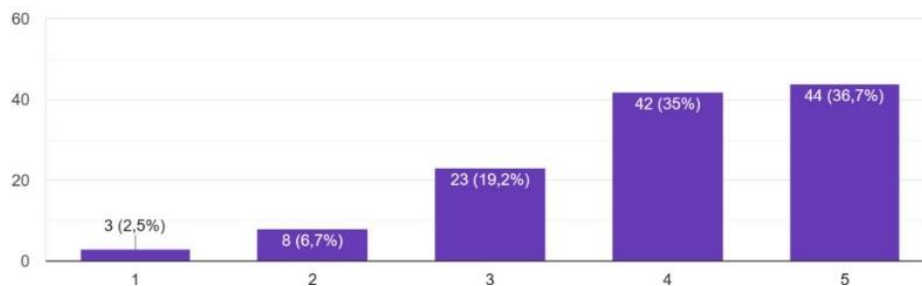
2. Smartphone Purchase Decision

Based on the questionnaire results, of the 120 student respondents, 80.9% or as many as 97 respondents knew that there was an increase in VAT in terms of buying a smartphone when they had done research on the product. Then it was found that 13.3% or as many as 16 students quite agreed with this, then the remaining 5.8% or as many as 7 respondents did not or strongly disagreed that the increase in VAT would make them undo the decision to buy a smartphone that they had researched first. It can be concluded that most respondents will still buy the smartphones they have researched despite the increase in VAT.



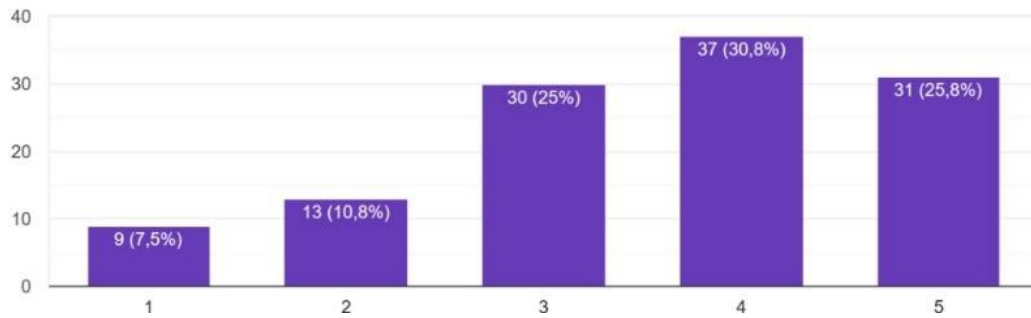
**Figure 3. Steadiness to Buy After Knowing Product Information**

Based on the questionnaire results, of the 120 student respondents, 71.7% or as many as 86 respondents know that with the increase in VAT in terms of buying a smartphone with the brand they like. Then it was found that 19.2% or as many as 23 students quite agreed with this, then the remaining 9.2% or as many as 11 respondents did not or strongly disagreed that the increase in VAT would make them undo the decision to buy a smartphone according to the preferred brand. It can be concluded that most respondents will still buy smartphones with preferred brands despite the increase in VAT.



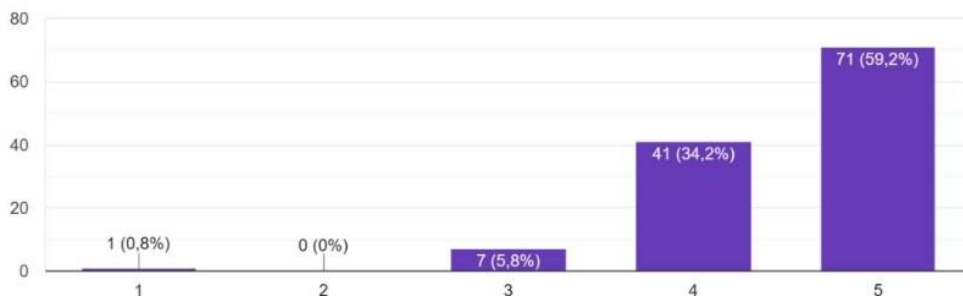
**Figure 4. Deciding to Buy because of the Most Preferred Brand**

Based on the results of the questionnaire, out of 120 student respondents, 56.6% or as many as 68 respondents strongly agreed or agreed that with the increase in VAT in terms of buying a smartphone that suits their wishes. Then it was found that 25% or as many as 30 students quite agreed with this, then the remaining 18.3% or as many as 22 respondents did not or strongly disagreed that the increase in VAT would make them not buy smartphones as they wanted. It can be concluded that most respondents will still buy smartphones according to their wishes despite the increase in VAT.



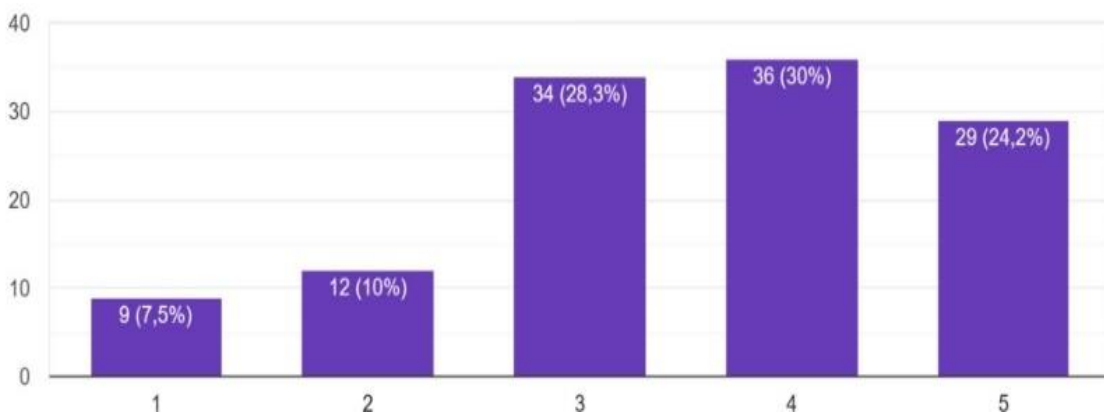
**Figure 5. Buy because it suits your wants**

Based on the questionnaire results, out of 120 student respondents, 93.4% or as many as 112 respondents strongly agreed or agreed that with the increase in VAT in terms of buying smartphones that fit their needs. Then it was found that 5.8% or as many as 7 students moderately agreed with this, then the remaining 0.8% or as many as 1 respondent did not or strongly disagreed that the increase in VAT would make them not buy smartphones as needed. It can be concluded that most respondents will still buy smartphones according to their needs despite the increase in VAT.



**Figure 6. Buy because it suits your needs**

Based on the questionnaire results, out of 120 student respondents, 54.2% or as many as 65 respondents strongly agreed or agreed that with the increase in VAT in terms of buying smartphones obtained from other people's recommendations. Then 28.3% or as many as 34 students moderately agreed with this, then the remaining 17.5% or as many as 21 respondents did not or strongly disagreed that the increase in VAT would make them not buy smartphones according to recommendations from others. It can be concluded that most respondents are quite agreeable to purchasing smartphones recommended by others even though there is an increase in VAT.

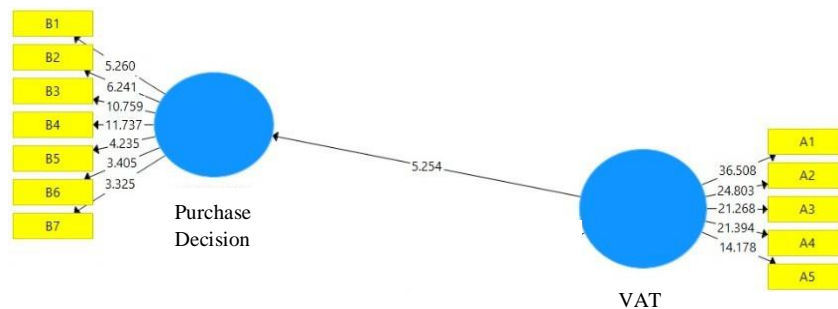


**Figure 7. Purchased because of a recommendation from someone else**

### Path Diagram

The result of the PLS Algorithm calculation which shows:

1. The effect of the VAT increase (X) which is denoted by the letter A on the smartphone purchase decision (Y1) which is denoted by the letter B in the path diagram
2. The effect of the VAT increase (X) which is denoted by the letter A on the decision to purchase the internet package (Y2) which is denoted by the letter C in the path diagram.



**Figure 8. Path Diagram**

Based on the figure 8 it can be concluded that the increase in VAT has a significance value of 0.000 ( $<0.05$ ) on smartphone purchasing decisions with a beta coefficient value of 0.390 (positive value). The significance value and beta coefficient indicate that the VAT variable has an effect on smartphone purchasing decisions.

## 5. CONCLUSION

The imposition of 11% VAT has an insignificant effect on the decision to purchase smartphone commodities. This is supported by the test results of R square of 0.145 with a significance value of 0.000 ( $<0.05$ ) where it can be seen that there is an influence between the two variables, but the effect is irrelevant. The low influence between these variables is due to several things, including the high level of importance of smartphone commodities to support daily life and other variables such as an increase in customs tariffs or increasingly rapid technological developments.

The results of this study also prove that there is a successful government program to restore the state budget due to the pandemic two years ago. The absence of a significant effect in this study proves that a 1% increase in the VAT rate does not burden the public to buy commodities that support daily life. With this increase in VAT rates, state revenues can be stabilized without burdening the purchasing decisions of Surabaya students regarding smartphone commodities.

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