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## Value Added Tax Implementation among Small and Medium Enterprises and Household Consumption Patterns in Delta State, Nigeria

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### Abstract

*This study explores the relationship between Value Added Tax (VAT) implementation among Small and Medium-Sized Enterprises (SMEs) and household consumption patterns in Delta State, Nigeria. The methodology employed was the descriptive survey design. Using the purposive sampling technique, data were sampled from 178 respondents comprising 90 CEOs of 18 selected SMEs registered with Small and Medium Enterprises Development Agency in Nigeria (SMEDAN) and 88 VAT-able household consumers across the 3 senatorial districts in Delta State. The data analyses adopted was the descriptive and inferential statistics. The analysis revealed that public perception of VAT, VAT Compliance and VAT policy awareness exhibit significant relationship with household consumption patterns. The study recommends targeted public awareness campaigns to educate households on VAT policies and their benefits, greater transparency in the use of VAT revenues for visible developmental projects, and simplified tax systems to improve compliance.*

**Key Words:** Compliance, Public Perception, Consumption, Value Added Tax

### 1. Introduction

Value Added Tax (VAT) has been implemented in various forms across countries and has become a significant revenue-generating mechanism for governments worldwide (Bala, 2020; Goodness, 2022). VAT implementation, particularly through price changes, can have a substantial impact on the performance of Small and Medium-sized Enterprises (SMEs) and household consumption patterns. When VAT is introduced or increased, it directly raises the prices of goods and services. This price effect can influence consumers' purchasing decisions, potentially leading to changes in consumption patterns. Households may reduce consumption of certain taxed goods or substitute them with lower-priced alternatives. In some cases, VAT increases may lead to greater expenditure on necessities, particularly in lower-income households, as basic goods are often subject to VAT and are more difficult to substitute.

Research suggests that VAT disproportionately impacts lower-income households, who spend a higher percentage of their income on consumption (Fenochietto, & Benitez, 2021; Omodero, & Ekundayo, 2023). As a regressive tax, VAT can exacerbate income inequality, with wealthier

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households being less sensitive to price increases due to their larger disposable incomes (Hussein & Al-Hassan, 2020). Moreover, the effect of VAT on consumption may vary by the structure of the economy, the level of VAT implementation, and the prevalence of informal markets, which can either absorb or bypass the tax. The impact of VAT on household consumption also depends on the use of exemptions and reduced rates for certain goods and services (Ebrill, Keen, Bodin & Summers, 2023; Klevmarken & Sundberg, 2023). For instance, many countries exempt or apply lower VAT rates to basic goods such as food, medicine, and public transportation to mitigate the regressive nature of the tax (Klevmarken & Sundberg, 2023).

Consumers are often less sensitive to taxes that are less visible or harder to track, such as VAT. This can reduce the psychological impact of price increases and may lead to less immediate changes in consumption behaviour. Over time, however, consumers may adjust their behaviour to the new price levels, leading to shifts in demand across different sectors. Studies show that consumers tend to reduce their consumption of luxury goods in response to VAT increases, while essential goods may see less reduction in demand, as households prioritize these purchases (Gendron & Seade, 2016). There lies limited focus on regional variations in Value Added Tax implications. While International and national studies explore the broader effects of VAT as noted in the studies of Omodero, Jones and Ekundayo (2023); Bala (2019), there is insufficient analysis of how VAT implementation among SMEs influences household consumption patterns in Delta State, Nigeria.

## **2. Review of Related Literature and Formulation of Hypotheses**

### **2.1 Small and Medium-sized Enterprises (SMEs)**

Small and medium-sized enterprises (SMEs) are businesses that maintain revenues, assets, or a number of employees below a certain threshold. They play a critical role in fostering economic growth, innovation, and employment, particularly in developing economies (Ayyagari, Demirgüç-Kunt, & Maksimovic, 2011). SMEs contribute to job creation and offer opportunities for entrepreneurship, which are essential for sustainable development (Beck, Demirgüç-Kunt, & Maksimovic, 2005). In Delta State, Nigeria, Small and Medium Enterprises (SMEs) contribute significantly to the local economy by driving employment and economic diversification. They help alleviate poverty and provide goods and services tailored to local needs (Ajayi & Oyetunji, 2021).

## **2.2 Household Consumption**

Chai (2022) defines household consumption as the total expenditure by households on goods and services for personal use. In many economies, especially developing nations like Nigeria, household consumption is influenced by various factors such as income levels, inflation, government policies, and taxation systems (Balogun & Dhakir, 2024). As a dynamic element of the economy, household consumption behaviour can offer insights into the living standards, economic wellbeing, and socio-economic development of a population (Deaton & Muellbauer, 2023). Aiyeku, Shonibare and Ipinjolu (2022) posit that in Nigeria, household consumption patterns have undergone considerable changes in recent decades, driven by economic shifts, urbanization, and changes in government fiscal policies. Particularly in state like Delta, household consumption is shaped by both the local economy and national economic trends, including fluctuations in oil prices, inflation, and government interventions (Adeleke & Olanrewaju, 2021; Ogunleye & Omojola, 2020). Again, the socio-cultural characteristics of households in Delta state, including family size, income distribution, and cultural preferences, has an important role in driving consumption decisions (Eze & Nwaizugbo, 2020).

## **2.3 Value Added Tax Implementation**

Ebrill, Keen, Bodin and Summers (2001) disclosed that Value Added Tax (VAT) is an indirect tax levied on the value added to goods and services at each stage of production or distribution. In Nigeria, VAT was first introduced in 1993, and since then, it has become an essential component of the nation's fiscal policy, and currently at the rate of 7.5%. VAT is designed to ensure a steady revenue stream for the government, with rates that are typically set at a national level, but can vary across regions. The implementation of VAT in Nigeria has sparked debates about its impacts on the economy, particularly in terms of consumer behaviour, income distribution, and inflation (Ogunleye & Omojola, 2020). The Nigerian VAT system has undergone several adjustments, including changes in the tax rate and scope, which have had varying effects on both businesses and consumers (Ogunleye & Omojola, 2020). In this present study, VAT Implementation is measured by Public Perception, Compliance Rate and Policy Awareness. While VAT is meant to generate revenue and contribute to government spending, concerns have been raised regarding its regressive nature, particularly for low-income households (Adeleke & Olanrewaju, 2021).

## 2.4 Measurements of Value Added Tax (VAT) Implementation and Hypotheses Formation

### 2.4.1 Public Perception of Value Added Tax

Braithwaite (2009) discovered that public perception of VAT has a psychological impact on the level of compliance. If VAT is perceived as a complex or punitive tax, it may lead to frustration, confusion, and resistance, which can negatively affect its implementation. Bello and Abubakar (2021) found that public perception of VAT in Nigeria is generally negative, with consumers believing that the tax burden disproportionately affects low-income households. They also noted that higher VAT rates lead to a reduction in consumer spending, particularly on non-essential goods. The findings from the empirical study on public perception of VAT in Lagos state was mixed, as it was found that while a majority of respondents acknowledged the necessity of VAT for economic development, many felt that VAT enforcement was weak and unfairly applied. The study also found that the majority of respondents believed that VAT caused price increases, leading to a reduction in their purchasing power (Chikezie & Nwachukwu, 2020).

*H<sub>01</sub>: Public perception of VAT among SMEs has no statistically significant connection with household consumption patterns in Delta State*

### 2.4.2 Value Added Tax Compliance Rate

Ali and Hwang (2018) investigated the determinants of VAT compliance in developing countries and found that higher VAT compliance rates are associated with stronger tax enforcement, better taxpayer education, and lower levels of corruption. They also discovered that businesses in developing countries tend to have lower compliance rates due to a lack of trust in government institutions. Keen and Smith (2020) found that VAT compliance in Nigeria is low, primarily due to the high prevalence of the informal sector, tax evasion, and weak enforcement. Again, focusing on the role of administrative capacity, tax rates, and the overall economic environment, Musgrave and Sundberg (2021) found that countries with well-developed tax administration systems, higher levels of trust in government, and better infrastructure for tax collection experience higher VAT compliance rates. The study also noted that high tax rates and complex tax systems are negatively correlated with compliance.

*H<sub>02</sub>: Value Added Tax compliance rate among SMEs has no statistically significant relationship with household consumption patterns in Delta State*

### **2.4.3 Policy Awareness of Value Added Tax**

Ibrahim and Omotayo (2021) found that while awareness campaigns had been conducted, a significant portion of the population still lacked sufficient knowledge about how VAT works and its implications for both businesses and consumers. They posit that policy awareness was positively correlated with VAT compliance, and recommended increased use of mass media and community engagement to raise awareness. Adeyemi et al (2021) explored the effect of VAT policy awareness on tax compliance in urban Nigeria. The results showed that while urban consumers were generally more aware of VAT policies compared to rural populations, a significant gap remained in understanding the full scope of VAT implications. The study found that higher levels of policy awareness were associated with better compliance, as consumers were more informed about how VAT is applied to goods and services.

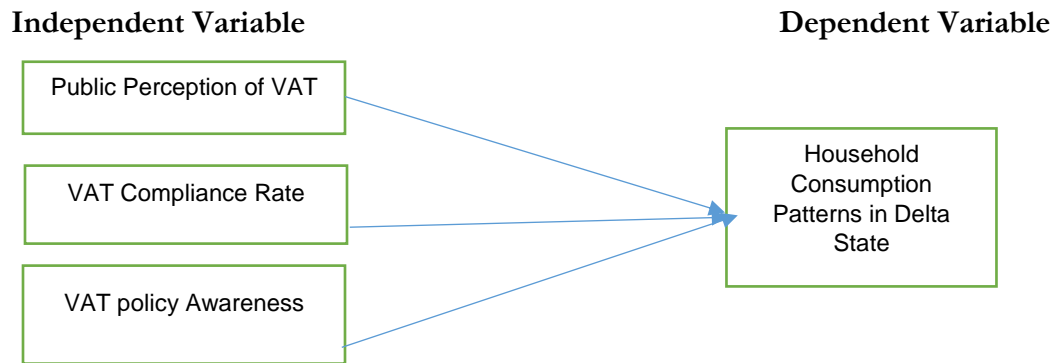
*H<sub>03</sub>: Policy Awareness of Value Added Tax among SMEs has no statistically significant association with household consumption patterns in Delta State*

## **2.5 Underpinning Theory for the Study**

### **2.5.1 Psychological Theory**

According to the Psychology Theory (PT) proposed by Sigmund Freud in 1920, a taxpayer's motivation to pay taxes increases in direct proportion to the attitude toward fulfilling obligations by government. The Psychological Theory of VAT stipulates ways in which value-added tax (VAT) influences the behaviour and perceptions of consumers, businesses, and tax authorities (Braithwaite, 2009). From a psychological perspective, VAT can affect consumer purchasing decisions, as it alters the perceived price of goods and services. Since VAT is typically included in the final price of good or services, consumers may not always be fully aware of the amount of tax they are paying. This is important because the psychological theory suggests that people's reaction to tax is often shaped by how visible and transparent the tax is. Research shows that when taxes are embedded into the price, consumers may be less sensitive to the taxable amount than when it is explicitly shown at the point of sale (Liu & Suh, 2020). This psychological mechanism can lead to less resistance to VAT, as consumers may not see it as a "tax" but as part of the regular pricing structure of goods and services (Thaler, 1985). VAT-able consumers' attitudes toward the tax system and their motivation to adhere to related tax policies are related (Fagbemi & Abogun, 2015; Schmolders, 1970; Strumpel, 1966).

## 2.6 Conceptual Framework



**Figure 1: Conceptual Framework**

## 3. Methodology

This study adopted descriptive survey research design suitable for the collection and analysis of data for the purpose of discovering ideas and insight from an existing situation without subjecting it to any form of manipulation. The study population comprised 100 CEOs of 18 SMEs and 80 VAT-able household consumers in Delta state, Nigeria. Delta State has 3 senatorial districts (Delta South, Delta North and Delta Central) and using purposive sampling technique, 30 CEOs of sampled SMEs were selected from each of the 3 senatorial district and 88 VAT-able consumers consisting of 29 in Delta South, 30 in Delta North and 29 in Delta Central were selected, making a total sample size of 178 respondents. Using descriptive and inferential statistical tools, the study evaluates the responses from these respondents to understand the impact of public perception, compliance rate, policy awareness and household consumption patterns. The reliability of the questionnaire was assessed using Cronbach's Alpha to ensure internal consistency. A score of 0.70 or higher was considered acceptable, ensuring that the instrument consistently measures the intended variables across respondents. Data were collected using a structured questionnaire, divided into two sections. Section A captured demographic details (age, gender, income level, and residential area). Section B focused on the key variables, with questions on public perception of VAT, Compliance rate, and Policy awareness, all measured using a 5-point Likert scale ranging from “Strongly Disagree (1)” to “Strongly Agree (5)”

### 3.1 Operationalization/Measurement of Variables

<i>S/N</i>	<i>Variable</i>	<i>Source</i>	<i>Operationalization</i>	<i>Measuring Scale</i>
1	Gender	Self-Developed	Gender of respondent	Two-point categorical
2	Age	Self-Developed	Age category of respondent	Four-point categorical
3	Public Perception of VAT	Self-Developed	Consumer Psychological and attitudinal conceptualization of VAT	5-point Likert
4	Compliance Rate	Self-Developed	Entities or individuals who adhere to the required regulations or obligations within a specific area	5-point Likert
5	Policy Awareness	Self-Developed	Consumers' understanding of VAT system, its requirements, and how it affects consumption	5-point Likert
6	Household Consumption Patterns	Self-Developed	Changes in household consumption patterns due to VAT	5-point Likert

## 4.0 Data Analysis, Findings and Discussion of Findings

### 4.1 Response Rate

Out of 180 distributed questionnaires, 178 were fully completed and returned, representing a high response rate of 98.89%. This robust response rate enhances the reliability of the data collected and supports meaningful statistical analysis.

**Table 4.1 Test for Normality**

	Skewness	Kurtosis		
	Statistic	Std. Error	Statistic	Std. Error
Public Perception of Value Added Tax	-.060	.182	-.827	.362
Value Added Tax Compliance	-.623	.182	-.577	.362
Value Added Tax Policy Awareness	.183	.182	-1.042	.362
Household Consumption Patterns	-.244	.182	-.452	.362



Table 4.1 presents the results of the normality test using skewness and kurtosis for the key variables. Skewness measures the symmetry of the data distribution, while kurtosis assesses the peakedness or flatness. For public perception of VAT, the skewness is -0.060 and kurtosis is -0.827, indicating a nearly symmetrical distribution. VAT compliance shows a skewness of -0.623 and kurtosis of -0.577, suggesting a slight negative skew but within acceptable limits. Similarly, VAT policy awareness exhibits a skewness of 0.183 and kurtosis of -1.042, showing a slight positive skew and relatively flat distribution. Household consumption patterns have a skewness of -0.244 and kurtosis of -0.452, indicating a minor negative skew and flatness. These results demonstrate that all variables fall within the acceptable range for normality (skewness between -1 and 1, kurtosis between -2 and 2), making them suitable for parametric tests such as regression analysis. The normal distribution ensures that the statistical assumptions required for subsequent analyses, such as correlation and regression, are met.

**Table 4.2      Multicollinearity Diagnostic Test**

Model	Dimension	Eigenvalue	Variance Proportions			
			(Constant)	Public Perception of Value Added Tax	Value Added Tax Compliance	Value Added Tax Policy Awareness
1	1	1.440	.00	.00	.28	.28
	2	1.005	.00	.98	.01	.00
	3	1.000	1.00	.00	.00	.00
	4	.555	.00	.02	.71	.72

Table 4.2 assesses multicollinearity among the independent variables using eigenvalues and variance proportions. Multicollinearity occurs when predictor variables are highly correlated, which can distort regression results. The eigenvalues and variance proportions are distributed across four dimensions, showing no indication of redundancy among variables. For example, Dimension 1 has an eigenvalue of 1.440 with variance proportions distributed between VAT compliance (0.28) and policy awareness (0.28). This distribution reflects that no single variable excessively dominates the dimension.

Additionally, the eigenvalues for all dimensions remain above 0.5, further confirming the absence of significant multicollinearity. The results demonstrate that the independent variables: public perception of VAT, VAT compliance, and VAT policy awareness are sufficiently distinct and can reliably contribute to the regression model without introducing bias. This validates the robustness of the regression results presented in subsequent analyses.

**Table 4.3 Correlation Analysis**

		Household Consumption Patterns	Public Perception of Value Added Tax	Value Added Tax Compliance	Value Added Tax Policy Awareness
Household Consumption Patterns	Pearson Correlation	1			
	Sig. (2-tailed)				
	N	178			
Public Perception of Value Added Tax	Pearson Correlation	.215**	1		
	Sig. (2-tailed)	.004			
	N	178	178		
Value Added Tax Compliance	Pearson Correlation	.373**	-.023	1	
	Sig. (2-tailed)	.000	.765		
	N	178	178	178	
Value Added Tax Policy Awareness	Pearson Correlation	.551**	.050	.439**	1
	Sig. (2-tailed)	.000	.509	.000	
	N	178	178	178	178

\*\* . Correlation is significant at the 0.01 level (2-tailed).

Table 4.3 evaluates the linear relationships between household consumption patterns (the dependent variable) and the independent variables: public perception of VAT, VAT compliance, and VAT policy awareness. The Pearson correlation coefficients indicate the strength and direction of these relationships. Public perception of VAT shows a weak but statistically significant positive correlation with household consumption patterns ( $r = 0.215$ ,  $p < 0.01$ ), suggesting that better public perception of VAT slightly influences consumption positively. VAT compliance exhibits a moderate positive

correlation with household consumption patterns ( $r = 0.373$ ,  $p < 0.01$ ), implying that higher compliance rates are moderately associated with changes in household spending behavior. The strongest correlation is observed between VAT policy awareness and household consumption patterns ( $r = 0.551$ ,  $p < 0.01$ ), indicating a substantial relationship where increased awareness significantly impacts household spending. Furthermore, VAT policy awareness shows moderate correlations with both VAT compliance ( $r = 0.439$ ,  $p < 0.01$ ) and public perception of VAT ( $r = 0.050$ , not statistically significant). These results validate the assumption of linearity and justify the inclusion of these variables in the regression analysis.

**Table 4.4 Summary Results**

Model	R	R Squared	Eta	Eta Squared	Sum of Squares	Mean Square	F	Sig.
(Constant)	.551	.304	.936	.875	154.952	1.220	2.767	.000
Public Perception of Value Added Tax					53.737	53.737	121.863	.000
Value Added Tax Compliance					101.215	.803	1.822	.009
Value Added Tax Policy Awareness					22.048	.441		
					177.000			

a. *Dependent Variable: Household Consumption Patterns*

b. *Predictors: (Constant), Public Perception of Value Added Tax, Value Added Tax Compliance, Value Added Tax Policy Awareness*

Table 4.4 provides the regression analysis results to determine the influence of the independent variables (public perception of VAT, VAT compliance, and VAT policy awareness) on household consumption patterns. The R-squared value ( $R^2 = 0.304$ ) indicates that approximately 30.4% of the variance in household consumption patterns is explained by the independent variables, demonstrating a moderately strong model. The Eta squared value ( $\eta^2 = 0.875$  eta<sup>2</sup> = 0.875) confirms a high effect size, suggesting that the model effectively captures the relationships between variables. The F-statistic (2.767,  $p < 0.001$ ) confirms the overall significance of the regression model. Among the predictors, VAT policy awareness shows the highest explanatory power, with a sum of squares value of 101.215,

followed by public perception of VAT (53.737). VAT compliance contributes the least, with a sum of squares value of 22.048. These findings highlight the importance of policy awareness as the most influential factor shaping household consumption patterns, while public perception and compliance play supporting roles.

#### **4.2 Test of Research Hypotheses and Discussion of Findings**

The findings of this study provide valuable insights into the relationship between Value Added Tax (VAT) implementation and household consumption patterns in Delta State, Nigeria. The analysis of key variables, including public perception of VAT, VAT compliance, and VAT policy awareness, highlights significant dynamics shaping household behaviour.

##### ***i. Hypothesis One: Public Perception of VAT in SMEs and Household Consumption Patterns***

The results indicate a weak but statistically significant positive relationship between public perception of VAT and household consumption patterns ( $r=0.215, p<0.01$   $r = 0.215, p < 0.01$   $r=0.215, p<0.01$ ). This suggests that households with a more favourable view of VAT are slightly more likely to maintain stable consumption patterns. This finding aligns with Braithwaite (2009), who emphasized the role of public perception in fostering tax compliance and its indirect effect on economic behaviour. Conversely, the negative perception of VAT, often tied to its regressive nature, can exacerbate resistance and lead to reduced spending, particularly on non-essential goods (Bello & Abubakar, 2021; Omodero & Ekundayo, 2023). The weak correlation observed in this study reflects mixed sentiments in Delta State, where respondents may recognize the necessity of VAT for economic development but remain sceptical about its fairness and implementation (Chikezie & Nwachukwu, 2020).

##### ***ii. Hypothesis Two: VAT Compliance among SMEs and Household Consumption Patterns***

VAT compliance demonstrates a moderate positive correlation with household consumption patterns ( $r=0.373, p<0.01$   $r = 0.373, p < 0.01$   $r=0.373, p<0.01$ ). This implies that higher compliance rates are associated with relatively stable or less negatively affected household consumption behaviours. As Ali and Hwang (2018) posited, compliance is strongly influenced by effective enforcement and taxpayer education. However, in developing economies like Nigeria, compliance challenges are often amplified

by the prevalence of informal markets, lack of trust in government institutions, and administrative inefficiencies (Keen & Smith, 2020). This study's findings reinforce the argument that strengthening enforcement mechanisms and simplifying the VAT system can encourage compliance, potentially reducing distortions in consumption patterns (Musgrave & Sundberg, 2021).

### ***Hypothesis Three: VAT Policy Awareness within and Household Consumption Patterns***

The strongest relationship observed in the study is between VAT policy awareness and household consumption patterns ( $r=0.551, p<0.01$   $r = 0.551, p < 0.01$   $r=0.551, p<0.01$ ). This finding indicates that higher levels of awareness significantly influence household spending behaviour, aligning with the work of Adeyemi and Eze (2019), who argued that informed taxpayers are better equipped to adjust their consumption choices. Awareness campaigns can bridge the knowledge gap, empowering consumers to make more informed decisions about taxable goods and services (Ibrahim & Omotayo, 2021). Additionally, the psychological theory of taxation highlights that transparency and visibility of tax policies enhance acceptance and compliance (Braithwaite, 2009).

## **5.0 Conclusion and Recommendations**

### **5.1 Conclusion**

The study reveals that public perception, VAT compliance, and policy awareness among SMEs have a significant relationship with household consumption patterns in Delta State with response to VAT. Among these factors, VAT policy awareness demonstrated the strongest predictive power, emphasizing the critical role of information in shaping economic behaviour.

### **5.2 Recommendations**

It is therefore recommended that:

- i. Policymakers should invest in comprehensive awareness programs to educate the public about VAT policies, their objectives, and their benefits. Targeted campaigns via mass media, community outreach, and digital platforms can help bridge the knowledge gap and empower households to make informed decisions regarding taxable goods and services.
- ii. The government must ensure that VAT revenues are transparently allocated to visible developmental projects and public services. Regular publication of VAT revenue usage reports can improve public trust and enhance the perception of fairness and equity in the tax system.

- iii. Simplifying VAT processes, enhancing enforcement, and offering incentives to small and medium-size businesses in the informal sector can boost compliance. Introducing technology-driven systems, such as automated tax filing and mobile payment platforms, can reduce administrative inefficiencies and improve compliance rates.

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