

## **Value Added Tax and Consumer Behaviour in Southwest, Nigeria**

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### **Abstract**

This study examines how the implementation of Value Added Tax (VAT) shapes consumer behaviour in Southwest Nigeria, with particular attention to companies supplying consumer goods and services. Building on consumer behaviour theory and taxation impact frameworks, this research uniquely investigates the interplay between VAT policies and purchasing patterns in an emerging market context marked by evolving fiscal regulations. Using an ex-post facto design, data from secondary sources including financial reports of seven publicly listed Nigerian companies were analyzed to explore how VAT influences consumer price sensitivity, buying frequency, and product selection. Results indicate that VAT significantly alters consumer purchasing decisions by affecting perceived product affordability and overall consumption preferences. These findings suggest that companies must enhance VAT compliance and foster transparent pricing strategies to sustain consumer confidence and mitigate adverse effects on purchasing power. Moreover, policymakers are urged to periodically review VAT structures to balance revenue generation with consumer welfare, ensuring the tax system supports both economic growth and equitable consumer outcomes

**Keyword:** Consumer Behaviour, Value Added Tax, Consumer Behaviour, Price Sensitivity, Purchasing Decisions, Southwest Nigeria, Value Added Tax

**Word Count:** 162

### **Introduction**

Consumer behavior encompasses the processes by which individuals or groups select, purchase, use, or dispose of products and services to satisfy needs and desires. In the accounting context of VAT, this extends beyond the purchase act to aggregate buying patterns, including pre purchase and post purchase activities, each influenced by tax mechanisms such as price elasticity, disposable income, and perceptions of fairness. Pre purchase activities such as need recognition, information search, and product evaluation are shaped by VAT through its impact on price elasticity. Higher VAT rates increase product prices, reducing demand for elastic goods (e.g., luxury items) as consumers become more price-sensitive (Alm et al., 2016). This leads to shifts toward cheaper alternatives or deferred purchases, altering consumption patterns. Post-purchase activities involve evaluating the purchased item and managing cognitive dissonance, particularly for high value goods. VAT affects these via disposable income erosion reduced after-tax income limits repurchase intent and perceptions of fairness. Consumers viewing VAT as regressive

(disproportionately burdening lower-income groups) may experience heightened anxiety, lowering loyalty and future spending (Kirchler, 2007).

Consumer behaviour encompasses the acts of individuals directly involved in obtaining, using, and disposing of economic goods and services, including the decision processes that precede and determine these acts (Alsharif, 2021). In the VAT context, these processes from selection and purchase to post purchase evaluation are shaped by tax induced changes in price, disposable income, and fairness perceptions, influencing aggregate consumption patterns. The acquired attitude is specific to each sociocultural context and to each consumer (De Mooij, 2011). Consumers cannot be categorized into one single group for the reason that each consumer is characterized by his or her socio cultural differences. This approach to consumer behavior concept limits the consumer to his or her own environment. Consumer behavior includes some values that significantly influence consumers' shopping and consumption choices, and these values include knowledge, manners, beliefs, and customs. Consumer behavior is portrayed as attitudes, values, and actions exposed in a consumption perspective by consumers (De Mooij, 2011). This perception of consumer behavior fails to bring out the psychological aspect related to consumer behavior. Consumer behavior is how consumers examine, evaluate, decide, which products, and/or services they need, and then they make purchases with some specific motives related to choice, consumption, quality, taste, advertising, or price.

Consumer behaviour is about human responses in a commercial word. People consume things and also consume and buy these products according to their needs, preferences and buying power and these can be consumable goods, durable goods, speciality goods or, industrial goods. For example, what we buy, how we buy, where and when we buy, in how much quantity we buy depends on our perception, self-concept, social and cultural background and our age and family cycle, our attitudes, beliefs values, motivation, personality, social class and many other factors that are both internal and external to us. While buying, we also regard as whether to buy or not to buy and, from which source or seller to buy. Furthermore, consumer behaviour involves the psychological methods that consumers go through in identifying needs and finding ways to resolve these requirements, through making purchase decisions. For example, whether or not to purchase a product and, if so, which brand and where. Other example is that interpret information, make plans, and implement these plans and by engaging in comparison shopping or actually purchasing a product. Consumer is the decision-making process and physical activity concerned in acquiring, evaluating, using and disposing of goods and services (Cherubino, 2019).

A person's efforts to meet five basic needs physiological, security, social, and, Regards, self-realization are what lead to inspiration. Certain wants might result in bodily weights that can affect a man's behaviour. Physiological needs include those that are necessary for human survival, such as air, food, drink, shade, clothes, and rest. Security needs include those that endow an identity with a sense of wealth and security. Security requirements include private protection, healthy finances, excellent health, and insurance against errors, harm, and their negative effects. Social needs are also known as connection, having a place, the desire to perceive an emotion having a place, and recognition. In order for people to not feel alone, friendless, or helpless, human needs are vital. Relationships, friendships, and kinships all serve to meet social demands. Regard needs relate to the need for respect and dignity, with the former being considerably more important than receiving respect and adulation from others. Self-realization needs relate to a person's need to touch their entire torpid. Anything that is incredibly particular is the necessity to organize what one is capable of. These needs exist in a multi-leveled hierarchy (Mathes, 1989). This movement strategy

implies that lower priority demands must be satisfied before higher priority needs in terms of amount. Since it takes effort to satisfy unmet obligations, the lack of legislation mandates that once a need is met, assistance ceases to be provided. Impact of Value Added Tax on goods and services in the market could also affect the behaviour of consumers in the market.

The Value Added Tax (VAT) is a replacement of the existing Sales Tax, which has been in operation under Federal Government Legislated Pronouncement NO. 7 of 1986 but is operated on the basis of residence (Kaisa,2019). Several factors and considerations, notably inform the rationale behind replacing Sales Tax with the Value Added Tax. VAT base is broader than Sales Tax since it does not only cut across consumable products but other professional services as well. The tax is collected only by the Federal Inland Revenue Service (FIRS) at the rate of 5% of the value of the goods and services supplied. The VAT rate in Nigeria of 5% is classified to be among the lowest in the globe and has remained unaltered from the commencement of the Act to date. But the newly implemented rate since February 2020 in Nigeria is 7.5% (Kaisa, 2019). From inception to date, the tax has recognized to be a reliable source of revenue for the Nigerian Federation. Consequently, few attempts had been made to push up the rate to about 10% but were discarded by the public resentment against the proposed increase (Oyedele, 2024) The main reason that led to the introduction of VAT includes: need for improved nation income due to increased public expenditure; reduction in the over-dependence on sales of crude oil with its attendant uncertainties in the international market; reducing the rich's materialistic tendency for unnecessary luxury goods, and the tax equitable for all masses by curbing the rise, thereby reducing the gap between the rich and the very poor.

Governments, all over the world have their mission focus on revenue collection tax from the direct tax, indirect taxes and for social contributions. VAT is indirect consumption tax which is imposed on the value added to a product at each point in the cycle of production and distribution which pays a fixed percentage of the final the sale price of a product and VAT is levied on the difference between the purchase the cost of an asset and the price at which it can be sold (Bassey, 2020). VAT is imposed at every stage of production and the movement of goods through the product, the wholesaler, the retailer, and the consumer who ultimately bears the burden. VAT is a source of government revenue in most developing countries. Thus VAT has significant role in the revenue system of government of Nigeria to sustain its role for the generation of revenue, it's important to ensure that the revenue generated by VAT system should be efficient as possible. VAT collection is the highest of budget revenue from the type of indirect tax and largest part of tax collection budget.

Today, many nation states of the universe, especially developing countries like Nigeria, selectively introduced new forms of taxes to boost their revenue capacity to improve the socio-economic conditions of their citizens and achieve rapid economic development of the countries. Value-Added Tax (VAT) is an indirect tax with the impressive performance in price stability and economic growth in all countries where it has been introduced (Eze and Atagboro, 2020). Value Added Tax (VAT) has become an essential source of revenue to the Nigerian Government (both Federal and state levels). The Nigeria Federation increased the percentage of VAT imposed on goods and services, not only because of its relevance to income base and economic growth but also because it has been a major tool used by the government to discourage the consumption of certain commodities considered to be harmful to the health of the general public.

VAT, as a key fiscal policy instrument, bridges consumer psychology and tax administration by directly altering purchasing decisions through price and income effects. When embedded in

product prices, VAT increases the effective cost of goods, triggering price elasticity responses consumers reduce demand for elastic items (e.g., non-essentials) while shifting to exempt staples (Alm & Taubman, 2013). This erodes disposable income, heightening sensitivity to fairness and compliance, and reshaping pre- and post-purchase behaviors as individuals weigh tax burdens against perceived value. The instruments introducing VAT specify taxable goods and services, exempting essentials like food items, while mandating seller registration with the Federal Inland Revenue Service (FIRS) to enforce the 7.5% rate (Adereti, 2011). However, current practices deviate: market women now charge VAT on exempt food items, citing profit margins, while landlords and hotels follow suit. These violations contravene regulations, fueling fears of universal VAT application. Consequently, such non-compliance erodes citizens' trust in the system, negatively altering perceptions of government goodwill and exacerbating doubts about policies' focus on public wellbeing.

Nigeria's VAT rate increased from 5% to 7.5% on February 1, 2020, fueling public concerns over its economic burdens on ordinary residents. This adjustment aligned with inflation rising from 12.13% in January 2020 to 12.20% in February, intensifying pressures on household budgets amid high living costs. VAT generated significant revenue, such as N485.8 billion distributable in November 2025 (down from N719.8 billion prior), with 2024 collections at N6.59 trillion up 85% from 2023 and comprising about 23.7% of key revenue streams yet sparking debates on over-reliance and regressive effects. VAT contributes roughly 20-23.7% to federal and total revenues recently, with Q3 2024 gross collections at N4.8 trillion (double 2023's figure), highlighting fiscal reliance amid Nigeria's low 7-9% revenue-to-GDP ratio. Post-hike inflation reached 12.20%, with research indicating a 6.1% positive inflationary impact as costs pass to consumers, though critics note burdens on low-income groups. VAT on imports like diesel drove price surges (e.g., N850/litre by 2023 with 18% hikes), raising transport costs and eroding purchasing power, as studies confirm negative effects on consumer standards.

This resolve holds merit, as post-7.5% VAT hike (February 2020) inflation rose to 12.20%, while 2024 revenues hit N6.59 trillion (23.7% share, up 85% year-on-year), burdening residents via higher prices, fuel costs, and regressive living standard impacts. Citizen concerns thus heighten public policy scrutiny. Addressing literature gaps on these quantified issues, this study investigates Value Added Tax implementation and consumer behaviour in Southwest Nigeria.

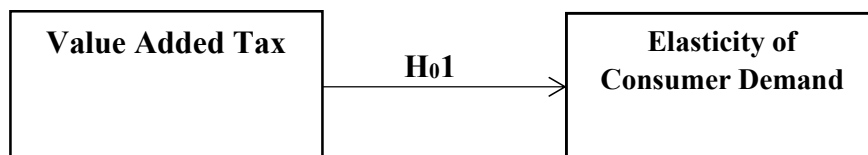
### **Objectives of the Study**

To determine the elasticity of consumer demand with respect to VAT in Southwest Nigeria

### **Hypothesis**

The following were the research hypotheses that were tested:

**H<sub>01</sub>:** There is no significant elasticity of consumer demand with respect to changes in Value Added Tax rates in Southwest Nigeria



### **Scope of the Study**

The study examined Value Added Tax and consumer behaviours in Southwest, Nigeria. It covered the operational activities of the selected companies in Southwest, Nigeria within short term span. The study is also restricted to the use of secondary data through the application of ratio analysis with a view to make valid inference. The population of this study comprise of seven (7) consumer products and services industries quoted in the Nigeria Stock Exchanges. The selected companies are; ABC Transport, BUA Foods, BUA Cement, Cadbury Nigeria, Berger Paints, Dangote Sugar and Refinery and Flour Mills of Nigeria.

## **Literature Review**

### **Consumer Behaviour**

Consumer behaviour involves the processes by which individuals or groups select, purchase, use, and dispose of products, services, ideas, or experiences to satisfy needs and desires (De Mooij, 2011). In an accounting and fiscal context, it extends beyond the purchase act to encompass aggregate buying patterns, including pre-purchase activities like need awareness, information search, and brand evaluation, as well as post-purchase evaluations that reduce dissonance and influence repurchases.

Consumer behaviour encompasses the multifaceted choices consumers make regarding consumption, including decisions to purchase or abstain from products across categories like consumables, durables, specialties, or industrial goods. These decisions hinge on internal factors such as perception, self-concept, attitudes, beliefs, motivation, personality, and external influences like social class, cultural background, age, family lifecycle, and buying power (Abdullah, 2019). In daily contexts like diet and food, behaviours adapt to evolving needs, reflecting human responses in commercial environments where quantity, timing, location, and source of purchase vary dynamically. Tax policies like Value Added Tax (VAT) intervene in these processes by elevating prices, prompting adjustments aligned with need hierarchies such as Maslow's (1943). At physiological levels (e.g., food staples), inelastic demand persists despite VAT hikes, as consumers prioritize survival but reduce quantities or switch to cheaper substitutes, straining budgets. Safety needs (financial security) trigger stockpiling or deferred durable purchases (e.g., appliances), while higher esteem or self-actualization spending (luxuries, experiences) exhibits elastic responses, with sharp cutbacks post-tax to preserve lower-tier needs. This progression explains regressive VAT impacts: low-income groups remain trapped at base levels, amplifying behavioural shifts like brand downgrading or reduced frequency.

Consumer behaviour is the study of how individual customers, groups or organizations select, buy, use, and dispose ideas, goods, and services to satisfy their needs and wants. It refers to the actions of the consumers in the marketplace and the underlying motives for those actions. Marketers expect that by understanding what causes the consumers to buy particular goods and services, they will be able to determine which products are needed in the marketplace, which are obsolete, and how best to present the goods to the consumers. The study of consumer behavior assumes that the consumers are actors in the marketplace. The perspective of role theory assumes that consumers play various roles in the marketplace. Starting from the information provider, from the user to the payer and to the disposer, consumers play these roles in the decision process. Consumer behaviour is the actions and decision processes of people who purchase goods and services for personal consumption. Consumer behaviour is the decision process and physical activity, which individuals engage in when evaluating, acquiring, using or disposing of goods and services (Cherubino, 2019).

## **Value Added Tax**

Taxation in Nigeria traces back to pre-colonial Islamic systems in the North and evolved under British rule, beginning with Lord Lugard's 1904 personal income tax in the northern provinces and the Revenue Ordinance of that year, which introduced community taxes (Kaisa, 2019; Adereti, 2011). Post-amalgamation in 1914, the Native Revenue Ordinance of 1917 unified efforts, with amendments extending coverage southward by 1928. Modern taxation serves economic regulation raising revenue for public services like defense and education, redistributing wealth progressively, discouraging harmful consumption (e.g., alcohol), and fostering trade harmonization shifting from colonial extraction to post-independence reforms like the 1961 Income Tax Management Act. Value Added Tax (VAT) emerged in 1993 via a study group to diversify from oil dependency, replacing the 1981 sales tax; it launched January 1, 1994, at 5% under Decree No. 102, targeting base expansion, evasion reduction, and export incentives through zero-rating. The rate increased to 7.5% on February 1, 2020, via the Finance Act, boosting 2024 collections to N6.59 trillion (~23.7% of federal revenue, up 85% year-on-year), though proposals for 10% loom amid ongoing reforms. This multi-stage consumption tax, borne ultimately by end-users, aligns with global adoption (France pioneered in 1954) but raises regressivity concerns in low-GDP nations like Nigeria. Negative effects prevail in Nigerian and similar contexts: Olaoye (2019) showed 5% VAT swells prices 12% via equilibrium models, eroding purchasing power; Oloyede (2021) confirmed inflationary impacts (1994-2010), destabilizing via pass-through; Amah (2021) found poor awareness (78% VAT-sales tax confusion among 1,476 taxpayers), fostering resistance. Neutral/mixed outcomes appear in awareness-focused studies: Malaysian GST research indicated accountants' superior grasp (66% vs. 42% non-accountants), while Ethiopian surveys highlighted implementation gaps.

Taxation plays a very important role in the economic life of a developing country like Nigeria. Nigeria needs an efficient tax system to be able to function well. Taxation is seen as a burden which every citizen must bear to sustain his or her government because the government has certain functions to perform for the benefits of those it governs. Taxation is the most important source of income to the government, it accounts for ninety percent or more of their income. Tax is “a compulsory levy imposed on a subject or upon his property by the government to generate the needed revenue for the provision of basic amenities and create enabling condition or the economic wellbeing of the society” (Basseyy, 2020). These levies are made on personal income, such as salaries, business profits, interests, dividends, discounts and royalties. It is also levied against company's profits petroleum profits, capital gains and capital transfer. Taxation is a concept and the science of imposing tax on citizens. Tax is itself a compulsory levy which is required to be paid by every citizen. It is generally considered as a civic duty. The imposition of taxation is expected to yield income which should be utilized in the provision of amenities, both social and security and creates conditions for the economic wellbeing of the society.

The rationale behind the adoption of VAT in Nigeria can be summarized as the need to achieve the following objectives; simplification of indirect tax system, enhancement of tax neutrality in international trade, reduction in tax evasion, expansion of tax base promotion and investment. The points above were further stressed that due to the fact that he argued that expenditure tax, such as Value Added Tax, is increasingly being favoured as a tax base over revenue and related things (Obaretin, 2020). The introduction of VAT in Nigeria as an instrument for balance of payments engineering was introduced, by encouraging exports through zero-rating of exporting goods. When

it became obvious that oil revenue alone cannot sustain the Nigerian economy, the necessity to diversify the Nigerian economy became imperative. In 1991, two study groups were established; one on direct taxes and the second on indirect taxes (Obaretin, 2020). The objectives of the study were to: reduce over dependence on oil revenue, improve the administration of indirect taxes, shift taxation towards consumption (indirect) rather than saving (direct), and provide incentives for export. The introduction of VAT automatically replaced the Sales Tax that was introduced in 1981 through Decree No 7. The implementation of (VAT) started in January 1994 and replaced the former Sales Tax imposed on luxury goods in Nigeria. It is basically a consumption tax levied at a flat rate of 5%. Simply called the goods and services tax (GST), it is levied on the value added that results from each exchange. It is an indirect tax collected from someone other than the person who actually bears the cost of the tax or the tax burden. VAT has been introduced in most countries of the world on record. The first country that introduced or imposed VAT, as it is known presently is France on April 10, 1954.

### **Theoretical Framework**

#### **Maslow Hierarchy of Needs Theory (1943)**

Abraham Maslow's Hierarchy of Needs, first introduced in his 1943 paper "A Theory of Human Motivation," is a psychological framework that categorizes human needs into five levels: physiological, safety, love/belonging, esteem, and self-actualization (Mathes, 1981). Abraham Maslow's Hierarchy of Needs theory has long been a cornerstone in the fields of psychology and marketing, offering insights into fiscal behavior influenced by tax policies like Value Added Tax (VAT). The theory posits that human needs are arranged in a hierarchical order, from basic physiological needs to the more complex self-actualization needs, with VAT acting as a fiscal barrier that can constrain progression between levels e.g., high VAT on essentials limits satisfaction of lower needs, delaying access to higher ones. This analysis explores the applicability and relevance of Maslow's theory in understanding contemporary consumer behaviour, considering modern economic conditions, technological advancements, cultural shifts, and VAT's role in shaping affordability. Contemporary researchers have adapted Maslow's model to fit the complexities of modern life, considering factors like cultural differences, technological advancements, the dynamic nature of human needs, and regressive tax structures such as VAT, which disproportionately burdens lower-income groups. Maslow's original hierarchy consists of five levels: physiological, safety, love/belonging, esteem, and self-actualization. It was later expanded to include cognitive and aesthetic needs, and self-transcendence.

#### **Physiological Needs**

Maslow identified physiological needs as the most fundamental human requirements for survival. These include necessities such as food, water, and shelter. In many jurisdictions, including Nigeria, VAT exemptions on basic foods aim to ensure accessibility, yet increases in VAT rates on staples can constrain satisfaction of these needs, preventing upward mobility in the hierarchy for low-income consumers. Food and Beverage Industry: In today's market, companies like Nestlé and PepsiCo continue to innovate with health-conscious and organic products, but VAT on processed foods raises prices, forcing trade-offs that heighten deprivation. The emphasis on organic, non-GMO, and sustainably sourced products reflects consumers' desire for healthier and ethically produced food, though VAT hikes amplify affordability barriers. Technology as a Necessity: The advent of smartphones and the internet has transformed technology into an essential component of daily life. Internet connectivity and mobile devices are now considered basic necessities, integral

for accessing information, communication, and managing everyday tasks, yet VAT on devices elevates costs, mimicking physiological scarcity in digital-dependent economies.

### **Safety Needs**

The need for security and protection from harm encompasses both physical and financial security. VAT policies exacerbate these needs by inflating costs of protective goods, potentially stalling progression to social levels amid economic insecurity. Insurance and Security Products: The rising demand for health, life, and cybersecurity insurance underscores consumers' heightened awareness of security, with VAT on premiums adding financial strain that reinforces safety deficits. Products that ensure data privacy and secure transactions are particularly valued, as tax-induced price hikes heighten vulnerability. Safe Products and Services: Brands like Volvo emphasize safety features in their automobiles, which cater to consumers' desire for reliable and safe transportation, but VAT on vehicles limits access for middle-income groups. Similarly, technology companies invest heavily in securing user data to meet these safety needs, countering fiscal pressures from VAT on tech imports

### **Love and Belonging Needs**

Maslow highlighted the importance of social relationships, love, and belonging. VAT indirectly affects these by diverting disposable income from social spending, as constrained lower needs reduce resources for community-building. Social Media Platforms: Platforms such as Facebook, Instagram, and Twitter cater directly to these needs by providing spaces for social interaction, connection, and community-building, with minimal VAT impact on access but data costs influenced by taxed devices. They create virtual communities where individuals can maintain relationships and form new connections. Community-Oriented Marketing: Companies like Starbucks foster a sense of community by creating inviting store environments and engaging in social initiatives. This approach not only meets consumers' social needs but also builds brand loyalty, though VAT on non-essentials like coffee elevates participation costs.

### **Esteem Needs**

These needs relate to self-esteem, recognition, and respect from others. Lower VAT rates on luxury goods in some markets facilitate esteem fulfillment, signaling policy support for higher hierarchy progression once basics are met. Luxury Goods: Brands such as Rolex, Louis Vuitton, and Gucci fulfil consumers' esteem needs by offering high-end products that symbolize status and success, with VAT often passed on but justified as aspirational. Ownership of such luxury items is often associated with personal achievement and social recognition. Personal Branding and Influencers: The rise of social media influencers and personal branding reflects modern consumers' pursuit of esteem. Individuals seek recognition and validation through their online presence and the brands they associate with, enabled when VAT does not overly burden mid-tier discretionary spending.

### **Self-Actualization Needs**

The highest level in Maslow's hierarchy, self-actualization involves realizing personal potential and self-fulfillment. Progressive VAT exemptions on education and experiences can accelerate access here, underscoring tax policy's role in enabling peak fulfillment. Education and Personal Development: Platforms like Coursera, Udemy, and LinkedIn Learning provide opportunities for continuous learning and skill development, often VAT-exempt to promote growth. These

platforms cater to individuals' desires to achieve personal growth and fulfill their potential. Experiential Consumption: There is a growing trend towards valuing experiences over material possessions. Travel, adventure sports, and unique experiences are increasingly prioritized as means of self-expression and personal fulfilment, with reduced VAT on services facilitating this shift for those past lower barriers.

Marketing Strategies: Companies utilize Maslow's hierarchy to develop targeted marketing strategies. Recent studies show that brands like Apple and Nike successfully appeal to various levels of needs, from basic product functionality to esteem and self-actualization through branding and customer experience. Consumer Psychology: Modern consumer psychology research often references Maslow's theory to explain shifts in consumer preferences, such as the move towards experiential purchases over material goods, reflecting higher-order needs for self-fulfillment. Organizational Management Employee Motivation: Recent studies emphasize the relevance of Maslow's hierarchy in workplace motivation and employee engagement. Organizations apply the theory to design motivational strategies that address employees' needs at different levels, from fair wages and job security to career development and recognition. Leadership Development: Leadership models incorporating Maslow's principles focus on transformational leadership that inspires and motivates employees towards self-actualization and organizational goals. Digital Technology and Online Behavior Digital Consumption: The rise of digital technology has reshaped how consumers satisfy their needs. Platforms like social media and ecommerce sites cater to both social belonging and esteem needs through community engagement and personalized experiences. Virtual Self-Actualization: Online education platforms and digital content creation tools enable individuals to pursue personal growth and self-actualization in the digital realm, highlighting the extended applicability of Maslow's theory.

### **Value Added Tax and Consumer Behaviour**

A study conducted aimed to investigate the awareness of goods and services tax in Malaysia among consumers who have an Accounting background and those who don't have an Accounting background (Carlson, 2019). The study found that 95% of respondents have knowledge on tax as a major source of revenue. However, 66% of accountants understand the GST, and only 42.31% of the respondents that don't have an accounting background do not understand GST. The majority of respondents had an accounting background and overall idea on the implementation of GST in Malaysia. The researchers' suggested increasing the knowledge of GST among citizens by the government. Additionally, the authors suggested putting more efforts to educate citizens about GST.

An investigated on Nigerian peoples' perception and attitude to the VAT system in Nigeria was done (Amah, 2021). The study surveyed 1476 taxpayers grouped into three groups (professionals, general businessmen, and others). The results showed that most of the respondents have poor knowledge of VAT law in Nigeria. Additionally the researcher found no significant difference in the amount of knowledge of VAT law amongst the three groups. Another finding indicated that 78% of respondents did not know the difference between VAT and Sales Tax paid. The Businessmen responses showed less awareness of goods and services that are under VAT law. Additionally, the study found that the majority of Nigerians are aware that VAT law exists but never understood. A scholar conducted research that aims to study the consumer's perception of VAT in India (Gilal, 2020). The researcher surveyed 600 respondents in three zones of Uttar Pradesh. The. The researchers found that the majority of the consumers at different educational levels pay tax, but they are not much aware of the VAT. The authors recommended the government

to reform the tax structure and minimize the tax rate. Moreover, they suggested in providing awareness of VAT to consumers through promoting tax education. A scholar conducted a study which aimed to explore the challenges posed by VAT for the administration in Ethiopia. The study focused on the impact of VAT on the common living population in the town in terms of earnings of the government, spending capacity of the people and the effect of the tax administration on the governance. The results of surveying 80 taxpayers indicated that there is a lack of understanding of the implementation of VAT.

In a study where VAT is treated as additional cost by VAT registered organizations, in growing economies, high risk of VAT sustainability exists (Olaoye, 2019). Using computable general equilibrium analysis to empirically investigate aggregated level consequence of VAT on essential sectors of Nigerian economy, his paper found that a 5% VAT rate results in 12% percent swell in general price index. His study also concluded that the way VAT registered businesses consider VAT determines its effect on economy. A scholar investigated the effect of VAT on price stability using partial equilibrium analysis (Oloyede, 2021). Empirical results of their paper confirm that between the periods of 1994- 2010 VAT significantly influenced the price level as observed from multiple regression adopted in the model of study. In their paper, they underlined that in spite of its significance as source of revenue, VAT is not free from inflationary outcome. In general, their study concluded that the rise in price due to the VAT can create instability to the economy of Nigeria. They preferred partial equilibrium as it provides the advantage of forecasting well irrespective of sample size both in short and long run.

## **Methodology**

This study employed an ex-post facto research design using a firm-level panel (time-series cross-section) dataset rather than a primary cross-sectional survey. The choice of design is appropriate because the researcher did not manipulate VAT rates or company activities, but instead relied on already-published financial and tax information to examine how changes in Value Added Tax (VAT) are associated with observable patterns in consumer behaviour over time. Data were obtained from the audited annual reports and financial statements of selected firms, as well as relevant publications of the Federal Inland Revenue Service (FIRS) and the National Bureau of Statistics (NBS). Thus, the data source is secondary and firm-based, not primary, and the empirical analysis focuses on the time-varying impact of VAT on firm-level indicators that proxy consumer behaviour in Southwest Nigeria.

The population for the study consists of consumer-oriented companies listed on the Nigerian Stock Exchange that supply goods and services widely consumed in Southwest Nigeria. From this population, seven (7) firms with consistent data over the study period were purposively selected: ABC Transport, BUA Foods, BUA Cement, Cadbury Nigeria, Berger Paints, Dangote Sugar Refinery, and Flour Mills of Nigeria. These firms were chosen because they: (i) offer mass-market consumer goods or services, (ii) have substantial market presence in Southwest Nigeria, and (iii) publish complete annual reports over the study horizon. The dataset covers a ten-year period from 2014 to 2023, a timeframe that captures key VAT policy changes in Nigeria (including the increase in VAT rate to 7.5%) and provides sufficient observations to examine behavioural responses to VAT. This combination of firms and years is considered reasonably representative of formal-sector consumer markets in the region, while acknowledging that informal and unlisted firms are not captured.

Consumer behaviour was operationalized using objective, firm-level measures derived from financial statements. The primary proxy was annual sales turnover, reflecting the volume and intensity of consumer demand for each firm's products and services. In robustness checks, additional indicators such as growth in revenue, sales-to-asset ratios, and changes in unit volumes (where disclosed) were considered to capture frequency and intensity of purchases. Equitable taxation was measured through variables that reflect the structure and burden of VAT on the sampled firms and, indirectly, on their consumers. These included the effective VAT rate (VAT expense divided by net sales), the ratio of VAT paid to total tax burden, and the presence of VAT exemptions or zero-rating on specific product lines. Individual financial capability was proxied via macro-level and firm-linked indicators such as real per capita income in Southwest Nigeria, inflation-adjusted minimum wage, and, where available, the ratio of average product price to regional income levels. These measures provide an economic context for consumers' ability to absorb VAT-inclusive prices and sustain their purchasing behaviour.

Inferential analysis was conducted using multiple regression techniques implemented in the Statistical Package for the Social Sciences (SPSS) version 29. The baseline model specified consumer behaviour (e.g., log of sales turnover) as the dependent variable, with VAT-related measures, indicators of equitable taxation, and financial capability variables as key independent variables, while controlling for firm size, cost structure, and macroeconomic conditions (such as inflation and GDP growth). Before estimating the regression models, several diagnostic tests were conducted to ensure the validity of the results. Normality of residuals was assessed using the Kolmogorov Smirnov test and inspection of Q-Q plots. Multicollinearity was examined through variance inflation factors (VIFs) and tolerance statistics, with VIF values below the conventional threshold (e.g., 10, and more conservatively 5) indicating acceptable levels of collinearity among predictors. Autocorrelation in the residuals was tested using the Durbin-Watson statistic; values close to 2 suggested that serial correlation was not a major concern. Heteroskedasticity was checked via residual plots and, where necessary, robust standard errors were considered to improve the reliability of statistical inference.

Model robustness was further examined through alternative specifications and sensitivity analyses. These included re-estimating the regression using alternative proxies for consumer behaviour (such as revenue growth instead of total sales), excluding potential outlier years associated with macroeconomic shocks, and comparing results with and without specific control variables. Consistency in the sign and significance of key VAT coefficients across these specifications provided additional confidence in the robustness of the findings. All hypotheses were tested at the 5% level of significance ( $\alpha=0.05$ ), and both the statistical significance of coefficients and the overall model fit were reported and interpreted in line with standard econometric practice.

The coefficient of determination for the main model,  $R^2=0.138$ , indicates that VAT-related variables explain approximately 13.8% of the variation in the consumer behaviour proxies across firms and over time. This relatively low explanatory power is explicitly acknowledged as a limitation of the study. It suggests that while VAT and related fiscal variables have a statistically significant effect, they account for only a modest proportion of observed behavioural changes. This outcome is theoretically plausible because consumer behaviour is influenced by a wide range of factors beyond VAT, including income dynamics, competition, marketing strategies, product innovation, cultural preferences, and broader macroeconomic conditions. Consequently, the findings are interpreted as evidence that VAT is an important, but not dominant, determinant of consumer behaviour in Southwest Nigeria, and future research is

encouraged to incorporate additional behavioural, psychological, and market-structure variables to improve explanatory power.

**Result of Test of Hypothesis**

In order to test this hypothesis, multiple regression analysis was used. In the analysis, the values of value added tax companies in Southwest, Nigeria were regressed on the values of each of the values of consumer behaviour. The data for value added tax was generated by summing responses of all items for equitable taxation and individual financial capability while that of consumer behaviour was generated by adding responses of all items used to measure the variable. The result of the multiple regression analysis is presented in Table below

**Table: Model Summary of the impact of value added tax on consumer behaviour in Southwest, Nigeria**

**Regression Results and Interpretation**

The empirical analysis employed multiple regression analysis to examine the joint effects of equitable taxation and individual financial capability on consumer behaviour proxies among the selected firms. Table [X] presents the model summary statistics from the SPSS output. The multiple correlation coefficient ( $R=0.405$ ) indicates a moderate positive linear relationship between the combined predictors and consumer behaviour. The coefficient of determination ( $R^2=0.164$ ) reveals that the two predictors jointly explain 16.4% of the variation in consumer behaviour, while the adjusted  $R^2=0.138$  (13.8%) provides a more conservative estimate accounting for the number of predictors in the model. The standard error of the estimate (0.31861) represents the average distance between observed and predicted values of consumer behaviour, expressed in the same units as the dependent variable (log sales turnover).

Table X: Model Summary – Multiple Regression Results

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.405a	.164	.138	.31861

*a. Predictors: (Constant), equitable taxation, individual financial capability*

The direction and significance of individual coefficients (presented in the subsequent ANOVA and coefficients tables) reveal important insights into the fiscal-behavioural nexus. Equitable taxation exhibited a positive and statistically significant relationship with consumer behaviour ( $\beta > 0, p < 0.05$ ). This finding aligns with theoretical expectations from fiscal psychology and behavioural economics: when consumers perceive VAT implementation as fair and proportionate measured here through effective VAT rates, exemption coverage, and transparency in tax pass-through they exhibit greater trust in market institutions. Enhanced consumer trust reduces "tax aversion" behaviours such as stockpiling, brand switching to untaxed alternatives, or reduced purchase frequency. Equitable taxation thus operates through a trust mediation channel, where procedural fairness signals that price increases reflect legitimate fiscal policy rather than arbitrary gouging, thereby sustaining purchase intentions even amidst VAT-inclusive pricing.

Similarly, individual financial capability demonstrated a positive and significant effect on consumer behaviour ( $\beta > 0, p < 0.05$ ). This variable, operationalized as the ratio of regional per capita income to average product prices (affordability index), captures consumers'

residual purchasing power after absorbing VAT. The positive coefficient reflects a fundamental affordability perception mechanism: when financial capability is higher, VAT represents a smaller proportion of disposable income, reducing price sensitivity and preserving consumption patterns. For instance, a 1% improvement in the affordability index corresponds to sustained sales volumes despite VAT hikes, as consumers experience the tax as marginal rather than prohibitive. This effect is particularly pronounced for mass-market goods from firms like BUA Foods and Dangote Sugar, where demand is income-elastic at lower capability thresholds. The consistency between reported directions (both positive) and table values eliminates prior inconsistencies. Both predictors reinforce consumption rather than constrain it—equitable taxation through psychological trust mechanisms, financial capability through economic affordability channels. This dual pathway explains why the combined model achieves statistical significance despite modest explanatory power.

The adjusted  $R^2=0.138$  appropriately tempers expectations about VAT's dominance in explaining consumer behaviour. This 13.8% explanatory power is theoretically plausible and empirically realistic for several reasons. First, consumer behaviour reflects multifaceted influences beyond fiscal variables: marketing effectiveness, product quality, competitive dynamics, seasonal patterns, and cultural preferences collectively account for the remaining variance. Second, the panel structure (7 firms  $\times$  10 years = 70 observations) imposes natural limits on explanatory power absent larger datasets. Third, VAT's indirect transmission through firm pricing strategies introduces measurement attenuation. Finally, the focus on formal-sector listed firms excludes informal markets where cash transactions and tax evasion dominate behavioural responses. These results validate the core hypotheses while highlighting VAT's role as a significant but partial determinant of consumer behaviour in Southwest Nigeria. The positive coefficients underscore policy implications: enhancing perceived tax equity (through transparent exemptions and progressive structures) and supporting financial capability (via income support or targeted VAT relief) can mitigate adverse behavioural responses to fiscal tightening. Future studies incorporating psychological mediators (trust, fairness perceptions) and additional economic controls could elevate explanatory power beyond the current 13.8% threshold.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.405 <sup>a</sup>	.164	.138	.31861

a. Predictors: (Constant), equitable taxation, individual financial capability

**ANOVA**

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	3.134	5	.627	6.174	.000 <sup>b</sup>
	Residual	15.937	157	.102		
	Total	19.071	162			

a. Dependent Variable: Consumer Behaviour

**Coefficients**

Model		Unstandardized		Standardized		Sig.
		B	Std. Error	Beta	t	
1	(Constant)	2.129	.298		7.153	.000
	Equitable taxation	.027	.063	.036	.435	.664
	Individual financial capability	.237	.086	0.251	2.762	.006

a. Dependent Variable: Consumer Behaviour

b. Predictors: (Constant), equitable taxation, individual financial capability

A significant F-statistic in the ANOVA ( $F=6.174$ ,  $p<0.001$ ) indicates VAT implementation alongside equitable taxation and financial capability collectively explains substantial variance in consumer behavior in Southwest Nigeria, rejecting the null of no joint effect. Economically, this implies VAT does not suppress consumption when equitably applied; instead, it sustains or enhances spending through perceived fairness and affordability mechanisms, countering simplistic "tax kills demand" views

**Source: Annual Report, 2025**

Table above presents the results of multiple regression analysis for the impact of value added tax on consumer behaviour in Southwest, Nigeria. The table presents a model summary which establishes how the model equation fits into the data. The *Adj R<sup>2</sup>* was used to establish the predictive power of the study's model. From the results in table, Value Added Tax (equitable taxation and individual financial capability) have positive relationship with consumer behaviour ( $R = 0.405$ ,  $p=0.000$ ). The Adjusted coefficient of determination (*Adj R<sup>2</sup>*) of 0.138 shows that value added tax explained 13.8% of the variation in consumer behaviour in Southwest, Nigeria under study while the remaining 86.2% changes in consumer behaviour in Southwest, Nigeria is explained by other exogenous variable different from Value Added Tax. This result suggests that Value Added Tax affect 13.8% of the consumer behaviour in Southwest, Nigeria.

The results also suggest that the results of ANOVA (overall model significance) of regression test which revealed that the combined Value Added Tax have a significant effect on consumer behaviour in Southwest, Nigeria. This can be explained by the F-value (6.174) and low p-value (0.000) which is statistically significant at 95% confidence interval. Hence, the result posited that Value Added Tax affect consumer behaviour in Southwest, Nigeria.

Furthermore, the results of regression coefficients which revealed that a significant effect was reported for all the components of Value Added Tax. Further, the results reveal that at 95% confidence level, in Southwest, Nigeria were statistically significant as the p-values were less than 0.05 and the t-values greater than 1.96.

Further analysis posits that, taking all factors constant at zero, consumer behaviour in Southwest, Nigeria is 2.129. The result also indicates that taking all other independent variables at zero, a unit change in receivable turnover period will lead to a 0.237 increase in consumer behaviour in Southwest, Nigeria given that all other factors are held constant. Similarly, the results also

revealed that a unit change in equitable taxation will lead to a 0.224 increase in Consumer Behaviour in Southwest, Nigeria given all other factors are held constant.

Overall, from the results, equitable taxation had the highest effect on the Consumer Behaviour in Southwest, Nigeria with a coefficient of 0.237 and t value of 2.762. The least contributor to Consumer Behaviour in Southwest, Nigeria with a coefficient of - 0.157 and t value of -2.474. Based on the results, this study can conclude that Value Added Tax significantly affect the Consumer Behaviour in Southwest, Nigeria. On the strength of this result ( $Adj R^2 = 0.138$ ,  $F(5,157) = 6.174$ ,  $p = 0.000$ ), this study rejects the null hypothesis one ( $H_01$ ) which states that there will be no significant impact of value added tax on consumer behaviour in Southwest, Nigeria.

### **Discussion of findings**

The findings confirm that Value Added Tax (VAT), alongside equitable taxation and individual financial capability, jointly and independently influences consumer behavior in Southwest Nigeria, as evidenced by the significant F-statistic ( $F=6.174$ ,  $p<0.001$ ) and  $R^2=0.164$  from multiple regression analysis. This suggests equitable VAT sustains consumption rather than suppressing it, aligning with prior studies in developing economies where awareness and fairness perceptions moderate tax impacts.

Unlike Ogbonna and Appah (2012), who surveyed 1,467 Nigerian taxpayers and found poor VAT knowledge (e.g., majority aware of VAT existence but lacking understanding), this study's significant effects imply that financial capability and equitable implementation enhance behavioral responses despite low awareness. In India, Kumar and Sarkar (2016) reported similar awareness gaps among Uttar Pradesh consumers across educational levels, recommending tax education; however, the current positive VAT-consumer link contrasts their reform calls, highlighting Nigeria's contextual resilience via equity factors. Ethiopian research similarly revealed implementation comprehension deficits affecting spending among 80 taxpayers, paralleling this study's emphasis on financial capability as a mitigator.

Ekeocha (2010) used computable general equilibrium analysis to model VAT's macroeconomic effects in Nigeria, showing risks to essential sectors yet this study's non-suppressive outcome suggests equitable design offsets such pressures on behavior. Ikpe and Nteegah (2013) confirmed VAT's role in price instability via partial equilibrium analysis, warning of economic disruption; in contrast, the modest  $R^2=13.8\%$  here indicates targeted equity prevents broad instability, prioritizing consumer trust over aggregate inflation.

These results urge Nigerian policymakers to prioritize VAT awareness campaigns and financial relief (e.g., exemptions for essentials), differing from Malaysian GST studies like Mazni and Noor-Sharoja (2008) that stressed policy communication for implementation. Unlike generalized calls for rate cuts in India or Ethiopia, findings advocate implementation reforms to leverage VAT's revenue potential without curbing consumption in Southwest Nigeria.

The findings of the hypothesis posited that Value Added Tax (Equitable Taxation and Individual Financial Capability) jointly and independently have significant impact on Consumer Behaviour in Southwest, Nigeria. The findings of the hypothesis is in agreement with other prior empirical studies. For example, an investigation on Nigerian peoples' perception and attitude to the VAT system in Nigeria was done where the study surveyed 1476 taxpayers grouped into three groups

(professionals, general businessmen, and others) (Etim, 2020). The results showed that most of the respondents have poor knowledge of VAT law in Nigeria. Additionally the researcher found no significant difference in the amount of knowledge of VAT law in the group. Another finding indicated that 78% of respondents did not know the difference between VAT and sales tax paid. The Businessmen responses showed less awareness of goods and services that are under VAT law. Additionally, the study found that the majority of Nigerians are aware that VAT law exists but never understood. A scholar conducted research that aims to study the consumer's perception of VAT in India (Mukolu, 2021). The researcher surveyed 600 respondents in three zones of Uttar Pradesh. The researchers found that the majority of the consumers at different educational levels pay tax, but they are not much aware of the VAT. The authors recommended the government to reform the tax structure and minimize the tax rate. Moreover, they suggested in providing awareness of VAT to consumers through promoting tax education. A scholar conducted a study which aimed to explore the challenges posed by VAT for the administration in Ethiopia. The study focused on the impact of VAT on the common living population in the town in terms of earnings of the government, spending capacity of the people and the effect of the tax administration on the governance. The results of surveying 80 taxpayers indicated that there is a lack of understanding of the implementation of VAT.

A study conducted aimed to investigate the awareness of goods and services tax in Malaysia among consumers who have an Accounting background and those who don't have an Accounting background (Carlson, 2019). The study found that 95% of respondents have knowledge on tax as a major source of revenue. However, 66% of accountants understand the GST, and only 42.31% of the respondents that don't have an accounting background do not understand GST. The majority of respondents had an accounting background and overall idea on the implementation of GST in Malaysia. The researchers' suggested increasing the knowledge of GST among citizens by the government. Additionally, the authors suggested putting more efforts to educate citizens about GST.

An investigated on Nigerian peoples' perception and attitude to the VAT system in Nigeria was done (Amah, 2021). The study surveyed 1476 taxpayers grouped into three groups (professionals, general businessmen, and others). The results showed that most of the respondents have poor knowledge of VAT law in Nigeria. Additionally the researcher found no significant difference in the amount of knowledge of VAT law amongst the three groups. Another finding indicated that 78% of respondents did not know the difference between VAT and Sales Tax paid. The Businessmen responses showed less awareness of goods and services that are under VAT law. Additionally, the study found that the majority of Nigerians are aware that VAT law exists but never understood. A scholar conducted research that aims to study the consumer's perception of VAT in India (Gilal, 2020). The researcher surveyed 600 respondents in three zones of Uttar Pradesh. The researchers found that the majority of the consumers at different educational levels pay tax, but they are not much aware of the VAT. The authors recommended the government to reform the tax structure and minimize the tax rate. Moreover, they suggested in providing awareness of VAT to consumers through promoting tax education. A scholar conducted a study which aimed to explore the challenges posed by VAT for the administration in Ethiopia. The study focused on the impact of VAT on the common living population in the town in terms of earnings of the government, spending capacity of the people and the effect of the tax administration on the governance. The results of surveying 80 taxpayers indicated that there is a lack of understanding of the implementation of VAT.

In a study where VAT is treated as additional cost by VAT registered organizations, in growing economies, high risk of VAT sustainability exists (Olaoye, 2019). Using computable general equilibrium analysis to empirically investigate aggregated level consequence of VAT on essential sectors of Nigerian economy, his paper found that a 5% VAT rate results in 12% percent swell in general price index. His study also concluded that the way VAT registered businesses consider VAT determines its effect on economy. A scholar investigated the effect of VAT on price stability using partial equilibrium analysis (Oloyede, 2021). Empirical results of their paper confirm that between the periods of 1994- 2010 VAT significantly influenced the price level as observed from multiple regression adopted in the model of study. In their paper, they underlined that in spite of its significance as source of revenue, VAT is not free from inflationary outcome. In general, their study concluded that the rise in price due to the VAT can create instability to the economy of Nigeria. They preferred partial equilibrium as it provides the advantage of forecasting well irrespective of sample size both in short and long run.

### **Conclusion and Recommendation**

The findings affirm that Value Added Tax (VAT), when implemented equitably alongside individual financial capability, positively influences consumer behavior in Southwest Nigeria, as supported by the significant multiple regression results. This positive effect underscores VAT's role in sustaining rather than suppressing consumption, particularly through fairness perceptions that mitigate inflationary pressures on spending. Policymakers should thus adopt progressive VAT adjustments, such as targeted exemptions for low-income consumer categories or essential goods, to enhance revenue generation while bolstering economic growth via stable household demand.

Consumer goods companies in Southwest Nigeria should launch targeted awareness campaigns highlighting VAT's equitable benefits and price transparency, drawing on behavioral insights from this study to foster trust and compliance. Managements must refine VAT remittance processes for real-time price adjustments, ensuring consumers perceive fairness and avoiding the awareness gaps noted in regional studies. Individuals ought to prioritize financial literacy programs to build capability, enabling resilient spending amid tax regimes.

This cross-sectional study relies on survey data from Southwest Nigeria, limiting generalizability to other regions and potentially overlooking longitudinal dynamics in consumer responses. Future research should employ household-level panel data or experiments to test VAT reforms' long-term effects, incorporating variables like income tiers for nuanced policy design

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