

ANALYSIS OF THE ELASTICITY OF DEMAND FOR PREMIUM RICE COMMODITY WITH SUSNAS DATA: A STUDY ON THE IMPACT OF VALUE-ADDED TAX ON PREMIUM RICE

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| ARTICLE INFO | ABSTRACT |
|---|--|
| <p>Keywords: Demand elasticity, commodity, premium rice, value-added tax.</p> | <p>This research aims to determine the elasticity of demand for premium rice, as a study related to the imposition of Value-Added Tax (VAT). The study utilizes provincial panel data for the years 2019 and 2020 processed from the 2019 and 2020 SUSENAS data. The results of the research prove that the demand for premium rice is elastic, with an elasticity of 3.19. When the government imposes taxes on premium rice, the demand will decrease by a larger percentage compared to the price increase. This should also be considered in establishing VAT tariff policies and tax revenue targets from premium rice.</p> |
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1. INTRODUCTION

The largest contribution to Indonesia's national income comes from tax revenue. Tax revenue sources include domestic taxes and taxes from international trade. Domestic taxes include Value-Added Tax (VAT), Income Tax (PPh), Luxury Goods Sales Tax (PPnBM), Land and Building Tax (PBB), and Acquisition Duty for Land and Buildings (BPHTB). According to data from the Central Statistics Agency, the actual tax revenue for the year 2020 reached IDR 1,865,702.80 trillion, of which IDR 685,874.90 trillion came from Value-Added Tax (VAT), ranking second as the largest tax contributor after Income Tax (PPh) [1].

As an illustration of the potential VAT revenue, Table 1 provides data on the Comparison of Tax Revenue Realization from 2019 to 2021.

| Source of Revenue - Finance | Realization of State Revenue (Billions of Rupiah) | | |
|--|---|--------------|--------------|
| | 2019 | 2020 | 2021 |
| I. Acceptance | 1 955 136,20 | 1 698 648,50 | 1 742 745,70 |
| Tax Revenue | 1 546 141,90 | 1 404 507,50 | 1 444 541,60 |
| Domestic Tax | 1 505 088,20 | 1 371 020,60 | 1 409 581,00 |
| Income tax | 772 265,70 | 670 379,50 | 683 774,60 |
| Value Added Tax and Taxes Sales of Luxury Goods | 531 577,30 | 507 516,20 | 518 545,20 |
| property tax | 21 145,90 | 13 441,90 | 14 830,60 |
| Fees for Acquisition of Land and Building Rights | - | - | - |
| Tax | 172 421,90 | 172 197,20 | 180 000,00 |
| Other Taxes | 7 677,30 | 7 485,70 | 12 430,50 |
| International Trade Tax | 41 053,70 | 33 486,90 | 34 960,50 |
| Import Duty | 37 527,00 | 31 833,80 | 33 172,70 |
| Export Tax | 3 526,70 | 1 653,20 | 1 787,90 |
| Non-Tax Revenue | 408 994,30 | 294 141,00 | 298 204,20 |
| Receipt of Natural Resources | 154 895,30 | 79 086,90 | 104 108,80 |
| Income from Separated National Wealth | 80 726,10 | 65 000,00 | 26 130,50 |
| Other Non-Tax Revenues | 124 503,60 | 100 053,80 | 109 174,70 |
| Public Service Agency Revenue | 48 869,30 | 50 000,30 | 58 790,10 |
| II. bequest | 5 497,30 | 1 300,00 | 902,80 |
| Amount | 1 960 633,60 | 1 699 948,50 | 1 743 648,50 |

Note:

Years 2010-2019: LKPP

Year 2020: Outlook

Year 2021: State Budget (APBN)

Source: Ministry of Finance, in BPS Report, 2020

Table 2 compares the application of VAT in various countries.

| Country | | Tax type | VAT rates | | | Scope of the tax |
|---------|----------------|-----------------------|---------------------|----------------|----------------------------------|--|
| | | | Standard | Reduced | Other | |
| Europe | Italy | Value-added tax (VAT) | 22% | 4%, 5%, 10% | Zero-rated (0%) and exempt | goods or services made in Italy by the Taxpayer |
| | United Kingdom | Value-added tax (VAT) | 20% | | 5% Zero-rated (0%) and exempt | goods or services made in Italy by the Taxpayer |
| Asia | United States | Sales tax | 2.9%, 7.25%, 10.25% | | | The United States does not impose a national level sales or value added tax, so it is imposed and administered at the state (subnational) and local (substate) levels. |
| Japan | Japan | Consumption tax (CT) | 10% | | 8% Exempt-with-credit and exempt | goods or services made in Japan by "taxable entrepreneurs" |
| China | China Mainland | Value-added tax (VAT) | 13% | 3%, 5%, 6%, 9% | Zero-rated (0%) and exempt | taxable goods or services for consideration in China, by a taxable person in the course of or in furtherance of any business. |

Source: Processed from EY Report Tax, 2021

Table 1 shows an annual increase in VAT revenue, indicating potential for further improvement due to lower tariff rates compared to some countries and certain goods exempted from taxation, as shown in Table 2. Table 2 demonstrates diverse VAT management practices in different countries. For instance, Italy, the United States, and China do not use a single rate for VAT, whereas Indonesia adopts a single-rate system. Practices in these countries serve as benchmarks, suggesting that Indonesia should consider adjusting its VAT regulations to enhance revenue potential. Additionally, the negative list of goods and services exempt from VAT could be reevaluated for appropriateness.

Evaluation of taxation policies, especially VAT, is crucial as the impact of tax policies can generate both support and opposition within the community. A case in point is a study by Revoreda-Giha et al. on the imposition of VAT on milk products in Malawi, a significant investment sector for the government. The study found that consumer demand for pasteurized milk was sensitive to price changes, and the removal of VAT on milk had implications for both consumers and the domestic dairy industry [2].

VAT revenue in Indonesia can still be increased due to the growing economic potential, as VAT is a consumption tax influenced by the overall economic situation. Efforts to enhance VAT revenue through potential revenue analysis reveal room for improvement through compliance and tariff enforcement. A study by Sugana showed that VAT compliance in Indonesia is only around 53 percent, and increasing compliance has a more significant impact on revenue than raising VAT rates. On the other hand, the removal of certain VAT categories in some sectors may reduce VAT revenue, highlighting the need for careful governance [3]

VAT is an economy-driven tax, and one of the indicators of economic growth is the Gross Domestic Product (GDP). An increase in GDP signifies economic development, higher income levels, increased consumer spending, and a positive impact on VAT [4]. Given the economic growth potential, VAT revenue in Indonesia can be further increased, making it a critical aspect of economic policy analysis. One commodity currently exempt from VAT is premium rice. Rice is a staple food in Indonesia, and its consumption varies based on income levels. Premium rice, being more expensive, is likely consumed by individuals with higher incomes, justifying the rationale for imposing VAT on it.

Before analyzing the imposition of VAT on premium rice, it is essential to review research on general rice demand in Indonesia. For example, a study by Septiadi analyzed factors influencing Indonesian rice demand and their responses. The study found that population size was the only variable with elastic demand in both short and long-term analyses, while other variables such as retail rice prices, per capita income, total population, rice production, and Indonesia's rice demand were inelastic.

Factors influencing rice demand, as well as the impact of price and income on demand, can be compared with similar studies. For instance, a study on the demand for 'canang,' a Hindu religious offering, found that canang prices on working days and holidays had a positive and significant impact, but on holidays, there was no effect. Similarly, consumer income on working days, religious holidays, and

public holidays had a positive and significant effect on canang demand. The study concluded that canang prices were inelastic, and income elasticity indicated it was a normal good [5].

The government's consideration of imposing VAT on certain commodities, including premium rice, necessitates thorough research to ensure that the policy aligns with expectations. For example, a study on the imposition of VAT on meat products provided insights into how the policy affected meat processing and imports, leading to revenue loss for the government [6].

Considering the government's discourse on imposing VAT on premium rice, a study is needed to understand the impact on premium rice demand when subjected to VAT. The imposition of VAT on premium rice is expected to increase its price and reduce demand, as seen in the case of taxation on milk products in Malawi [2]. The decline in premium rice demand can be influenced by the elasticity of premium rice demand. Higher elasticity implies a greater change in demand in response to a price increase.

This study aims to determine the elasticity of premium rice demand in response to VAT imposition, utilizing SUSENAS data. Few studies have explored the elasticity of premium rice, and typical SUSENAS-based demand studies use the Almost Ideal Demand System (AIDS) model. While the AIDS model is widely used, it may not capture the specific impact of taxing a single commodity. Therefore, this research adopts an elasticity model that simulates demand changes for premium rice due to VAT imposition, providing insights for decision-making in policy formulation. In summary, this study aims to determine the elasticity of premium rice demand and understand the demand response to the imposition of VAT on premium rice.

Value Added Tax

The definition of Value Added Tax (VAT) is found in Law Number 8 of 1983, as amended several times, most recently by Law Number 42 of 2009 concerning Value Added Tax on Goods and Services and Luxury Goods Sales Tax (VAT and Luxury Goods Sales Tax), hereinafter referred to as the VAT Law. It explains that Value Added Tax is a levy imposed on the sale and purchase transactions of goods and services conducted by individual taxpayers or corporate taxpayers who have become Taxable Entrepreneurs (PKP). In the explanation section of the VAT Law, it is mentioned that the definition of VAT is "a tax on the consumption of goods and services in the customs area levied progressively at each stage of production and distribution" [7]. VAT is a consumption tax that, in principle, does not tax sales but rather the value added and is imposed indirectly.

VAT is an objective tax imposed on the sale and purchase transactions of goods and services carried out by individual taxpayers or corporate taxpayers who have become Taxable Entrepreneurs (PKP). Basically, Value Added Tax (VAT) arises due to the delivery of Taxable Goods (BKP), the utilization of Taxable Services (JKP), and Intangible Taxable Goods (BKPTB). Therefore, all goods and services are essentially subject to Value Added Tax (VAT) in their delivery, except for goods and/or services that are exempt. In accordance with Article 4A paragraphs (2) and (3) of Law Number 42 of 2009, which regulates 4 groups of goods classified as non-BKP and 17 groups of services classified as non-JKP, besides goods and services included in that article will be subject to Value Added Tax (VAT) in their transactions.

VAT is a tax imposed on the value added of goods and/or services produced by PKP. Thus, the amount of VAT is the tax rate imposed, multiplied by the value added (its tax base), previously known as sales tax. Based on the explanation of Law of the Republic of Indonesia Number 42 of 2009 concerning the Third Amendment to Law Number 8 of 1983 concerning Value Added Tax on Goods and Services and Luxury Goods Sales Tax (Government of Indonesia), in general, Value Added Tax (VAT) is a tax imposed on the consumption of goods and services within the Customs area. This type of tax is imposed at every stage of production and distribution. According to Value Added Tax (VAT), it is a tax on the consumption of goods or services within the customs area; therefore, the collection of VAT will be greatly influenced by the consumption of the public and the economic development of the community in an area.

1. Object of Value Added Tax

Based on Law of the Republic of Indonesia Number 42 of 2009 concerning the Third Amendment to Law Number 8 of 1983 concerning Value Added Tax on Goods and Services and Luxury Goods Sales Tax (Government of Indonesia), or known as the VAT Law, in broad outline, the object of VAT is divided into two groups, namely, Taxable Goods (BKP) and Taxable Services (JKP).

As stated in Article 4 paragraph 1 of the VAT Law (Government of Indonesia), VAT is imposed on:

- a. the delivery of Taxable Goods in the Customs area carried out by entrepreneurs;
- b. the import of Taxable Goods;
- c. the delivery of Taxable Services in the Customs area carried out by entrepreneurs;

- d. the utilization of Intangible Taxable Goods from outside the Customs area within the Customs area;
- e. the utilization of Taxable Services from outside the Customs area within the Customs area;
- f. the export of Tangible Taxable Goods by Taxable Entrepreneurs;
- g. the export of Intangible Taxable Goods by Taxable Entrepreneurs; and
- h. the export of Taxable Services by Taxable Entrepreneurs.

However, not all Taxable Goods and Taxable Services can be subject to VAT; goods not subject to VAT according to Article 4A paragraph 2 of the VAT Law, which is then detailed in its explanation (Government of Indonesia), are as follows:

- a. mining or drilling results taken directly from their source, including crude oil, natural gas but not in products ready for consumption by the public such as LPG, geothermal energy, goods obtained from mining such as asbestos, slate, semi-precious stones, and other rocks, unprocessed coal into coal briquettes, as well as iron ore, tin, and other metal ores;
- b. basic necessities highly needed by the public such as rice, unhulled rice, corn, sago, soybeans, iodized and non-iodized salt, unprocessed fresh meat, unprocessed eggs, unpasteurized milk without additives, fresh fruits, and vegetables;
- c. food and beverages served in hotels, restaurants, eateries, and the like, including food and beverages consumed on-site or off-site, including food and beverages provided by catering or catering businesses; and
- d. money, gold bars, and securities.

All types of services are subject to VAT except for services excluded in Article 4A paragraph 3 of the VAT Law (Government of Indonesia), the types of services are as follows: medical health services; social services; postage services with stamps; financial services; insurance services; religious services; education services; arts and entertainment services; non-advertising broadcasting services; public transportation services on land and water as well as domestic air transportation services that are an integral part of foreign air transportation services; labor services; hotel services; services provided by the government for general administration purposes; parking services; public telephone services using coins; money delivery services by postal order; and catering services.

2. Tax Burden and the Impact of Taxation on Economic Behavior

Tax burden is the amount paid by taxpayers, determined by the tax rate and the elasticity of supply and demand. Taxation generates three burdens: tax burden (tax burden), additional burden (additional burden), and total burden (total burden). The additional burden refers to the loss or economic inefficiency caused by the imposition of taxes. This burden is often referred to as deadweight loss or inefficiency in the economy.

This additional burden occurs because of the shift of resources towards less efficient allocation, i.e., from taxed activities to other non-taxed activities, from taxed activities with a certain rate to activities with a lower rate. For direct taxes like individual income tax, there is no additional burden, so the burden that arises is only the tax burden. For indirect taxes, the existence of the tax burden and the additional burden depends on the elasticity of demand and supply of the taxable object. The more elastic the demand and supply, the smaller the tax burden and the larger the additional burden, or vice versa [8].

The impact of taxes on the economy from the perspective of indirect taxation raises prices paid by consumers and lowers prices received by producers, which in turn affects consumer and producer income and therefore the level of business transaction taxation.

Tax policy and its impact can be explained using Figure 1.

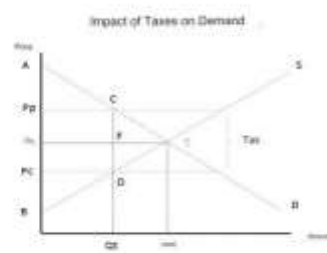


Figure 1 Tax policy and its impact

In a state of equilibrium between demand (D) and supply (S) at point E, i.e., Q_e , the price formed is P_e . With the imposition of tax, consumer prices will rise to P_c , and producer prices will decrease to P_p ,

resulting in a decrease in production/consumption to Q_t . With the decrease in consumption and the increase in consumer prices, consumer economic surplus decreases from the area $PeEA$ to $PcCA$, and producer surplus decreases from the area $PeEB$ to $PpDB$. The government receives tax revenue equal to the region $PpDCPc$. The overall economy loses an economic surplus of DEC , referred to as the Deadweight Cost of Taxation, indicating inefficiency in the economy.

Demand Elasticity

Elasticity essentially measures how buyers and sellers adjust their demand or supply in response to changes in demand or supply determinants. Factors influencing demand include price, prices of other goods, income, and preferences. Price elasticity of demand measures the change in quantity demanded for a good concerning changes in its price. Demand for a good is considered elastic if the quantity demanded changes significantly due to price changes; otherwise, it is considered inelastic.

Factors affecting price elasticity of demand include whether the good is a necessity or a luxury. Demand for essential goods is generally inelastic because people tend to continue buying essential goods even with price increases. On the other hand, demand for luxury goods tends to be elastic. So, when there is a price increase for non-essential goods, people tend to reduce demand for those goods, substituting them with alternatives or refraining from consuming them.

The law of demand states that the lower the price of a good, the greater the demand for that good, *ceteris paribus*. Conversely, demand for a good decreases when the price of the good rises. Increased demand for a good is caused by an increase in income. Elasticity research, such as the study by [9], indicates that the elasticity of demand for non-substitutable goods is used as the dependent variable, with price and income as independent variables. The variables of price and income have a positive impact on the demand for tap water. Price elasticity is inelastic, meaning that every price increase only slightly reduces the demand for tap water, and income elasticity is positive and less than one, indicating that water is a basic necessity.

Elasticity of demand for non-substitutable goods as the dependent variable and price and income as independent variables [10]. The investigation showed that price and income variables had a positive and significant impact on oil consumption. Income elasticity of oil consumption can be interpreted as a joint product [11]. The availability of substitutes is another determinant of price elasticity of demand. Goods with many substitutes generally tend to have elastic demand because consumers easily switch to substitute goods. Another factor determining elasticity of demand is the time frame. For a longer time frame, demand for goods tends to be more elastic because consumers can better adapt to changes in demand. Calculating price elasticity of demand involves dividing the percentage change in quantity demanded by the percentage change in price. So, the formula for this elasticity is:

$$\text{Price elasticity of demand} = \frac{\text{Percentage change in quantity demanded}}{\text{Percentage change in price}}$$

The results of the calculation show how many times the quantity demanded changes compared to the change in price. The quantity demanded for a good usually has an inverse relationship with its price, so the percentage change in quantity demanded always has the opposite sign to the percentage change in price. Therefore, elasticity figures are sometimes expressed as negative numbers. However, generally, elasticity figures are stated as positive values or absolute numbers. With this convention, it means that the greater the elasticity of price, the more responsive the quantity demanded is to price changes.

Elasticity values range from 0 to infinity (∞). If the elasticity value is 0, it means that any price change does not cause a decrease in demand for that good. Conversely, if the elasticity value is infinite (∞), a slight change in price causes a demand change to become 0. The nature of demand and supply elasticity can be seen in Table 2.1 as follows:

Table 3 Elasticity Values

| Elasticity Value | Characteristic |
|------------------|---------------------|
| $E > 1$ | Elastic |
| $E < 1$ | Inelastic |
| $E = 1$ | Unitary |
| $E = \infty$ | Perfect Elastic |
| $E = 0$ | Perfectly Inelastic |

Therefore, a good is considered elastic when the elasticity of demand for that good is greater than 1. The graph of the elasticity level of the demand curve can be seen in Figure 2.

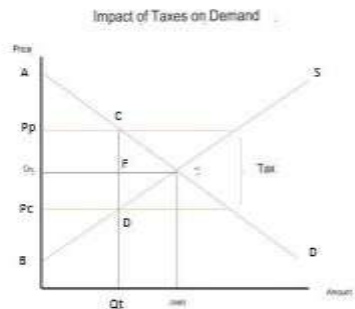


Figure 2 Elasticity Levels of Various Demand Curves

Demand Elasticity and Producer Income

The imposition of taxes, Value Added Tax (VAT), has the potential to increase the price of goods. Although VAT is a consumption tax, producers are also affected by the imposition of VAT on a commodity. Based on the demand theory, when the price rises, the demand for that commodity will decrease. Does this decrease in demand decrease producer income? The decrease or increase in producer income due to a decrease in demand depends on the elasticity of demand for that commodity. As shown in Figure 3, when the government imposes VAT, the VAT curve will shift to the left, from S to S1. This causes equilibrium to shift from E to E1. Producer income before the imposition of tax is the rectangle OPEQ, while producer income after the imposition of tax is OP1E1Q1. It can be seen that producer income experiences a decrease of Q1SEQ due to a decrease in demand. However, producer income also increases due to the price increase of PP1E1S. When compared between the box Q1SEQ and PP1E1S, it can be concluded that when the demand for a good is elastic, the price increase will actually reduce the income of the producers of that good.

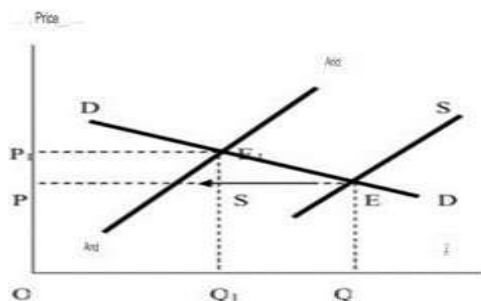


Figure 3 Changes in Producer Income with Taxation

Measuring Demand Elasticity with Susenas Data

Calculating demand elasticity using Susenas data has been done several times by researchers. [12] formulated the demand for rice in Indonesia using the time series method with Susenas data from 1970 to 2003. [12] formulated the demand for rice in Indonesia using several models, namely the Almost Ideal Demand System (AIDS), Inverse Almost Ideal Demand System (IAIDS), and estimation of a single-equation model that includes regular demand and error correction models (ECM).

The AIDS model is a consumer demand model primarily used by economists to study consumer behavior. The AIDS model is an approach derived for each demand system by considering many desired qualities of the demand system. For example, based on consumer preferences, aggregate for consumers without using a parallel linear Engel curve, consistent with budget constraints, and easily estimated. Generally, research using the AIDS system is to determine the optimal allocation of spending among broad commodity groups, namely, at the high-level aggregate commodity level. Additionally, the AIDS system is used to determine the optimal consumption level for each brand based on product category spending and brand prices only. This approach uses the assumption of separating consumer preferences, optimal spending allocation among brands from a specific product category from spending allocation in other product categories; the limitation of this model is the assumption of several aspects.

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This study uses a regular demand model because it employs provincial panel data for two years, making it not feasible to use an error correction model.

Hypothesis Development

This research aims to determine the elasticity of demand for premium rice and changes in consumption from premium rice to non-premium rice using Susenas data. The demand for premium rice is formulated as follows: The coefficient on the price variable represents elasticity in this case. If it is greater than 1, it is elastic demand. If the demand is elastic, there is a possibility that producer income will decrease because the percentage decrease in demand is greater than the percentage increase in price. Conversely, if the coefficient is less than 1, the demand is inelastic. Price increases are followed by a decrease in demand, but with a smaller percentage, so producer income could potentially increase.

Premium rice is categorized as a non-essential item. Its demand elasticity tends to be elastic. If the government imposes a tax on premium rice, tax revenue from premium rice may not meet expectations. The elasticity of demand for premium rice, a non-essential item, is greater than one, so there is a possibility that VAT on premium rice does not meet the target.

2. METHOD

Research Type

This study falls under quantitative research. Quantitative research processes, analyzes, and draws conclusions from data. The conclusions in this study take the form of knowledge about the elasticity of the price of premium rice demand and the cross-elasticity of non-premium rice. This study also uses descriptive statistical methods to provide a description of the data. Descriptive statistics will examine the consumption of premium rice in each province and its averages.

Type and Source of Data

The study uses secondary data obtained from the results of the National Socio-Economic Survey (Susenas) in March 2019 and March 2020. The total number of districts and cities covered in the study is 514, with the unit of observation in this study comprising 320,000 households. This study uses a provincial panel, so there are a total of 68 data processed.

3. RESULT AND DISCUSSION

Analysis

National rice consumption increased from 2019 to 2020. In 2019, national rice consumption reached 1,723,110,816.37 kg and increased to 1,743,791,873.27 kg in 2020. Consumption of rice with an average expenditure per kg above Rp13,000 showed a significant increase. In 2019, the consumption of such rice reached 59,322,548.13 kg, and in 2020, it rose to 76,953,934.28 kg. Consumption of rice per province in 2019 and 2020 can be seen in Figure 4.1.

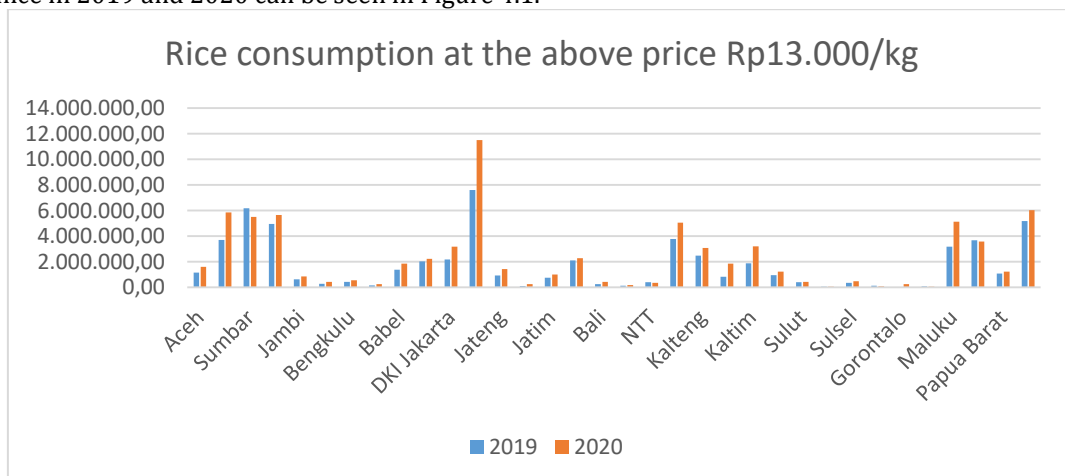


Figure 4 Rice Consumption with Expenditure above Rp13,000/kg

It can be observed in the graph that rice consumption with the highest average expenditure per kg is in West Java, while the lowest is in West Sulawesi. Meanwhile, the consumption of rice with an average expenditure of Rp13,000 or less has increased but not significantly. In 2019, consumption reached 1,663,788,268.24 kg, and in 2020, it reached 1,666,837,939.00 kg. The movement of rice consumption per

province can be seen in Figure 5. As shown in Figure 5, the highest consumption is also in West Java, while the lowest consumption is in North Kalimantan.

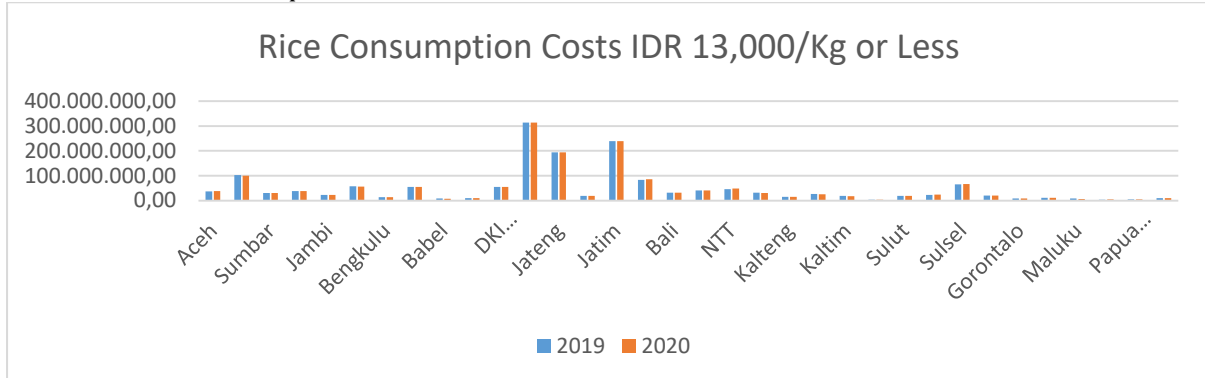


Figure 5 Rice Consumption with Rp13,000 or Less

Discussion of Premium Rice Demand Elasticity

Regression analysis in this study uses panel data regression for 34 provinces over 2 years. After conducting Chow, Hausman, and Breusch-Pagan tests, the regression results are shown in Table 4 with the equation: It can be seen in the table that premium rice demand can be explained by this model by 96%, with 4% caused by other variables not included in the model. The prices of premium and non-premium rice significantly influence premium rice demand. The elasticity of premium rice demand is indicated by the coefficient on the premium rice price variable. The coefficient is -3.194024, meaning a 1% increase in premium rice price will reduce premium rice demand by 3.19%.

Table 4 Fixed-Effect Panel Regression Results

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|-----------------------|-------------|--------------------|-------------|----------|
| C | 0.347050 | 7.336598 | 0.047304 | 0.9626 |
| P_NONPREMIUM | 4.795741 | 0.227966 | 21.03711 | 0.0000 |
| P_PREMIUM | -3.194024 | 0.807181 | -3.957009 | 0.0004 |
| Effects Specification | | | | |
| Weighted Statistics | | | | |
| R-squared | 0.998541 | Mean dependent var | | 96.16707 |
| Adjusted R-squared | 0.996944 | S.D. dependent var | | 243.6812 |
| S.E. of regression | 0.423581 | Sum squared resid | | 5.741478 |
| F-statistic | 625.5517 | Durbin-Watson stat | | 3.885714 |
| Prob(F-statistic) | 0.000000 | | | |
| Unweighted Statistics | | | | |
| R-squared | 0.960257 | Mean dependent var | | 13.70553 |
| Sum squared resid | 5.993653 | Durbin-Watson stat | | 3.885714 |

The coefficient also indicates the level of elasticity of premium rice demand concerning its price. Since the coefficient is greater than one, premium rice demand is categorized as elastic. This implies that producers may experience a decrease in income because the percentage decrease in demand is greater than the percentage increase in price. Theoretically, non-essential goods tend to be elastic.

4. CONCLUSION

The government's plan to impose VAT on certain commodities, including premium rice, will undoubtedly impact the price of the product, likely causing it to rise. According to the law of demand, when the price of a product rises, demand decreases. The extent of the decrease depends on the elasticity of demand. Using Susenas data, it is known that the demand for premium rice is elastic. This means that the percentage decrease in demand will be higher than the percentage increase in price. Thus, producer income may decrease when the government imposes tax on a product with elastic demand characteristics. This study assumes that premium rice is rice priced above Rp13,000,- because there are no criteria for premium rice. It also assumes that, within the survey period, households do not switch from premium rice to non-premium rice or vice versa. The study only uses one demand model. Future research is expected to use different demand models and household data for regression.

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