ABSTRACT

Value Added Tax (VAT) is a revenue source used by every country because it can generate substantial and optimal revenue for a country by considering various factors that influence it. This study aims to analyze the effects of VAT rates, Household Final Consumption Expenditure (HFCE) on GDP, C-efficiency, inflation, and the Covid-19 pandemic on VAT revenues to GDP in East Asia-5.

This study uses panel data with a total of 65 observations, comprising five cross-sections: East Asia-5 (China, Japan, South Korea, Taiwan, and Mongolia), and covering a 13-year period (2010-2022). The data is then analyzed using panel data regression with a fixed effects model (FEM) approach with robust standard errors.

The results of the study indicate that the Laffer curve is valid regarding the relationship between VAT rates and VAT revenue to GDP in East Asia-5. In the Laffer curve, there is a turning point at the VAT rate where the VAT rate will push VAT revenue to GDP up to 33.6% and VAT revenue to GDP will decline when the VAT rate exceeds 33.6%. In addition, HFCE to GDP and C-efficiency significantly increase VAT revenue to GDP. Furthermore, inflation and the Covid-19 pandemic are proven to have no significant impact on VAT revenue to GDP in East Asia-5.

Keywords : *Value Added Tax, Laffer Curve, HFCE, C-efficiency, and Fixed Effect Model (FEM)*