

The Influence of Value Added Tax (Vat) Assessment on Income Distribution of Consumer of Garment in West Java

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Abstract

Act No. 18 of 2000 regarding burden of Value Added Tax is bore by the consumer, but the implementation indicates that there is industrial policy to bear a part or an overall of VAT. Accordingly, if burden distribution is progressive, the higher household income means a higher VAT burden bore by the consumer, conversely, the lower consumer income, the lower VAT bore by him. Consequently, it will cut real income down, and it affects consumer's purchasing power. Research objectives are to find out if distribution of industrial VAT burden is progressive, regressive or proportional, and to find out to what extend influence of VAT on distribution of household income. The influence of VAT on distribution of consumer's household income will be tested by applying effective tariff, Gini index, and progressivity index. The findings indicate that effective tariff of VAT is progressive (positive value) meaning that consumer and industrial VAT burden is increasing. Calculation of Gini index before and after VAT assessment make consumer's earning gaps smaller, while calculation of progressivity index indicates industrial tax system is progressive (positive value) indicating that most of consumers come from middle to upper class.

Keywords: Value Added Tax (VAT), income distribution, consumer of garment

1. Introduction

Value Added Tax (VAT) is a form of consumption tax for goods and services in customs area which is charged at levels to every production and distribution line (Act No. 42 of 2009). VAT is not a fair tax since the tax is assessed on all goods and service by 10%; it is different from income tax which is progressive toward income where the higher income of tax payer, the higher tax should he pay, conversely, the lower income of tax payer, the lower tax he should pay. When VAT is set on certain goods, the price will rise, and quantity of goods bought and sold by consumer will fall. On the other hand, VAT assessment will affect distribution of consumer's household income signifying that VAT assessment will make consumer's income low, indeed, it will affect consumer's consumption pattern. According to Noor (2013), even though consumption activity makes consumer satisfied, and it also triggers production activity, VAT assessment will cause a part of the loss of public welfare. Accordingly, VAT will affect positively and negatively distribution of consumer's household income. Positive effect is gained since it can divide up consumer's household income evenly, while negative effect is arouse when people shall pay more for the goods/service compared to the price with no VAT. This assessment will cut real income down, and it affects consumer's purchasing power. The influence of VAT on distribution of consumer's household income will be tested by applying effective tariff, Gini index, and progressivity index. To find out the influence of VAT on income distribution, one of the steps is by calculating effective tariff of each household income class. Effective tariff is applied to examine distribution of VAT burden, will it be progressive, regressive or proportional. To obtain a real effective VAT faced by a household for every income, amounts of VAT burden is divided by amounts of income, and this calculation can also apply equation of Hasdi (1997). Gini index, whereas, is built based on Lorenz curve where coefficient ranges from 0 to 1. If value 1 means income distribution is completely unequal, one class receives 100% of the total income. If value 0 indicates that income distribution is completely equal, every income class has the same percentage of household income and percentage of income. Gini index is necessary to measure occurred income distribution gaps as the consequence of VAT; equation of Cline (1985) is used to measure the gaps. By discussing effective tariff, it will be known if VAT is progressive, regressive or proportional. However, to what level of progressivity will be examined by using Suits progressivity index (1977) as referred in Hasdi (1997).

Value added tax (VAT) is, pursuant to the Act on VAT, indirect tax where the burden can be shifted to other party. West Java Province is center of the garment industry in Indonesia. The study is motivated by some causes as follows: (a) tax, including VAT, is a mainstay of the government fund to raise the state revenue because of oil price fluctuation, even it tends to decline in international market, (b) tax shifting, which the object is income tax and it complies with the Act of income tax, is the tax where the burden cannot be shifted to other party; consequently, tax shifting is taken since the Act of VAT determines that the burden cannot be shifted. (c) Based on the overview of VAT, it is a less fair tax since proportional tariff of 10% is burdened to all income classes; it is different from income tax which is progressive to income, and this study will prove it.

Income redistribution will be more efficient if it is handled by the government, instead of the rich. Thus, the government shall intervene this redistribution to meet equity because the more even distribution is needed by people. Most of private or personal party are lack of interest in making equality or they are incapable of making equality. Income redistribution has public good element. Income redistribution is not public goods, but the effect is characterized as public goods indicating that if public goods are consumed by person, it will not reduce availability of the goods to be consumed by the other, while for those who are incapable of purchasing, the goods will not be taken out from goods consumption. Income redistribution will make income of the poor better that crime and complaint levels will decrease whereas, life of the high income class will be calmer. To achieve political stability, the government shall make an effort to distribute income evenly that government policy will not be dominated and affected by the high income class. Research objectives are to find out if distribution of industrial VAT burden is progressive, regressive or proportional, and to find out to what extend influence of VAT on distribution of household income.

2. Research Method

The study is conducted descriptively and quantitatively. Scope of the study focuses on VAT assessment, either to garment industry or consumer of garment in West Java, especially on VAT and distribution of household income of consumer of garment. Data used in the study is primary data which relates to VAT burden, accrued VAT, and amounts of VAT revenue from garment industry in which the garment industry is used as sample, while data will be obtained by questionnaire. Secondary data, then, is obtained from the National Socio-Economic Survey. The other relevant data are: amounts of collected VAT, percentage of consumption expenditure of garment per income class, VAT budget burdened by per income class, total household income per income class, cumulative percentage of amount of household, cumulative percentage of household income, average tax rate, cumulative percentage of VAT burden, household income of society per year, and Gini index.

Population used in the study is the same type of 13 industries (garment industry) existing in West Java. Sample is a subset of population consisting of some selected members of the population, while each of member is the subject. From the 13 industries in West Java, 5 garment industries are taken as the sample which is selected randomly, and it is considered that the sample may represent the others in West Java regions. Data which is going to be analyzed is homogeneous indicating that industries selected as the sample are the same type of industry that are characterized as relatively same. The study focuses on income distribution which are progressive, regressive or proportional, and on the influence of VAT on distribution of garment consumer's household income. Distribution of household income, VAT burden can be allocated in compliance with household expenditure of the person concerned. Estimation conforms with available data regarding distribution of household income per year. Grouping is taken based on income classes, in addition to age and types of family. In data analysis, household income is divided into 9 (nine) household income classes based on grouping made by the Central Bureau of Statistics.

To find out the influence of VAT on income distribution, one of the steps is by calculating effective tariff of each household income class. Effective tariff is applied to examine distribution of VAT burden, will it be progressive, regressive or proportional. To obtain a real effective VAT faced by a household for every income, amounts of VAT burden is divided by amounts of income, and this calculation can also apply equation of Hasdi (1997) as follows:

$$T^* j = B_i / Y_2 \quad (1)$$

Information:

$T^* j$ is effective tariff;

$B_i = \sum B_{ij}$ is VAT burdened by the i th income class;

Y_2 is total household income for the i th;

Class Gini Index

Gini index is built based on Lorenz curve where coefficient ranges from 0 to 1. If value 1 indicating income distribution is completely unequal, one class receives 100% of the total income. If value 0 indicating income distribution is completely equal, every income class has the same percentage of household income and percentage of income. The index is required to measure income distribution gaps which was occurred as the consequence of VAT. Calculation applies the equation of Cline (1985) as follows:

$$G = 1-2A \text{ where } 0 \leq G \leq 1 \tag{2}$$

$$A = \sum (h_j \cdot Y_{j-1} + \frac{1}{2} h_j \cdot y_j) \tag{3}$$

Information:

G is Gini index;

H is cumulative percentage of amount of household;

Y is cumulative percentage of household income.

$$H_j = H_j - H_{j-1} \ \& \ y_i = Y_j - Y_{j-1} \tag{4}$$

Level of progressivity is examined by progressivity index equation (Suits, 1977 in Hasdi, 1997). The following is progressivity model of Suits:

$$S = 1-L/K \tag{5}$$

Information:

$-1 \leq S \leq 1$;

$L = \sum \frac{1}{2} (B_j + B_{j-1}) (Y_j)$;

$K = 5000$; for information, S is progressivity index of Suits, and B is cumulative percentage of VAT burden.

The index will apply Lorenz curve concept and Gini index. Accordingly, it will only outline the relationship between cumulative percentage of VAT burdened by garment industry at Y axis and percentage of income at X axis. Value of progressivity index of Suits ranges from -1 to +1. If the value is -1, tax is burdened by middle to low class household, conversely, if the value is +1, all taxes id burdened by middle to high class household.

3. Findings

3.1 Consumption Based on Income Class

Taken from National Socio-Economic Survey, some data are found such as population, distribution of population, amount of household, household income (based on income class) in West Java. Further, quantity of consumption can be calculated in conformity with household expenditure classification and income class as presented in Table 2 and 2 below:

Table 1. Household expenditure for consumption per income class

Income Class	Total	Consumption (USD /RT)	Consumption (Rp. Millions)	Total Consumption (%)
1		727	1.916	2.502
2		835	2.010	2.624
3		862	2.782	3.632
4		927	5.245	6.848
5		1.325	6.555	8.558

6	1.555	8.624	11.260
7	3.215	10.471	13.671
8	3.586	17.015	22.215
9	5.211	21.973	28.689
Total	18.243	76.591	100.000

Source: National Socio-Economic Survey, data output.

Table 1 illustrates that the lowest consumption is income class (1) by 2.502%, while the highest consumption is income class (9) by 28.689%. Table 2, then, shows that the lowest consumption (1) is 2.527%, and the highest is 28.306%. Thus, the conclusion is that the highest consumption will be always conducted by middle to high income class indicating that unstable economic condition in Indonesia does not affect consumption pattern of middle to high income class. Accordingly, middle to low income class tends to focus on the basic needs, specifically for food.

Table 2. Household expenditure for consumption per income class

Income Total	Class	Consumption (USD /RT)	Consumption (Rp. Millions)	Total Consumption (%)
1		289	2.009	2.527
2		299	2.414	3.036
3		327	2.695	3.389
4		548	5.175	6.508
5		848	6.609	8.312
6		1.152	8.625	10.847
7		1.854	11.355	14.281
8		3.221	18.125	22.795
9		4.572	22.507	28.306
Total		23,483.196	79.514	100.000

Source: National Socio-Economic Survey, data output.

3.2 Industrial Effective VAT Tariff

Effective tariff is one of indicators to find out the influence of VAT on distribution of household income. Effective tariff is applied to examine distribution of VAT burden, will it be progressive, regressive or proportional. For details, please see Table 3 and 4 below:

Table 3. Industrial effective VAT tariff

Class Income	Total Expenditure (Rp. Million)	Total Consumption (Rp. Million)	Expenses VAT (Rp. Million)	Effective Rate (%)
1	405.456	1.916	16,218.24	4.00
2	640.872	2.010	32,043.60	5.00
3	852.156	2.782	42,607.80	5.00
4	1,085.196	5.245	65,111.76	6.00
5	1,470.804	6.555	102,956.28	7.00
6	2,062.068	8.624	164,965.49	8.00

7	2,859.048	10.471	228,723.84	8.00
8	4,385.892	17.015	482,448.12	11.00
9	8,520.228	21.973	937,225.08	11.00
Total	22,281.720	76.591	2,072,300.21	65.00
Avera age	2,475.746	8.510	230,255.58	7.22

Source: National Socio-Economic Survey, data output.

Table 4. Industrial effective VAT tariff

Class Income	Total Expenditure (Rp. Million)	Total Consumption (Rp. Million)	Expenses VAT (Rp. Million)	Effective (%)	Rate
1	428.916	2.009	12,867.48	3.00	
2	647.700	2.414	25,908.00	4.00	
3	860.556	2.695	43,027.80	5.00	
4	1,087.512	5.175	43,500.48	4.00	
5	1,492.500	6.609	89,550.00	6.00	
6	2,071.320	8.625	144,992.40	7.00	
7	2,897.376	11.355	231,790.08	8.00	
8	4,494.348	18.125	404,491.32	9.00	
9	9,502.968	22.507	140,356.16	12.00	
Total	23,483.196	79.514	2,136,483.72	58.00	
Avera age	2,609.244	8.835	237,387.08	6.44	

Source: National Socio-Economic Survey, data output.

Table 3 reflects that industrial effective VAT tariff is increasing, or progressive, from the lowest income level (4%) to the highest one (11%), although certain income level does not raise (constant). However, as a whole, it raises at average rate from 0% to 3%. It signifies that the higher consumer's income, the higher VAT rate will be burdened by industry. Table 4 depicts industrial effective VAT tariff also raises, or progressive, from the lowest income level (3%) to the highest (12%) at average rate from 1% to 3%. It signifies that the higher consumer's income, the higher VAT rate will be burdened by industry.

3.3 Gini Index

Gini index is valued from zero to one and it is built based on Lorenz curve. If value of Gini index is zero, income distribution is completely equal, conversely, if value of Gini index is one, income distribution is completely unequal where every income class has the same percentage of household and income. Widodo (1995) in Hasdi (1997) suggests that it is impossible if the fact says value of Gini index is zero and one. In developing country, income distribution is unbalanced where Gini index ranges from 0.5 to 0.7, and income distribution is relative same where Gini index ranges from 0.2 to 0.35. The influence of VAT on distribution of household income can be found out by two Gini indexes, i.e. value of Gini index before and after VAT assessment as presented in Table 5 and 6 below:

Table 5. Distribution of household income before and after VAT assessment

Class Income	Total Revenue (Rp. Million)	Total Revenue-VAT (Rp. Million)	Revenue (%)	Revenue—PPN (%)
1	604.980	597,115.26	2.34	2.36
2	962.904	949,423.34	3.73	3.76
3	1,179.780	1,159,723.74	4.57	4.59

4	1,361.100	1,337,961.30	5.27	5.30
5	1,684.596	1,654,237.27	6.53	6.55
6	2,367.300	2,322,321.30	9.17	9.19
7	3,006.516	2,946,385.68	11.65	11.67
8	5,022.312	4,906,798.82	19.46	19.43
9	9,623.124	9,382,545.90	37.28	37.15
Total	25,812.612	25,256,548.60	100.00	100.00

Source: National Socio-Economic Survey, data output.

Table 6. Distribution of household income before and after VAT assessment

Class Income	Total Revenue (Rp. Million)	Total Revenue-VAT (Rp. Million)	Revenue (%)	Revenue—PPN (%)
1	673.692	663,586.62	3.13	2.59
2	879.036	877,541.60	4.08	3.42
3	1,143.780	1,122,048.18	5.31	4.38
4	1,388.700	1,360,926.00	6.45	5.31
5	1,711.740	1,672,369.98	7.95	6.52
6	2,350.044	2,298,343.03	10.91	8.96
7	3,133.740	3,058,530.24	14.55	11.93
8	5,092.452	4,960,048.25	23.65	19.35
9	9,861.276	9,624,605.38	45.79	37.54
Total	21,534.372	25,637,999.28	100.00	100.00

Source: National Socio-Economic Survey, data output.

Based on Table 5 and 6, they point out distribution of household income before and after VAT assessment. In fact, VAT affects negatively consumer's household income where VAT reduces household income faced by low to high income class. Further, based on distribution of household income before and after VAT assessment, distribution of cumulative percentage of household income before and after VAT assessment as presented in Table 7 and 8 below:

Table 7. Distribution of household income percentage before and after VAT assessment

Class Income	Amount RTRT (%)	Class Revenue-VATRT (%)	Revenues RT (%)	Revenue-VATRT (%)
1	18.263	0.16	7.604	7.115
2	73.985	0.34	9.624	9.494
3	1,215.131	10.49	11.790	11.597
4	1,726.645	14.91	25.675	23.329
5	4,054.427	35.00	68.456	65.980
6	1,523.613	13.15	76.456	70.213
7	1,851.172	15.98	87.901	86.689
8	1,012.045	8.74	97.312	95.798
9	107.993	0.93	96.234	93.820

Source: National Socio-Economic Survey, data output.

Table 8. Distribution of household income percentage before and after VAT assessment

Class Income	Amount (%)	Class RTRT	Revenue-VATRT (%)	Revenues (%)	RT	Revenue-VATRT (%)
1	17.371		2.01	8.908		8.663
2	88.425		10.23	15.879		15.600
3	96.755		11.19	45.765		45.555
4	101.337		11.72	78.700		78.456
5	245.954		28.45	87.117		67.298
6	124.459		14.39	89.903		84.343
7	99.897		11.55	97.133		93.308
8	71.253		8.24	97.452		96.482
9	19.110		2.21	99.861		96.248

Source: National Socio-Economic Survey, data output.

Based on Table 7 and 8, it shows that household income before VAT is higher than after VAT assessment either for middle to low income class or middle to high income class, and based on income class 2 to 9, there is great escalation or progressive. Based on household income cumulative percentage distribution before and after industrial VAT assessment, it can be made a conclusion that the middle to low income class has VAT which tends to be “neutral” since the consumers only focus on the urgent basic needs compliance (food).

Differences on income from the middle to high income class and the middle to low income class will reflect consumption pattern and lifestyle of every class, and these differences can cause negative effect as the consequence of social status differences in the society thoroughly. Hereafter, Gini index illustrates a phenomenon before and after industrial VAT assessment based on the income as presented in Table 9 and 10 below:

Table 9. Gini index before and after VAT assessment

No	Description	Gini index on the basis of income
1	Before subject to VAT Industry	0.509979
2	After being charged VAT Industry	0.503374
3	Changes in the Gini index	0.006605

Source: National Socio-Economic Survey, data output.

Table 10. Gini index before and after VAT assessment

No	Description	Gini index on the basis of income
1	Before subject to VAT Industry	0.452162
2	After being charged VAT Industry	0.450320
3	Changes in the Gini index	0.001842

Source: National Socio-Economic Survey, data output.

Table 9 depicts that Gini index before VAT assessment for household income estimation is 0.509979, and after VAT assessment, it is 0.503374. Accordingly, VAT assessment is able to make income distribution inequality narrower by 0.006605.

Table 10, depicts that Gini index before VAT assessment for household income estimation is 0.452162, and after VAT assessment, it is 0.450320. Accordingly, VAT assessment is able to make household income inequality narrower by 0.001842.

Based on Gini index before and after VAT assessment which is estimated based on income, it depicts a relative same quantity to make consumer's income gaps narrower. Accordingly, if there is a shift of VAT burden given to the consumer, an effort to improve household income distribution can be made by industrial VAT. Then, if VAT assessment to household is progressive toward income distribution, the higher household income will make VAT burden higher, either for consumer or industry.

3.4 Progressivity Tariff

Further, when Gini index has been found, Lorenz curve for pre- and post- VAT assessment can be made as presented in Figure 1 below. Gini index on the basis of household income is 0.452162 whereas, the index before and after VAT assessment is 0.450320. There a change at 0.001842 indicates that VAT assessment makes consumer's income lower. Based on the Figure 1 above, at initial stage, Lorenz curve appears to be far away from line AC or 1 indicating that there is income inequality before VAT assessment, and then it gets close by line AC or 1 indicating that income distribution is more equal after VAT assessment. Accordingly, it depicts that the middle to high income classes are those who get the tax burden. However, they are still capable of consuming beyond the basic needs, while those middle to low income classes still focus on the food only due to income limits.

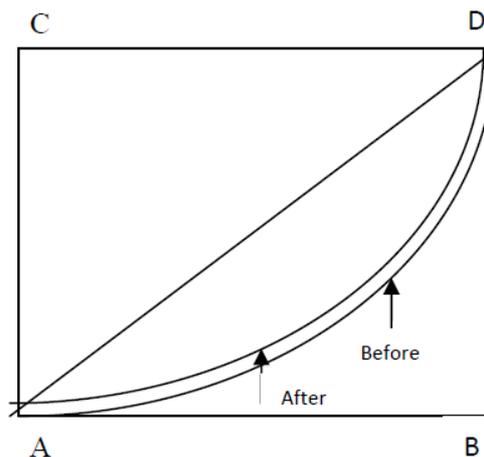


Figure 1. Lorenz Curve describing a condition before and after addition of VAT

4. Discussion

It is noticed that the tax indirectly causes inefficiency that it has negative effect on consumer's household income. Therefore, reduction of consumer's household income also affects demand for goods. Household income is all revenue received by household in a society for one year long. Household income is one of characteristics which can distinguish stratum or class in a society. One year net income whereas, is an income which is received from monthly revenue which had been subtracted by expenditures. Household net income is net income after subtraction of real expenditure. Factors affecting household income are expenditure for consumption, savings, other cost, tax and so forth.

The government is responsible to distribute income in purpose to make prosperity spread evenly to all walks of life. It shall be conducted by "making" the rich have no choice but to set their income aside through an obligation to pay the tax in conformity with the income (Rosdina & Irianto, 2012). Some proposed causes are income redistribution will be better if it is performed by the government. The government shall intervene this redistribution in order to reach equality since horizontal income distribution is highly required and it is considered as good for equality. Besides, governmental intervention on income redistribution is necessary since an individual is not interested in achieving equality, and as a small part of society, s/he is incapable of realizing the effort. Income redistribution has public good element. In this case, income redistribution is not public goods, but the effect is characterized as public goods. It signifies that if public goods are consumed by other person, it will not reduce availability of the goods, and it also applies for those who are incapable of purchasing the goods. By executing income redistribution, the

poor will have a higher income, and consequently, social unrest and crime is decreasing that the life of rich will be more assured. Regarding political power, equality in income does not directly affect the state politic, but it has an influence on it. Hence, in purpose to avoid the possibility, the government shall redistribute income to make income equal. Further implication is that government policy will not be dominated by and governed by high income class only.

Goals of the state building is, in general, national per capita income escalation, job creation, the more equal income distribution and equilibrium in balance of international payment. These four general goals do not always stay in the same direction and walk harmoniously, but in achieving the goals, it frequently shall alleviate possibilities of achievement. For example, to achieve high economic growth rate, income distribution is often uneven or less equal. Proposed cause in this theory states that if uneven income distribution occurs, it will make the rich and the poor classes in economy. Macroeconomic theory suggests that the higher income, the higher desire to make additional consumption. Therefore, it is expected that the rich who have savings are interested in making investment. If income distribution is distributed equally, it will decrease the savings of society, further, it will also decrease the amount of fund for investment. In the other word, the poor do not have ability to save money or to invest. Unfortunately, the theory is inapplicable in Indonesia or other developing countries. When inequality of income will create savings for investment, developing countries get difficulties in making savings. Savings, for society in developing countries, are luxury goods where they belong to the rich as an effect of showing off (International Demotration Effect). Developing countries, including Indonesia, are making an effort to escalate per capita income along with income distribution as the result of development. Simply put, it is acceptable that tax will decrease inequality of income in economy. However, it is good if it is seen from human point of view, and it is suggested that the tax shall be used to decrease inequality of income. It does not mean that goal of economy is to distribute income evenly or in the same quantity to every member of society.

Regressive tax system tends to enlarge inequality of income in society, conversely, the more regressive tax system applied in an economy, it will decrease income gaps in economic system. To reduce income gaps in an economy, applied tax system shall be progressive where the tax system complies with minimum aggregate sacrifice principle at minimum taxable income limits. If an income is above certain amounts, it gets tax assessment, and if it is under minimum taxable income, it will not get tax assessment. However, if it is noticed by production, progressive tax tends to obstruct production process when it reduces income of high income product group and affects desire to work, to save money and to invest. Accordingly, it seems that conflict occurs between goals of income distribution and goals of other economic growth. For example, to increase production growth, a good tax structure requires that tax burden is distributed to all member of society in fair. Based on household income analysis, justice aspect of the influence of tax burden on income distribution of society, especially consumer of garment, suggests that household income is divided into 9 (nine) classes in conformity with division made by Central Statistics Body. Official data available and published by Central Statistics Body is household expenditure distribution. This published data is National Socio-Economic Survey output, while data of household income distribution has not published, although the latter data has been relatively available.

Calculation on effective tariff depicts that the higher consumer's income, the higher VAT will be burdened by him. Specifically for the middle to high income class, when this class has consumed the most, it is proved that industrial VAT burden is progressive. In general, taxpayer will be ready to pay the tax if it is in small amount since progressive tax system will tend to decrease individual's desire to pay tax, although he has a higher taxable object (Suparmoko, 2002). Industrial effective VAT tariff depicts overall escalation where tax burden is increasing and it is burdened by industry and consumer. This escalation affects negatively industry since the burden will reduce profit as the consequence of tax burden. Even though the sales is increasing, in one side, VAT burden will not make industrial profit optimal, but in the other side, it will bring positive effect on government revenue escalation from tax sector, specifically for VAT. Accordingly, VAT has an important role as source of government revenue. For middle to high consumer, this unstable economy has slight effect on their desire in consuming goods, but it affects those middle to low income classes that makes them focus on basic needs compliance, such as food.

For middle to high income class, VAT is increasing because of their high income, and it gives them chances to consume goods beyond their basic needs (food). In fact, condition of economy in Indonesia is not very influential to their consumption pattern. In term of government revenue, contribution of VAT from the middle to low income class does not affect government revenue whereas, contribution of VAT from the middle to high income class affects positively government revenue. In perspective of industry, the middle to low income class only has a slight contribution to industrial viability. Further, the middle to high income class has great contribution to industry when the demand is increasing, sales and profit will be escalated.

VAT assessment system to industry is the greatest revenue for the government when principle of justice is applied. However, it is regarded as unfair since 10% single rate is burdened to all income classes. By having this progressive VAT burden, tax receipt to the government will be optimal where VAT has a great influence on the tax system and the government. One of potential main sources for development finance, including to support poverty elevation policies and income redistribution, is progressive income tax assessment (Todaro, 1999). In perspective of household income, VAT has relative slight effect. Therefore, VAT has positive effect on consumer's income distribution as driven by some points below:

Industrial VAT system is progressive (fair) where the higher consumer's income the higher VAT will be burdened by him.

VAT system for industry which is progressive contributes optimally to government revenue.

VAT system for industry has relative slight influence on consumer's household income distribution indicating that industrial VAT system can make consumer's income distribution gaps narrower.

Based on Gini index before and after VAT assessment which is estimated based on income, it depicts a relative same quantity to make consumer's income gaps narrower. Accordingly, if there is a change on consumer's VAT burden, an effort to improve household income distribution can be made by industrial VAT. Then, if VAT assessment to household is progressive toward income distribution, the higher household income will make VAT burden higher, either for consumer or industry.

Thus, it is known that VAT tariff is effective where industrial VAT burden is progressive and progressivity rate as the output of calculation is decreasing on consumption sector. Industry in Indonesia has growing up at a good progress rate although condition of economy is unstable. Based on the Figure, at initial stage, Lorenz curve appears to be far away from line AC or 1 indicating that there is income inequality before VAT assessment, and then it gets close by line AC or 1 indicating that income distribution is more equal after VAT assessment. Accordingly, it depicts that the middle to high income classes are those who get the tax burden. However, they are still capable of consuming beyond the basic needs, while those middle to low income classes still focus on the food only due to income limits. Generally, VAT is defied because of its progressivity, and this assessment will reduce household consumption of those who have low income at a greater percentage than those high income classes. In most countries, especially those beyond economic communities, it is unimportant to consider the influence of VAT distribution, but to determine if the taxes will have positive or negative effect to increase state revenue. Any country shall not take the influence and types of certain tax into special consideration, but the influence of distribution thoroughly; it is not only the influence of tax on household, but also on the state revenue.

In conformity with the Act, VAT is indirect tax where the tax burden can be shifted to other party. The other types of tax, income tax is direct tax where the burden cannot be shifted to other taxpayer. However, the findings of Hasdi (1997) prove that there is possibility of tax shift which the taxable object is income tax even if the income tax burden is shiftless. Otherwise, the findings of this study have found that based on the Act, VAT burden which can be shifted to other party is PROVED.

5. Conclusion

Calculation on effective tariff depicts that the higher consumer's income, the higher VAT will be burdened by him. Specifically for the middle to high income class, when this class has consumed the most, it is proved that industrial VAT burden is progressive.

Further, based on Gini index before and after VAT assessment which is estimated based on income, it depicts a relative same quantity to make consumer's income gaps narrower. Accordingly, if there is a change on consumer's VAT burden, an effort to improve household income distribution can be made by industrial VAT. Then, if VAT assessment to household is progressive toward income distribution, the higher household income will make VAT burden higher, either for consumer or industry. Progressivity rate indicates reduction in consumption which signifies that income has been distributed more equal after VAT assessment.

VAT assessment system to the industry is the greatest tax revenue for justice. By having this progressive VAT burden, tax receipt to the government will be more optimal where VAT has a great influence on the tax system and the government; whereas, relating to household distribution point of view, VAT has a relative slight influence. Besides, industrial VAT can make consumer's household income distribution inequality narrower or lesser. This condition directly depicts that VAT expansion in West Java can improve consumer's income inequality

6. Suggestion

Implication of the findings proves that household income after VAT assessment is progressive. This condition shall be maintained because it is considered as fair for burden although VAT is unfair when the single rate is burdened to all income classes. Generally, VAT is defied because of its progressivity, and this assessment will reduce household consumption of those who have low income at a greater percentage than those high income classes. Further, it is advisable that the upcoming study has to consider export tax in addition to domestic market. Moreover, the government can manage VAT receipt well and correctly as well as transparent in which the tax payers can keep an eye that their paid VAT to the government has reciprocal services in form of development and public services provision for community interests, especially for Directorate General of Taxes in West Java region.

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