INTRODUCTION

Indonesia is a country that is rich in beautiful nature, cultural diversity and typical culinary of various regions from Sabang to Merauke, making Indonesia known as one of the popular tourist destinations for foreign tourists. Tourism is a promising sector to be developed in the future as a leading foreign exchange earner apart from the palm oil and coal sectors. In line with the statement, according to Pitana and Gayatri (2005), tourism is one of the largest industries in the world in the current global era and a principle mainstay in generating foreign exchange in various countries. Based on data from the Ministry of Tourism and Creative Economy, the contribution of foreign exchange from the tourism sector recorded in the year 2017 reached USD16.8 billion, an increase of 14.82% to USD19.29 billion the year 2018. This increase is mainly driven by the increase in the number of foreign tourists based on data from the Central Statistics Office, foreign tourist visits throughout 2018 reached 15.81 million, up 12.60% compared to the visit of 14.04 million visitors in 2017.

Besides as a source of foreign exchange earnings, tourism also provides the impact of the multiplier effect that can spur the onset of the business activities of other sectors such as lodging services, transport, entertainment, large trade and retail for the products supplied can be utilized as the support to tourism activities. Tourism also has the potential to increase state revenue from taxes, especially indirect taxes on the consumption of foreign tourists in Indonesia (Afdi, 2016). The growth of tourism in Indonesia according to a report from the World Travel and Tourism Council (WTTC) that houses the travel and tourism industry of the world which was released in September 2018, Indonesia is ranked 9 (nine) tourism growth fastest in the world and ranked 1 (one) tourism growth fastest in Southeast Asia.

The assessment is based on the several factors, namely the contribution of tourism to GDP (Gross Domestic Product), expenditure on shopping and attraction of foreign tourists as well as the capital investment of the government in tourism. From the explanation above, it can be seen that Indonesia is a country that has succeeded in fostering excellence in the tourism sector through some policies of infrastructure development in the area of tourism and promotion intensively conducted by the government.

Abstract: VAT Refund policy provisions as a supporting instrument for tourism development to attract foreign tourists and encourage the participation of retail business sector stated in PMK – 120/PMK.03/2019 on The Procedure for Filing and Resolving Tax Return Requests to Increase the Value Added Tax of Personal Goods of Foreign Passport Holders are considered less competitive than Thailand, Malaysia, and Singapore. VAT Refund policy will be more useful if the threshold on VAT refund is lowered, as an attraction for foreign tourists to visit and shop in Indonesia. This research aims to find out the implementation of VAT Refund scheme, the interconnectedness of VAT Refund policy to encourage the role of the retail sector and to know Indonesia’s opportunities in the development of shopping tourism destinations. The type of research used is descriptive with a qualitative approach. The results showed that the implementation of VAT Refund provisions is in line with the general concept of VAT that taxes are not levied on the consumption of goods abroad. Simplification of the administration process has a positive impact on a growing number of retail stores participating in the VAT Refund program. The threshold of VAT refund can be changed, with the consideration of cost and benefit. The strength of the attraction of visiting foreign tourists in Indonesia is natural and cultural attractions instead of a shopping tourism.

Keywords: VAT Refund, Retail Sector, Threshold of VAT Refund, Shopping Tourism.
But, if compared with other countries in the Southeast Asian Region in terms of competitiveness in tourism, according to a report released digitally in 2019 by the World Economic Forum (WEF), which measures several factors and policies that allow the development of the sustainability of the tourism sector, Indonesia is in the 4th place with a gain of 4.3 points from the score in the range from 1 to 7, still inferior compared to Singapore, which earned 4.9 points, Malaysia and Thailand each nursing 4.6 points.

The competitiveness of tourism is the ability of a region or country to optimized the attractiveness of the tourist destination that portrayed by delivering quality, innovation, and tourism services of interest to tourists (OECD, 2013). According to Sufika (2015), the increasing competitiveness of tourism owned by a country is characterized by the increasing interest of foreign tourists in making tourism visits to the country.

The chart of foreign tourist visits to ASEAN countries indicates that the number of tourist visits to ASEAN countries in 2018 reached 136.2 million. The number is growing 8.34% from the previous year 125.8 million visits. In the middle of the global economic conditions that are uncertain due to a trade war between China and the United States, ASEAN countries tried to increase the foreign exchange from the tourists who traveled in their respective countries. Tourist destinations in Thailand are still the favorite for tourists visiting Southeast Asia. Foreign tourist visits to the Land of the White Elephant, the year 2018 reached 38.3 million or equivalent of 28% of the total visits of tourists, the highest in the ASEAN region. Meanwhile, Indonesia is in the 4th place after Malaysia and Singapore, slightly more superior than the country of Vietnam which can bring to 15.4 million tourist arrivals.

From the graph above it appears that the number of tourist visits to ASEAN countries in 2018 reached 136,2 million. The number is growing 8,34% from the previous year 125,8 million visits. In the middle of the global economic conditions that are uncertain due to a trade war between China and the United States, ASEAN countries tried to increase the foreign exchange from the tourists who traveled in their respective countries. Tourist destinations in Thailand are still the favorite for tourists visiting Southeast Asia. Foreign tourist visits to the Land of the White Elephant, the year 2018 reached 38,3 million or equivalent of 28% of the total visits of tourists, the highest in the ASEAN region. Meanwhile, Indonesia is in the 4th place after Malaysia and Singapore, slightly more superior than the country of Vietnam which can bring to 15,4 million tourist arrivals.

According to data from the World Tourism Organization (WTO), one of the indicators that used to view and measure the competitiveness of tourism is the Price Competitiveness Indicator (PCI). This indicator shows the commodity prices consumed by foreign tourists during travel such as accommodation costs, travel, vehicle rental, and tourist shopping. Not only enjoying the beauty of nature but tourists also are interested in shopping in tourist destinations be typical handicrafts shopping or shopping for international brand goods. The price becomes the consideration of foreign tourists to buy products while traveling. Collaboration between various sectors in the government is needed to support the development of tourism in the future including the policy of the taxation sector, namely VAT Refund which was valid on April 1, 2010, and then regulated in Regulation of the Minister of Finance (PMK) No. 76/PMK.03/2010 (PMK-76 and its amendments).

This policy provides a refund of Value Added Tax (PPN) that has been paid by foreign tourists for goods purchased in Indonesia to be carried and consumed in the country of origin of the foreign tourists. So foreign tourists can shop at a lower price according to the specified conditions is a minimum spend of Rp5 million to obtain a refund of Rp500 thousand with a VAT rate of 10% on transactions in one tax invoice in one month before departure. In its implementation in the field, this policy has not been widely utilized by the foreign tourist, it can be seen from the applicant data submitted by the Director of Service Counseling and Public Relations, Directorate General of Taxation, quoted from the bulletin of the State Budget of the Republic of Indonesia, stating that vat refund applications in 2015-2018 averaged 3,000 applicants per year or equivalent to 0.02% of the total foreign tourists visiting Indonesia.

The utilization of the refund scheme is still very few. To attract foreign tourists visiting Indonesia and boosting the economic growth of the retail sector, the government by the Ministry of Finance issued new regulations that provide leeway to obtain VAT Refund facilities, set out in PMK-120/PMK.03/2019 on The...
Procedure for Filing and Resolving Tax Return Requests to Increase the Value of Personal Goods of Foreign Passport. The provision stipulated on the minimum amount of spending to get a refund of a fixed value of Rp5,000,000 is different from the previous regulation that the vat refund value of Rp500,000 can be obtained from several tax invoices in various retail stores with different transaction dates.

According to the opinion of the Vice Chairman of the Indonesian Retail Entrepreneurs Association, the VAT Refund Policy is still less competitive than other countries in the ASEAN region, the policy will be more noticeable if the spending value limit can be lowered to increase the competitiveness of retail stores that sell a variety of local and international brand products in the tourism market. Based on the description, the Researcher is interested to know more about the consideration of the issuance of the VAT Refund regulation if the review of the concept of taxation applied in Indonesia, the implementation of the policy of VAT Refund through the issuance of PMK-120/PMK.03/2019 (PMK-120) as well as linkages with government efforts to encourage the growth of the retail trade sector as the support for tourism to see the opportunities for developing shopping tourism destinations in the future.

THEORETICAL FOUNDATION
Fiscal Policy

The policy is a plan of action approved by a group of people with the power to implement and enforce it (Dodd and Boyd, 2000). According to Suwitri (2011), the policy is a series of actions in the form of a strategy with different steps that can be in the form of programs or projects to achieve a specific goal-oriented on the interests of the public or the wider community. According to Mackay and Shaxton (2011), a policy often take the form of general statements about priorities, regulations or written guidelines, procedures or standards that has to be achieved. Meanwhile, the definition of the fiscal refers to the word ‘fuscus’ from Latin which means the first financial power holders at the time of the ancient Romans. Further, according to Horton and El-Canalhy (2009) definition of fiscal policy is as follows:

“Fiscal policy is the use of government spending and taxation to influence the economy. Government typically use fiscal policy to promote strong and sustainable growth and reduce poverty, when policy markers seek to influence the economy, they have two main tools at their disposal-monetary policy and fiscal policy. Central banks indirectly target activity by influencing the money supply through adjustment to interest rates, bank reserve requirements, and the sale of government securities and foreign exchange; government influence the economy by changing the level and types of taxes, the extent and composition of spending, and the degree and form of borrowing.”

Tax

The definition of tax is limited to mandatory payments to the government and gets no reward. Tax terms do not include fines unrelated to tax violations and obligatory loans paid to the government (OECD, 1996). According to Seligman (2006), taxes are a mandatory contribution of people to the government to finance spending on the common good without referring to the exclusive benefits provided. Furthermore, Bird and Wilkie (2012) explained that taxes are necessary for finance the desired government expenditures and ensuring payments for such spending are distributed in an administratively viable, economically sustainable, and politically acceptable manner.

Tax policy must achieve to what is referred as the first best policy that covers the elements of efficiency, neutrality, certainty, simplicity, effectiveness, and fairness as well as flexibility. Often the ideal concept does not see the reality that happened on the field. For example, a tax policy may sacrifice of economic efficiency or other economic benefits to create the distribution and stability of economy (Danussalam et al., 2019). As for the functions of taxation, in general, is as follows:

(a) Rising Revenue

According to Afuberoh, Dennis, and Emmanuel (2014), the classic function of the tax system is the increase in revenue needed to meet government spending. Furthermore, according to Rasmini (2015), the government’s efforts to increase revenue by exploring potential tax revenue using intensification (optimization of revenue from registered taxpayers) and extensification (expansion of taxation objects and increase the number of taxpayers).

(b) Economic price stability

Afuberoh, Dennis, and Emmanuel (2014) stated that the most fundamental reason the government imposes a tax on its citizens is to provide a reasonable level of price stability within the country.

(c) Tax as regulator

According to Bird and Wilkie (2012), the government often uses the tax system as a tool to encourage or change the circumstances of the particular economy, the choice, and the behavior of the private sector to achieve various government objectives. Further, Smith (2016) states that the tax aims to influence the option of the taxpayer, a country may encourage certain behavior by lowering taxes or by contrasting to prevent some forms of behaviour by increasing the tax in relevant way. Meanwhile, according to Rasmini (2015), the role of taxes as regulatory tools to achieve the goals desired by the government outside the financial sector covering the economic and social fields.
1. **Consumption Tax.**

According to Pohan (2016), Taxes on consumption is a tax imposed on the expenditure devoted to consumption. The meaning of consumption in Rosdiana et al., (2011) is not just consuming items that wears out like food, but more to the concept of spending to spend money, including items that will be processed further. According to Due and Friedlaender (1984) seen from the perspective of its approach, consumption tax can be distinguished into two, namely:

- **Direct approach**, expenditure tax, i.e. tax that applies to all expenses for consumption which is the result of summing up all income minus expenses for savings and asset purchases.
- **Indirect approach** or commodity tax approach, is tax imposed on the sale of commodities levied on entrepreneurs who make sales to buyers as tax payers.

2. **Value Added Tax**

Value Added Tax (VAT) is one of the consumption tax. According to Rosdiana et al., (2011), VAT is a tax on multiple stage levies based on “value added” that appears on all production and distribution lines until goods or services reach the end consumer. The meaning of “value added” according to Tait (1998), is all costs incurred to process the finished product or to resell the product, including capital interest, depreciation, building rent, electricity, telephone, transportation and other expenses as well as the profit expected by the entrepreneur. Added value is formed not only from processing through the change of characteristics and the form of a product into a new product or able to bring new benefits but also from distribution activities. For traders, the added value can be known more easily, namely the difference in the selling price (output) with the purchase price (input). (Sukardji, 2009).

According to Pohan (2016), in the end the party who bears the burden of VAT is the final consumer, but before the product gets to the consumer, VAT is imposed at every level of production lines and distribution channels, the percentage of the tax burden borne is not influenced by the short length of the production or distribution lines and would not result in the emergence of a cascade effect or “the effects of double taxation”. According to Darussalam et al., (2018), VAT is a tax that has a very comprehensive imposition on each type of economic transaction, limited to excluded transactions. The meaning of transactions subject to VAT (taxable transaction), according to Pato and Marques (2014), is the transfer of movable or immovable goods and intangible goods including, the transfers of services. Besides, VAT has also imposed on export and import activities as well as transactions that considered as deemed supply activities. The transfer of goods within the territory of a country by a taxed entrepreneur which in the vat regulation in Indonesia is referred to as a taxable entrepreneur in connection with his business activities is one type of transaction included in the submission owed VAT.

Pato and Marques outline five requirements that are cumulative to determine that the transfer of goods that are within the scope of the imposition of VAT. The following five requirements that must be met, namely transactions that carried out must meet the criteria of transfer of goods (supply of goods), the transfer should have a “value” (for considering), a transfer should be made within the territory of the country concerned (within the territory), the transfer must be made by employers are taxed (taxable person), and transfer activities that must be in the scope of economic activity or business carried on by entrepreneurs are taxed (acting as such).

3. **The Concept of VAT in Cross-Border Transactions.**

According to Darussalam et al., (2018), some principles can be used as a reference in formulating the policy of VAT on the trade in goods or services internationally, namely the principle of neutrality, the principle of origin, and the principle of the destination here is the explanation.

**a. The principle of neutrality (Neutral)**

According to Feire (2015), “a neutral tax is one that does not influence commercial decisions.” VAT should be neutral means that the imposition should not affect economic decisions both in terms of businesses or consumers. More, the Nightingale in Darussalam et al., (2018) argue that in order to be neutral toward economic decisions from the side of the businesses, VAT should not be an expense in the production process, then the neutrality of the VAT can be created with a system of crediting input tax against the output tax so that the taxable entrepreneur only depositing taxes on any excess of output tax against input tax. According to the opinion of Brederode (2017) in relation to the neutrality of the VAT on international trade transactions are as follows:

“in the context VAT, external neutrality relates to the border tax adjustments required to create fair competition between domestically produced goods and imports. The tax levied on importation has to be equivalent to the tax imposed on similar domestic ...”

(www.omanobserver.com)

Furthermore, Darussalam et al., (2018) argue that to be neutral, VAT should not be vat or categorized as VAT payable but at a 0% rate on consumption or expenses made outside the jurisdiction in other words that by any neutrality in the imposition of VAT causes exports to be excluded from the imposition of VAT.
In the OECD, the International VAT/GST guidelines (2017), it is explained that the concept of tax neutrality in VAT has several dimensions such as vat burden should not be borne by taxable entrepreneurs unless explicitly regulated by law, VAT imposed in a production and distribution line is comparable to VAT paid by consumers, not affected by how long the supply chain is traversed, VAT provisions should be made in such a way that it does not distort business decisions, and foreign businesses that conduct business activities in other countries should not feel advantaged or disadvantaged compared to domestic business where VAT is owed and paid. The VAT system is designed to apply fairly and ensure there is no competitive advantage to domestic or foreign causes trade distortions and limits consumer choice. The VAT system is designed to apply fairly and ensure there is no competitive advantage to domestic or foreign causes trade distortions and limits consumer choice. The VAT system is designed to apply fairly and ensure there is no competitive advantage to domestic or foreign causes trade distortions and limits consumer choice. In line with these provisions, According to Kolozs in Darussalam et al. (2018), sellers who transfers goods or services will get the benefit from a lower tax rate because consumers tend to choose lower prices of goods or services with the same quality.

b. Origin principle

VAT shows its main characteristics as a tax on final consumption which is collected through the collecting process that gradually in the country and international trade, but the application of VAT in an international context raises the question, which jurisdiction must charge VAT based on the jurisdiction of the origin of the jurisdiction of destination (OECD, 2016). According to Mesdom (2011), the imposition of VAT with the principle of origin enforced in the territory of the law of the place, where the goods or services that originate, means that the exporter must charge VAT on the same basis and at the same rate as the local suppliers. The principle of origin assumes that the import in the country of destination is not subject to VAT. In line with the statement Rosdiana, et al., (2011) explain that based on the origin principle, the state reserves the right to impose a tax is the country where the goods are produced or where the goods originated. In the Fundamental Principle of Taxation (OECD, 2014), explained that:

"...this approach runs counter to the core features of a tax on consumption, in which the revenue should accrue to the jurisdiction where the final consumption takes place. Under the origin principle, these revenue are shared amongst jurisdictions where value is added. By imposing tax at the various rate applicable in the jurisdictions where value is added, the origin principle could influence neutrality in international trade. For these reasons, there is widespread consensus that the destination principle is preferable to the origin principle from both a theoretical and practical standpoint."

c. Destination principle

The Fundamental Principle of Taxation (OECD, 2014) explained that on the principle of destination, transfer of goods subject to VAT in a fundamental subject to regulation in the jurisdiction where the goods are at the time of the transaction. When a transaction involves the transfer of goods from one jurisdiction to the other jurisdiction, exported goods are generally free from the imposition of VAT in the jurisdiction of the seller (the seller can credit the tax on the input of its business), while imports are subject to VAT which is the equivalent of domestic goods in the jurisdiction of the buyer. In line with these explanations, according to Rosdiana et al., (2011), based on the destination principle country that reserves the right to impose a tax in the country to which the goods are consumed. If the goods are imported then it will be taxable, but if the goods are exported, then it will not be taxable. Furthermore, Mesdom (2011) explains that the destination principle is applied in the jurisdiction where goods or services are consumed, meaning that the exporter does not need to collect VAT on its sales, as it is assumed that the transfer will be taxed in the destination country and place the import equivalent of locally consumed goods so that neutrality can be achieved in cross-border trade.

4. VAT Refund

According to Kagan (2020), VAT Refund is a tax refund that is a reimbursement to the taxpayer for excess tax that has paid to the government. That means that a taxpayer gets a tax refund when he or she pays more tax to the government. Furthermore, Danussalam et al. (2018) given explanation, According to the tax provisions in Indonesia that the cause of overpayment of taxes that can result in a refund or restitution may occur because the amount of input tax paid exceeds the amount of output tax that levied, collection errors in the form of VAT levied is greater than it should be due to miscalculation or the application of taxation basis or collecting VAT that should not be collected for example the transfer of goods that are exempt from the imposition of VAT, and a individual who is a foreign citizen making the purchase of goods within the jurisdiction or customs territory.

5. Foreign Tourists

According to the United Nations World Organization of Tourism (UNWTO, 1995) that tourists (tourist) are a visitor whether domestic, inbound or outbound if the travel included an overnight stay or as a visitor on the same day called trip. The term (tourist) included in the definition of visitors as follows:

"visitor refers to any person traveling to a place other than of his/her usual environment for less than 12 consecutive months and whose main purpose of the trip is other than the exercise of an activity remunerated from within the place visited."

Available Online: https://iarconsortium.org/journal-info/IARJBM
Ghanem (2017) explains that tourists as visitors can be seen from the movement outside habitual environment, duration, and purpose. The movement outside habitual environment is divided into three forms, namely domestic, from abroad (inbound), and abroad (outbound). Duration involves the length of a visit by tourists, can be categorized as tourists with travel for a period of more than 24 hours with staying somewhere outside of the environment that becomes a habit or travel to leave his country and travel destination one tourist is must be one of the main objectives to travel for personal or business purposes.

6. Retail Store

Kotler and Armstrong (2012) define retail as all activities to sell goods or services directly to the final buyer for personal consumption and not for business purposes. Meanwhile, according to Aydin (2013), retail represents the overall activities that add value to the products and services sold to the final consumer with the purpose of personal consumption and household. Thus retail is seen as the main gate in the delivery of the product for consumption. Any company that markets a product will perform the function of retail in the form of activity associated with the sale of products and services directly to the final consumer for personal consumption or household. Retail is the final stage of economic activity (Arora, 2012). In connection with VAT refunds to foreign tourists, retail stores can provide tax refund facilities in accordance with regulations set by the tax authorities, (ac.europa.eu). Several types of retail stores, according to Kotler and Armstrong in Hameli (2018), are as follows department store, specialty store, and factory outlet.

7. Previous Research

Based on the results of a study conducted by Aries et al., (2016) that the policy of VAT Refund has a positive significant influence on the number of foreign tourists to Indonesia through Soekamo-Hatta International Airport. When the number of applications for VAT Refund increased by 1%, then the expected number of visits of foreign tourists to Indonesia through Soekamo-Hatta International Airport shows an increase of 51.8%. This is due to the function of taxes as regulatory tools that are applied with the provision of VAT Refund has been running so well that the policy of VAT refund this managed to affect the increase in the number of foreign tourists visit.

Based on the results of the study conducted by Al Musadiq (2016), that the process of implementing VAT Refund, in general, has gone well, seen from the ability of trained officers supported by the use of technology in the form of system applications connected among airports that serve VAT Refund, but still found some constraints in the implementation of VAT refunds for foreign tourists both in technical terms, such as servers that sometimes go down, or nontechnical terms related to language barriers and the uncomfortable counter room that looks small and narrow. Besides, the high minimum return value of IDR500,000 which means the minimum shopping transaction must be IDR5,000,000 to get a refund, causing the low interest of foreign tourists to apply for a VAT Refund it is known that the realization amount of refund payment at Djundu Airport, Surabaya during the period 2011-2014 is still a small amount of the only Rp9,518,215.

Based on the results of the study conducted by Putri and Nur (2019), vat refund procedures implemented in Indonesia and Thailand have been well, it can be seen from the registration of Taxable Entrepreneurs (PKP) retail stores who want to join the VAT Refund program scheme can be done easily through the specified website. VAT Refund policy is adjusted to the government conditions and regulations of each country. In Thailand, which is famous for its shopping destinations, it is more likely to increase the location or number of VAT Refund service counters and provide privileges for PKP participating in the refund scheme so that it is more attractive for retail stores to participate while in Indonesia vat refund counter locations are limited to some international airports only. The lack of enthusiasm for retail stores entrepreneur to participate in the VAT Refund program because there are no privileges provided. Besides, the threshold of VAT Refund is considered too high compared to Thailand.
8. Theoretical Framework

![Diagram of Theoretical Framework]

**RESEARCH METHODS**

The researcher used a descriptive research method that aims to reveal the various social phenomena with a qualitative approach that produces descriptive data in the form of words and descriptions involving without involving the measurement statistics. The technique of data collection was done through documentation and interviews. Documentation activity, researchers obtain data and information from some literature various research journals, thesis, books, regulations, and news in the mass media to acquire the basic theory to issues related to the VAT Refund policy. In the activities of the interview, the researcher obtained data and information with a question and answer to the several interviewees by asking questions either orally or written to several interviewees, in order to acquire knowledge, opinions, perceptions, and views related to the policy of VAT Refund.

**DISCUSSION**

The policy of VAT Refund Viewed from the General Concept of VAT in Indonesia

VAT Refund policy is one of the instruments in terms of tax regulation in supporting the development of Indonesian tourism by providing incentives for foreign tourists to consume goods obtained in Indonesia. Conceptually, VAT Refund is also the implementation of the basic principle of VAT that tax is only imposed on domestic consumption, then a tax policy established would be better if the policy aligned with the character of the tax itself. The scope of vat imposition is the existence of an occasion, event, or transaction conducted within the territory of a country. The territorial scope becomes one of the bases of consideration and determination to determine a transaction that may be subject to VAT. Act 8/1983 regarding VAT and luxury sales tax last amended by Act 42/2009, set the terms regarding the scope of the territorial as the customs area as a restriction of the authority of government to impose VAT.

In article 1 paragraph 1 of the LAW on VAT mentioned that what is meant by the Indonesian customs area includes the land territory, territorial waters, air space, certain places in the Exclusive Economic Zone (EEZ), and continental shelf. A result of the determination of the limitation of the scope of the territory of Indonesia within the customs area is when there is a transaction submission or the acquisition of goods and services performed outside of the customs area, then it will not be subject to VAT. Facilities VAT Refund applies when the goods are carried by the tourists to leave Indonesia, which means the goods purchased or obtained in Indonesia will be consumed outside the customs area so that the event is already correct and appropriate. Indonesian government provides facilities to the foreign tourists to get a refund on VAT that has been paid.
The imposition of VAT is seen from the object's side first and then the subject who has the obligation to bear the VAT payment. VAT objects in the form of occasions, events, transactions, or goods or services that may be taxed. All goods that are within the scope of economic activity are taxed unless otherwise specified by law. Article 4A paragraph 2 of the VAT Act describes certain types of goods that are not inclusive in the vat-charged group of goods, namely:

- Mining goods or drilling results are taken directly from the source;
- Basic necessities that are needed by the people;
- Food and beverages served in hotels, restaurants, cafe, stalls, and the like, including food and drink both of them, dine in or take away, including food and drink delivered by catering services and
- Money, gold bars, and securities.

Besides, to the goods mentioned in the VAT Act, all goods become VAT-charged objects. PMK-120 explains that the goods that can be applied for VAT Refund by foreign tourists are carry-on items that are taxable goods obtained for consumption purposes from retail stores registered under the VAT Refund scheme and brought by foreign tourists leaving Indonesia. This luggage is the object that is subject to VAT because the acquisition is still within the Indonesian customs area. Foreign tourists is allowed to apply for VAT Refund. According to the terms and conditions that the foreign tourists are domiciled abroad not as Indonesian Citizen (WNI), unsettled, not resident, and only visiting temporarily. Based on the reference source of broadcast material from Kemenkeu Learning Center, it is explained that the Subject of VAT Refund is a foreigner who,

- Enter and stay in Indonesia with Visitation Residence Permit but not more than 60 (sixty) days;
- Non-holder of Limited Residence Permit (ITAS)/ Permanent Residence Permit (ITAP);
- Enter and stay in Indonesia, not as a ship’s crew or aircraft crew;
- Not an asylum seeker, illegal entry.

In the context of cross-border transactions, two principles can be used as the basis for determining the scope of the imposition of VAT, namely the destination principle and the origin principle. Indonesia adheres to the destination principle so that the VAT is only charged on the entire domestic submission and the transaction involving imports into the customs area. VAT Refund incentive is a consequence of the application of the destination principle in the tax system in Indonesia so that t of goods or services intended for consumption outside the customs area is not subject to VAT. The destination principle will be in line with the international tax policy of each country, as VAT will be charged where the goods are consumed. Now, in reality, the majority of countries in the world have implemented tax incentives. The destination principle has been proportionately adopted in the implementation of VAT Refund incentives. This statement is also in line with the opinion of one of the speakers who stated that because it is consumed outside Indonesia, the granting of a VAT refund is appropriately implemented by the government. Besides considering the purpose for which goods are consumed, the principle of destination applied in the VAT Refund facility also looks at the materiality of the VAT is owed, so it is necessary to be compare how much purchases made by foreign tourists can be submitted a VAT refund.

**VAT Refund Policy Scheme Based on PMK-120**

The Ministry of Finance issued new regulations on the implementation of the VAT refund scheme, PMK-120/PMK.03/2019 came into effect on October 1, 2019, at 5 (five) airports designated as vat service locations. The requirements that must be complete to get a refund of VAT paid are as follows:

- Foreign tourists carries luggage and can show a passport, boarding pass, and Special Tax Invoice (FPK) to the restitution officer at the Airport;
- Have special tax invoices on the purchase of luggage with a minimum VAT value of IDR 50,000 per transaction;
- Accumulation of FPK with a minimum VAT value of IDR 500,000 on the purchase of luggage in some Retail Store PKP;
- Application is submitted for purchasing within one month before departure from Indonesia.

There are several points that were changed form the previous regulations, the changes are allowed to provide leeway for foreign tourists to be able to apply to refund claim. The subject of the change includes the length of stay provisions, special tax invoices, VAT refund values, and other provisions.

**a. Terms of stay**

Based on PMK-76 and its amendments, foreign tourists can take advantage of the VAT Refund facility that they are not a crew member of the airlines and not Indonesian citizens or non-Permanent Resident of Indonesia who has stayed or is in Indonesia no more than 60 days since the day of arrival while in PMK-120 the length of stay provision is not more than 2 (two) months, the difference can be seen in the time unit stipulated to both regulations.

**b. Special tax invoice terms**

A special tax invoice for foreign tourists is proof of the purchase of taxable goods as one of the requirements documents to apply for a refund. Meanwhile, for retail stores as a party that makes special tax invoice as proof of VAT levy on the transfer of taxable goods to foreign tourists Under the provisions of PMK-76 and its changes retail stores can make special tax invoice if the transaction of purchase of luggage by foreign tourists with a minimum vat value of Rp500,000 while in PMK-120, the retail store
can issue a special tax invoice if the transaction to foreign tourists has reached the VAT value of IDR50,000. There is a reduction in the threshold, for issuing special tax invoices for retail stores. Related to the function and format of special tax invoice in PMK-76 and the change mentions that special tax invoice also as proof of purchase as well as a letter of application for VAT Refund and there is a statement that the foreign tourists has met the criteria and requirements to apply for the refund and willingness for the inspection of documents and carry-on goods. While according to the provisions of PMK-120, a special tax invoice is only as proof of purchase of luggage, there is VAT Refund request form that will be printed through the system by the restitution officer when you apply for a VAT Refund at the airport.

Request form for VAT Refund contains a collection of a special tax invoice submitted VAT refund by foreign tourists. However, the lack of PMK-120 according to the restitution officer Soekarno Hatta Airport is in the special tax invoice doesn’t state the procedure to show belongings as stipulated in PMK-76, the statement of approval for inspection by showing the luggage only specified in the VAT Refund request form. It is certainly a concern, tourists do not know the information at the beginning because it is not stated in the special tax invoice obtained by foreign tourists at the time of purchase of the goods and then the foreign tourists are required to check in first to get a boarding pass as supporting mandatory documents indicated. There is the possibility that due to the ignorance of foreign tourists regarding the information on inspection procedures for goods that are not included in the special tax invoice then the items to be submitted to refund turns out to have been put into baggage foreign tourists can not fulfill the requirements of the VAT refund that only foreign tourists know filing in counter because they can’t show the luggage.

The officer cannot immediately approve the application in the event of such an incident because it could have an impact on other applications in the future. The action taken by Soekarno Hatta Airport restitution officer in addressing foreign tourists ignorance is that the officer gives approval of vat refund by considering the completeness of the documents according to the provisions and sees the effort of the foreign tourists to show his luggage by taking his luggage back to the airport check-in section, whether or not it can be done. Regarding this event, it becomes a common concern that the importance of good coordination to provide information about the procedures and requirements of VAT Refund application to foreign tourists, especially retail stores as a seller to more actively communicate giving notification to foreign tourists so that in the future no one feels disadvantaged due to poorly organized administrative procedures. Besides, it is necessary to match perceptions among the officers regarding the understanding of the rules and implementation in the field so that the delivery of information and decision-making between officers can be aligned.

c. The threshold of VAT Refund

No change to the minimum value of the VAT to obtain the refund, the value is still IDR500,000. However, the difference is in PMK-76 and its amendments that tourists can take advantage of VAT Refund facility for transactions listed in 1 (one) special tax invoice from 1 (one) retail store on the same date. While in PMK-120 foreign tourists are given leeway, for transactions with a return value of at least IDR500,000 can come from the accumulation of several special tax invoices on the purchase of luggage within 1 (one) month before departure from Indonesia. Payment of VAT refunds to foreign tourists can through via cash and transfer. A cash refund can be given if the refund amount is Rp500,000 up to IDR5,000,000. If foreign tourists do not want to inform their account number and bank name for the transfer purpose, cash refund can be done more than IDR5,000,000, however on the difference is not returned to foreign tourists. Cash payment at the airport in rupiah. While the transfer can be given if the refund amount is more than IDR5,000,000, it is returned in a currency other than rupiah with a settlement period of one month after the refund request is submitted by foreign tourists.

According to the officer restitution of Soekarno Hatta international airport, before the enactment of PMK-120 referring to PMK-76 and its amendments, foreign tourists can get a refund of more than IDR5,000,000 in cash if the invoice proof or purchase separated from one same retail store. If each VAT value these tax invoices is accumulated the total cash refund earned by foreign tourists can exceed IDR5,000,000 while in the provision stipulated that the maximum cash return limit is at most IDR5,000,000. There is a regulatory loophole utilized by the foreign tourists because in PMK-76 and its amendments it does not mention the limit on the number of special tax invoices that can be submitted so that the tourists can apply for more than one special tax invoices. With the validity of PMK-120, several special tax invoice obtained and collected by foreign tourists from different retail stores will automatically accumulate into one unit, so that when the VAT value on each special tax invoice is summed up resulting in a total value of at least IDR500,000 is met then foreign tourists are has the right to get a refund as well if the total VAT refund value above IDR5,000,000 is automatically refunded by bank transfer.

d. Other terms

Based on article 3 paragraph (2) PMK-76 and its amendments, explained that the VAT on the acquisition of certain items can’t be requested back by the tourists include food, beverages, tobacco products; firearms and explosives; and prohibited goods brought into the plane. However, the provisions of items excluded those not listed on the PMK-120, when viewed from the business
activity of retail stores that joined the scheme of VAT Refund, the type of goods sold is usually the consumer goods with the period of use that relatively long. That is in line with the statement officer restitution of Soekarno Hatta that it is very rare to find foreign tourists that apply refund with the type of food and beverage, but there has been a request for a refund in the form of coffee beans.

According to the provisions of the PMK-76 and its amendments. It is stated that the documents must be shown by the foreign tourists at the time of filing the return consists of special tax invoice, passport abroad, and a ticket or boarding pass of the plane while in the PMK-120 the provisions of the ticket as supporting documents for requesting refunds are deleted. Based on the statement Soekarno Hatta International Airports restitution officer refers to the regulation of PMK-76 and its amendments, foreign tourists can apply for refunds to the counter VAT Refund by choosing to show ticket. Often tourists request the refund that is not the same as the date of departure, then the foreign tourists directed by the officers to file a refund on the day of departure so that they can be more sure that the refund is given when foreign tourists really intend leave Indonesia. The abolition of the requirements of the ticket is also to cover the possibility of refunds has been given, but it turns out that foreign tourists cancel the ticket.

Related VAT Refund Policy for Retail Business Sector

The provision of facilities for VAT Refund to foreign tourists as the holder of the passport abroad is one embodiment of the implementation of the tax function as regulatory tools (regulerend). With the facility of VAT Refund, there is a potential to loss some revenue from the tax sector which of course will be contradictory with the function of tax as a source of income (budgetary). According to Romli, Maulida and Hamzah, (2016) declare that in terms of budgetary function, although the government experienced a loss because it must expend funds to return taxes that have been paid by foreign tourists, in the future it will be more beneficial. In terms of regulatory function, the government wants to achieve other goals that are expected to attract investors to invest in Indonesia, so that it can have an impact for the retail sector as a support for tourism activities with an increasing number of retail stores accompanied by an increase in turnover and an increase in retail store income tax, so there will be the absorption of labor so that it can reduce unemployment, with a reduction in unemployment it will lower the crime rate. This become a long-term, sustainable goal considered by the government.

Following the purpose of government contained in the PMK-120 it can be understood that the provision of facilities for VAT Refund aims to encourage the participation of the retail business sector. In the implementation VAT Refund, there will be two interrelated things, namely, cost and benefit, there is a confidence from the government that the benefits gained are greater than costs incurred by implementing this policy. The benefits can be obtained because there are connections between sectors in economic activity. If the retail business sector experiences an increase in demand, then it will automatically encourage more improvement from the side of the manufacturing and Micro, Small, and Medium Enterprises. Linkages between these sector will provide a multiplier effect over the whole economic activity. With the issuance of the new regulation, PMK-120 which provides leeway for foreign tourists to apply the refund and ease for retail stores to sign up and participate in the implementation of the VAT Refund it is hoped that this facility will become an attraction for tourists to visit and shop at retail stores.

The goals to be achieved on the issuance of PMK-120 is essentially to increase foreign tourists coming to Indonesia, as well as shopping, regardless of whatever that spend. The VAT Refund will be certainly, increase the enthusiasm of foreign tourists to visit and shop in Indonesia, it will give the advantage of income coming from foreign exchange, and this is good for the economy of Indonesia. The policy is included in the old fashion tax rule usually the term is used for designation of public policy that is already popular and becomes a policy that has been adopted in many countries and has become a trend in the world of taxation. Besides, to increase sales of the retail sector, other considerations in the application of the VAT Refund policy because it follows the development of the international taxation world, therefore, it expected that the existence of the VAT Refund in Indonesia also give a positive impression for the tourists though perhaps not all tourists could be or want to apply the refund, but at least there is a policy regulating the VAT Refund to foreign tourists that can be accommodated when there are tourists who question the existence of facilities for VAT Refund.

The government, through the Directorate General of Taxation, has socialized so that the issuance of the new regulations can be conveyed and well understood by the relevant parties, according to Soekarno Hatta Airport restitution officer. Socialization has been carried out to foreign tourists by disseminating information through websites and social media, including the procedure of refund, anyone who has the right to get the refund minimum shopping, and others besides putting brochures on international arrivals to be easily known by foreign tourists. Socialization and mentoring have also been done to the Taxable Entrepreneur of retail stores both at the head office in Jakarta and in the regional office by inviting representatives from various retail stores spread accross various regions in Indonesia. The socialization material was the explanation about the procedure for providing VAT Refund facilities.
In a press release on the website of the Directorate General of Taxes reported that socialization has been carried out related to the implementation rules of the new PMK-120/PMK.03/2019, including socialization activities held on 23 September, 2019, located in the Hall of regional office of Directorat General of Taxation Bali. Known to be about 150 retail entrepreneurs in Bali is attended the event. The material presented includes the background of the issuance of the regulations for the simplification of the administrative process, the clarity, and legal certainty as well as improving the provision of services for submitting and completing VAT Refund requests. During the socialization, Hindarto Gunawan, as the owner and representatives of the retail store John Hardy that sell a various Balinese jewelery, delivered a testimonial about the experience of John Hardy for being the partner scheme of VAT Refund that foreign tourists are excited to be given information on tax refund facilities. With the explanation that its outlets participating in the program it has an impact on the increasing the interest of foreign tourists for shopping.

From the statement of the representatives of retail stores, it can be known it turns out services VAT Refund has a positive influence that will provide added value for retail stores who are participating because it is more attractive to foreign tourists compared to other retail stores that did not participate in the program VAT Refund. Besides, according to the description of the Soekarno Hatta Airport restitution officer, the issuance and implementation of the provisions of the PMK-120 provide a positive impact with increasing number of retail stores that joined because of the application to become retail store VAT Refund program is more easier by simplifying the administrative process and supported by the use of qualified technology assistance. Growth in the number of retail stores participating in the program VAT Refund increased fastly presented in the chart as follows:

Data on August 8, 2018, the total number of retail stores listed that 236 stores spread in various regions in Indonesia. The distribution of retail store most be in the area of Jakarta with some 121 retail stores are dominated by the type of department stores including SOGO, Metro, Sarinah, Centro, and other. Besides, many retail stores sell products on an international scale, especially category fashion and accessories, including PULL & BEAR, Louis Vuitton, Zara, and Swarovski. In Bali, there are 31 retail stores scattered in various regions with various product categories, including Batik products (Batik Keris), silver (John Hardy), jewelry (Pandora, Swarovski), fashion, and accessories (SOGO), iPhone product (Emax) and other. In other areas, 34 retail stores participate in the program VAT Refund in some cities such as Palembang 3 store, Banjarmasin, Balikpapan, Makassar, Samarinda (each of 2 stores), Batam, Pekanbaru, Kotamobagu, and other cities.

Data on February 20, 2020, recorded that a total of 798 retail stores have been registered in the VAT Refund for Tourist program, an increase of 562 from 2018. The highest increase was in Jakarta, with an addition of 239 to 360 retail stores in 2018. The lowest number of retail stores in Bali, there are 17 retail stores, so the total number of retail stores participating in the VAT refund program is 48 retail stores. The abolition of regulations regarding the types of exempted goods can be requested back on the VAT paid by foreign tourists at PMK-120, attracting attention. Previously PMK-76 and its amendments regulated the types of luggage that cannot be requested for refund, one of which is food and drink. That certainly, closes the possibility for packaged food and beverages businesses in particular not to participate in the VAT Refund program because of the restrictions. With the publication of PMK-120 opens the opportunity for Micro, Small, and Medium Enterprises and retail businesses that food and beverage that can be used as souvenirs for foreign tourists can participate because Indonesian foods are also popular abroad. That is in line with a survey conducted by the Ministry of Tourism and Creative Economy in 2016
that shows the types of souvenirs commonly purchased by foreign tourists as follows:

![Chart of Foreign Tourists Interest for Souvenirs 2016 (%)](chart.png)

Source: Passanger Exit Survey Ministry of Tourism and Creative Economy 2016

From the chart above, can be known that the type of souvenirs that are in demand by foreign tourists is a product that is characteristic of Indonesia, where Indonesian food is the most in-demand product by foreign tourists with a percentage of 36.20% of the overall product type, followed by batik products with a percentage of 35.08%, while the products with the lowest enthusiasts are gemstones of 2.21%. The data presented above becomes a positive thing because there are opportunities for the development of Indonesian food or beverage products with the support of the VAT Refund facility. There is another option to provide tax incentives in connection with the spending of foreign tourists, that is by exempting from imposing VAT (tax free) on the purchase of luggage by foreign tourists. Japan has implemented the policy so that there is no VAT refund scheme to the foreign tourists when leaving the country. Any incentives are possible to be applied in Indonesia, maybe created such as Duty Shop Free or tax-free areas as long as it can be ensured that those who make the purchase transaction are foreign tourists and the product is consumed on the spot.

The implementation of tax-free policy needs to be considered regarding the readiness of the government in the tax administration system to detect all transactions and sales transactions made by retail stores because until now, only registered retail stores can carry out vat refund schemes. This is an indication that the government still has constraints in verifying the correctness of sales transactions so that if all purchase transactions are exempt from taxation will increase the burden on government and entrepreneurs because the purpose of the VAT Refund policy is to simplify the administration process for the ease of retail store to participate in the VAT Refund scheme as a government effort to encourage the participation of retail businesses. However, it should also be a concern that vat refund policy may not affect the growth of the retail sector because it depends on the purchasing decision of foreign tourists, sometimes the price is not a major consideration for the buyer but the quality of the products produced and the service provided by the store becomes a separate assessment for the buyer. Sales of handicrafts increased, more because of quality, uniqueness, price, model, and others beyond the VAT Refund factor.

Someone purchase the craft goods probably won't ask about the taxation. Souvenir shopping is a tertiary necessity, even leisure because the money is more than enough, therefore according to one of the interviewees stated that VAT Refund has no relationship with the development of the retail sector. Collaboration is needed to support each other between related sectors so that the objectives of the VAT Refund policy can be achieved, because the VAT Refund policy can have a positive impact in various sectors including the retail sector, considering that increasing number of foreign tourists visited every year become opportunities for Indonesia to develop other tourism buffer sectors including retail businesses.

Opportunities to Develop Shopping Tourism Destination

The implementation of tax refund facilities to foreign tourists in three other countries in the ASEAN region following the policies of each country. Singapore has been implemented under the Tourist Refund Scheme (TRS) managed by Singapore Customs on behalf of the Inland Revenue Authority of Singapore (IRAS). This scheme allows foreign tourists to claim a GST (Good Service Tax) refund paid for the purchase of goods from retail stores participating in the TRS scheme if the item is taken out of Singapore via Changi International Airport or Seletar Airport. As of August 19, 2012, the TRS system that used to use paper based tax refund forms then replaced to an electronic-based TRS system or Electronic Tourist Scheme (e-TRS) by Singapore authorities. Upon the application of these provisions, all retail stores operating GST refunds are required to move to the eTRS system, for those who
still operate a paper-based TRS system will be penalized by the applicable regulations. The implementation of this policy will be certainly more increase the efficiency because it can connect between retail stores in a shared platform to provide ease of GST refund services for people who do shopping transactions in Singapore as well as facilitate coordination between retail stores.

Value Added Tax has been implemented in Thailand since 1992, replacing Business Tax with rates of 10%. VAT in Thailand has the same meaning as the VAT in Indonesia and GST in Singapore that is charged on the consumption of goods and services in the country. Rates VAT is then trimmed by the authorities of Thailand to 7% and applied until today. This rate reduction at the request of the businesses to stabilize people’s purchasing power. On 1 June 1999 authority of Thailand began to implement the policy of VAT Refund to foreign tourists. In line with the provisions of the Revenue Department established the VAT Refund for the tourist office to organize the implementation of the VAT Refund and at the same time to promote eco-tourism in Thailand through the scheme of VAT Refund. At the beginning of the VAT Refund scheme, the offices that serve return have operated in 4 (four) major international airports, namely Bangkok International Airport (Don Mueang), Chiang Mai International Airport, Hat-Yai, and Phuket International Airport. As times go by, there have been additional location for VAT Refund services to 10 airports.

Based on information from the PWC Asia Pacific VAT/GST Guide 2019, Sales Tax and Service Tax (SST) began to be applied back in Malaysia on September 1, 2018, to replace the GST was first introduced and implemented on April 1, 2015. Different from the GST system which multi-stage collection system, tax levied at each stage of the supply chain and eventually in forward or charged to the final consumer. SST is a single-stage tax system means that the tax is levied only at one stage. Thus, the Sales Tax levied at the producer or goods sold, and Service Tax levied by the service provider for services performed. The transition of the tax imposition has been effective since 1 September 2018, with the enactment of the SST tax system and the abolition of the GST system there are no tax refund claims for purchases of luggage that can be submitted by foreign tourists because tax imposition with the SST system does not reach the retail stage.

The policy of tax refunds to foreign tourists is one of the instruments in terms of taxation to support the development of the tourism sector as a means of promoting tourism in each country so that it has a specific attraction for foreign tourists to visit the country. The differences seen in the mechanism of VAT Refund from the four countries, namely Indonesia, Singapore, Thailand, and Malaysia can be seen from the minimum value of the VAT refund that can be requested by foreign tourists. Provisions in Indonesia mentioned that the foreign tourists would obtain a VAT refund on goods purchased at least IDR500,000, it means that tourists have to do the shopping with the fewest number of IDR5,500,000 (including VAT). In Singapore, tourists with the minimum purchase of SGD100 or equivalent to Rp1,020,000 (including GST) have the right to claim a refund of tax. Further, Thailand determined that the amount of the purchase can claim a refund of VAT of at least THB5,000, equivalent to IDR2,379,250 VAT included, while in Malaysia, tax refund schemes for tourists are no longer applied following the enactment of the SST tax system.

Indonesia imposes a threshold of VAT Refund on the highest rates among the three other countries in the ASEAN Region. When reviewed from the competition on tourism market in ASEAN according to the data, Indonesia still placed 4th below Thailand, Malaysia, and Singapore in terms of tourism competitiveness, especially the number of foreign tourists visits. When viewed from the micro administration side, the threshold on the value of VAT Refund may not be competitive, but if reviewed from its implementation so far, the government still maintains the value of the VAT Refund threshold, and until now there have been no adjustments to lower the number of restrictions, then it can be said that this policy is still competitive. Based on the purpose of the issuance of PMK-120 to attract foreign tourists to come to Indonesia and it turns out that the number of foreign tourists visits in 2018 is at 15.8 million and still ranks 4th in ASEAN. This depends on the government that wants to be in what position or rank, there are many aspects that must be improved and developed, especially from the tourism sector, including marketing and promotion, repair and improvement of facilities in tourist destinations, development of tourism products, utilization of digital applications, and increasing human resources capacity to win a competition in the international tourism market.

The implementation of the VAT Refund policy can be a supporting instrument of the tourism sector and is not the only factor that is very influential for tourism growth. The proposal on lowering the minimum spending limit submitted by the chairman of the Indonesian Retail Entrepreneurs Association as a representative of retail store entrepreneurs can be used as input and required a review from the government, in this case, the Ministry of Finance. The threshold of VAT Refund for foreign tourists can be changed but it must pay attention to the costs and benefits related to a change of policy and so importantly, the readiness of the administrative system to carry out the policy, because according to Darussalam, et al., (2018) although the formulation of the policy is good, the implementation of a policy is not necessarily in line with the expectations without the support of a quality administrative system so that the quality of the administrative system becomes a benchmark of how effective the implementation of the tax policy.
VAT Refund policy is strongly related to shopping for goods (souvenirs) by foreign tourists during the visit. According to the Chairman of the Association of Indonesian Travel Companies that of course, the relaxation of the VAT Refund policy will attract foreign tourists to visit and shop in Indonesia. But whether with the issuance and implementation of these new regulations can open up opportunities for Indonesia to develop shopping tourism destinations. Until now, Indonesia has not been a shopping destination such as Singapore, Malaysia, or Thailand. The strength that attract foreign tourists to visit are the natural and cultural attractions in Indonesia, not on shopping for goods. In line with the statement, according to data from the Ministry of Tourism and Creative Economy in 2016, the purpose of foreign tourists coming to Indonesia with the largest percentage is for holidays, enjoying natural and cultural beauty reaching 65.46%. The shopping category only recorded 0.46% as the intent and purpose of foreign tourists to visit Indonesia. Furthermore, when reviewed from the spending of foreign tourists during a visit to Indonesia in 2018 with three other countries in the ASEAN region, namely Malaysia, Thailand, and Singapore are presented in the chart as follows:

![Chart of Composition of Wisman Expenditure in Four Countries 2018 (%)](chart)

*Source: Data is processed from the website of each country’s authority*

From the chart above, it can appear that three main components of foreign tourists spending when traveling, that are accommodation, shopping, food and beverages, and another spending from a combination of several spending, including entertainment, local transportation, tour packages, sports, health, and others. Foreign tourists’ spending in Indonesia is more absorbed in the accommodation amount to 31% of the total spending. That is possible because foreign tourists choose to stay longer in Indonesia or the cost of renting accommodation is higher than in the three countries. Meanwhile, the spending of foreign tourists for shopping was still below the other three countries which managed to record a figure of 20% or more. The highest spending was recorded by Malaysia with 31%, followed by Thailand at 24% and Singapore at 20% of the total spending of foreign tourists while in each or these countries. These three countries have an excellence, that attract foreign tourists to shop.

Based on sources from the 2016 Tourism Malaysia Annual Report, Malaysia’s current profile as a shopping destination is recognized by a series of leading rating agencies. Malaysia’s seriousness to become a shopping destination is proved by establishment of the Shopping Malaysia Secretariat by Tourism Malaysia in 2002 to promote Malaysia as a world-class shopping destination. Many activities are held throughout the year to attract foreign tourists, including *Malaysia Super Sale*, *Malaysia Mega Sale Carnival*, and *Malaysia Year End Sales*. To create a stronger online presence to promote shopping in Malaysia, it launched a social media shopping app in 2016 called “Miss SHOPhia” to guide shoppers (foreign tourists) in terms of fashion trends, the latest news on when is the right time to shop and where to shop, what to look out for as well as how to get the best items while shopping in Malaysia. Malaysia’s success in trying to become a high-end shopping destination is proven by Malaysia’s excellence in terms of spending on shopping compared to the other three countries.

Thailand has been in the attention as a destination for cheap shopping. Tourism Authority of Thailand promotes all retail businesses, from large shopping centers to shop local small and medium-sized businesses, through a type of sales promotion, in the form of certain discounts and privileges by showing passports and organizing annual activities using amazing *Thailand Grand Sale branding*. According to Sitompul (2014), shopping tourism in Thailand is developed not only in the form of shopping centers (malls) but more in the form of a modern market that is neatly arranged, so that it can offer a shopping experience that is comfortable and relaxing for tourists. The direction of the local government to support the tourism program where sellers are required to sell the product at a low price.
Singapore has long been known as a favourite destination of foreign tourists to shop because of the availability of various types of branded goods with the price that is relatively cheaper than other countries. Following the explanation given by the interviewees, that the shopping for international brand goods in Singapore is indeed cheaper, suppose from the fashion category, there are brands Zara and H&M because there is a kind of the main office for the ASEAN region. Besides, there is the implementation of the Great Singapore Sales that is an annual event in the form of a discount offers on various branded product that can be main attraction for foreign tourists.

Further, one of the indications that show Indonesia is not a shopping destination for foreign tourists and domestic tourists is that Indonesia is not a purpose to buy durable consumption goods, such as electronics and other consumer goods such as shoes, handbags, and fashion. It can be seen from Indonesian people who choose to go overseas to buy branded goods. When reviewed from the composition of goods in Indonesia that are common or dominant purchased by foreign tourists are products that are characteristic of Indonesia. The imposition of a high VAT rate to imported goods, including international brand goods, such as fashion, bags, shoes, jewelry, perfume, and others as one of the efforts to control imported goods will certainly affect the price of such goods to be higher than other countries so that foreign tourists prefer to shop for international products there. This is one of Indonesia’s barriers to developing shopping destinations in the future.

Behind these barriers there is still an opportunity for Indonesia to develop its tourism potential including the development of shopping tourism destinations supported by the policy of providing VAT Refund facilities. The competitive advantage that Indonesia has in terms of beauty of nature and cultural diversity that makes Indonesia unique in the world tourism scene, a gift from the Creator that must be optimally developed and managed by the government. Looking at the advantages of the cultural side, the cultural sector related to trade such as typical Indonesian culinary delights as well as souvenirs including batik, handicrafts typical of sculptures, carvings, woven fabrics, paintings and others can continue to be developed and of course the cultural sector can be targeted by VAT Refund policy by targeting Micro, Small, and Medium Enterprises and local industries with the quality of products produced not less than international brands.

Shopping destinations and VAT Refund will be mutually correlate if Indonesia’s current position is known as a place to shop for branded goods among foreign tourists. Indonesia once again is known to be superior in beauty of nature and culture. Expected in the future with supporting instruments in terms of taxation, namely PMK-120/PMK.03/2019 as a new rule of implementation of VAT Refund for many retail businesses join the government program so that they can collaborate each other, supported by various activities for product promotion and the sustainable development of natural and cultural tourism areas because shopping means that foreign tourists come to the location. In that location, there are actors that can be local government, police, shop owners, facility providers and so on, then it needs commitment from various related parties to manage tourist area seriously.

Besides, the location as a place such as a road infrastructure, hotels, restaurants, shops, malls, toilets, and other supporting facilities need to get the attention of the actors, so if everything are clean, neat, clear instructions, safe and comfortable, foreign tourists will be interested in coming and returning, shopping not only about price considerations and product availability but also related to supporting facilities. With the awareness of the relevant parties that tourism is a shared livelihood does not close the possibility that Indonesia will be better known as a favourite destination of nature and culture tourism as well as shopping tourism.

**CONCLUSION**

The implementation of the VAT Refund Policy is in line with the general concept of VAT as a tax on domestic consumption. VAT still be charged for the purchase of foreign tourists’ luggage made within the territory of Indonesia as a country visited by foreign tourists. VAT Refund facility is valid when foreign tourists carry goods purchased or obtained in Indonesia for consumption outside the customs territory leaving Indonesia so that it is already appropriate if the Indonesian government provides facilities to obtain a refund of vat that has been paid to the foreign tourists. The object of VAT imposition is based first by looking at the items purchased as foreign tourists’ luggage. VAT Refund is a consequence of the principle of destinations adopted in the tax system in Indonesia so that the transfer of acquisition of goods and/or services intended to consumed outside the customs area is not subject to VAT. In reality, on an equal basis the majority of countries in the world has implemented VAT Refund incentives and the principle of destinations has been proportionately adopted in the provision of this incentive.

The Government, through the Ministry of Finance, issued new regulations related to the implementation of VAT Refund, namely PMK-120/PMK.03/2019 to replace PMK-76/PMK.03/2010 and its amendments. The new rules come into effect on October 1, 2019, at 5 (five) airports designated as vat refund service locations. The scheme of implementing VAT Refund policy under PMK-120 that there are points of change in the provisions of PMK-76 and its amendments include the provisions of the length of stay of foreign tourists, the use of special tax invoice which is only as proof of purchase of goods not at simultaneously as a

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VAT Refund application letter, changes in the refund value that can come from accumulated several Special Tax Invoice on the purchase of luggage in registered retail stores with purchase transactions per store at least IDR50,000. In line with the goals of PMK-120 to encourage the participation of the retail business sector, the rules regarding the exclusion of goods that VAT on their acquisition cannot be refunded, namely food or beverages have been abolished pens the opportunity for Micro, Small, and Medium Enterprises or retail businesses of packaged food or beverages to participate in the VAT Refund program because according to the data of the Ministry of Tourism and Creative Economy in 2016 Indonesian food became the first position of the type of products most in-demand foreign tourists with a percentage of 36.2% followed by batik by 35.08%.

The issuance and implementation of PMK-120 provisions had a positive impact with the increasing amount of retail stores joining the VAT Refund scheme seen from data obtained from KPP Tangening Barat that in 2018 the number of retail was 236 stores, until February 2020, the number of increase, listed retail stores that have joined was 798 stores spread throughout Indonesia. That is because the application to become an Entrepreneurs retail store, with the VAT Refund scheme is simpler by simplification of the administration process and supported by the use of qualified technical assistance. However, according to one source who stated that the VAT Refund policy has nothing to do with the development of the retail business sector with a primary focus on craft products. Sales of handicrafts are increased, more because of quality, uniqueness, price, model, and others beyond the VAT Refund factor. Someone buying craft goods probably won’t ask about the taxation. Shopping for souvenirs in the form of handicrafts is a tertiary, needs even leisure because the money is more than enough.

With no relationship between the two, there is no influence

There are differences in VAT Refunds treatment in four countries, namely Indonesia, Thailand, Singapore, and Malaysia can be seen from the threshold of VAT refund that can be requested by foreign tourists. Indonesia has the highest VAT Refund threshold among the three other countries in the ASEAN Region. The proposal on lowering the threshold submitted by chairman of Indonesian Retail Entrepreneurs Association as a representative of retail store entrepreneurs then can be used as a suggestion for the government, in this case, the Ministry of Finance. VAT Refund threshold can be changed but must pay attention to the costs and benefits associated with changing policy and the most important is the readiness of the administrative system to implement the policy. The quality of the tax administration system is a benchmark for how effective the implementation of tax policy is. The formulation of proper policies is not necessarily in line with the expectations without being supported by a quality administrative system.

Until now, Indonesia has not been a shopping destination such as Singapore, Malaysia, or Thailand. The strength that attract foreign tourists to visit is the natural and cultural attractions in Indonesia, not shopping for goods. One indication that shows Indonesia is not a shopping destination for foreign tourists or domestic tourists is that Indonesia is not a destination to buy durable goods such as electronics and other consumer goods such as shoes, bags, and fashion, looking at the excellences of the cultural side then the cultural sector related to trade such as typical Indonesian culinary delights as well as souvenirs including batik, handicrafts, sculpture, carving, woven fabrics, paintings, and others can continue to be developed and of course, the cultural sector can be targeted by VAT Refund policy by targeting Micro, Small, and Medium Enterprises or local industries with the quality of products produced not less than international brands. It is expected in the future with supporting instruments from the tax sector, namely PMK-120 as a new rule of implementation of the VAT Refund facility many retail businesses will join the government program so that they can collaborate, supported by various activities for product promotion and the sustainable development of natural and cultural tourism areas.

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