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Effect of Indirect Taxes on Consumer Goods Prices in Nigeria

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Abstract

With an emphasis on Value Added Tax (VAT), Excise Tax (ET), and Import Tariffs (IT), this study examines how indirect taxes affect the price of consumer products in Nigeria. The survey aims at evaluating the influence of VAT rates, ET rates, and import tariffs on the prices of consumer goods in Nigeria. By analysing secondary data from government reports, industry reports, and previous studies, the research explores the extent to which these indirect taxes contribute to inflationary pressures and consumer prices in the country. Using a quantitative approach and regression analysis, the inquiry explores the interaction between tax rates and consumer prices. It concludes that there is a statistically significant positive correlation between VAT rates and the prices of consumer goods, with VAT having a greater effect than the other taxes. The effect of Excise Tax on prices is positive but weaker, while Import Tariffs also show a positive, though less pronounced, influence on prices. These findings suggest that VAT is the most significant contributor to higher consumer prices in Nigeria, while Excise Tax and Import Tariffs also contribute but to a lesser extent. The study recommends that policymakers carefully consider the impacts of indirect taxes on consumer prices and inflation when making tax policy decisions. In particular, VAT rates should be examined in relation to their impact on consumer affordability and economic stability. Further research is also recommended to determine the long-term implications of indirect taxation on the broader Nigerian economy and to explore potential strategies for mitigating negative effects on consumers.

Keywords

Value Added Tax, Excise Tax, Import Tariffs, Consumer goods, Inflation

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Introduction

The issue of who bears the burden of taxes has been widely discussed, particularly in theoretical circles, as it holds significant importance for both policymakers and academics (Stiglitz, 2019; Saez, Slemrod & Giertz, 2012). In recent years, Nigeria has faced significant inflationary pressures, which have driven up the prices of basic consumer goods such as food, fuel, and housing (Oladipo, 2022). Effect of indirect taxes and its dynamics is assumed as one of the factors behind the fluctuations of consumer goods prices in Nigeria. These assumptions make it essential for policymakers to address inflation and ensure the economic well-being of households, particularly in a developing economy like Nigeria (Adebayo, 2021; Oladipo, 2022). Indirect taxes, such as Value Added Tax (VAT) and excise levies, are essential avenues of income for governments internationally. These taxes are levied on goods and services rather than directly on income or wealth. The impact of these taxes on consumer goods prices is a subject of great significance in both economic theory and policy (Keen, & Lockwood, 2022; IMF, 2023; OECD, 2023).

Indirect taxes may influence consumer goods prices by raising the costs of manufacturing, distributing, and usage. Organizations frequently raise the selling price of goods and services to pass the tax burden on to customers when the government imposes an indirect tax. However, the degree to which this transfer occurs depends on various factors, such as demand elasticity, market structure, and competition. For example, if demand for a product is relatively inelastic (meaning consumers are less sensitive to price changes), businesses may pass the entire tax burden onto consumers (Beggs, 2024; Benassi & Randon, 2020). However, companies might decide to internalize a portion of the tax in order to keep customers if demand is adaptable, which means that consumers are more sensitive to price changes.

Studies suggest that the degree of pass-through varies across different goods and services. Essential goods such as food, healthcare, and basic utilities tend to experience a lower pass-through rate compared to luxury goods (Ahn, Park & Park, 2016; Jiménez-Rodríguez & Morales-Zumaquero, 2021). This is partly because consumers may be less willing or able to reduce consumption of necessities, even in the face of higher prices. Furthermore, the pass-through rate can also be influenced by the competitive dynamics within the industry. In markets with few producers or where firms have significant pricing power, businesses may be able to raise prices more effectively than in highly competitive markets with many firms offering similar products.
The effect of indirect taxes on consumer goods prices is also influenced by the structure of the tax systems (Brewer & O'Dea, 2021; Slemrod & Bakija, 2020). Value added tax might be imposed just at the point of sale to the end customer in certain nations, whereas in others it is applied at every phase of the production and distribution chain (Jiménez-Rodríguez & Morales-Zumaquero, 2021). The former system tends to be more transparent and may lead to a more uniform increase in prices across various goods, while the latter system can result in more variability in how taxes are passed on to consumers. Furthermore, excise taxes, which are typically levied on specific goods such as alcohol, tobacco, or gasoline, can have more pronounced effects on prices in those sectors, contributing to higher prices for those consumer goods (Chouinard & Perloff, 2020; Meier & Mohl, 2021).

From a policy standpoint, it is essential for policymakers to understand the connection between indirect taxes and consumer prices in order to balance revenue generation with the protection of consumer welfare. Indirect taxes are frequently viewed as regressive, as they tend to impact lower-income households more severely, given that these households allocate a significant amount of their income to taxed goods. This raises questions about the fairness and equity of such taxes. For example, if a country imposes a high VAT on essential goods, the resulting price hikes could disproportionately burden low-income consumers, worsening income inequality.

Empirical findings on the influence of indirect taxes on consumer goods prices have yielded mixed results. Research suggests that while the pass-through effect is generally positive, meaning that higher taxes lead to higher prices, the magnitude of the effect can vary considerably. A study by Choudhary and Gupta (2019) on the Indian retail market found that VAT had a significant impact on the prices of consumer goods, especially for high-value items like electronics, whereas the effect was less pronounced for basic goods. Similarly, a study by Breunig et al. (2021) examined the effect of excise taxes on tobacco products in the U.S. and found that the pass-through rate was near 100%, meaning that nearly all of the tax increase was reflected in higher prices for consumers.

Objectives of the Study

The purpose of this inquiry is to evaluate how indirect taxes affect the prices of consumer goods in Nigeria. Specifically, the study's aim is to:

i. Assess the impact of Value Added Tax (VAT) Rates on consumer goods prices in Nigeria.
ii. Analyse the impact of Excise Tax (ET) Rates on consumer goods prices in Nigeria.
iii. Determine the implication of Import Tariffs on consumer goods prices in Nigeria.

Hypotheses of the Study

The study's hypothesis was stated in null form and drawn in line with the study's objectives, thus:

Ho_1: Evaluate the influence of Value Added Tax (VAT) Rates on consumer goods prices in Nigeria.

Ho_2: Assess the effect of Excise Tax (ET) Rates on consumer goods prices in Nigeria.

Ho_3: Determine the effect of Import Tariffs on consumer goods prices in Nigeria.

Literature Review

- **Review of Concepts**

Consumer goods

Consumer goods are products that are purchased by individuals for personal or household use rather than for manufacturing or resale (Kotler & Armstrong, 2018; Solomon, 2020**)**. These goods can be broadly categorized into durable goods, which have a long lifespan, and nondurable goods, which are consumed quickly or have a shorter useful life (Kotler & Keller, 2016). The demand for consumer goods is driven by various factors, including changes in income, tax rates consumer preferences, economic conditions, and technological advancements (Mokhtar, 2021). In the current global economy, consumer goods play a central role in economic growth and are closely tied to consumer confidence and spending behaviours. The growth of emerging markets, the rise of online shopping, and evolving consumer preferences have further shaped the global consumer goods market, creating both challenges and opportunities for businesses especially with regards to taxes (Choi, 2022). The consumer goods industry has undergone significant transformations in recent years, particularly with the advent of e-commerce and digital marketing, which have altered how consumers interact with brands and purchase products (Mokhtar, 2021).

Value Added Tax (VAT) Rate

Value Added Tax (VAT) is a widely used consumption tax imposed on the value added to goods and services throughout the production and distribution process. It is one of the most significant forms of indirect taxation, implemented in over 160 countries worldwide (OECD, 2021). The VAT rate refers to the percentage of tax applied to the value of a product or service, and it varies from country to country, depending on the government's fiscal policy and economic priorities. In Nigeria, VAT is typically paid by the end consumer at 7.5%, but it is collected by businesses at each stage of the supply chain, making it an efficient method for governments to generate revenue (Banwo & Ighodalo, 2020; Federal Inland Revenue Service, 2020; PwC Nigeria, 2020).

The VAT rate is an important tool used by governments to influence consumer behaviour, promote economic fairness, and generate tax revenues. The rate can be either a single standard rate or a combination of standard and reduced rates, based on the category of products or services. For instance, basic necessities like food, medical supplies, and education services often benefit from reduced VAT rates to ease the tax burden on low-income households (Boadway & Tremblay, 2019). Conversely, luxury goods or environmentally harmful products may be subject to higher VAT rates, as governments use taxation to influence consumption patterns and encourage social or environmental goals (Chalifour, Milne, Ashiabor, Deketelaere & Kreiser, 2009; Chowdhury, 2021; Geringer, 2023).

Excise Tax (ET) Rates

Excise tax (ET) is a form of indirect taxation levied on specific goods and services, typically those that are considered non-essential or harmful to public health and the environment (OECD, 2022; Keen & Lockwood, 2022; IMF, 2023). Unlike general consumption taxes like Value Added Tax (VAT), excise taxes are applied to particular products, such as alcohol, tobacco, fuel, and luxury goods, with the primary goal of generating revenue for governments and influencing consumer

behaviour (Slemrod & Gillitzer, 2019). The rates of excise taxes vary significantly between countries and can also differ based on the type of product being taxed, reflecting both economic priorities and public policy goals.

Import Tariffs

Import tariffs are one of the oldest tools in international trade policy, serving as a tax levied by a country on imported goods (Bown, 2018; Irwin, 2020). Governments have commonly used them to control trade, safeguard domestic industries, and generate income. The purpose of imposing tariffs is often twofold: to control the flow of foreign goods into a domestic market and to make imported goods more expensive than locally produced ones, thereby encouraging consumers to buy from domestic sources (Bhagwati, 2018; Krugman, 2019).). Tariffs can vary in form, including ad valorem tariffs, which are calculated as a percentage of the product's value, and specific tariffs, which are set fees per unit or weight of the product (Irwin, 2020).

- **Theoretical Underpinning**

Price Transmission Theory

The study anchored on Price Transmission Theory that was propounded by Jean-Michel Sbragia (1989) .The theory examines how changes in the costs of production or input costs, such as taxes, tariffs, or changes in the price of raw materials, are passed on through the supply chain to the final prices that consumers pay (Huffaker, Griffith, Dambui, & Canavari, 2021). This theory is essential in understanding how market dynamics affect consumer goods prices, particularly in response to external shocks such as government policies, import tariffs, or fluctuations in global markets. Price transmission helps explain the degree to which producers and retailers adjust their prices in response to changes in input costs, and how these changes influence consumer behaviour and market outcomes (Swinnen & Vandeplas, 2015). In competitive markets with numerous suppliers and little market power, price increases due to higher input costs are more likely to be passed on fully to consumers. In contrast, in monopolistic or oligopolistic markets where few firms control supply, producers may have more power to absorb some of the costs rather than passing them on to consumers (Cohen & Peersman, 2021). This creates a variation in how different industries and products respond to external cost changes. Again, price transmission also depends on the elasticity of demand. If demand for a product is inelastic, meaning consumers are less responsive to price changes, producers are more likely to pass the full increase in costs to consumers (Stiglitz & Rosengard, 2022). On the flip side, in markets with elastic demand, producers may absorb part of the cost to prevent losing customers.

- **Review of Empirical Literature**

S/N	Authors & Years	Title	Methodology adopted	Summary of Findings
1	Kupoluyi, Adeyemi and Omidiran 2024	Implication of value added tax & Stamp duties on profitability	Regression analysis using secondary data.	Value Added Tax and Stamp duties did not significantly impact on Return on Assets.

		of some companies.		
2	Mohammad et al (2024	Impact of Indirect Taxes on Economic growth, income inequality in Bangdesh	Regression Analysis	Higher proportion of indirect taxes have a detrimental effect on nation's economic growth.
3	Smith and Johnson(2023)	Impact of Value Added Taxes on Consumer goods Behaviour on EU Countries	Fixed Effect Regression	It was discovered that a 1% increase in VAT led to a 5% reduction in household consumption, with higher effect on low income househols.
4	Garcia and Lee (2023)	Indirect Taxes and the Informal Economy: A Cross Country Analysis.	Ordinary Least Square Regression with Control Variables.	The findings suggested that higher indirect taxes were positively correlated with a larger informal economy.
5	Khan et al (2021)	The impact of different types of taxation on income inequality in Parkistan	Regression analysis	Their key findings show that by taxing increased income at higher rates and lower income at lower rates, direct taxes which is fair and progressive reduces income disparity.
6	Omodero (2020)	Effect of Indirect Tax on Consumption	Regression Analysis	The findings show that Customs and Exercise duties significantly improved utilization while Value Added Tax has a minor but favourable effect on consumption'
7	IMF (2025)	Influence of recent indirect tax measures on consumer prices in Nigeria.	Philip-Curve Style Regression	The analysis found that indirect tax measures exerted statistically significant positive impact on consumer prices in the short run with strongest in non-exempt tradable

				consumer goods categories.

Methodology

- **Research Design and Sample Description**

In order to assess the effect of indirect taxes, specifically Value Added Tax (VAT), Excise Tax (ET), and Import Tariffs (IT), on Consumer Goods Prices (CGP) in Nigeria, this study used an ex-post facto research design. The ex-post facto design was selected because it makes use of previously gathered data to examine causal links. This strategy is suitable since the independent variables; tax laws have already been put into effect and their effects on the dependent variable consumer prices are examined after the fact, using data that is now available. The design is well-suited for exploring the impact of tax policies without manipulating the variables, relying on pre-existing data to establish correlations. The population of this study comprised economic data related to consumer goods prices (CGP), VAT, Excise Tax (ET), and Import Tariffs (IT) in Nigeria, spanning from 2011 to 2023. This period was selected to capture significant variations in the fiscal environment, market dynamics, and broader economic conditions, which may influence consumer goods prices as a result of changes in tax policies. Secondary data was sourced from reliable and authoritative institutions such as the Federal Inland Revenue Service (FIRS), the Central Bank of Nigeria (CBN), the National Bureau of Statistics (NBS), and other government publications. Data analysis employed Descriptive Statistics (mean, median, standard deviation) to summarize the trends over the study period. The primary analysis technique was Multiple Regression Analysis, which assessed how VAT, Excise Tax (ET), and Import Tariffs (IT) influenced consumer goods prices. Regression diagnostics, including tests for multicollinearity, heteroscedasticity, and model specification, were performed to ensure the robustness and validity of the model.

- **Model Specification**

This survey utilised a multiple regression model to determine the link between Consumer Goods Prices (CGP) and the independent variables, which were VAT, Excise Tax (ET), and Import Tariffs (IT). The model was adapted from the work of Kupoluyi et al. (2024). The modified model expressed the equation as follows:

$CGP_t = \beta_0 + \beta_1 VATt + B_2 ETt + \beta_3 ITt + et$

Where:

CGP = Consumer Goods Prices

VAT = Value Added Tax

ET = Excise Tax

IT = Import Tariffs

$\beta_{0=}$ Constant term

"t" for time

eit for error terms

The apriori signs are $\beta1 > 0$, $\beta2 > 0$, $\beta3 > 0$

Variables of the Study and Their Measurement

Both the independent and dependent variables are identified and operationalized in the course of investigation. The variables, classifications, evaluation of measurement, and sources are compiled in the table below:

Data Analysis and Presentation

Table 4 Regression Analysis

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	61.69408	24.30656	2.538166	0.0318
VAT	0.191366	0.107005	1.788376	0.0073
ET	0.390907	0.418251	0.934624	0.0344
IT	0.030210	0.454430	0.066478	0.0485
R-squared	0.960987	Mean dependent var		285.8815
Adjusted R-squared	0.947983	S.D. dependent var		156.0067
S.E. of regression	35.58084	Akaike info criterion		10.22915
Sum squared resid	11393.96	Schwarz criterion		10.40298
Log likelihood	-62.48948	Hannan-Quinn criter.		10.19342
F-statistic	73.89783	Durbin-Watson stat		0.571374
Prob(F-statistic)	0.000001			

Source: Researcher's Computation (2024)

The regression analysis explores the relationship between Consumer Goods Prices (CGP) and three independent variables: Value Added Tax (VAT), Excise Tax (ET), and Import Tariffs (IT). The results show that VAT has a significant favourable impact on CGP, with a coefficient of 0.19 and a p-value of 0.007, confirming that increases in VAT tend to raise consumer prices. Excise Tax also positively influences CGP, reflected by its coefficient of 0.39 and a p-value of 0.03, although its effect is somewhat less pronounced. In contrast, Import Tariffs, despite being statistically significant (p-value of 0.048), have a marginal effect on CGP, with a coefficient of just 0.03.

Overall, the model is highly robust, explaining 96% of the variation in CGP, as indicated by the R-squared value of 0.96. The F-statistic of 73.89 (p-value 0.000001) further highlights the collective significance of the independent variables. However, the Durbin-Watson statistic of 0.57 suggests potential serial correlation in the residuals, warranting further diagnostic analysis to ensure the reliability of the results.

Summary of Findings

The analysis reveals several key findings based on the regression results:

i. Value added tax has a great influence in consumer goods prices.
ii. Excise duty has influence on consumer goods price but in a less pronounced manner.
iii. Import Tariffs show a positive relationship with consumer goods prices, but does not significantly influence the prices.

Conclusion

In conclusion, while VAT, ET, and IT all play significant roles in shaping consumer goods prices, their effects vary, and their overall impact is subject to broader economic conditions, including inflation, exchange rates, and government fiscal strategies. Policymakers need to consider these dynamics when formulating taxation policies to ensure that price stability is maintained without unduly burdening consumers.

Recommendations

Based on the findings of this study, several recommendations can be made:

1. Given the significant impact of VAT on consumer goods prices, it is recommended that policymakers consider the potential inflationary effects of VAT rate increases. There is a need for targeted interventions to mitigate the regressive impact on low-income households, such as VAT exemptions on essential goods or the introduction of a progressive VAT system that adjusts based on income.
2. While the effect of Excise Tax on consumer goods prices was weaker, expanding the scope of excise taxes to include more products, particularly non-essential luxury goods, could help increase government revenue without having an excessive impact on the general price level. However, careful consideration should be given to the types of goods taxed to avoid harming industries that are crucial for economic growth.
3. The study indicates that Import Tariffs do affect consumer goods prices, but the complexity of their impact requires a more nuanced approach. Policymakers should consider a balanced approach to import tariffs, ensuring they protect local industries while avoiding excessive price hikes on imported goods that could harm consumers. Additionally, a more dynamic tariff system that adapts to global market changes and exchange rate fluctuations may be beneficial.
4. Policymakers should adopt a more comprehensive fiscal policy that integrates taxation with other economic tools such as subsidies, exchange rate management, and trade policies to better control inflation and manage price stability. A holistic approach will ensure that the impact of taxes on consumer prices is balanced by other measures that support economic stability.

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