EFFECT OF VALUE-ADDED TAX ON CONSUMER PURCHASE DECISION OF HOUSEHOLD PRODUCTS IN ABUJA.

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Abstract:
In recent years, the impact of taxation, particularly Value-Added Tax (VAT), on consumer behavior has garnered significant attention from researchers and policymakers alike. VAT, a consumption tax levied on the value added to goods and services at each stage of production or distribution, has been widely adopted by governments worldwide as a reliable source of revenue. sThis study examined the effect of value-added tax on consumer purchase decision of household products in Abuja. The study adopted the survey research design of which questionnaires were administered to a sample of (394) consumers in Abuja. The responses were analyzed using the smart PLS-SEM. It was found that input tax and output tax have a positive and significant effect on consumer purchase decision while tax rate revealed a negative and significant effect on consumer purchase decision. It was recommended government should consider simplifying the process of claiming input tax refunds for businesses. Streamlining the administrative requirements and reducing the complexity of tax regulations can encourage more businesses to engage actively in the VAT system. Policy maker should provide reduced output taxes or tax exemptions for essential goods, such as food and medicine, can encourage consumers to make necessary purchases without being overly burdened by taxes. Finally, government should consider adopting a more progressive tax rate structure that takes into account the varying income levels of consumers. Lowering tax rates for essential goods and services, this can alleviate the financial burden on low- and middle-income households, encouraging them to maintain or increase their spending on necessary items.
Key Words: *Value-Added Tax, Input Tax, Output Tax, Tax Rate and Consumer Purchase Decision.*

INTRODUCTION

Consumer purchase decision is a multifaceted process influenced by various psychological, economic, and sociocultural factors. It involves a series of steps, including problem recognition, information search, evaluation of alternatives, purchase, and post-purchase behavior (Kotler & Keller, 2022). The decision-making process is guided by both rational and emotional considerations, with consumers weighing factors such as price, quality, brand reputation, and personal preferences before making a purchase (Solomon, 2021).

Value Added Tax (VAT) is an essential component of Nigeria's tax system, implemented to generate revenue for government operations and public services. As a consumption tax, VAT is applied to goods and services at each stage of production and distribution, ultimately affecting the final price paid by consumers (Unegbu & Irefin 2021). In recent years, there has been increasing scrutiny on how VAT impacts consumer behavior, particularly in urban areas like Abuja, where household products form a significant part of consumer expenditure.

In Nigeria, VAT has been a significant revenue-generating tool for the government, and its effect on economic activities, especially consumer spending, has garnered attention. VAT is an indirect tax levied on the consumption of goods and services, which ultimately increases the final price paid by consumers. Household products are essential goods that consumers purchase frequently, and any fluctuation in their prices due to tax changes can influence consumer purchasing patterns. As VAT is added at each stage of production and distribution, the cumulative effect on the price of household goods may result in consumers adjusting their spending habits, either by reducing consumption, opting for cheaper alternatives, or delaying purchases (Ariyo & Ene, 2019).

The implementation of Value Added Tax (VAT) in Nigeria, particularly its effect on consumer purchase decisions, has raised concerns about its impact on the affordability of household products. However, the rises from the growing concern that higher VAT rates increase the cost of essential household goods, reducing the purchasing power of consumers, especially those with lower incomes. As prices rise,

consumers may opt to purchase fewer products, switch to cheaper alternatives, or forego some items altogether, thereby affecting the overall demand for these products. This, in turn, may have a ripple effect on the economy, with businesses experiencing reduced sales and households facing difficulties in maintaining their standard of living.

A survey by National Bureau of Statistics (NBS) in (2020) indicated that approximately 45% of consumers reported reducing their purchases of household products due to increases in VAT. Also, the report by Consumer Price Index Report, (CPIR), in (2021) noted that 30% of households experienced a significant increase in household expenditure directly linked to VAT increases on essential goods, including household products. Additionally, World Bank Report in (2021) highlighted that 25% of low-income households stated they reduced their spending on household products due to VAT-related price increases, indicating a direct impact on their purchasing decisions. Finally, A study by the Institute for Fiscal Studies (IFS) IN (2022) found that 40% of consumers indicated they would prioritize purchasing lower-cost brands in response to VAT increases on household products, reflecting a shift in consumer behavior.

The main objective of the study is to examine effect of value-added tax on consumer purchase decision of household product in Abuja. While the specific objective is to:

i. Examine effect of tax rate on consumer purchase decision of household product in Abuja
ii. Ascertain the effect of input tax on consumer purchase decision of household product in Abuja
iii. Investigate the effect of output tax on consumer purchase decision of household product in Abuja

The following formed the research hypothesis of the study.
Ho₁ Tax rate has no significant effect on consumer purchase decision of household product in Abuja
Ho₂ Input tax has no significant effect on consumer purchase decision of household product in Abuja
Ho₃ Output tax has no significant effect on consumer purchase decision of household product in Abuja.

LITERATURE REVIEW

Value Added Tax

Appah and Oyadongha (2022) stated that value added tax (VAT) is a consumption-based tax levied on the value added to goods and services at each stage of production or distribution. It is an indirect tax, meaning that it is not directly paid by consumers to the government, but is instead collected by businesses during sales transactions and then remitted to the government. The tax is applied incrementally as goods move through the supply chain, from raw materials to final retail sales. Each entity involved in producing or selling the good or service charges VAT on the value they add, while also claiming credit for any VAT already paid on purchases related to their business activities.

Chigbu et al. (2021) asserted that value added tax is a way in which governments to generate revenue while spreading the tax burden across the entire production and supply process. Unlike sales tax, which is charged only at the final point of sale, VAT is applied incrementally throughout the supply chain from the manufacturing process to the distribution of products to the consumer. Each business in the supply chain charges VAT on its sales, but it can also deduct the VAT it has paid on its purchases, ensuring that the tax is ultimately borne by the final consumer. The tax is typically reflected in the price of the goods or services, making it an indirect tax, as consumers pay it without directly interacting with tax authorities. VAT rates can vary depending on the country or region, and it is widely regarded as an efficient and reliable source of government revenue.

Tax Rate

Skinner and Slemrod (2023) defined tax rate as a percentage at which an individual or entity is taxed on their income, profits, or property. It serves as a critical measure for determining the amount of tax owed to the government based on taxable income or the value of assets. Tax rates can vary widely depending

on the type of tax, such as income tax, corporate tax, or sales tax, and may be structured in different ways. For instance, a flat tax rate applies a single percentage to all taxpayers, whereas a progressive tax rate increases as income rises, placing a heavier burden on higher earners. Understanding tax rates is essential for individuals and businesses alike, as they directly impact financial planning, investment decisions, and overall economic behavior.

Karlinsky and Blanthorne (2021) refers to tax rate as the percentage at which an individual, corporation, or transaction is taxed by the government. It is the proportion of income, profits, or the value of goods and services that is paid to the government in the form of taxes. Tax rates can vary depending on the type of tax, such as income tax, corporate tax, property tax, or sales tax. They can also be progressive (increasing with higher income levels), regressive (decreasing as income rises), or flat (a uniform rate applied to all taxpayers). In the context of Value Added Tax (VAT) or other consumption taxes, the tax rate is the percentage added to the price of goods and services, which consumers are required to pay when making purchases.

Input Tax

Baland (2022) refers to input tax as the Value Added Tax (VAT) paid by businesses on the goods and services they purchase from suppliers. This tax is incurred as part of the costs associated with acquiring products or services that are used in the course of business operations. Input tax is significant because it can often be reclaimed by businesses when filing their VAT returns, effectively reducing the overall tax liability. By allowing businesses to recover input tax, the VAT system helps to ensure that the tax burden is ultimately borne by the final consumer rather than businesses at each stage of the supply chain. This mechanism promotes fairness in taxation and encourages compliance, as businesses are incentivized to keep accurate records of their purchases and the associated input tax paid.

Akintoye and Tashie (2021) opined that input tax is a tax that a business pays on purchases of goods and services used in the course of its operations. This tax is incurred when a business acquires inputs necessary for production or service delivery, such as raw materials, equipment, and professional services. Input tax is significant because businesses can reclaim this amount from the tax authorities, effectively reducing their overall tax liability. The ability to recover input tax is a fundamental principle of VAT systems, as it ensures that the tax is ultimately borne by the final consumer rather than cascading through various stages of production and distribution. Proper management and documentation of input tax are essential for businesses to maximize their VAT recoveries and maintain compliance with tax regulations.

Output Tax

Santos and Dasein (2022) refers to output tax as the Value Added Tax (VAT) that a business charges on the sale of goods or services to its customers. It is the tax collected by a business on behalf of the government and is applied to the selling price of the products or services provided. The output tax is a key part of the VAT system, where businesses act as intermediaries between consumers and the government by collecting VAT from customers at the point of sale. Output tax is distinct from input tax, which is the VAT a business pays on goods and services it purchases from suppliers. Businesses can often deduct input tax from their output tax to calculate the net VAT they owe to the government, ensuring that the VAT is only applied to the value added at each stage of production or distribution.

Omegani and Gani (2020) asserted that output tax is a key component of the VAT system that represents the tax revenue generated from sales transactions. Output tax refers to the Value Added Tax (VAT) that a business collects from its customers on the sale of goods or services. It is the tax added to the selling price of a product or service that the business charges its customers at the point of sale. This tax is subsequently collected by the business on behalf of the government. Businesses are responsible for calculating, collecting, and reporting output tax in their VAT returns. They can offset this amount against the VAT they have paid on their own purchases (input tax), thereby paying only the net VAT difference to the government. This mechanism ensures that VAT is effectively a tax on the value added at each stage of production or distribution.

Consumer Purchase Decision

Huang and Rust (2022) refers to consumer purchase decision as a data-driven and technology-influenced process, where digital platforms, personalized marketing, and online reviews play an increasing role in shaping consumer choices. This definition reflects the growing impact of digital transformation on consumer behavior. They also stated that consumer purchase decision is a series of steps that include problem recognition, information search, evaluation of alternatives, purchase, and post-purchase behavior. This definition emphasizes the dynamic and iterative nature of decision-making, highlighting that consumer choices are not made in isolation but are part of a continuous feedback loop.

González and Rubio (2021) defined consumer purchase decision as the process through which individuals identify their needs, evaluate available alternatives, and make choices to acquire products or services that satisfy those needs. This process is often influenced by psychological, social, and economic factors, which collectively shape consumer behavior. The complex interaction of individual motivations, social influences, and marketing stimuli that drive consumers toward selecting, purchasing, and using products or services. Their definition underscores the external factors, such as cultural norms and peer influences, that affect consumer behavior.

Tax Rate and Consumer Purchase Decision

Nwokocha (2022) examined effect of tax rate on consumers buying decision across various income levels in Port Harcourt, Nigeria. The study used survey design sing a sample size of 80 consumers. The study used primary data. Data collected was analyzed using SPSS. The study found that tax rates significantly influenced purchasing decisions, with many consumers reporting a shift towards cheaper alternatives or delaying purchases altogether when taxes increased. The study recommended that the government should conduct regular assessments of tax policies to ensure they do not unduly burden consumers, particularly in times of economic uncertainty. The study only focused on a specific city which may not reflect the national landscape.

Okoro (2020) studied how tax rate affects the consumer purchasing power sampling 300 households in Abuja, Nigeria. Surveys research design was adopted. Data was collected through structured questionnaire and interview. Data was analyzed using multiple regression. The study revealed a negative effect of tax rate on consumer purchase power. The study suggested that government should implement tiered tax rates that consider income levels to mitigate the impact on low-income households. The study did not explore the long-term effects of tax rate changes on consumer behavior, which could provide deeper insights into purchasing decisions over time.

Input Tax and Consumer Purchase Decision

Olufemi and Adebayo (2023) conducted a study to determine the relationship between input tax changes and businesses involved in the supply chain of household products across Lagos and Abuja. The study utilized a quantitative approach. 550 consumers and 150 businesses across Lagos and Abuja, Nigeria were sampled. Data was gathered through structured questionnaire. Data was analyzed through regression analysis and structural equation modeling (SEM). The study found that when businesses experience an increase in input taxes, the additional costs are often passed on to consumers in the form of higher prices. The study suggested that government should introduce tax credits or reductions for businesses to alleviate the burden of input taxes, preventing them from passing on the costs to consumers. The study failed to explore the long-term effects of sustained high input taxes on overall consumer welfare, limiting its scope to short-term price changes.

Hameed and Usman (2021) investigated how input tax rates influence consumer purchase behavior in Northern Nigeria. The study adopted survey design. 700 consumers and 200 retail businesses in Northern Nigeria were used as sample size. Data was collected through structured questionnaires. The study used content analysis for the qualitative data and logistic regression to analyze the quantitative data. The study revealed that businesses tend to shift the burden of input taxes to consumers, resulting in a significant reduction in demand for non-essential and luxury items. The study recommended that tax

policies should be structured to protect small businesses and low-income consumers, possibly through input tax rebates or exemptions for essential goods. The study did not account for the variability in business size and sector, which could influence how input taxes are absorbed or passed on.

Output Tax and Consumer Purchase Decision

Eze and Ogbonna (2022) investigated the impact of output tax on consumer prices and consumption patterns in Lagos, Nigeria. The study employed a cross-sectional survey design. 600 consumers and 200 businesses were sampled in Lagos, Nigeria. Structured questionnaires were used to gather data from both consumers and businesses. The study adopted regression to analyzed the data. The study found that businesses passed on most of the output tax to consumers in the form of higher prices, particularly for non-essential goods. The study recommended that the government should introduce tax breaks for businesses producing essential goods, to avoid disproportionately affecting low-income households and to stabilize consumer demand for basic necessities. The study focused predominantly on urban settings, which may not fully represent the effects of output tax in rural or informal markets, where price sensitivity and purchasing patterns might differ.

Musa and Adebayo (2020) examined effect of output tax changes on consumer purchase decisions over time across different states in Nigeria. This study used a longitudinal research design. Sample Size of 500 consumers across different states in Nigeria were used. Data was collected through structured questionnaires administered every six months. Time-series analysis and difference-in-differences (DiD) techniques were employed to analyzed the data. The study found that output tax increases had a gradual but significant effect on consumer behavior, with notable declines in the purchase of discretionary goods. The study recommended that the government should consider reducing output tax rates on basic household items to protect low-income consumers. The study focused on formal retail sectors limited its generalizability to informal markets, where consumers may face different price dynamics.

Ability to Pay Theory

The "Ability to Pay Theory" was notably propounded by Richard A. Musgrave in (1959). This theory emphasizes that individuals should be taxed based on their ability to pay, meaning that those with higher incomes or wealth should contribute more in taxes compared to those with lower incomes. In this case taxes should be levied on the basis of taxable capacity of an individual. This approach considers tax liability in its true form of compulsory payment to the government without quid pro quo and does not assume any commercial or semi commercial relationship between the government and the individuals. An individual is to pay taxes just because he can, and his relative share in the total tax burden is to be determined by his relative paying capacity. This theory ensures justice or equity in taxation.

METHODOLOGY

The study adopted a survey research design. Considering the fact that the exact number of customers of household consumption in Abuja cannot be ascertained, the study population is therefore infinite. So, Cochran formula was adopted to determine the sample size of 394. The study used primary data. Data were collected through google form with the aid of online platform such as email address, WhatsApp, and Facebook, using 5-point Likert scale structured questionnaire. The data collected was analyzed using smart-PLS SEM.

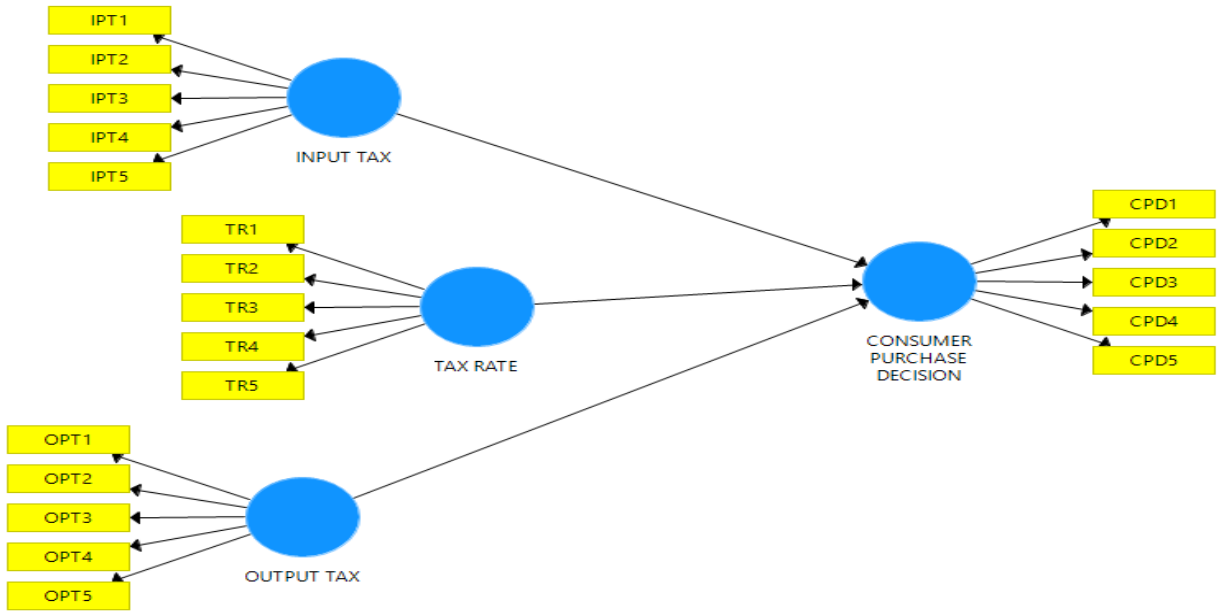

Figure 1: Study Model

Results and Discussions

Table 1.1: Reliability of study scale

S/N	Variables		Factor Loadings	Cronbach Alpha	Composite Reliability	Rho A	Average Variance Extracted (AVE)	No of Items
1	OUTPUT TAX (OPT)	OPT3 OPT4 OPT4	0.859 0.922 0.885	0.872	0.919	0.905	0.790	3
2	INPUT TAX (IPT)	IPT1 IPT3 IPT4 IPT5	0.719 0.823 0.811 0.737	0.786	0.856	0.833	0.598	4
3	TAX RATE (TR)	TR3 TR4 TR5	0.850 0.862 0.868	0.827	0.895	0.849	0.740	3
4	CONSUMER PURCHASE DECISION (CPD)	CPD2 CPD3 CPD4 CPD5	0.742 0.883 0.909 0.803	0.857	0.903	0.886	0.700	4

Source: Smart PLS Output, 2024

Composite reliability of Jöreskog's (1971) was applied to test for internal consistency of the items. All the values fall within the Hair, et al., (2019) rating of good consistency. The Cronbach alpha value was above 0.60 which is the minimum threshold as recommended by Sekaran (2010). To test for the convergent validity, the average variance extracted (AVE) was used. All the latent variables showed values greater than 0.50 which indicates that the constructs explain at least 50 percent of the variance of its items. According to Henseler et al., (2015) the Fornell-Larcker criterion does not perform well when explaining discriminant validity, particularly when the indicator loadings on a construct differ only slightly. As a replacement, they proposed the Heterotrait-Monotrait (HTMT) ratio of the correlations which is the mean value of the item correlations across constructs relative to the (geometric) mean of the average correlations for the items measuring the same construct (Voorhees et al., 2016). Discriminant

validity problems are present when HTMT values are higher than 0.90 for structural models (Henseler, et al., 2015).

Table 2 Heterotrait-Monotrait Ratio (HTMT)

	TAX RATE	INPUT TAX	OUTPUT TAX	CONSUMER PURCHASE DECISION
TAX RATE				
INPUT TAX	0.796			
OUTPUT TAX	0.718	0.528		
CONSUMER PURCHASE DECISION	0.452	0.801	0.573	

Source: Smart PLS Output, 2024

Model Goodness of Fit (GoF)

Sequel to the need to validate the PLS model, there is a need to assess the goodness of fit of the model as Hair, et al. (2017) suggested. This study used the standardised root mean square residual's (SRMR). The choice of this index was based on the fact that the SRMR provides the absolute fit measure where a value of zero indicates a perfect fit. The study adopted Hu & Bentler (1998) suggestion that a value of less than 0.08 represents a good fit while applying SRMR for model goodness of fit. The study result indicates an SRMR value of 0.01. This indicates the model is fit.

Assessing the Structural Model

Having satisfied the measurement model assessment, the next step in evaluating PLS-SEM results is to assess the structural model. Standard assessment criteria, which was considered include the path coefficient, t-values, p-values and coefficient of determination (R^2). The bootstrapping procedure was conducted using a resample of 5000.

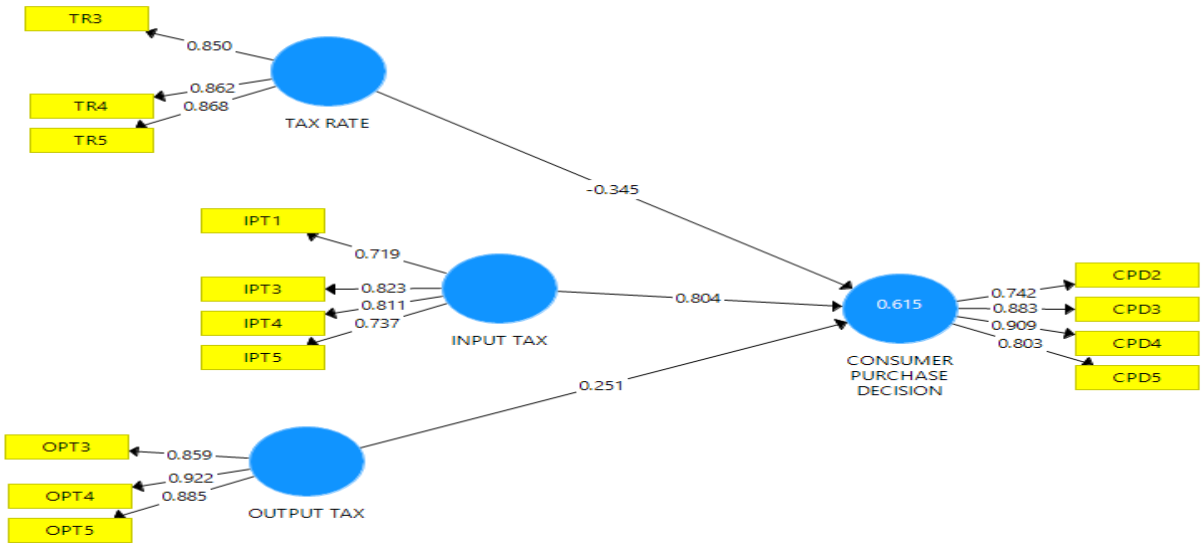

Fig. 3: Path Coefficients of the Regression Model

The R-square value stood at 61% indicating that value-added tax represented by tax rate, input tax, and output tax are responsible for 61% variation in the performance. The remaining 39% variation could be explained by other factors not included in the study. Based on Hair, et al., (2019), the r-square is considered suitable and lends credence to the findings of the study. The result of the path analysis is presented in the table below.

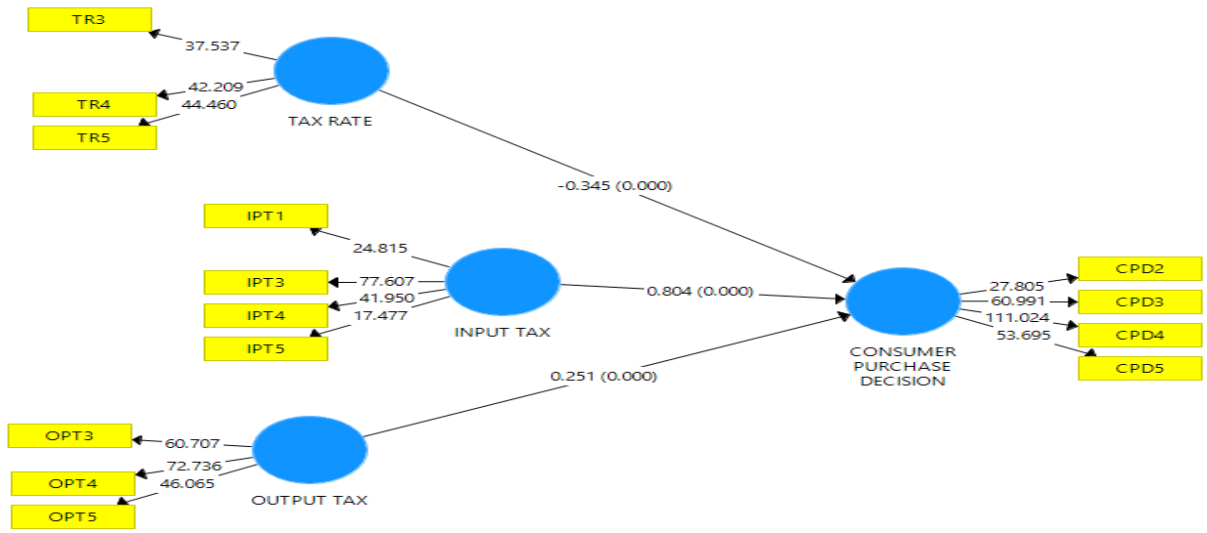

Table 3.1: Path Coefficients

Hypothesis	Variable	Path Coefficient ***(Beta)	t-value	p-value	Findings
Ho_1	Input Tax	0.804	13.135	0.000	Rejected
Ho_2	Output Tax	0.251	6.253	0.000	Rejected
Ho_3	Tax Rate	-0.345	6.745	0.000	Rejected

Source: Smart PLS Output, 2024

Results from table 3.1 above indicates that input tax has a positive and strong effect on consumer behavior when making purchasing decisions. The decision was reached based on the t-value of 13.135, a beta value of 0.804 with a p-value of 0.00. This is an implication that effective management of input tax is crucial for maximizing financial performance. Businesses that are adept at tracking and claiming input tax may be better positioned to thrive in competitive markets. The null hypothesis has sufficient grounds to be rejected and as such the alternate hypothesis which states that input tax has no significant effect on consumer purchase decision is rejected.

The second hypothesis shows that the analysis of output tax reveals a statistically significant influence on consumer purchase decisions, as indicated by a coefficient of 0.251, a t-statistic of 6.253, and a p-value of 0.000. This may suggest that output tax typically collected by businesses from consumers on sales does not have a direct and substantial impact on purchasing decisions or business performance as compared to other factors, such as consumer income, preferences, or market conditions. The implication is that the null hypothesis has sufficient grounds to be accepted and as such the alternate hypothesis which states that output tax has no significant effect on consumer purchase decision is rejected.

Finally, result from the analysis revealed that tax rate shows a statistically significant negative effect on consumer purchase decisions, with a coefficient of -0.345, a t-statistic of 6.745, and a p-value of 0.000. This implies that Companies may struggle to maintain sales volumes and profitability as they adjust their pricing strategies to account for increased tax liabilities. As such, the null hypothesis lacks sufficient grounds to be accepted and as such the alternate hypothesis which states that tax rate has no significant effect on consumer purchase decision is rejected.

CONCLUSION AND RECOMMENDATIONS

Based on the findings above, the study concludes that input tax, output tax and tax rate are key motivators for consumer purchase decision in Abuja, Nigeria. Therefore, the study recommends that the government should consider simplifying the process of claiming input tax refunds for businesses. Explain the administrative requirements and reducing the complexity of tax regulations can encourage more businesses to engage actively in the VAT system. Policy maker should provide reduced output taxes or tax exemptions for essential goods, such as food and medicine, can encourage consumers to make necessary purchases without being overly burdened by taxes. Finally, government should consider adopting a more progressive tax rate structure that takes into account the varying income levels of consumers. Lowering tax rates for essential goods and services, they can alleviate the financial burden on low- and middle-income households, encouraging them to maintain or increase their spending on necessary items.

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Appendix 1: Questionnaire

Below is statement on the scale of 1-5, where 1= Strongly Agree, 2= Agree, 3= Strongly Disagree, 4= Disagree, 5= Undecided. Please indicate by ticking () the extent of agreement or disagreement with each statement.

S/N	Tax Rate	SA	A	SD	D	U
1	Changes in tax rates influence my spending on non-essential items.					
2	I am aware of how tax rates affect the prices of goods and services I purchase.					
3	I prefer to delay purchases if I anticipate changes in the tax rate.					
4	The current tax rate discourages me from purchasing certain goods or services.					
5	The tax rate has a major influence on my decision to buy luxury items.					
	Input Tax					
6	High input taxes discourage me from purchasing certain products.					
7	The input tax applied to products influences my decision to buy them.					
8	I would prefer to buy goods from suppliers who offer lower input tax rates.					
9	I believe that the current input tax regulations are clear and straightforward.					
10	I feel well-informed about the input tax deductions available to my business.					
	Output Tax					
11	I would be more willing to purchase goods if output taxes were reduced.					
12	I am less likely to buy products that have high output taxes applied.					
13	The output tax added to the price of goods affects my decision to purchase them.					
14	The current output tax rate is fair and reasonable for my business operations.					
	Consumer Purchase Decision					
15	I carefully consider the price of a product before making a purchase.					
16	Discounts and promotions significantly affect my purchasing decisions.					
17	My purchasing decisions are influenced by advertising and marketing campaigns.					
18	I am more likely to buy products from brands or companies I trust.					