

## Original Research Article

# TAXES, POLICIES, AND CHANGE: ADVOCATING VAT FACILITIES FOR DISABILITIES

### ABSTRACT

This study examines the urgency of providing Value Added Tax (VAT) facilities on the supply of assistive devices for people with disabilities in Indonesia. The accessibility of assistive devices for persons with disabilities, such as wheelchairs, hearing aids, and other devices in Indonesia, is still low, mainly due to high prices. This situation hinders people with disabilities from fully participating in society, which affects their well-being and opportunities for independent living. This study uses a qualitative approach to analyze related tax policies and compare VAT facilities' forms: "VAT exemption" and "VAT not collected". The results show that the "VAT exemption" facility is more effective in reducing the price of assistive devices, as it maintains tax neutrality and minimizes the impact of price increases due to suboptimal tax mechanisms. In addition, this study highlights the importance of accurate and systematic data collection on people with disabilities to ensure that policies can be implemented in a targeted manner. In conclusion, the VAT exemption on assistive devices for persons with disabilities through the "VAT not levied" facility is recommended as a strategic step to improve the accessibility, welfare and social inclusion of persons with disabilities in Indonesia.

Keywords: Value Added Tax (VAT), VAT facility, assistive devices for people with disabilities, tax policy.

**Comment [Adamu Abu1]:** The accessibility of assistive devices, such as wheelchairs and hearing aids, for persons with disabilities remains low in Indonesia, primarily due to their high prices.

UNDEK

## BACKGROUND

More than 2.5 billion people with disabilities require one or more assistive devices, such as wheelchairs, hearing aids, or apps that support communication and cognition. However, nearly one billion need access to such devices, especially in low- and middle-income countries. Access can be shallow in some countries, with only about 3 percent of the need for potentially life-changing devices.

The Global Report on Assistive Technology notes that the number of people requiring assistive devices will likely increase to 3.5 billion by 2050. This is due to an ageing population and the increasing prevalence of non-communicable diseases worldwide. In the report, UNICEF Executive Director Catherine Russell states that affordability is the main barrier to accessing assistive devices.

About two-thirds of people using assistive devices reported purchasing them with their funds. Others stated that they relied on financial support from family and friends. These assistive devices are essential to enable people with disabilities to participate in community life equally with others. Without access to these devices, people with disabilities can experience exclusion, risk isolation, live in poverty, even face hunger, and become increasingly dependent on family, community and government support.<sup>1</sup>

Based on the Indonesian Health Survey 2023 conducted by the Ministry of Health, the data shows that the number of people with disabilities who have used assistive devices is still deficient. The data presented refers to people with vision, hearing, and walking disabilities who are more or equal to 1 year old. The report shows that 50.6% of people with disabilities have used walking aids. Furthermore, for people with vision disabilities, 11.7% had used vision aids by 2023. The lowest number of people with hearing disabilities who have used hearing aids is only 4.1%.<sup>2</sup>

The low number of disabled people who have used disability aids is due to their high price. According to Dr. Damayanti Soetjipto, Sp.THT, Chairman of the National Committee for the Prevention of Hearing Loss & Deafness (PGPKT), says a good-quality hearing aid costs at least Rp 4 million, while BPJS only covers around Rp 1 million. Therefore, people with disabilities have to spend more money to buy disability aids. On the other hand, they must also fulfil their primary needs, such as clothing and food.<sup>3</sup>

As Indonesian citizens, persons with disabilities have the same rights and obligations as other citizens, and their welfare is guaranteed. This is stipulated in the foundation of the Indonesian State, namely Pancasila, in the 5th principle, which contains justice for all Indonesian people. The basis of the State is reaffirmed in the 1945 Constitution, which regulates human rights. This indicates that the State is trying to be present in fighting for the welfare of its people, including people with disabilities.

However, in reality, not all policies that the State has established are in favour of persons with disabilities. As long as the State of Indonesia has been established, there is only one regulation in the field of taxation that shows its partiality to persons with disabilities. Namely, Government Regulation Number 49 Year 2022 concerning VAT Exemption Facility and Not Collected on Import and/or Delivery of Certain Taxable Goods. In Article 28

Comment [Adamu Abu2]: people

Comment [Adamu Abu3]: delete the space

Comment [Adamu Abu4]: aging

Comment [Adamu Abu5]: Russell

Comment [Adamu Abu6]: delete it

Comment [Adamu Abu7]: fulfill

Comment [Adamu Abu8]: s

Comment [Adamu Abu9]: s

Comment [Adamu Abu10]: s

<sup>1</sup> <https://www.liputan6.com/disabilitas/read/4964157/hampir-1-miliar-penyandang-disabilitas-di-dunia-tidak-bisa-mendapatkan-alat-bantu?page=4>

<sup>2</sup> <https://databoks.katadata.co.id/layanan-konsumen-kesehatan/statistik/66a13e5abae9e/baru-sedikit-penyandang-disabilitas-ri-yang-pakai-alat-bantu-pada-2023>

<sup>3</sup> <https://www.liputan6.com/disabilitas/read/4911412/mahalnya-alat-bantu-dengar-di-indonesia-dokter-dikategorikan-elektronik-jadi-kena-pajak?page=2>

Paragraph (3) letter C, it has been regulated that imports of goods for the unique needs of persons with disabilities by social agencies or institutions that care for persons with disabilities, import duties and VAT are not collected. However, this policy is not sufficient to improve the welfare of persons with disabilities. A more comprehensive policy is needed to improve the welfare of persons with disabilities. One is exempting Value Added Tax on assistive devices for persons with disabilities.

Comment [Adamu Abu11]: It

As mentioned earlier, people with disabilities need assistive devices to participate in a free society. Without assistive devices, they will find it difficult to live their personal lives. If people with disabilities cannot participate in a free society, they cannot improve their welfare. Therefore, it is important to implement the VAT exemption on assistive devices for persons with disabilities because they need them to live their daily lives.

The problems previously described are the background for the author's problem so that the author can analyze the urgency of VAT exemption on assistive devices for people with disabilities in Indonesia.

## RESEARCH METHOD

This research chose a qualitative approach because the aim was to reveal a deeper understanding of a phenomenon. The main focus of the qualitative research approach is one of the methods for understanding social reality. Qualitative approaches are used to deeply explore, describe, or explain social phenomena to understand social life better. One of the goals of qualitative research is to make facts more understandable (Finlay in Chariri, 2016). The reasoning is that the relationship between the studied aspects will be more apparent when observed in the process context. In this study, researchers attempted to analyze export-related policies in Indonesia. Regarding research benefits, this type of research can be categorized as pure research because it is conducted to meet the needs of researchers and contribute to scientific development. Pure research also includes research conducted within an academic framework (Prasetyo & Jannah, 2012).

Comment [Adamu Abu12]: The author need to explain more on his research methodology, why he used only secondary data while the primary data is more reliable in some cases? he made a mention of the method of data collection without mentioning the method of data analysis in the research, why?

Regarding data collection methods, this research uses literature studies by relying on secondary data. Secondary data is information from literature related to the studied problem (Cooper & Emory, 1998). This data source includes books, journals, articles, and other literature that discusses topics relevant to this research.

## RESULTS AND ANALYSIS

### The Urgency of Providing VAT Exemption Facility for Assistive Devices for Persons with Disabilities

The international definition put forward by the United Nations defines people with disabilities as those who have long-term physical, mental, intellectual, or sensory impairments that impede their full participation and effectiveness in society.<sup>4</sup> Similar to the international definition, Indonesia has an explanation that aligns with the international definition. In Law No. 8/2016 on Persons with Disabilities in Article 1, paragraph 1 explains that Persons with Disabilities are every person experiencing physical, intellectual, mental, and/or sensory limitations for an extended period who, in interacting with the environment can experience obstacles and difficulties to participate fully and effectively with other citizens based on equal rights.

Comment [Adamu Abu13]: it is explained

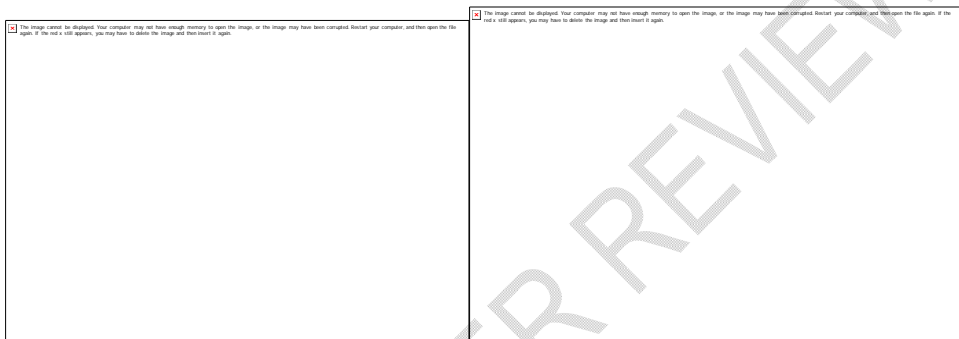
Based on a study conducted by the Indonesia Australia Partnership Program for the Economy (Prospera), which focuses on providing advice for the Government of Indonesia to

Comment [Adamu Abu14]: -

<sup>4</sup> Convention on the Rights of Persons with Disabilities

improve spending, raise revenue, improve the financial sector and increase market efficiency. The study states that when comparing household poverty rates experienced by non-disabled households and households with family members with mild and severe disabilities, households with family members with disabilities have relatively high poverty rates. Looking at Prospera data (see Figure 1), non-disabled households have a poverty rate of 8.3%. In comparison, households with family members with low levels of disability have a poverty rate of 12.6% and reach 15.4% if extra costs are added. Furthermore, households that have family members with severe disabilities have a poverty rate of 16.3%, which becomes 24.3% if the extra cost of expenses due to disability is added (Mahkota, 2021).

**Figure Error! No text of specified style in document..  
Poverty Level and Household Consumption by Disability Status**



Based on Susenas 2020, around 10.38 percent of Indonesia's population, or around 28.05 million people, live with disabilities. Meanwhile, the number of workers with disabilities in Indonesia reached 7.04 million people or around 5.37% of the total working population. The high prevalence rate plus the low level of inclusiveness in Indonesia, which is ranked 125 globally, shows that Indonesia is still not friendly to people with disabilities and people with disabilities are still not fully guaranteed their welfare. Based on a study conducted by the Ministry of National Development Planning/Bappenas, there are three leading indicators in measuring welfare and accessibility for persons with disabilities: welfare (healthy being), access to education and employment, and access to technology and financial inclusion. One aspect of welfare is economic conditions.

Comment [Adamu Abu15]: delete the space

**Table Error! No text of specified style in document.. Income Distribution of Persons with Disabilities (P.D.) in 2020<sup>5</sup>**

Income Range	Non-Disability Person (%)	Person with Mild Disability (%)	Person with Severe Disability (%)
<2 million	69,09	82,71	86,42
2-4 million	21,16	11,35	8,94
4-6 million	6,66	4,05	3,63
6-8 million	1,57	0,87	0,44
8-10 million	0,69	0,5	0,45
>10 million	0,84	0,52	0,12

<sup>5</sup> Badan Pusat Statistik. 2020. Survei Angkatan Kerja Nasional.

The data in Table 1 states that the majority of workers with disabilities still have low incomes; around 82-85% of people with disabilities have incomes below 2 million rupiah. Meanwhile, the percentage of people with disabilities who have an income above the minimum wage of Rp4,900,000 is only under 5 percent of the total number of people with disabilities. The higher the income, the lower the percentage. With a low income, the majority of people with disabilities need extra costs to carry out their daily activities. Starting from costs for transportation, mobility, and medical treatment, there are also costs for assistance services needed for persons with disabilities in carrying out daily activities. These costs depend on the degree of difficulty or functional problems, health conditions, accessibility and inclusiveness of the environment, and the participation of persons with disabilities in daily activities.<sup>6</sup>Based on the average health expenditure incurred by people with disabilities, consumption is 14.17% higher than that of non-disabled people.<sup>7</sup>Cumulatively, there is an estimated 15-20% extra cost that households with moderate and severe disabilities must bear.<sup>8</sup>On the other hand, people with disabilities still have to fulfil their food needs.

Comment [Adamu Abu16]: delete the space

In 2020, more and more children with disabilities are living below the poverty line. Yet according to SUSENAS data, the number of households receiving social assistance - such as non-cash food assistance (Bantuan Pangan Non Tunai - BPNT), the family hope program (Program Keluarga Harapan - PKH), and social protection cards (Kartu Perlindungan Sosial - KPS) is higher if the household has a child with a disability. However, the direction of causation cannot be determined with the existing data. Indeed, the relationship between disability and poverty is significant around the world, and often, the cause-and-effect relationship cannot be determined.

Comment [Adamu Abu17]: fulfill

According to SUSENAS, in 2021, only 20 percent of households with children with disabilities received disability social assistance, which reached 82,185 households in absolute numbers. This percentage of households receiving disability social assistance increased by 14 per cent compared to 2018. However, the number of households receiving it decreased from 109,246 in 2018.

Comment [Adamu Abu18]: delete the space

Although Indonesia ratified the U.N. Convention on the Rights of Persons with Disabilities (UNCRPD) in 2011 through Law No. 19 of 2011 and passed the Law on Disability (Law No. 8 of 2016), the implementation of policies and practical steps to guarantee the rights of persons with disabilities is still very limited. Persons with disabilities have the right to access various essential services such as health, education, employment, and social protection without discrimination. However, access to these services is still hampered by various factors, such as differences in definitions and data, lack of information on the situation of persons with disabilities in Indonesia, lack of partiality towards them, and lack of infrastructure that supports the needs of persons with disabilities.

Health services and aids are essential for many people with disabilities. Therefore, the difficulty of access makes the disabled population vulnerable to health decline (WHO, 2022). The use of assistive devices for people with disabilities is still low in Indonesia. The 2023 Indonesian Health Survey shows that 50.6% of people with walking disabilities use walking aids. Furthermore, for people with vision disabilities, 11.7% had used vision aids in 2023. The least number of people with disabilities who have used hearing aids is only 4.1%. The low use of assistive devices for vision and hearing aids is due to the high price in the market.

<sup>6</sup> Mont, D., & Cote, A. *Considering the disability-related extra cost in social protection*. Background Paper. UNPRPD. 2020.

<sup>7</sup> Badan Pusat Statistik 2020. *Survei Sosial Ekonomi Nasional*.

<sup>8</sup> Bappenas. (2021)

“Merit goods as goods the provision of which society (as distinct from the preferences of the individual consumer) wishes to encourage or, in the case of demerit goods, to deter.”<sup>9</sup>

The provision of lower VAT rates for merit goods or goods with positive externalities is based on the argument that consuming certain goods or services provides additional benefits to society that consumers may not consider when making consumption decisions. For example, books, health products, or educational services often provide broader social or cultural benefits. In this context, incentives such as reduced VAT rates aim to encourage the consumption of such goods to an optimal level for social welfare.

Another common argument for lower VAT rates is to encourage the consumption of 'merit goods' that generate positive external effects. If the consumption of a good or service has benefits for society that the consumer does not consider in his or her consumption decision, then there is a market basis for failure that requires government intervention to encourage consumption to reach the socially optimal level.<sup>10</sup>

Merit goods are goods the community needs and differ from goods for individual interests. Merit goods should not be taxed, giving them a VAT exemption facility. A country that uses a sales tax or value-added tax system recognizes the concept of tax exemptions on specific institutions, activities, goods, or services for non-economic, social, and political purposes.<sup>11</sup>

### Alternative VAT Policy Facility on the Delivery of Assistive Devices for Persons with Disabilities

Providing tax facilities is one of the ways for the government to carry out its function as a regulator to achieve certain goals, one of which is the welfare of the community. By the Taxation Harmonisation Law, it is stipulated that there are 2 (two) forms of incentives in Indonesia: the VAT exempted and the VAT not levied. The two types of incentives have different policy impacts, both in terms of the system applied and the legal character of VAT itself. The implications of these two facilities are presented in Table 2.

**Table 2. Implications of VAT exemption and VAT not levied facilities**

Form of Facilities	Impact of Existing Policy on VAT Facilities
VAT exemption	<ol style="list-style-type: none"> <li>Enterprise who deliver goods or services that receive VAT exemption or exclusion are not considered taxable persons because they do not fulfil the criteria of taxable goods.</li> <li>Unable to apply the mechanism of crediting Input VAT for goods or services that receive VAT exemption facilities so that economically, this VAT burden remains and can be transferred to consumers or producers.</li> <li>If the enterprise delivers goods or services subject to VAT, the calculation of input VAT must be carried out through other special mechanisms.</li> <li>If this incentive policy is not explicitly regulated in the law,</li> </ol>

Comment [Adamu Abu19]: Enterprises that

Comment [Adamu Abu20]: fulfill

<sup>9</sup> Richard A. Musgrave dan Peggy B. Musgrave

<sup>10</sup> Thomas, Alastair Geoffrey Arthur. *VAT Rate Structures in Theory and Practice*. Policy Research working paper; no. WPS 10677; PROSPERITY Washington, D.C.: World Bank Group.

<http://documents.worldbank.org/curated/en/099920201182414099/IDU12d02d19f1336a14e0c1b53714d134b306a9f>

<sup>11</sup> Liam Ebrill et al., *The Modern VAT* (Washington: IMF, 2001), hal. 24

Form of Facilities	Impact of Existing Policy on VAT Facilities
	administrative supervision policies are needed, such as enforcing a Certificate of Exemption (Surat Keterangan Bebas—SKB).
VAT not levied	<ol style="list-style-type: none"> <li>1. VAT neutrality can be achieved, thereby reducing the tax burden on businesses.</li> <li>2. Enterprise can use the crediting input VAT mechanism. This is because the output VAT is considered to exist with a value of 0 (zero). Then, there will be an overpayment of VAT, which can be returned through the VAT Refund procedure.</li> <li>3. For the VAT Refund procedure, it may cause compliance costs.</li> <li>4. Policy support is needed from the tax administration side so that the taxable enterprise and the tax authorities do not incur the cost of taxation.</li> </ol>

Comment [Adamu Abu21]: Enterprises

## DISCUSSION

### VAT Exemption

Tax exemption facility in VAT crediting mechanism needs improvement. The result is VAT paid by the company becomes larger because input VAT cannot be credited. So, it impacts the company's cash flow, which must 'montage' first for the VAT deposited. The logical consequence of the failure of the tax crediting mechanism is that enterprise will shift the tax burden into the business cost component, which will then reduce business competitiveness. Exempted VAT payable facilities will cause VAT collection on assistive devices for persons with disabilities to be non-neutral.

Comment [Adamu Abu22]: that

Comment [Adamu Abu23]: enterprises

Although administratively, this facility does not have a major impact because enterprise will not apply for restitution of the VAT payable not collected facility, this facility will have an impact on the cost component, which will have an impact on the price of goods. Administratively, this facility policy only requires approval procedures by the Tax Authority. Then, from the enterprise's side, it is also unnecessary to treat tax invoices for deliveries that can use the VAT exemption facility. However, from the tax authorities side, this will make monitoring the implementation of the policy difficult due to the absence of tax invoices. The implications of the VAT exemption facility policy can be divided into 3 (three), namely optimistic, moderate, and pessimistic scenarios. The first optimistic scenario is the automatic exemption without using a VAT exemption certificate (SKB). The advantage of this scenario is that compliance costs can be minimized with the facilities provided automatically without the need for administrative costs incurred to obtain SKB. However, this scenario has the disadvantage that it will cause prices to not be fully competitive due to the failure of the tax crediting mechanism.

In this scenario, the exemption is obtained by fulfilling the approval procedure from the tax authority by using a VAT Exemption Certificate (only once). The advantage is that the compliance cost only occurs at the time of the initial SKB application. The disadvantage of this scenario is that prices cannot be fully competitive due to the failure of the tax crediting mechanism. Third, the pessimistic scenario is that exemption is obtained by fulfilling the approval procedure from the Tax Authority by using a Certificate of Exemption for each delivery of goods. In this scenario, no advantages arise, only disadvantages. In this scenario, compliance costs will increase due to the fulfilment of the SKB at each delivery of goods, and prices cannot be fully competitive due to the failure of the tax crediting mechanism.

### **VAT Not Levied**

The VAT not levied facility does not make taxable person(s)/enterprise(s) (Pengusaha Kena Pajak - PKP) free from administrative obligations that are the same as VAT administrative procedures in general, such as the obligation to issue tax invoices, which can later be used for VAT crediting. Since the issuance of tax invoices must still be carried out by a taxable person(s)/enterprise(s), this tax invoice can still be used as a control or supervision tool for the tax authorities to ensure that this VAT facility is appropriately provided and utilized by applicable regulations.

The VAT not levied facility has the advantage of fulfilling the principle of neutrality in VAT collection and does not cause a cascading effect. In this VAT facility policy, input VAT crediting can still be done so that the VAT burden is not transferred to the selling price. That way, the selling price utilized by the final consumer will be lower or cheaper than without the VAT payable not collected facility. However, this policy has consequences related to fulfilling the ease of administration and revenue productivity principle.

The fact that VAT is not levied facility causes the output VAT of the taxable person(s)/enterprise(s) to be "0", resulting in an overpayment of VAT to the taxable person(s)/enterprise(s). In order to claim the VAT overpayment, the taxable person(s)/enterprise(s) must undergo a complicated tax refund procedure. The VAT refund is made by filling in the form "Return (Refund)" or by submitting a letter of request to the head of the tax office (Kantor et al. - KPP), in which the taxable person(s)/enterprise(s) is/are confirmed. The application letter for refund of tax overpayment received by the Tax Office is processed through an audit. The existence of an audit process in conducting VAT restitution will cause the cost of administration for the taxable person(s)/enterprise (s), and the existence of the process will cause administrative complexity for burdening the taxable person(s)/enterprise (s). Therefore, special policies are needed in tax administration to avoid causing the cost of administration that can burden the taxable person(s)/enterprise (s). Figure 2 presents the process of filing a VAT refund application.

To fulfil both principles, it is important to consider potential taxation costs. According to Rosdiana & Irianto (2011), one of the five indicators of the cost of taxation is compliance costs, which includes tangible and intangible costs or burdens that must be borne by the taxable person(s)/enterprise (s) in order to fulfil their tax obligations and rights. Therefore, it is necessary to consider the components of the cost of taxation that may arise, namely fiscal cost, time cost, and psychological cost.

### **Considerations in Defining Facilities**

Discussion of considerations in choosing the right policy so that the goal of improving the welfare of persons with disabilities can be achieved. As previously stated, most people with disabilities in Indonesia face economic difficulties. This is caused by the difficulty of persons with disabilities to play a role in a free society, such as doing work, education, etc., due to the difficulty of obtaining disability aids that suit their needs and have an affordable price. Domestically produced disability aids are currently unable to meet the specifications

Comment [Adamu Abu24]: fulfill

required by people with disabilities. Therefore, people with disabilities are required to import assistive devices from abroad.<sup>12</sup>

UNDER PEER REVIEW

---

<sup>12</sup>Interview with Bpk Zulhamka (Direktur Bandung Independence Living Center)



For this VAT facility policy to achieve its goal of improving the welfare of persons with disabilities, the selection of VAT facilities can look at several aspects. The first aspect is neutrality. In A VAT / GST Model Convention, Thomas Ecker states that VAT must be neutral, which means that in the collection process, VAT must not influence the economic decisions of either businesses or consumers. Furthermore, Mansury (1996:13-14) states that the principle of neutrality ensures that tax collection does not hinder economic progress, reduce economic growth, or reduce efficiency in the national economy. This means that in order to be neutral to business decisions, VAT should not be part of production costs. Therefore, VAT neutrality can be achieved by crediting input VAT against output VAT (Sijbren Cnossen, 2017).

Comment [Adamu Abu25]: VAT/GST

As previously explained, there are two VAT facilities: the VAT not collected facility and the VAT exempted facility. The most prominent difference distinguishing the two facilities is the treatment of input VAT crediting. Table 3 illustrates VAT collection with the VAT-exempt facility.

**Table 3 Illustration of VAT Collection with VAT Exempt Facility**

Description	COGS	Profit	Selling Price	Output VAT*	Input VAT*	State Owned Cash
Produsen			1.050	115,5	0	115,5
Distributor	1.050	50	1100	121	115,5	5,5
Retail	1.215,5	50	1.265,5	0	0	0
<b>Total</b>						<b>121</b>

\*VAT rate: 11%

Based on Table 3, in the VAT exemption facility, the retail taxable person(s)/ enterprise(s) cannot credit their Input VAT, so the VAT paid (Input VAT) becomes a component of the cost of purchasing the disability aids to the distributor. Therefore, the price of the disability aids increases following the costs incurred by the retailer. As such, buyers/consumers will continue to bear the burden of VAT owed in the production and distribution chain. The buyer ultimately bears this burden as it is gradually shifted at each stage in the production and distribution chain. The benefit of the VAT Exemption facility is only the VAT on the value-added at the facility level. Meanwhile, the VAT on the value-added at the previous stage remains a burden for the buyer. The longer the production and distribution chain before obtaining the VAT Exemption facility, the higher the tax payable.

The VAT Exemption facility has great potential to distort VAT neutrality. If the facility is granted before reaching the level of final consumption, the result may be to increase the overall selling price instead of providing benefits. The potential increase in selling prices due to increased costs borne by enterprise may render the purpose of the VAT facility provided to persons with disabilities ineffective.

Unlike the VAT-exemption facility, Table 4 shows an illustration of VAT collection with the VAT not levied facilities

**Table4.Illustration of VAT Collection with The VAT Not Levied Facilities**

Description	COGS	Profit	Selling Price	Output VAT*	Input VAT*	State Owned Cash
Produsen			1.050	115,5	0	115,5
Distributor	1.050	50	1100	121	115,5	5,5

Retail	1.100	50	1.150	0	121	(121)
<b>Total</b>						<b>0</b>

\*VAT rate: 11%

Based on the table above explains that in the VAT facility that is not collected, retailers who sell equipment for people with disabilities to end consumers have an overpayment of input VAT. If we look deeper, the amount of overpayment is an accumulation of the amount of VAT payable on all production and distribution links before reaching retail. This shows that the VAT facility has refunded all VAT collected at all links in the chain. Essentially, the VAT facility is similar to a 0% VAT rate imposition. Neither VAT nor PKP are collected, and PKP can credit input VAT. Thus, the end consumer will feel the facility's impact because the goods consumed do not bear the VAT burden.

However, this VAT facility must be provided before the final consumption, namely at the retail or distributor level. If the VAT facility is not levied on the production level, the final consumer will not benefit from the tax burden because the final consumer will still bear VAT. The purpose of the VAT facility is to deliver assistive devices for persons with disabilities because they are considered a necessity of life for persons with disabilities and are at the mouth of the production and distribution chain. These goods are essential for the survival of persons with disabilities and one of the ways that persons with disabilities can actively participate in free life. In addition, this facility is also more suitable for delivering assistive devices for persons with disabilities because it does not compromise the principle of neutrality.

The second aspect is the principle of justice. Legally, taxes are regulated by laws that give legitimacy to the State to impose taxes. This creates a legal relationship between the individual and the State, involving tax obligations and rights that the applicable provisions must exercise. However, in this case, the law protects taxpayers from arbitrary actions that the State may take in imposing taxes (Marihot et al., 2010). To achieve fairness, a critical step must be taken to ensure that tax collection is carried out thoroughly and evenly. Tax policy is considered fair when there is a comprehensive and equitable balance. Tax policy is considered fair when a balance between taxpayers and tax authorities exists. These principles guide tax lawmakers to ensure that the law reflects the concept of fairness. These principles are used as an evaluation tool to assess the extent to which the tax law reflects the principles of fairness, with the main criterion being the extent to which the principles or requirements of taxation are reflected in the relevant law (Bohari, 2002).

Conceptually, VAT is an objective tax, which is a tax that only pays attention to its object. In the case of assistive devices for persons with disabilities, which are merit goods intended only for persons with disabilities, delivering these goods should not be subject to VAT, thus creating justice and equality for persons with disabilities.<sup>13</sup> Therefore, VAT facilities should be selected based on facilities that directly impact people with disabilities.

We should return to the previous discussion presented in Table 3 and Table 4. In that case, it is explained that the exemption facility will cause the price of assistive devices for persons with disabilities to potentially increase along with the increased costs borne by the seller/retailer. This causes the VAT facility not to be felt directly by persons with disabilities,

Comment [Adamu Abu26]: above,

Comment [Adamu Abu27]: it is explained

<sup>13</sup>Thomas, Alastair Geoffrey Arthur. *VAT Rate Structures in Theory and Practice*. Policy Research working paper; no. WPS 10677; PROSPERITY Washington, D.C.: World Bank

so the goal of providing justice and increasing the participation of persons with disabilities cannot be achieved. Because people with disabilities will still bear the price increase.

On the other hand, the provision of VAT-free facilities creates justice for persons with disabilities. People with disabilities can directly feel the decreased price of assistive devices. After all, VAT is not levied. That way, people with disabilities can get cheaper and more affordable assistive devices. With more affordable assistive devices for persons with disabilities and increased use/ownership of assistive devices for persons with disabilities, it will ultimately increase the participation of persons with disabilities in the free society. In addition, with the increased participation of persons with disabilities, the welfare of persons with disabilities has the potential to increase.

Furthermore, in order for the provision of VAT facilities to be right on target, the recording of persons with disabilities is vital. Data on persons with disabilities is currently not valid. Therefore, it is necessary to record big data related to the number of persons with disabilities, the classification of disabilities, and the economic status of persons with disabilities. The determination of a person's disability can be issued by a health professional such as a doctor, then a person with a disability will be entitled to a disability identity card. The purpose of this is to provide identity to persons with disabilities so that other people or parties with other interests do not take their rights away.<sup>14</sup>

However, there are some important considerations regarding the effectiveness of this approach. Research shows that lower VAT rates are only sometimes the most appropriate instrument to encourage the consumption of merit goods. This is because lower tariff incentives are generalized and do not specifically target population groups that may be most in need. Alternatively, direct subsidies or income-based policies are often more effective in encouraging the consumption of such goods for relevant target groups, such as low-income households or children.<sup>15</sup>

### **Granting VAT Exemption for Disability Aids in the U.K.**

This facility is unlike the VAT Refund System, where the buyer gets money back for the VAT he paid. However, people with disabilities will get a VAT exemption on the assistive devices purchased from the supplier. That way, the supplier will not charge VAT on the purchase of assistive devices for people with disabilities to the buyer. The following items get VAT exemption because they are assistive devices for people with disabilities: medical devices, wheelchairs, hearing and vision aids, special mattresses for people with disabilities, special computers for people with disabilities, etc. These items are goods specifically designed to meet the needs of people with disabilities. However, goods used by persons with disabilities do not get VAT exemption if not explicitly designed for persons with disabilities. For example, a reclining chair or orthopaedic bed can benefit disabled people. However, they cannot use the VAT exemption facility because the goods are not specifically designed for people with disabilities.

VAT exemption on assistive devices for persons with disabilities can be granted if the customer has a chronic illness or disability and the device is purchased for personal use. The definition of chronic illness and disability, according to His Majesty's Revenue and Customs (HMRC), is having a physical or mental impairment that can have a long-term and substantial

Comment [Adamu Abu28]: and

<sup>14</sup>Interview with Bpk Zulhamka (Direktur Bandung Independence Living Center)

<sup>15</sup>Thomas, Alastair Geoffrey Arthur. *VAT Rate Structures in Theory and Practice*. Policy Research working paper; no. WPS 10677; PROSPERITY Washington, D.C.: World Bank Group

adverse effect on the ability to carry out daily activities. Furthermore, a condition that the medical profession considers to be a chronic illness (i.e. a long-term health condition).

Persons with disabilities can feel the ease of getting a VAT exemption because they do not need to register themselves as such. Buyers with disabilities only need to fill out a form provided by the supplier or retailer; then, the buyer will get a VAT exemption on purchasing aids for people with disabilities. For the VAT exemption, retailers and suppliers will be responsible for verifying whether the recipient of the VAT exemption is appropriate.

### **Conclusion**

The conclusion of this study shows that VAT exemption on assistive devices for people with disabilities must be urgently implemented in Indonesia. The accessibility of assistive devices for people with disabilities is severely limited due to their high cost, which affects their well-being and participation in community life. VAT exemption is considered to help lower the cost of assistive devices, enabling more people with disabilities to access the assistive devices they need to lead equal and independent lives.

Through a comparison between the 'VAT exempted' and 'VAT not levied' facilities, this study concludes that the 'VAT not collected' option is more effective in achieving the goal of tax relief as it maintains tax neutrality and reduces the impact of price increases. In addition, this research emphasizes the importance of accurate data collection on people with disabilities to ensure targeted and effective policies. With more equitable policy support and easier access, people with disabilities are expected to be able to improve their welfare and active participation in society more fully.

### **REFERENCE**

1. Ade Nasihudin Al Ansori. (2022). Nearly 1 Billion People with Disabilities in the World Cannot Get Assistive Devices. accessed on October 10, 2024, <https://www.liputan6.com/disabilitas/read/4964157/hampir-1-miliar-penyandang-disabilitas-di-dunia-tidak-bisa-mendapatkan-alat-bantu?page=4>
2. Central Bureau of Statistics. 2020. National Socio-Economic Survey. bib-public-126.pdf
3. Central Bureau of Statistics. 2020. National Labor Force Survey. Booklet of the National Labor Force Survey February 2020 - Central Bureau of Statistics of Indonesia
4. Bohari. 2002. Introduction to Tax Law. PT. Raja Grafindo Persada. Jakarta
5. Cnossen, Sijbren, VAT and Agriculture: Lessons from Europe (February 27, 2017). CESifo Working Paper Series No. 6350, Available at SSRN: <https://ssrn.com/abstract=2938975> or <http://dx.doi.org/10.2139/ssrn.2938975>
6. Ecker, Thomas. A VAT/GST Model Convention. Kluwer Law International, 2011.
7. Erlina F. Santika. (2022). Only a Few Indonesian People with Disabilities Use Assistive Devices in 2023. Accessed on October 10, 2024, <https://databoks.katadata.co.id/layanan-konsumen-kesehatan/statistik/66a13e5abae9e/baru-kecil-penyandang-disabilitas-ri-yang-pakai-alat-bantu-pada-2023>
8. Fitri Syarifa. (2022). The Expensiveness of Hearing Aids in Indonesia, Doctors: Categorized as Electronic, So Taxable. Accessed on October 10, 2024, <https://www.liputan6.com/disabilitas/read/4911412/mahalnya-alat-bantu-dengar-di-indonesia-dokter-dikategorikan-elektronik-jadi-kena-pajak?page=2>
9. Liam Ebrill et al, The Modern VAT (Washington: IMF, 2001)

10. Mansury, R. 1996. "Guide to the Main Concepts of Indonesian Income Tax". Edition 3. Jakarta: PT. Bina Rena Pariwisata.
11. Mont, D., & Cote, A. Considering the disability related extra cost in social protection. Background Paper. UNPRPD. 2020.
12. Musgrave, Richard A., and Peggy B. Musgrave. 1989. Public Finance: In Theory and Practice. Mc-Graw Hill. Tokyo: Kogakhusa Ltd
13. Rosdiana, Haula and Edi Slamet Irianto. 2011. Complete Guide to Tax Procedures in Indonesia. Jakarta: Visimedia.
14. Siahaan, Marihot Pahala, 2010. Elementary Tax Law. Yogyakarta: Graha Ilmu
15. Thomas, Alastair Geoffrey Arthur. VAT Rate Structures in Theory and Practice. Policy Research working paper; no. WPS 10677; PROSPERITY Washington, D.C.: World Bank Group
16. United Nations. "Convention on the Rights of Persons with Disabilities." Treaty Series, vol. 2515, Dec. 2006, p. 3.g

UNDER PEER REVIEW