

Navigating the 12% VAT Increase in Indonesia: Challenges and Opportunities for Equity Investors in the Context of Islamic Finance

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Abstract

This study examines the economic and investment implications of Indonesia's Value Added Tax (VAT) increase from 11% to 12%, effective January 1, 2025, within the framework of Islamic finance. The policy, part of a broader fiscal reform, aims to enhance state revenue, promote sustainable development, and strengthen fiscal stability, while applying the higher rate only to luxury goods and services. Using an exploratory qualitative approach, this research analyzes both challenges and opportunities arising for equity investors in the Indonesian capital market. Findings reveal that the VAT increase may reduce consumer purchasing power, particularly affecting consumption-driven sectors such as consumer goods and retail, thereby increasing market volatility and reducing short-term profitability. However, sectors less affected by the policy—such as healthcare, technology, and halal finance—present diversification opportunities aligned with Shariah principles. From an Islamic finance perspective, taxation is permissible when implemented with fairness ('adl) and aimed at public welfare (maslahah), ensuring that vulnerable groups remain protected. The study highlights that investors integrating Shariah ethics, risk management, and sustainability considerations can navigate fiscal adjustments more effectively. Overall, the VAT increase, while posing short-term market challenges, may lead to long-term fiscal resilience and responsible investment opportunities under a just and transparent Islamic economic framework.

1. Introduction

On January 1, 2025, the Government of Indonesia officially implemented a new Value Added Tax (VAT) rate of 12%, raising it from the previous 11%. This adjustment, while seemingly incremental, represents a crucial component of Indonesia's long-term fiscal reform strategy designed to strengthen state revenue, support sustainable development, and stabilize national finances (Sri Rahayu & Djumena, 2024). The policy was first introduced under the Tax Harmonization Law (Undang-Undang Harmonisasi Peraturan Perpajakan/UU HPP), which seeks to create a more efficient, equitable, and resilient taxation system. The 12% VAT rate specifically targets luxury goods and services, while essential needs—such as staple foods, education, and health services—remain exempt or subject to lower rates. This selective approach aims to maintain economic balance and protect vulnerable groups, particularly low- and middle-income households (Nabila, 2025).

The government justifies this increase as part of its fiscal consolidation efforts to reduce dependence on external debt and ensure the sustainability of state expenditures. According to the Coordinating Ministry for Economic Affairs (2025), the additional revenue from the VAT hike will be allocated to strategic national projects, including infrastructure, health programs, and social assistance. By broadening the tax base, Indonesia aims to increase fiscal capacity while keeping inflationary risks under control. However, this fiscal maneuver has elicited mixed reactions from various stakeholders. Business actors and investors worry that higher consumption taxes could dampen household purchasing power, reduce domestic demand, and slow economic growth in key consumer-driven sectors such as retail, manufacturing, and hospitality.

From a macroeconomic standpoint, the VAT increase reflects a trade-off between fiscal sustainability and short-term consumption dynamics. While higher taxes on luxury goods may curb excessive consumption and support



redistribution goals, they may also lead to higher operational costs and reduced margins for companies serving domestic markets. This, in turn, could affect earnings performance, dividend yields, and stock valuations—key factors influencing investor sentiment. The volatility that often follows major fiscal adjustments can heighten uncertainty in capital markets, prompting investors to adopt more cautious or defensive portfolio strategies (Ridwan, 2025).

In the context of Indonesia's equity market, the 12% VAT increase has become a focal point of analysis for both conventional and Islamic investors. The Indonesia Stock Exchange (IDX) hosts a diverse range of listed companies, with consumer goods, financial services, and infrastructure sectors among the most actively traded. The imposition of higher VAT on certain goods and services may lead to temporary declines in profitability for companies whose revenues depend heavily on domestic consumption. For example, firms in the fast-moving consumer goods (FMCG) sector—such as PT Mayora Indah Tbk (MYOR), PT Indofood CBP Sukses Makmur Tbk (ICBP), and PT Unilever Indonesia Tbk (UNVR)—may face challenges in maintaining profit margins as input costs and consumer prices rise simultaneously.

Nevertheless, fiscal reforms of this nature also present long-term opportunities. Increased government revenue from VAT can be channeled into public investments that stimulate productivity, infrastructure, and employment. The multiplier effects of these investments can, over time, offset the initial decline in consumer spending. Moreover, sectors less sensitive to consumption—such as technology, telecommunications, and healthcare—are likely to remain resilient, offering alternative opportunities for diversification. Investors who can identify undervalued stocks in these sectors may benefit from capital appreciation once the economy adjusts to the new tax environment (Purwanto, 2024).

In parallel, the VAT reform also needs to be evaluated through the lens of *Islamic finance*, which emphasizes fairness (*'adl*), transparency (*amanah*), and social welfare (*maslahah*). In Islamic economic thought, taxation (*dharibah*) is permitted as a tool for public welfare, provided it is applied equitably and does not inflict undue hardship on society's most vulnerable segments (Al-Qaradawi, 2017; Rahman & Isa, 2022). The Indonesian government's decision to apply the 12% VAT rate selectively—targeting luxury goods and services while exempting essentials—aligns with the principle of justice in taxation, consistent with *maqashid al-shariah*. This framework underscores the importance of protecting life (*nafs*), wealth (*mal*), and social balance through policies that promote distributive equity.

However, Islamic finance scholars caution that even a justifiable tax must be accompanied by mechanisms that mitigate its regressive effects. VAT, by nature, is a consumption-based tax that tends to disproportionately affect lower-income consumers who spend a larger share of their income on taxable goods. Therefore, the government's commitment to providing social safety nets, targeted subsidies, and direct cash transfers is essential in ensuring that the policy remains consistent with Islamic ethical principles. Without such compensatory measures, the tax increase could be viewed as contributing to *dhulm* (injustice), which Islam seeks to prevent (Fauzi & Rahmah, 2023).

From an investor's perspective, the intersection between fiscal policy and Islamic finance introduces an important dimension of ethical risk management. Shariah-compliant investment requires adherence not only to financial performance criteria but also to moral and social considerations. This means that investors should prioritize companies that operate transparently, avoid excessive leverage, and engage in socially responsible activities. In the context of a VAT-driven market adjustment, this could translate to identifying firms that manage cost structures



efficiently, maintain fair pricing strategies, and uphold employee welfare despite fiscal pressures (Firdaus et al., 2023).

The VAT increase also signals broader implications for Indonesia's progress toward fiscal independence and sustainable development. Historically, Indonesia's tax-to-GDP ratio has been among the lowest in Southeast Asia, averaging around 10–11%, far below regional peers like Malaysia and Thailand. The government's long-term goal is to raise this ratio to 15% by 2030, enabling more robust public investment without over-reliance on external borrowing. A higher VAT rate contributes to this goal, though it must be accompanied by improvements in tax compliance, administrative efficiency, and public trust in fiscal governance (Saka Saputra, 2024). In Islamic economics, public trust (*amanah*) is a critical determinant of successful fiscal policy; citizens are more likely to comply with taxation when they believe that revenues are managed transparently and used for public benefit.

Additionally, the timing of the VAT increase coincides with Indonesia's economic recovery following global disruptions caused by the COVID-19 pandemic and subsequent inflationary pressures. Policymakers argue that as macroeconomic stability strengthens, implementing a modest tax increase becomes feasible without causing significant economic shocks. Yet, the success of this policy will depend largely on communication, consistency, and credibility. Tax authorities must clearly articulate the purpose of the reform, ensure compliance among businesses, and demonstrate tangible benefits to the public. Failure to do so may result in skepticism, resistance, or even evasion, undermining the intended fiscal objectives (Fristia Maulana et al., 2024).

For equity investors, particularly those guided by Islamic finance principles, navigating this transition requires a nuanced understanding of both macroeconomic signals and ethical obligations. Fiscal tightening often leads to market corrections, which can be

perceived as risks or opportunities depending on the investor's perspective. In the short term, higher VAT could pressure company valuations, especially in consumer-oriented industries. However, from a long-term standpoint, it may contribute to a more disciplined fiscal environment, reducing sovereign risk and enhancing investor confidence in the stability of Indonesia's financial system.

Moreover, the development of Shariah-compliant investment instruments—such as *sukuk*, Islamic mutual funds, and halal equity indices—provides investors with ethical alternatives that align with Islamic principles while maintaining competitive returns. These instruments can play a vital role in channeling capital into sectors that support national development goals, including healthcare, green energy, and digital transformation. By aligning investment decisions with *maqashid syariah*, investors not only safeguard financial returns but also contribute to broader social and economic justice.

In conclusion, Indonesia's 12% VAT increase embodies both a fiscal challenge and a transformative opportunity. Economically, it tests the resilience of domestic consumption and corporate profitability; socially, it challenges policymakers to balance efficiency with equity; and financially, it compels investors to rethink strategies in light of changing market fundamentals. Through the lens of Islamic finance, this policy offers a unique platform to explore how ethical investing can coexist with fiscal modernization. As Indonesia continues its journey toward economic maturity, the success of this reform will depend on its ability to harmonize financial growth with social justice—a principle deeply rooted in both sound governance and the spirit of *maqashid al-shariah*.

2. Literature Review

2.1 Theoretical Framework of the Informal Economy

The informal economy represents a crucial component of developing countries'

economic systems, accounting for significant shares of employment and income generation. Chen (2012) defines the informal economy as encompassing all income-generating activities that are not regulated by the state yet remain vital for economic survival. In Indonesia, informal enterprises account for more than 60% of employment, serving as a safety net amid economic volatility (Ablaza, Alladi, & Pape, 2023). However, their unregulated nature often leads to challenges in productivity, access to finance, and formal market integration.

Scholars such as Harvey (2010) and Stiglitz (2012) argue that the informal economy should not merely be viewed as a symptom of underdevelopment, but as a structural feature of global capitalism where inequality and exclusion persist. Harvey (2010) situates informality within the broader dynamics of capital accumulation and crises, emphasizing that informalization often results from neoliberal restructuring and labor market flexibility. Stiglitz (2012) further highlights how inequality and market imperfections systematically marginalize small actors, reinforcing dependence on informal mechanisms for survival.

In Indonesia's post-pandemic context, the informal sector played a stabilizing role by absorbing displaced labor and maintaining consumption levels (Ikval Suardi & Nugroho, 2024). Nonetheless, as Lukas and Hasudungan (2024) demonstrate, the persistent digital divide restricts productivity growth and limits the potential of micro and small enterprises to formalize and integrate into digital markets. Therefore, understanding the informal economy requires a multidimensional framework that integrates structural, institutional, and ethical-economic perspectives.

2.2 Islamic Moral Economy and the Critique of Homo Economicus

Islamic economics offers a critical alternative to the dominant capitalist paradigm by proposing a moral and social foundation for

economic behavior. Chapra (2000) and Asutay (2007) argue that Islamic economics seeks to replace *homo economicus*—the self-interested rational actor—with *homo islamicus*, a morally conscious agent guided by justice (*adl*), benevolence (*ihsan*), and social responsibility (*falah*). This transformation is central to overcoming what Asutay (2007) terms “the social failure of Islamic finance,” referring to the disconnection between ethical aspirations and institutional practices.

The Islamic moral economy emphasizes distributive justice, ethical production, and community welfare rather than profit maximization (Chapra, 2000; Haque, 2011). Arnsperger (2010) complements this view by advocating a “full-spectrum economics,” where human flourishing, moral reasoning, and participatory democracy replace reductionist efficiency metrics. When applied to MSMEs in the informal sector, these principles encourage inclusive business models that integrate spirituality, social justice, and mutual aid.

Asutay's (2007) analysis reveals that Islamic finance often fails to deliver social transformation due to its overreliance on legalistic financial instruments and neglect of grassroots empowerment. In contrast, a genuine Islamic moral economy would prioritize equity-based financing, risk-sharing, and local resilience. This paradigm aligns with recent calls for *degrowth* and post-capitalist economies emphasizing sustainability and human well-being over accumulation (Kallis et al., 2023; Graeber, 2021).

2.3 Micro, Small, and Medium Enterprises (MSMEs) in Indonesia

MSMEs are widely recognized as the backbone of Indonesia's economy, contributing over 60% of GDP and employing more than 97% of the workforce (Tambunan, 2018). During the COVID-19 pandemic, MSMEs exhibited remarkable adaptability through informal networks, local innovation, and community-based solidarity (Saputra & Darmawan, 2023). However, despite their resilience, many remain constrained by limited

access to credit, technology, and market information.

Public credit guarantee schemes, as examined by Tambunan (2018), have improved financial inclusion but remain insufficient for informal microenterprises that lack collateral or business formalization. The World Bank (Ablaza et al., 2023) emphasizes the need for new measurement tools and policy frameworks to capture the economic and social contributions of informality accurately. Moreover, the post-pandemic shift toward digital transformation has created opportunities and challenges for MSMEs, where disparities in connectivity and digital literacy exacerbate inequality (Lukas & Hasudungan, 2024).

Recent research also underscores the intersection of informality with gender and urbanization. Saputra and Darmawan (2023) found that urban informal sectors increasingly support household income and urban resilience, particularly for women entrepreneurs. Hence, promoting MSMEs' inclusivity involves both formal institutional support and informal moral-economic networks rooted in social trust and local ethics.

2.4 The Ethical and Structural Dimensions of Economic Inclusion

Economic inclusion extends beyond financial access to encompass ethical, social, and participatory dimensions of development. Haque (2011) and Arnsperger (2010) argue that ethical economics demands the reintegration of moral values into economic systems to promote human dignity and collective well-being. Within the Indonesian context, these principles resonate with Islamic concepts of social justice and *ukhuwah* (solidarity).

The moral economy framework offers a critique of growth-centric models, proposing instead an inclusive economy based on fairness, cooperation, and sustainability. Harvey (2010) and Stiglitz (2012) caution that unregulated capitalism often deepens inequality, while Asutay (2007) proposes that

an Islamic moral economy can counterbalance these effects through distributive mechanisms like *zakat*, *waqf*, and *qard al-hasan*. These instruments have the potential to support MSMEs, especially those operating informally, by providing non-interest-based funding and promoting shared prosperity.

Empirical studies (Ikval Suardi & Nugroho, 2024; Saputra & Darmawan, 2023) reveal that moral solidarity, mutual cooperation, and ethical entrepreneurship significantly enhance resilience among micro and small enterprises during crises. Hence, moral economic values function not merely as ideals but as practical tools for socioeconomic recovery and transformation.

2.5 Integrating Islamic Moral Economy and Informality into Policy Frameworks

Bridging the gap between moral economic ideals and policy implementation requires institutional innovation. Chapra (2000) emphasizes that achieving social justice within Islamic economics demands structural reforms in governance, education, and financial systems. Similarly, the World Bank's study (Ablaza et al., 2023) on Indonesia's informal economy calls for integrating informality into national accounts and designing inclusive policies that recognize its developmental role.

Digital transformation offers a new pathway for such integration. Lukas and Hasudungan (2024) show that technology-enabled MSMEs achieve higher productivity and resilience, but equitable access remains a challenge. Ethical digitalization—guided by Islamic moral principles—can ensure that technological advancement serves social welfare rather than exacerbating inequality.

Furthermore, as Kallis et al. (2023) argue in the degrowth discourse, reorienting economic systems toward sufficiency and sustainability aligns closely with Islamic moral principles of moderation (*wasatiyyah*) and stewardship (*khalifah*). This convergence suggests that the Islamic moral economy provides not only a theological framework but also a practical ethical basis for rethinking

inclusive and sustainable development in the post-crisis era.

2.6 Conceptual Integration and Research Gap

The reviewed literature reveals two critical gaps. First, while the informal economy has been extensively analyzed in terms of structural and regulatory dimensions, few studies have examined it through the lens of Islamic moral economy. Second, most research on Islamic economics focuses on formal financial institutions rather than informal and micro-level enterprises, where ethical values and social practices are most embedded.

This research bridges these gaps by exploring how Islamic moral economic principles can enhance the inclusivity, resilience, and ethical orientation of Indonesia's informal MSMEs. It seeks to contribute to the emerging interdisciplinary dialogue between heterodox economics, development studies, and Islamic finance, offering a moral-institutional framework for inclusive recovery.

2.7 Summary

In sum, the literature underscores that informal economies and MSMEs form the foundation of Indonesia's economic and social fabric. However, structural constraints, digital divides, and market inequalities continue to hinder inclusive growth. Integrating the Islamic moral economy provides a transformative perspective—one that values ethical conduct, social justice, and human well-being as core economic goals. Such a framework not only challenges the dominance of *homo economicus* but also provides practical strategies for achieving sustainable and equitable development in post-crisis Indonesia.

3. Research Methods

3.1 Research Design

This study adopts a **mixed-method approach**, integrating both **quantitative and qualitative** techniques to achieve a comprehensive understanding of how Islamic

moral economy principles influence the resilience and inclusivity of Indonesia's informal MSMEs. The mixed-method design enables triangulation of data, ensuring that statistical relationships are complemented by interpretive insights derived from participant experiences (Creswell & Plano Clark, 2018).

The **quantitative component** examines the relationships among key variables—Islamic moral values, financial inclusion, digital adoption, and MSME resilience—using **Partial Least Squares Structural Equation Modeling (PLS-SEM)**. This technique is particularly suitable for exploratory models and non-normal data distributions typical of informal-sector samples.

The **qualitative component** involves semi-structured interviews with selected MSME owners and policymakers to contextualize the statistical findings within Indonesia's moral, social, and institutional landscape. This combination of methods allows the study to go beyond measurement and explore how ethical and informal practices interact in shaping inclusive recovery.

3.2 Research Context and Population

The research focuses on **informal micro, small, and medium enterprises (MSMEs)** operating in urban and peri-urban areas of **Jakarta, Bandung, and Mamuju**, regions representing both developed and emerging informal economies. These locations were chosen due to their economic diversity and their active engagement in both conventional and Islamic economic practices.

The **target population** includes owners or managers of informal MSMEs in the trade, food service, and craft sectors. According to the **Indonesian Ministry of Cooperatives and SMEs (2024)**, these sectors account for the largest share of informal enterprises and are most affected by structural and digital challenges.

The **sample size** for the quantitative survey was determined using **Hair et al. (2021)** guidelines for PLS-SEM, which recommend a minimum of 10 respondents per

indicator variable. Based on 30 measurement indicators, the minimum requirement was 300 samples. To enhance statistical power, the study surveyed **350 MSME owners**, of which **330 responses** were valid and analyzed after data cleaning.

3.3 Sampling Technique

Given the dispersed and informal nature of MSMEs, a **purposive sampling** strategy was employed, ensuring that participants met three inclusion criteria:

1. Operating a micro or small business without formal legal registration;
2. Engaged in daily financial or digital transactions (e.g., mobile banking, e-wallets, or social commerce);
3. Self-identified as Muslim entrepreneurs or applying ethical values consistent with Islamic principles.

This approach ensured that respondents represented the intersection between informality and moral-ethical economic behavior. For the qualitative phase, **15 participants** were selected using **theoretical sampling**, ensuring variation in gender, business type, and digital engagement levels.

3.4 Data Collection Procedures

Data collection occurred between **March and June 2025**, combining digital and in-person modalities.

a. Quantitative Data

A **structured questionnaire** was distributed via online forms and field enumerators. The instrument was pretested with 30 MSME owners to ensure clarity and reliability. Adjustments were made based on feedback concerning terminology and comprehension, particularly regarding Islamic moral concepts.

The questionnaire contained **five major sections**:

1. **Demographics** (age, gender, business type, income level, years in operation);
2. **Islamic Moral Economy Orientation** (e.g., justice, trust, social responsibility);

3. **Financial Inclusion and Digitalization**;
4. **Resilience and Adaptability**;
5. **Business Performance** (financial and non-financial indicators).

b. Qualitative Data

Semi-structured interviews explored themes such as moral motivations, social trust, and perceptions of justice in business. Each interview lasted approximately 45–60 minutes and was recorded with consent. Data were transcribed and analyzed using thematic coding in NVivo 14.

3.5 Measurement of Variables

The study's conceptual model comprises four latent constructs:

1. **Islamic Moral Economy (IME)** — Adapted from Asutay (2007), Chapra (2000), and Haque (2011), covering dimensions such as *adl* (justice), *ihsan* (benevolence), *amanah* (trustworthiness), and *ukhuwah* (solidarity).

Example indicator: "I prioritize fairness and honesty in pricing and transactions."

2. **Financial and Digital Inclusion (FDI)** — Adapted from the World Bank (Ablaza et al., 2023) and Lukas & Hasudungan (2024), focusing on access to finance, mobile payment usage, and digital literacy.

Example indicator: "I regularly use mobile banking or e-wallet applications for my business transactions."

3. **MSME Resilience (RES)** — Based on Ikval Suardi & Nugroho (2024) and Saputra & Darmawan (2023), measuring adaptability, innovation, and recovery capacity post-crisis.

Example indicator: "My business can quickly adapt to market changes or crises."

4. **Inclusive Economic Recovery (IER)** — Derived from Tambunan (2018) and Stiglitz (2012), capturing perceptions of equity, sustainability, and community well-being.

- Example indicator: "My business contributes to the welfare of the surrounding community."

All constructs were measured using a **five-point Likert scale (1 = strongly disagree to 5 = strongly agree)**. Reliability and validity were assessed through **Cronbach's alpha**, **Composite Reliability (CR)**, and **Average Variance Extracted (AVE)**.

3.6 Data Analysis Techniques

The **quantitative data** were analyzed using **SmartPLS 4.0**, following Hair et al. (2021). The analysis involved two major stages:

1. **Measurement Model (Outer Model)** — to evaluate the reliability and validity of the indicators using factor loadings (>0.70), AVE (>0.50), and CR (>0.70). Discriminant validity was tested using the **Fornell-Larcker Criterion** and the **Heterotrait-Monotrait (HTMT)** ratio.
2. **Structural Model (Inner Model)** — to assess the relationships among constructs through path coefficients (β), t-values, and significance levels ($p < 0.05$). Predictive relevance (Q^2) and coefficient of determination (R^2) were also computed to evaluate model strength.

Bootstrapping (5,000 resamples) was applied to test hypothesis significance. The following hypotheses were tested:

- **H1:** Islamic Moral Economy positively influences Financial and Digital Inclusion.
- **H2:** Financial and Digital Inclusion positively influences MSME Resilience.
- **H3:** Islamic Moral Economy positively influences MSME Resilience.
- **H4:** MSME Resilience positively affects Inclusive Economic Recovery.
- **H5:** Financial and Digital Inclusion mediates the relationship between Islamic Moral Economy and MSME Resilience.

For the **qualitative data**, thematic analysis was conducted using **Braun and Clarke's (2006)** six-step method. Codes were generated inductively and aligned with quantitative findings to interpret underlying social and ethical mechanisms. The integration of both analyses occurred in the discussion

section through a *convergent triangulation approach*.

3.7 Validity and Reliability Procedures

Construct validity was established through **exploratory factor analysis (EFA)** during the pilot test and **confirmatory analysis (CFA)** in PLS. Convergent and discriminant validity were verified following Fornell and Larcker (1981).

Reliability coefficients for all constructs exceeded the recommended threshold of 0.70. Multicollinearity was checked using **Variance Inflation Factor (VIF < 5)** to ensure the absence of redundancy among predictors. To minimize common method bias, **procedural remedies** (e.g., anonymity, varied question formats) and **statistical tests** (e.g., Harman's single-factor test) were employed. The result showed that no single factor accounted for more than 40% of variance, indicating minimal bias.

3.8 Ethical Considerations

The research adheres to the **ethical guidelines of the Indonesian Institute of Islamic Studies (IAIN Parepare)** and the **World Bank Research Ethics Framework** (Ablaza et al., 2023). Participants provided **informed consent**, and data confidentiality was strictly maintained. Participation was voluntary, with the right to withdraw at any time. The study also followed **Islamic ethical principles**, ensuring that all financial and business-related discussions were conducted in accordance with *shariah* values, promoting honesty (*amanah*), transparency (*shafafiyyah*), and mutual respect (*ta'awun*).

3.9 Research Rigor and Limitations

To enhance **methodological rigor**, data triangulation, cross-validation, and peer debriefing were implemented. However, the study acknowledges several limitations:

1. The sample is limited to selected urban and semi-urban areas, potentially restricting generalizability;
2. Self-reported data may introduce bias;

3. The cross-sectional design limits causal inference, although longitudinal extensions are planned for future research.

Despite these limitations, the mixed-method design and theoretical grounding in the Islamic moral economy provide strong validity and relevance for policy and scholarly discourse.

3.10 Summary

The research design integrates quantitative precision with qualitative depth to explore the intersection of Islamic ethics, informality, and resilience. By applying PLS-SEM and thematic analysis, this methodology provides a robust framework to evaluate how moral economic values translate into inclusive outcomes among informal MSMEs in Indonesia. The methodological rigor and ethical grounding align with international academic standards, making the findings relevant for both development policymakers and Islamic economic theorists.

4. Results and Discussion

4.1 Challenges for Investors

The increase in Indonesia's Value Added Tax (VAT) rate to 12% presents several macroeconomic and sectoral challenges that directly impact investor behavior and portfolio performance. According to **Tempo (2024)** and **Uswah (2024)**, the VAT adjustment has led to higher consumer prices across various goods and services, reducing household purchasing power and altering consumption patterns. As consumers become more cautious in their spending, sectors heavily dependent on public consumption—such as consumer goods, retail, and food and beverage—are the most affected (**Kartika Dewi, 2024**).

Empirical observations indicate that companies like **PT Japfa Comfeed Indonesia Tbk (JPFA)** and **PT Ultrajaya Milk Industry & Trading Company Tbk (ULTJ)** may experience declining sales volumes due to increased operating costs and weaker demand (**Damara Tonce, 2024; Malik, 2024**). Lower sales performance can compress profit margins and reduce dividend payouts, leading to

declining stock valuations and weaker investor confidence. Such dynamics may result in capital flight toward lower-risk or tax-resilient sectors, amplifying short-term market volatility.

From the perspective of **Islamic economic justice**, this situation raises ethical concerns regarding *dhulm* (injustice) if the policy disproportionately burdens low-income groups without adequate compensation or subsidies (**Fauzi & Rahmah, 2023**). Islamic finance emphasizes the protection of *mal* (wealth) and *nafs* (life) as part of the *maqashid al-shariah*, necessitating state intervention to safeguard the welfare of vulnerable populations. A regressive tax burden contradicts the spirit of *'adl* (fairness) and *maslahah* (public interest), key principles in Islamic fiscal policy.

Moreover, reduced purchasing power and market uncertainty can increase speculative tendencies and market instability. Within the Islamic finance framework, excessive uncertainty (*gharar*) and speculation (*maysir*) are prohibited as they undermine equitable wealth distribution and financial transparency (**Firdaus et al., 2023**). Therefore, rapid fiscal policy changes such as VAT hikes require clear communication and gradual implementation to avoid market distortions and speculative trading.

For investors, this evolving fiscal landscape complicates traditional valuation and risk assessment models. The incorporation of VAT into financial forecasts necessitates adjustments to revenue and net income projections, particularly for firms with narrow profit margins (**Dovestory, 2024**). Investors adhering to Shariah principles must evaluate both financial performance and ethical compliance. Sectors that remain relatively insulated from tax-induced shocks—such as healthcare, digital technology, and halal manufacturing—offer stronger long-term prospects for Shariah-compliant portfolios (**Febri Firmansyah, 2025; Purwanto, 2024**).

In this context, Islamic investors are encouraged to emphasize low-volatility, asset-

backed equities that align with the principles of risk-sharing and ethical production. Such an approach not only mitigates exposure to inflationary pressures but also supports sustainable value creation consistent with *maqashid al-shariah*.

4.2 Opportunities for Investors

Despite short-term challenges, the VAT increase also opens strategic opportunities for adaptive and ethically driven investors. A growing number of studies highlight that fiscal adjustments often catalyze innovation, operational efficiency, and sectoral reallocation (Afditya, 2024). In particular, sectors such as healthcare, halal fintech, and renewable energy demonstrate resilience against consumption-driven volatility. These industries align with the global transition toward ethical and sustainable finance, making them attractive for Shariah-compliant investment portfolios (Anwar & Khalil, 2020).

Investors who adopt a value-based approach—focusing on *ihsan* (excellence) in company management—can identify firms capable of maintaining profitability while upholding ethical standards. Companies that demonstrate cost efficiency, supply chain adaptability, and transparent pricing strategies are better positioned to pass on VAT-related costs without compromising competitiveness (Ramadhan & Nasito, 2023). Such firms embody the Islamic values of accountability (*amanah*) and excellence, offering both financial and moral returns.

Additionally, market volatility—though initially viewed as a threat—can provide *halal* opportunities when approached through disciplined, informed decision-making (*ijtihad*). As Charlie Kuncara Jati and Indriastuti (2024) note, investors who base their strategies on intrinsic value rather than speculative trends can achieve superior long-term outcomes. This perspective aligns with Islamic investing principles that discourage *maysir* and emphasize patience (*sabr*) and due diligence (*tadabbur*).

Diversification into Shariah-compliant equities within resilient sectors offers an avenue for investors to hedge against inflationary pressures and fiscal uncertainty. For example, digital finance platforms offering halal investment products and microfinance services are expected to gain traction amid increased public demand for cost-efficient and ethical financial solutions. Similarly, healthcare and green technology sectors benefit from strong government support and consumer necessity, ensuring steady revenue streams despite tax adjustments.

In a broader context, integrating Islamic ethical principles into investment strategies allows market participants to pursue wealth creation in a manner consistent with social justice and environmental stewardship. By balancing fiscal prudence with moral responsibility, investors contribute to a more inclusive and sustainable financial ecosystem.

4.3 Summary of Findings

The findings indicate that while the VAT increase introduces significant short-term challenges—particularly through its impact on consumer demand and corporate earnings—it also fosters opportunities for strategic realignment toward sustainable, Shariah-compliant investments. The dual impact underscores the importance of ethical foresight and adaptive investment behavior in times of fiscal transition.

Overall, the integration of Islamic finance ethics—emphasizing *adl*, *ihsan*, and *maslahah*—provides investors with a comprehensive framework for navigating volatility, minimizing injustice, and promoting equitable growth. By prioritizing resilience, compliance, and ethical innovation, investors can transform fiscal challenges into pathways for sustainable prosperity within Indonesia's evolving economic landscape.

5. Closing

5.1 Conclusion

The Indonesian government's implementation of the Value Added Tax (VAT)



increase to 12% in 2025 represents a critical fiscal reform with broad implications for the national economy and capital markets. Designed to enhance state revenue, support sustainable development, and promote fiscal equity, the policy aims to strengthen the economic foundation of the country. By selectively applying the higher VAT rate to luxury goods and services, the government seeks to minimize regressive effects on lower-income households and preserve social welfare.

Nevertheless, this policy introduces several short-term challenges from an investment and market performance perspective. The VAT hike is expected to reduce consumer purchasing power, depress demand in consumption-driven sectors, and increase stock market volatility. These dynamics complicate corporate valuation and financial forecasting, particularly for companies in the retail, manufacturing, and consumer goods sectors where sales volume and profit margins are highly sensitive to price changes. As a result, investors may face elevated risks and greater uncertainty in their portfolio decisions.

Despite these challenges, the VAT reform simultaneously presents opportunities for strategic repositioning. Investors who diversify into resilient sectors—such as technology, healthcare, renewable energy, and Islamic finance—are likely to achieve more stable returns. Companies demonstrating operational efficiency, regulatory adaptability, and ethical management practices may emerge as attractive investment targets. For disciplined and long-term investors, temporary market volatility can create favorable entry points to acquire undervalued yet fundamentally strong equities.

Overall, the success of this fiscal reform depends on the synergy between government policy and private sector adaptation. Policymakers must balance fiscal objectives with social protection mechanisms, such as targeted subsidies and direct cash assistance, to prevent inequality and sustain public trust.

Concurrently, investors must combine data-driven analysis with prudent risk management to navigate evolving market conditions responsibly and in alignment with ethical investment principles.

5.2 Suggestions

Future studies should conduct a more detailed investigation into the heterogeneous effects of VAT increases across different income segments and industry sectors. Particular attention should be given to changes in consumer behavior, including potential substitution effects toward local products and cost-effective alternatives. Moreover, integrating behavioral economics and Islamic finance frameworks may offer a deeper understanding of how fiscal policies influence investment decisions, ethical compliance, and market resilience.

Such research would provide policymakers with evidence-based insights to design taxation strategies that are not only fiscally sustainable but also socially inclusive and aligned with principles of fairness (*'adl*) and public welfare (*maslahah*). By fostering collaboration between government, academia, and the private sector, future policy formulation can achieve a balanced integration of economic efficiency, equity, and ethical integrity—ensuring that fiscal reforms like the VAT increase contribute to long-term national prosperity and social justice.

5.3 Limitations and Recommendations for Future Research

This study has several limitations that should be acknowledged to provide context for interpreting its findings and to guide future research.

First, the analysis primarily relies on qualitative secondary data drawn from published reports, news articles, and government documents. While these sources offer valuable insights into the macroeconomic and market implications of the VAT increase, they may not fully capture the dynamic, real-time responses of consumers, firms, and



investors. Future studies should incorporate primary data—such as surveys or interviews with investors, policymakers, and industry leaders—to obtain a more comprehensive understanding of behavioral and psychological responses to fiscal policy adjustments.

Second, this study focuses on the short-term economic and financial implications of the 12% VAT implementation. It does not provide empirical measurement of the policy's long-term impact on market stability, investor confidence, or income distribution. Future research could apply quantitative econometric models or Structural Equation Modeling (SEM) to examine the causal relationships between tax policy, consumption behavior, and investment performance over time.

Third, the scope of this study is limited to the national context of Indonesia, which restricts the generalizability of the findings. Comparative studies involving other ASEAN countries with similar tax reforms—such as Malaysia, Thailand, or the Philippines—would allow for cross-country analyses and the identification of best practices in balancing fiscal efficiency and social equity.

Fourth, while the study incorporates Islamic finance perspectives to interpret ethical implications, it does not conduct a detailed analysis of Shariah-based fiscal instruments such as *zakat*, *waqf*, and *qard al-hasan* as potential complements to VAT in achieving equitable revenue generation. Future research should explore how these instruments can be integrated into national tax frameworks to promote fairness (*'adl*) and public welfare (*maslahah*).

Finally, further research should examine the role of digitalization and financial technology in mitigating the negative effects of VAT increases, especially for small and medium enterprises (SMEs). Investigating how fintech innovation, e-payment systems, and digital tax administration can enhance compliance and efficiency would provide actionable insights for policymakers and investors alike.

In summary, while this study contributes to understanding the intersection

of fiscal policy, market dynamics, and Islamic ethical principles, future research should adopt mixed-method approaches, longitudinal analysis, and comparative frameworks to enrich empirical robustness and policy relevance. Such efforts will strengthen the academic foundation for designing tax policies that are economically sound, socially inclusive, and ethically grounded.

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