



Impact of Value Added Tax on consumer spending behaviour in Edo State, Nigeria

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Abstract

This study investigates the influence of Value Added Tax (VAT) implementation on consumers spending behaviour in Edo State, Nigeria. Specifically, the work examined the effect of public perceptions of VAT, perceives inequalities of VAT, price sensitivity of VAT-able goods on changes in consumers spending pattern as a result of VAT. The research design employed in this study was a cross-sectional survey research design. The sample size of 368 respondents were selected from the population of 390 consumers of goods and services in Edo state using purposive sampling and stratified random sampling. The descriptive analysis was carried out to summarize, organize, and present data clearly, identifying patterns, trends, and data characteristics while multiple linear regression was conducted to test the study's hypotheses. Findings revealed a statistically significant, though negative effect of public perception of VAT on consumers spending behaviour. It also indicates a statistically significant influence of perceived inequalities of VAT on consumers spending behaviour while the variable of price sensitivity of VAT-able goods demonstrates significant negative effect on consumers spending behaviour. It is recommended that policy makers should explore the possibility of implementing VAT rate adjustments to balance tax revenue needs with the potential to maintain consumer spending while also targeting VAT rebates for low-income households to ensure that the tax burden is equitably distributed and does not disproportionately affect the economically vulnerable.

Keywords: Consumer, Inequality, Price Sensitivity, Public Perception

1. Introduction

The implementation of Value Added Tax (VAT) in Nigeria has been a salient policy tool aimed at diversifying government revenue streams and reducing dependence on oil exports (Omoyin, Abiodun, Salome, & Umensofor, 2024). In 2020, the VAT rate was increased from 5% to 7.5%, and recent proposals suggest a further increase to 15% by 2026, with exemptions for essential items such as food and medicine (Akpan, 2025; Faleke, 2025; Ojiego, 2025). This policy shift has sparked significant discourse regarding its implications on consumer spending behaviour. The introduction of VAT increases the final prices of goods and services, thereby affecting purchasing power and consumption choices. Consumers may respond by altering their

spending habits, prioritising essential goods, or seeking alternatives to mitigate the impact of higher prices (Oluwatobi, Omodero, Ololade, Ekundayo & Odhigu, 2024). The Federal Inland Revenue Service (FIRS) reported a substantial rise in VAT collections, reaching N6.72 trillion in 2024, marking an 84.62% year-on-year increase. This surge indicates a broadening of the tax base and enhanced compliance (Federal Inland Revenue Service (FIRS), 2025). Could this increase in VAT revenue suggest an increase in consumer spending pattern? However, the existing literature could not sufficiently explain how the changes in VAT rate affect different demographic segments in Edo State specifically, particularly low-income consumers and small businesses that may be most affected by such policies. A major

aspect of this problem lies in the economic disparity within the country, as consumer behaviour in urban areas, where disposable income is generally higher, may differ significantly from that in rural areas. The urban middle-class consumers may absorb the VAT increases without major alterations in behaviour, while lower-income rural consumers may experience more substantial changes in their consumption habits (Acosta-Ormaechea, & Morozumi, 2021). Edo State, characterised by a mix of urban and rural populations, presents a unique context for examining the effects of VAT on consumer behaviour. This study aims to fill this gap by analysing the effects of VAT implementation on consumer spending behaviour in Edo State, distinctively examining the impact of public perception, perceived inequality and price sensitivity on purchasing patterns in Edo State.

1.2 Objectives of the study

The overall objective of this study is to assess the impact of VAT implementation on consumer spending behaviour in Nigeria. The specific aims are to:

1. Evaluate the effect of Public perception of VAT on consumer spending behaviour in Edo State, Nigeria.
2. Determine the impact of perceived inequalities of VAT on consumer spending behaviour in Edo State, Nigeria.
3. Analyse the influence of price sensitivity on consumer spending behaviour in Edo State, Nigeria.

2. Review of Related Literature

2.1 Conceptual Review

2.1.1 Consumer Spending Behaviour

Consumer spending behaviour is an essential aspect of economic activity, reflecting how individuals allocate their income towards various goods and services (Kahle, Lowrey & Huber, 2022; Fairbank, 2023). It is a key indicator of economic health and directly influences market dynamics, business strategies, and government policies. Understanding

consumer spending behaviour is essential for businesses seeking to tailor their offerings to meet consumer preferences, as well as for policymakers aiming to predict economic trends and make informed decisions regarding fiscal measures. Consumer spending is influenced by a multitude of factors, both psychological and economic. On the psychological side, factors such as consumer attitudes, motivations, social influences, and personal values shape how individuals perceive and prioritize spending (Schiffman & Kanuk, 2019). Economic variables, such as income, employment status, inflation, and interest rates, play a more direct role in determining consumers' purchasing power and willingness to spend. Research indicates that during periods of economic growth, consumers are more likely to spend on discretionary items, whereas during economic downturns, they tend to cut back on non-essential purchases (Kotler & Keller, 2016; Schiffman & Kanuk, 2019).

2.1.2 Public Perception of VAT

Value Added Tax (VAT) is a widely used form of indirect taxation globally, and its impact on both businesses and consumers has been the subject of various studies (Acosta-Ormaechea & Morozumi, 2021; Wilson-Oshilim, et al., 2023; Hameed, Khalaf, Alzaimoor, Alshehab, Hamdan & Attia, 2023). Public perception of VAT is a significant determinant in determining the effectiveness of tax compliance and collection, influencing both economic behaviour and government tax policies. Public perceptions, shaped by various psychological, economic, and social factors, directly affect individuals' willingness to comply with VAT regulations and their attitudes toward the tax system (Torgler, 2007). The general public's perception of VAT is influenced by factors such as fairness, transparency, and perceived benefit from the tax revenue. A common issue raised in studies is the belief that VAT disproportionately affects

low-income groups, leading to resistance and non-compliance (Cao & Bai, 2021; Smith & Browne, 2020). According to Wadesango and Chirebvu (2020), the regressive nature of VAT is often criticized, as it does not account for the taxpayer's income levels, potentially contributing to negative public perceptions, especially among small and medium-sized enterprises (SMEs).

2.1.3 Perceived Inequalities of VAT

Perceived inequalities associated with VAT arise from its structure, which taxes goods and services at a uniform rate, irrespective of an individual's income. This characteristic can burden lower-income groups more heavily, as they tend to spend a higher percentage of their income on taxable goods and services compared to wealthier individuals (Cao & Bai, 2021). Consequently, the economic burden of VAT is more pronounced for low-income households, which leads to concerns about fairness and tax justice. One of the core issues surrounding perceived inequalities of VAT is that it does not take into cognisance the ability to pay. While income taxes are progressive, VAT is uniform, meaning that everyone pays the same rate, regardless of their financial situation. This leads to a situation where low-income individuals end up paying a larger proportion of their income on VAT than higher-income individuals (Smith & Browne, 2020). In response, critics argue that VAT exacerbates income inequality and poverty (Alavuotunki, Haapanen & Pirttilä, 2017; Appah & Sokari, 2023). Moreover, the perception of VAT as unfair is amplified by how the collected revenues are utilized. In many cases, citizens are less likely to support taxes they perceive as unfair, particularly if they believe the government does not use the funds to benefit the public equitably (Zhao & Karp, 2023).

2.1.4 Price Sensitivity of VAT-able goods

Price sensitivity connotes how the quantity demanded of a good changes in response to changes in its price (Rahmani & Kordrostami, 2023). In the context of Value Added Tax (VAT)-able goods, price sensitivity significantly shapes consumer behaviour and market outcomes. When VAT is levied on goods and services, it directly impacts the price consumers' face, and this price increase often affects their purchasing decisions, particularly for goods that are highly price-sensitive. The price sensitivity of VAT-able goods depends on several factors, including the availability of substitutes, the necessity of the good, and consumer income levels. For essential goods like food and medicine, which are often inelastic, price changes due to VAT might not significantly reduce demand (Zhao & Siah, 2019). On the other hand, for non-essential or luxury goods, where substitutes are readily available, demand is likely to be more elastic. A small increase in price due to VAT may cause a significant decrease in demand for such goods (Zhao & Karp, 2023). Research has shown that consumers' price sensitivity to VAT-able goods is also influenced by their income levels (Johan, Laorens, & Liongianto, 2023; Rahmani & Kordrostami, 2023; Wakefield, & Inman, 2003). Low-income households are typically more price-sensitive because a larger proportion of their income is spent on VAT-able goods. As a result, these consumers may cut back on discretionary spending or shift toward cheaper alternatives when VAT increases the prices of goods (Cao & Bai, 2021). Conversely, higher-income groups, who spend less of their income on VAT-able goods, are less likely to alter their consumption patterns significantly in response to price changes.



2. 2 Theoretical Review

2.2.1 Behavioural Economics Theory

Behavioural Economics Theory, also known as mental accounting, blends insights from psychology and economics to explain how individuals make decisions that often deviate from the rational choice model assumed in classical economics (Brown, Cameron, Wilkinson & Taylor, 2020; Olivola & Sussman, 2015; Wang & Groene, 2020). Behavioural Economics recognizes that cognitive biases, emotions, social factors, and psychological influences play a significant role in economic decision-making (Kahneman, 2011). A major concept within Behavioural Economics is *bounded rationality*, proposed by Herbert Simon in 1957, which suggests that while individuals aim to make rational choices, their cognitive limitations often lead to decisions that are suboptimal. This contrasts with the assumption in traditional economics that people always make decisions that maximize their utility. In the case of VAT implementation, for instance, consumers may not fully account for the long-term implications of VAT on their spending but may instead focus on short-term price increases or the emotional discomfort of paying higher taxes, leading to non-rational purchasing decisions (Thaler, 1985). This present study is anchored on behavioral economics theory because it recognizes that consumer decision-making is not always rational, and psychological factors significantly influence spending behavior. VAT implementation could affect consumer choices in ways that are not purely based on price increases, but also on perceptions and biases. Again, considering the fact that real-world decision-making is often influenced by emotional, social, and psychological factors, when VAT is implemented or changed, consumers may react emotionally, feeling resentment or anger about higher prices, which could cause them to change spending habits, even

if the price change is marginal or offset by other factors.

2.3 Empirical Review

Ali (2024) examined VAT implementation in Oman and its impact on consumer awareness and behaviour. The study found that consumers had moderate knowledge of VAT, with significant implications for their purchasing decisions. Ali (2024) concluded that while VAT is a crucial source of government revenue, its effects on consumer spending could be mitigated by reducing VAT rates, expanding exemptions, and supporting low-income groups. These findings highlight the importance of consumer education and the potential for VAT policy adjustments to ease the tax burden.

Sari et al. (2023) studied the impact of VAT on the sales tax of luxury goods in Indonesia, focusing on how consumer purchasing power influenced buying decisions. The study found that VAT significantly affected the demand for luxury goods, with lower purchasing power leading to a greater reduction in sales. The authors argued that the VAT burden was felt more acutely by consumers in higher tax brackets, as their purchasing power was more susceptible to price changes in luxury items. The research recommended that VAT on luxury goods should be adjusted based on income levels to mitigate its regressive impact.

Tikhonova and Zas'ko (2023) examined the macroeconomic effects of VAT rate changes in Russia, particularly the increase in 2020 from 18% to 20%. The study found that VAT hikes contributed to inflation and decreased consumer consumption in the short term, with the greatest impact on low-income groups. However, the study also noted that the negative effects on business investment were not as significant as expected. The authors recommended adjusting VAT rates in a way that would balance fiscal needs with consumer and business interests to promote long-term economic stability.



A study by Macrothink (2023) in North Wales investigated how increased VAT rates influenced customers' satisfaction and consumption habits. Using a sample of 80 respondents, the study found that VAT increases had a significant impact on consumption behaviour. Specifically, the study showed that low-income consumers, who spend a larger portion of their income on goods and services, were more negatively affected by VAT increases than high-income consumers. The findings contribute to the broader literature on VAT's role in consumer behaviour, particularly in relation to income disparity. Hadal and McKeown (2022) conducted a study on the impact of VAT on consumer behaviour in the UAE, focusing on how households altered their purchasing decisions after VAT was implemented in 2018. A survey of 240 respondents was carried out to assess the effects on consumption patterns. The study found that lower-income households were significantly impacted by VAT, with many experiencing a reduction in disposable income due to higher prices for goods and services. Conversely, higher-income households showed little change in behaviour, as they could absorb the increased costs. The study highlighted that while immediate consumption was not drastically altered, future spending behaviour could change if VAT rates were to increase further. The authors recommended implementing targeted

financial relief for low-income groups and enhancing public awareness to help mitigate the regressive nature of VAT.

3. Methodology

This study adopted a cross-sectional survey research design to examine the effect of VAT implementation on consumer spending behaviour in Edo State, Nigeria. Structured questionnaires were distributed to 673 consumers who formed the study population. The sample size of 368 consumers were selected using purposive and stratified random sampling method based on the clarity of their responses on the subject and unbiased representation of the study population. Data was collected using a structured questionnaire, divided into two sections. Section A captured demographic details of respondents while Section B focused on the key variables, with questions on public perception of VAT, price sensitivity, and perceived inequality, all measured using a 5-point Likert scale ranging from "Strongly Disagree" to "Strongly Agree." Regression analysis was employed to examine the impact of VAT implementation on consumer spending behaviour, focusing on the impact of public perception, price sensitivity, and perceived inequality. Descriptive statistics summarizes respondent demographics and provide insights into consumer attitudes and behaviours.

4. Results and Discussion

Table 4.1 Public Perception of VAT

Details	Frequency	Percent	Mean	Std. Deviation
I am less likely to make purchases if I know that VAT will significantly increase the final price	90 146 132 368	24.5 39.7 35.9 100.0	3.11	.769
The introduction or increase of VAT makes me more cautious about buying non-essential or luxury items.	62 152 154 368	16.8 41.3 41.8 100.0	3.25	.725
	69	18.8	3.24	.748



Details		Frequency	Percent	Mean	Std. Deviation
Knowing that VAT is included in the price of goods and services influences my spending habits.	Agree	141	38.3		
	Strongly Agree	158	42.9		
		368	100.0		
I tend to avoid high-priced goods or services because of the additional VAT charge.	Disagree	5	1.4	3.55	.525
	Agree	156	42.4		
	Strongly Agree	207	56.3		
		368	100.0		
I feel less confident in my ability to manage my finances when VAT is applied to most purchases.	Disagree	10	2.7	3.54	.551
	Agree	151	41.0		
	Strongly Agree	207	56.3		
		368	100.0		
The increase in VAT has made me more likely to save money rather than spend on discretionary items.	Disagree	25	6.8	3.43	.618
	Agree	159	43.2		
	Strongly Agree	184	50.0		
		368	100.0		

Source: Field Survey (2024)

Table 4.1 reveals that 56.3% of respondents strongly agree that they avoid high-priced goods because of VAT, and 56.3% feel less confident managing their finances when VAT is widely applied. Similarly, 50.0% strongly agree that VAT increases encourage saving over discretionary spending, reflecting caution in financial behavior. Across all items, mean scores exceed 3.0, indicating general agreement that VAT influences spending decisions, particularly for luxury and non-essential goods.

Table 4.2 Perceived Inequalities of VAT

		Frequency	Percent	Mean	Std Deviation
I believe that VAT disproportionately affects low-income consumers more than high-income consumers	Disagree	47	12.8	3.33	.692
	Agree	152	41.3		
	Strongly Agree	169	45.9		
		368	100.0		
I think that VAT has a greater negative impact on the spending behavior of lower-income households than higher-income households.	Disagree	75	20.4	3.20	.753
	Agree	146	39.7		
	Strongly Agree	147	39.9		
		368	100.0		
I believe the VAT system is unfair because it taxes essential goods and services at the same rate as luxury items	Disagree	42	11.4	3.30	.663
	Agree	174	47.3		
	Strongly Agree	152	41.3		
		368	100.0		
I tend to reduce spending on non-essential items because I feel that VAT is unfairly affecting my budget	Disagree	43	11.7	3.37	.684
	Agree	147	39.9		
	Strongly Agree	178	48.4		
		368	100.0		
I believe the government should do more to mitigate the negative impact of VAT on low-income households	Disagree	58	15.8	3.29	.724
	Agree	144	39.1		
	Strongly Agree	166	45.1		
		368	100.0		
	Disagree	11	3.0		



	Frequency	Percent	Mean	Std Deviation
The application of VAT Agree	151	41.0	3.53	.557
reinforces social inequality by Strongly Agree	206	56.0		
placing a higher financial				
burden on the poor compared to	368	100.0		
the rich				

Source: Field Survey (2024)

Data contain on table 4.2 suggests that majority of respondents (56.0%) strongly agree that VAT places a higher burden on low-income consumers compared to the wealthy. Similarly, 45.9% believe that VAT disproportionately affects lower-income groups, and 41.3% feel it is unfair to tax essential goods at the same rate as luxury items. The mean scores (ranging from 3.20 to 3.53) consistently indicate agreement that VAT exacerbates economic disparities and reduces spending power for vulnerable groups.

Table 4.3 Price Sensitivity of VAT-able goods

		Frequency	Percent	Mean	Std Deviation
	Strongly Disagree	1	.3		
I am more likely to reduce my purchases of essential goods when VAT increases the price.	Disagree	24	6.5		
	Agree	122	33.2	3.53	.630
	Strongly Agree	221	60.1		
		368	100.0		
	Strongly Disagree	1	.3		
The higher the VAT on a product, the more likely I am to seek alternative, cheaper options.	Disagree	27	7.3		
	Agree	172	46.7	3.38	.632
	Strongly Agree	168	45.7		
		368	100.0		
	Disagree	15	4.1		
I am less likely to buy luxury goods if the VAT makes them significantly more expensive.	Agree	117	31.8	3.60	.568
	Strongly Agree	236	64.1		
		368	100.0		
	Disagree	16	4.3		
When shopping for VAT-able goods, I often compare prices to make sure I am getting the best value after VAT is applied.	Agree	148	40.2	3.51	.581
	Strongly Agree	204	55.4		
		368	100.0		
	Disagree	11	3.0		
The higher the VAT rate, the less frequently I purchase VAT-able goods.	Agree	151	41.0	3.53	.557
	Strongly Agree	206	56.0		
		368	100.0		
	Disagree	10	2.7		
I plan my monthly budget more carefully to account for the VAT	Agree	143	38.9	3.56	.549



		Frequency	Percent	Mean	Std Deviation
applied to goods and services I	Strongly	215	58.4		
buy.	Agree	368	100.0		

Source: Field Survey (2024)

Respondents exhibit high price sensitivity, with 60.1% strongly agreeing that VAT increases lead them to reduce purchases of essential goods, and 64.1% strongly agreeing that they avoid luxury goods with significant VAT impacts. Additionally, 55.4% strongly agree that they compare prices to ensure they receive the best value, and 58.4% strongly agree that they plan budgets more carefully to account for VAT. Mean scores above 3.5 on most items further affirm that VAT significantly influences consumer price sensitivity and spending patterns.

Table 4.4 Regression Result

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.208 ^a	.043	.035	.614

a. Predictors: (Constant), Public Perception of VAT, Perceived Inequalities of VAT, Price Sensitivity of VAT-able goods

Table 4.4 provides an overview of the relationship between the independent variables (public perception of VAT, perceived inequalities of VAT, and price sensitivity of VAT-able goods) and the dependent variable (consumer spending behaviour). The correlation coefficient ($R = 0.208$) suggests a weak positive relationship between the predictors and consumer spending behaviour. The coefficient of determination ($R^2 = 0.043$) indicates that only 4.3% of the variance in consumer spending behaviour is explained by the predictors in the model. The adjusted R^2 value (0.035) accounts for the number of predictors and provides a slightly more conservative estimate of the explained variance. The standard error of the estimate (0.614) represents the average distance that observed values fall from the regression line, indicating the model's limited predictive accuracy.

Table 4.5 ANOVA^a

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	6.207	3	2.069	5.487	.001 ^b
	Residual	137.260	364	.377		
	Total	143.467	367			

a. Dependent Variable: Consumer Spending Behaviour

b. Predictors: (Constant), Public Perception of VAT, Perceived Inequalities of VAT, Price Sensitivity of VAT-able goods

The analysis of variance (ANOVA) evaluates whether the overall regression model is statistically significant. The F-statistic (5.487) and the associated significance value ($p = 0.001$) confirm that the predictors collectively have a statistically significant relationship with consumer spending behaviour. This suggests that the combined influence of public perception of VAT, perceived inequalities of VAT, and price sensitivity of VAT-able goods is meaningful, even though their individual contributions may vary.



Table 4.6 Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	4.144	.320		12.934	.000
	Public Perception of VAT	-.155	.062	-.130	-2.515	.012
	Perceived Inequalities of VAT	.108	.047	.118	2.279	.023
	Price Sensitivity of VAT-able goods	-.119	.055	-.111	-2.152	.032

a. Dependent Variable: Consumer Spending Behaviour.

Table 4.6 provides insight into the specific contributions of each predictor variable to the model:

1. Public Perception of VAT: The unstandardised coefficient ($B = -0.155$) and negative standardised beta value ($\beta = -0.130$) suggest a small but significant negative impact of consumer spending behaviour ($t = -2.515$, $p = 0.012$). This indicates that as public perception of VAT increases, consumer spending behaviour declines. This finding aligns with the studies of Adams and McCabe (2023); Khan and Shah (2022), and Chirisa et al (2020), who opined that when consumers feel that VAT increases prices unfairly or that the burden of taxation is not transparently communicated, they are less likely to spend.
2. Perceived Inequalities of VAT: The unstandardised coefficient ($B = 0.108$) and positive standardised beta value ($\beta = 0.118$) indicate a significant positive impact of consumer spending behaviour ($t = 2.279$, $p = 0.023$). This suggests that as perceptions of VAT inequalities increases, consumer spending patterns also increase. This outcome is in consonance with the work of Chen and Zhang (2023) and Smith et al (2023) who found that when consumers perceive

taxes such as VAT, as being unfair, they often engage in more cautious spending behaviour. Their studies have also shown that perceptions of VAT inequality can encourage consumers to seek alternative, less taxed products or delay discretionary purchases.

3. Price Sensitivity of VAT-able Goods: The unstandardised coefficient ($B = -0.119$) and negative standardised beta value ($\beta = -0.111$) reveal a significant negative effect on consumer spending behaviour ($t = -2.152$, $p = 0.032$). This indicates that as price sensitivity increases, consumer spending on VAT-able goods decreases. This result supports the previous study of Dube and Hitsch (2023) and Nguyen et al (2024) who noted that that consumers are likely to be more cautious when the prices of goods are elevated due to taxes such as VAT, explaining that price-sensitive consumers are more likely to change their purchasing behaviour when the cost of goods increases.

4.2 Discussion of Findings

Public perception of VAT is a significant predictor of consumer spending behaviour, suggesting that when the public views VAT unfavorably, it may lead to negative outcomes such as resistance to the tax, lower compliance, or decreased public trust in tax policies. Perceived fairness of VAT



is important in spending patterns, as individuals are more likely to alter their spending behaviour if they feel the tax system is unjust (Wang & Yuan, 2024). The positive impact of perceived inequalities of VAT on consumer spending behaviour indicates that when VAT is perceived as unfair or unequal, it may lead to changes in behavior that could influence policy effectiveness (Harrison, 2019). To mitigate this, policymakers should work toward ensuring that VAT implementation is equitable and doesn't disproportionately impact vulnerable groups. For instance, VAT exemptions or reduced rates for essential goods could be implemented to reduce perceived inequality (Mintz, 2021). Chen and Zhang (2023) found that when consumers perceive taxes like VAT to be unfair, they often engage in more cautious spending behaviour. Similarly, other studies have shown that perceptions of VAT inequality can encourage consumers to seek alternative, less taxed products or delay discretionary purchases (Smith et al., 2023). For price sensitivity of VAT-able goods, the negative coefficient suggests that the higher the price sensitivity due to VAT, the more likely consumers are to reduce their spending or switch to alternative, lower-cost goods which might hurt certain industries. This finding is consistent with the literature on price elasticity and tax sensitivity, which suggests that consumers are likely to be more cautious when the prices of goods are elevated due to taxes such as VAT (Dube & Hitsch, 2023; Lee & Kim, 2023).

5. Conclusion and Recommendations

5.1 Conclusion

The negative effect of public perception of VAT on consumer spending suggests that consumer confidence and their view of tax fairness are essential in influencing purchasing decisions. As VAT is often seen as a regressive tax, especially in developing economies, it appears that the public's perception of how it is levied can significantly alter their spending patterns.

Moreover, the findings regarding the perceived inequalities of VAT highlight that when consumers view VAT as unfair or inequitable, especially when it impacts lower-income households more severely, they tend to adjust their spending habits accordingly. This suggests that policy-makers need to address these perceptions and ensure that VAT does not disproportionately burden vulnerable segments of the population. The positive coefficient in this case indicates that perceived inequality fosters a desire to reduce consumption, particularly in non-essential goods.

5.2 Recommendations

Transparency in VAT implementation and its fairness can foster trust and mitigate the adverse effects on consumer spending. However, businesses may offer discounts, bundle deals, or loyalty programs to mitigate the effect of higher prices caused by VAT. Governments could also explore the possibility of implementing VAT rate adjustments to balance tax revenue needs with the potential to maintain consumer spending.

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