

Islamic Equity Investment Under Fiscal Pressure: Evaluating the Impact of Indonesia's VAT Increase on Sharia-Compliant Markets

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Keywords:

12% VAT
Increase, Equity
Investors,
Islamic Finance

Abstract

This study investigates the implications of Indonesia's Value Added Tax (VAT) increase from 11% to 12%, effective January 1, 2025, on Sharia-compliant equity markets. Introduced as part of broader fiscal reforms, the policy aims to strengthen state revenue while exempting essential goods to minimize public burden. Using a qualitative exploratory approach, the study analyzes the impact of this fiscal shift on investor sentiment, market behavior, and sectoral performance. Results reveal that the VAT hike may reduce consumer purchasing power and corporate profitability, especially in consumption-driven sectors, thus increasing market volatility. Conversely, sectors such as healthcare, technology, and halal fintech demonstrate resilience and alignment with Sharia principles. From an Islamic finance perspective, the VAT policy is acceptable if it fulfills the objectives of maqasid al-shariah, particularly justice and protection for vulnerable groups. The study concludes that incorporating ethical investment frameworks and promoting strategic sectoral diversification can help Islamic equity investors manage risks and harness long-term opportunities amid fiscal tightening.

1. Introduction

On January 1, 2025, the Government of Indonesia will implement a Value Added Tax (VAT) increase from 11% to 12% (Sri Rahayu & Djumena, 2024). As part of a broader fiscal reform agenda, the policy aims to boost state revenues to support sustainable development, while exempting essential goods and services to mitigate its impact on the population's basic needs (Nabila, 2025). The VAT increase is intended to improve tax collection efficiency and fiscal stability, with the public encouraged to adapt despite expected price hikes in certain sectors.

The government justifies the increase as a necessary measure to broaden the tax base, reduce sectoral dependency, and create a more progressive and inclusive tax system. Revenues from the VAT hike are expected to finance large-scale infrastructure projects such as toll roads, ports, and airports as well as social programs like direct cash transfers and public healthcare (Fitrah Ghaly Hasan,

2025; Fristia Maulana et al., 2024). In doing so, the policy seeks to reduce the budget deficit without significantly increasing national debt, while simultaneously promoting equitable income distribution.

Beyond its fiscal rationale, the policy also supports tax reform efforts aimed at reducing evasion, enhancing compliance, and aligning tax incentives with economic efficiency. From the government's perspective, increasing the VAT rate is among the most effective tools to ensure a stable revenue stream for development without undermining economic growth.

However, the macroeconomic consequences of this VAT adjustment cannot be overlooked. Rising prices for non-essential goods and services may erode household purchasing power and suppress domestic consumption—one of Indonesia's key economic drivers (Ridwan, 2025). The government anticipates these effects and plans compensatory policies, such as targeted subsidies and social

assistance for vulnerable groups. Still, certain industries may face higher operational costs and declining profitability, while others particularly those linked to government spending may benefit in the medium term.

In capital markets, investor sentiment may be shaped by sectoral exposure to the VAT hike. Consumer-driven sectors could face short-term pressure, whereas industries less affected by VAT such as technology, healthcare, and infrastructure may appear more resilient. Moreover, increased fiscal revenues can enhance macroeconomic stability, influencing investor risk perceptions and portfolio strategies.

From an Islamic perspective, fiscal policies must align with the objectives of *maqasid al-shariah*, notably the protection of wealth (*mal*) and life (*nafs*), ensuring that the burden of taxation does not disproportionately impact vulnerable populations (Rahman & Isa, 2022). While targeting luxury goods, concerns remain over broader inflationary effects and reduced consumption (Ridwan, 2025). Islamic jurisprudence permits the imposition of taxes (*dharibah*) during periods of fiscal necessity, provided such policies uphold justice (*'adl*) and public welfare (*maslahah*) (Al-Qaradawi, 2017). Thus, assessing this VAT policy requires not only fiscal analysis but also ethical scrutiny grounded in Islamic economic principles.

2. Literature Review

2.1 Value Added Tax (VAT) and Economic Reform

Value Added Tax (VAT) is an indirect tax levied on the consumption of goods and services at each stage of production and distribution. It is collected by Taxable Entrepreneurs (*Pengusaha Kena Pajak* or PKP),

who are responsible for remitting the tax to the state treasury. The non-cumulative nature of VAT ensures that tax is imposed only on the value added at each transaction stage (Fitriya, 2025). This mechanism enhances transparency and facilitates audit trails throughout the supply chain. The ultimate tax burden lies with the final consumer, while the seller acts merely as an intermediary.

In Indonesia, VAT has become a substantial contributor to state revenue, supporting fiscal sustainability and national development goals. The VAT system is designed with flexibility, allowing rates to range between 5% and 15% depending on macroeconomic conditions (Nathaniel Chandra, 2025). As of April 1, 2022, the general VAT rate stands at 11% and is scheduled to increase to 12% on January 1, 2025. This upcoming rate increase is selectively targeted at luxury goods and services, while essential goods are either zero-rated or subject to lower rates. This tiered approach aims to protect low- and middle-income groups while enhancing revenue collection efficiency and economic resilience.

From an Islamic economic perspective, taxation such as VAT is permissible, particularly when zakat and other Islamic fiscal tools are insufficient to meet public needs (Yuliani & Maulidya, 2021). However, such taxes must be implemented with fairness and justice. The application of VAT on non-essential or luxury goods aligns with the principles of *maqasid al-shariah*, especially in promoting social equity and preventing harm (*darar*). Nonetheless, this must be accompanied by effective monitoring and compensatory policies to safeguard vulnerable populations.

2.2 Islamic Fiscal Ethics

Islamic fiscal ethics require that tax policies be designed in alignment with the five foundational objectives (*maqasid al-shariah*): the protection of religion (*din*), life (*nafs*), intellect (*'aql*), progeny (*nasl*), and wealth (*mal*) (Rahman & Isa, 2022). A tax regime that infringes upon these objectives—such as

increasing the cost of basic goods, hindering access to public services, or exacerbating economic disparity is considered contrary to Islamic values.

In this context, the Indonesian government's policy of exempting or reducing VAT on essential goods is in accordance with the Islamic emphasis on distributive justice and social protection. Selective taxation that avoids burdening the poor, when combined with transparency and accountability, exemplifies fiscal practices that are consistent with Islamic ethical principles.

2.3 VAT Implementation and Tax Subjects

VAT implementation involves two key categories of economic actors: Taxable Entrepreneurs (PKP) and Non-Taxable Entrepreneurs (Non-PKP) (Fitriya, 2025). PKPs are legally obligated to collect and remit VAT on taxable transactions, provided they meet the regulatory thresholds, such as a minimum annual turnover. In contrast, Non-PKPs are not mandated to collect VAT but remain liable as end consumers when purchasing taxable goods and services.

This dual classification ensures broader tax coverage and minimizes loopholes for evasion. By distributing VAT collection responsibilities across registered enterprises while maintaining tax incidence on consumption, the system aims to balance administrative efficiency with equity. Both PKP and Non-PKP actors thus play integral roles in the successful functioning of Indonesia's VAT framework and its contribution to fiscal policy objectives.

3. Research Methods

This study employs a qualitative exploratory approach to examine the potential implications of Indonesia's upcoming 12% Value Added Tax (VAT) increase on equity investors, particularly within Sharia-compliant markets. An exploratory method is deemed appropriate given the limited existing literature on the intersection of VAT policy reform and capital market behavior in the

Indonesian context. The exploratory design enables in-depth investigation into the emerging patterns, challenges, and opportunities that investors may face as a result of the fiscal policy change. This approach is especially useful for identifying previously unrecognized investor responses, sectoral sensitivities, and regulatory implications related to the new tax rate. Data collection was conducted through literature analysis, policy documents, and secondary reports from government agencies, capital market institutions, and Islamic financial experts. The data were then analyzed using a qualitative content analysis technique, which involved thematic coding and pattern identification to generate insights on the macroeconomic and investor-level impacts of the VAT increase. By focusing on qualitative insights rather than numerical data, the study aims to provide a nuanced and holistic understanding of how fiscal pressure may reshape investment behavior, particularly within sectors governed by Islamic ethical principles.

4. Results and Discussion

4.1 Challenges for Investors

The implementation of the 12% VAT increase is expected to diminish consumer purchasing power significantly (Tempo, 2024; Uswah, 2024). Rising prices on goods and services may prompt consumers to reduce or delay spending (Kartika Dewi, 2024), directly affecting industries reliant on mass consumption, such as the consumer goods and retail sectors. Companies like PT Japfa Comfeed Indonesia Tbk (JPFA) and PT Ultrajaya Milk Industry & Trading Company Tbk (ULTI) may face declining sales volumes, which could erode profitability and, by extension, impact stock valuations and dividend payouts (Damara Tonce, 2024; Malik, 2024).

From an Islamic economic justice standpoint, such regressive taxation raises concerns of *dhalim* (injustice), particularly if no compensatory subsidies are provided for low-

income households (Fauzi & Rahmah, 2023). Islam emphasizes the protection of wealth (mal) and life (nafs), and any policy that disproportionately burdens the vulnerable conflicts with the objectives of maqashid al-shariah.

Moreover, weakened purchasing power may induce broader market instability. In an inflationary environment, investors may anticipate reduced future earnings, fueling market volatility. This condition introduces gharar (uncertainty), which Islamic finance seeks to minimize. Fiscal shocks like sudden VAT hikes may also encourage speculative behavior, contrary to the Islamic investing principle of risk moderation (Firdaus et al., 2023). As a result, investors must be prudent, prioritizing low-volatility, asset-backed, and ethically screened investments that ensure long-term value and ethical consistency.

Additionally, the complexity of investment analysis increases, as investors must revise revenue projections based on the anticipated impact of VAT on net income (Dovestory, 2024). Shariah-conscious investors are doubly tasked with evaluating not only financial performance but also compliance with Islamic principles. Sectors such as technology and healthcare—less sensitive to consumption fluctuations—emerge as more resilient and aligned with Islamic investment values (Febri Firmansyah, 2025; Purwanto, 2024).

4.2 Opportunities for Investors

Despite these challenges, the VAT adjustment also presents several strategic opportunities for equity investors, particularly those applying Islamic investment principles. Key among these is diversification into resilient and ethically aligned sectors such as healthcare, halal fintech, and green technology, which are typically more immune to short-term fiscal pressures (Afditya, 2024). These sectors also reflect values aligned with Islamic ethics, including sustainability and social welfare.

Research by Anwar & Khalil (2020) indicates that Shariah-compliant equities in such sectors exhibit superior long-term stability and investor trust. Companies that demonstrate operational efficiency and ethical excellence those capable of managing costs and responsibly transferring VAT-related price adjustments to consumers are considered favorable under the Islamic value of ihsan (excellence in conduct) (Ramadhan & Nasito, 2023).

Furthermore, heightened market volatility can be transformed into halal investment opportunities when approached with sound judgment (ijtihad) and without engaging in maysir (speculation). Identifying undervalued stocks based on intrinsic value, rather than market speculation, is key to capitalizing on temporary mispricing in a manner consistent with Islamic ethics (Charlie Kuncara Jati & Indriastuti, 2024). In summary, by integrating Islamic financial ethics with strategic investment analysis, investors can not only navigate the risks brought by VAT reform but also unlock long-term, socially responsible opportunities. This alignment ensures the pursuit of financial returns does not come at the cost of justice or societal well-being.

5. Closing

5.1 Conclusion

The Indonesian government's decision to raise the Value Added Tax (VAT) to 12% by 2025 is a critical component of its broader fiscal reform strategy. This policy aims to enhance state revenue, promote sustainable development, and reduce inequality through more equitable tax collection mechanisms. The selective application of the increased VAT rate targeting primarily luxury goods and services reflects an effort to shield lower-income communities from excessive financial burdens. From a capital market perspective, however, this policy introduces notable challenges.

These include reduced consumer purchasing power, increased volatility in equity markets, and heightened complexity in conducting corporate performance evaluations.

Sectors heavily dependent on public consumption, such as consumer goods and retail, are particularly susceptible to sales contractions and profit margin pressures, which could diminish shareholder value. Despite these potential drawbacks, the VAT adjustment also presents strategic investment opportunities. Investors who realign their portfolios toward more resilient sectors—such as technology, healthcare, and utilities—may better withstand fiscal shocks.

Moreover, firms that exhibit strong operational efficiency and agility in adapting to regulatory shifts are likely to attract long-term investor confidence. For well-informed and patient investors, market volatility may offer favorable entry points for acquiring undervalued yet fundamentally strong stocks. Accordingly, it is imperative for investors to maintain a balanced investment strategy that integrates macroeconomic awareness, prudent risk management, and ethical considerations. Concurrently, the government must ensure that fiscal reform efforts are accompanied by adequate social protection measures—such as targeted subsidies or direct cash assistance—to safeguard vulnerable populations and uphold public trust.

5.2 Suggestion

Future research should investigate the differentiated impact of VAT increases on consumer behavior across various income brackets. Special attention should be paid to possible shifts in consumption patterns, including a move toward local products, basic necessities, and substitute goods. These behavioral insights can inform more inclusive, equitable, and socially responsive fiscal policies. Furthermore, comparative studies examining how VAT adjustments influence Shariah-compliant investments and investor sentiment in Islamic capital markets would offer valuable perspectives for both policymakers and Islamic finance practitioners.

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