THE EFFECT OF CONSUMPTION TAX ON HOUSEHOLDS STANDARD OF LIVING IN NIGERIA (A DISAGGREGATED ANALYSIS)

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Abstract
The study was designed to examine the effect of consumption tax on standard of living of households in Nigeria. The study utilized household standard of living proxy or measured by Household Consumption Expenditure (HCE) and consumption tax proxy by Value Added Tax (VAT), excise tax (EXT), and personal income tax (INT). The study was anchored on the Keynesian theory of consumption and the benefit-received theory of taxation. The technique of estimation employed in the study was Error Correction Mechanism to examine the effect of consumption tax on household standard of living in Nigeria. The result shows that value added tax (VAT), personal income tax (INT) and excise tax (EXT) had negative effects on household standard of living in Nigeria. This implies that as these variables increase, the standard of living of households fall. Based on this, recommendation such as tax administrators should ensure that revenue accruing from consumption taxes such as value added tax, personal income tax and excise tax are streamlined to increase household consumption expenditure in order to induce household consumption behaviour in different part of the country among others were made.

Keywords: Household standard of living, value added tax (VAT), personal income tax (INT), and excise tax, (EXT).

Introduction

In most developing countries like Nigeria, consumption tax has been designated as one of the most prominent method of raising revenue to offset the major economic activities in the economy. This is because consumption tax seems to be yielding more revenue than other taxes in the economy. Consumption tax according to Atlanta, Blumkin, Ruffle and Ganun (2008), is usually imposed not only to generate revenue to the government but also to discourage the consumption of harmful goods. It is a tax imposed on goods and services in the economy (Batina,1999). Consumption tax also increases household consumption expenditure meant to meet up with the basic necessities of life vis-à-vis increase in standard of living. This type of tax is sometimes referred to as taxation system in which people are taxed based on how much they consume of goods and services rather than how much they are able to contribute to the nation's income as tax (Freebairn,1991).

According to Anyanwu (1997), consumption tax is the tax people spent on the purchase of goods and services in an economy. Usually, the tax base for such tax is the money spent on consumption. In Nigeria, consumption tax takes the form of value added tax, and excise tax Usually these type of taxes are classified as indirect tax because the payer of such tax pays it due to goods or services individuals in the society purchased. In most cases, such taxes are referred to as regressive because the burden lies heavily on the household consumption expenditure most especially on the poor than the rich. The poor households who want to purchase the goods or a service in which the tax is imposed spend a lot from their merge resources to coop with the situation and this directly or indirectly reduces their standard of living and result to fall in household consumption expenditure (Batina, 1999).

Consumption tax is also referred to as value added tax (VAT), but the indirect way of collecting the VAT makes it less obvious than other consumption tax. Valued added tax (VAT) according to Umoru and Anyiwe (2013) is the tax applied to market value added to a product or material at each stage of its manufacturing or distribution. It is an alternative way of taxing final consumption. VAT is usually collected from all businesses rather than just retailers. Most of the goods produced in stages are taxed. That is, value added by businesses at each stage of the process rather than collecting taxes only on the final retail sale from consumers. The value added by the firm in the

production process is the value of the firm's sales minus any material or other input purchased from other firms (Batina, 1999).

Atlanta, Blumkin, Ruffle and Ganun (2008) opined that consumption tax applies to the point of sales of goods or services, and to some extent often leads to decline in household consumption expenditure, thereby bringing about fall in standard of living among individuals and households in the society. In this case, law may allow sellers itemize the tax separately from the prices of goods or services and include it in the prices usually called tax inclusive. The tax amount is then calculated by applying a percentage rate to the taxable prices of sales and paid directly on goods and services to the governing body directly by the consumers of such goods or services towards increasing household standard of living.

In the same vein, Mashkoor (2010) stated that consumption tax can also be in the form of expenditure tax and excise tax. Hence, direct personal consumption tax may take the form of an expenditure tax or income tax and these on the average disallow savings and investment cogged towards reducing household consumption expenditure. A direct consumption tax may be called an expenditure tax or cash- flow tax or a consumption income tax which can be flat or regressive depending on the type of goods it is imposed upon. According to Anyanwu (1997), excise tax is a sale tax that applies to specific classes of goods typically, alcohol, gasoline, (petrol) or tourism. The rate of taxes on these goods varies according to the type of goods and quantity purchased and it is typically affected by the persons who purchased them. In this case, consumption taxes are levied on goods and services that are consumed and this in turn tends to increase the prices of goods and services thus resulting to decline in household consumption expenditure.

The consumption taxes on goods are services are usually collected by tax officials from the retailers and remitted to the governing bodies. Hence, such tax charges are transferred to the household final consumption especially on the product inform of high prices, which in turn affects their standard of living (Batina, 1999).

CBN (2015), shows that Nigeria's consumption tax in the form of value added tax was recorded as N318.00 billion in 2011, from N347.69 billion reported in 2012. This actually led to decline in household consumption expenditure recorded as N571.266 billion in the year 2011 and N570.266 in the year 2012.

Furthermore, CBN (2015) also recorded that as at 2013, value added tax was recorded as N389.53 billion in the year 2013 but reduced to N388.85 billion in the year 2014 with a further rise in household consumption expenditure recorded as N556.347 billion in the year 2013 to N698.669 billion as at 2014. Paradoxically, it was evidenced based on the situation of the Nigerian economy that this increase in household consumption expenditure did not translate into increase in household standard of living.

This impressive performance of VAT in virtually all countries where it has been introduced, according to Ajakaiye (2000), clearly influenced the decision to introduce VAT in Nigeria in January 1994. VAT is a consumption tax that is relatively easy to administer and difficult to evade and it has been embraced by many countries world-wide (Federal Inland Revenue Service, 1993). Evidence so far supports the view that VAT revenue is already a significant source of revenue to finance household consumption expenditure in Nigeria. For example, actual VAT revenue for 1994 was N 8.189 billion, which is 36.5% higher than the projected of N 6 billion for the year. Similarly, actual VAT revenue for 1995 was N21 billion compared with the projected N12 billion.

In terms of contributions to total federally collected revenue, VAT accounted for about 4.06 % in 1994 and 5.93% in 1995. As much as N404.5 billion was collected as VAT (5.1% of total revenue) in 2008. While the performance of VAT as a source of revenue in Nigeria is encouraging, it remains difficult to find attempts to systematically assess the impact of VAT on the economy. Recent research works on the impact of taxation on the Nigerian economy lumped up all the various taxes together without isolating VAT.

Some of the researchers in this area of study such as; Matsuzaki (2003), Arsory and Mashkoor (2010) and Umoru and Anyiwe (2013) mostly focused on the effect of consumption tax on economic growth and development without considering its effect on household standard of living. Hence, taking into consideration based on their research works; one could conclude that little or no studies have been conducted on the effect of consumption tax on household standard of living in Nigeria. Thus, this study is crucial as it fit in variables other than consumption tax in disaggregated form such as; value added tax, personal income tax and excise tax that may have effect on household standard of living in Nigeria.

Research Questions

The following research questions guided the study.

i. What is the effect of Value Added Tax (VAT) on household standard of living in Nigeria?
ii. What is the effect of personal income tax (INT) on households' consumption behaviour in Nigeria?
iii. Does excise tax (EXT) have any effect on purchasing power of households in Nigeria

Objective of the Study

The general objective of the study is to find out the effect of consumption tax on household standard of living in Nigeria. Specifically, the study intends:

i. To determine the effect of value added tax (VAT) on household standard of living in Nigeria.
ii. To ascertain the effect of personal income tax (INT) on household consumption behaviour in Nigeria.
iii. To find out the effect of excise tax (EXT) on the purchasing power of households in Nigeria.

Research Hypothesis

The study was guided by the following research hypothesis

I. Value Added Tax (VAT) has no effect on household standard of living in Nigeria
ii. Personal income tax (INT) has no effect on households' consumption behaviour in Nigeria
iii Excise tax (EXT) does not have any effect on purchasing power of households in Nigeria.

LITERATURE REVIEW

Theoretical Literature Review

The Economists have put forward many theories of taxation to guide the government as to how justice and equity in taxation can be achieved. The main theories in brief are;

Socio political theory: This theory of taxation states that social and political objectives should be the major factors in selecting taxes. The theory advocated that a tax system should not be designed to serve individuals, but should be used to cure the ills of society as a whole.

Expediency theory: This theory asserts that every tax proposal must pass the test of practicality. It must be the only consideration weighing with the authorities in choosing a tax proposal. Economic and social objectives of the government and also the effects of a tax system should be treated irrelevant (Bhartia, 2009).

Benefit received theory: This theory proceeds on the assumption that there is basically an exchange relationship between tax-payers and the government. The government provides certain goods and services to the members of the society and they contribute to the cost of these supplies in proportion to the benefits received (Bhartia, 2009). Anyanfo (1996) argues that taxes should be allocated on the basis of benefits received from government expenditure.

Cost of service theory: This theory is similar to the benefits received theory. It emphasizes on the semi commercial relationship between the government and the citizens to a greater extent. In this theory, the government is expected to provide basic protective and welfare functions to its citizens in the country. It is used to scrupulously recover the cost of the services and therefore this theory implies a balanced budget policy.

Faculty theory: According to Anyanfo (1996), this theory states that one should be taxed according to the ability to pay. It is simply an attempt to maximize an explicit value judgment about the distributive effects of taxes. Bhartia (2009) argue that a citizen 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.

Empirical Literature Review

Many economists globally and tax experts favour consumption tax over other taxes for economic development.

Arsory and Mashkoor (2010) offer explanation for this popularity. This is because, taxes on consumption have generally been found to be less harmful to economic growth and development than other taxes. Usually, the difference in

the impact of other taxes such as income taxes was illustrated by Matsuzaki (2003) that consumption tax utilizes progressive rates in order to maintain fairness. He noted that the more someone spends on consumption, the more they are taxed. However, to maintain fairness, the different rate structure for necessities as opposed to luxury items might be introduced so that the progressives' nature of consumption tax could be alleviated.

In the same vein, consumption tax according to Umoru and Anyiwe (2013), is generally neutral with respect to investment. In this case, consumption tax does not affect spending habits /behavior patterns of individuals in the society and does not distort the allocation of resources. He maintained that depending on the implementation, consumption tax usually increases the capital stock, productivity and therefore increases the size of economic development in the economy. Furthermore, consumption taxes if properly implemented increases the level of private savings and generates a corresponding increase in capital formation and economic growth.

Accordingly, Freebairn (1991) states that consumption tax is believed to be more efficient than other form of taxes as their impact on the allocation of resources in the economy is less pronounced than other form of taxes. This is because competitive market tends to allocate resources such as capital or labour to their best or most valued uses resulting to less expensive goods and services for the customers.

Metcalf (1995) also opines that consumption tax is the most essential type of taxation to the government of any nation because it enables the government to raise enough revenue to finance its expenditure. This is because consumption tax is not easy to avoid and evade if it is properly monitored and coordinated. Likewise, consumption tax does not have any disincentive effect on efforts; they may even increase efforts if they are placed on desirable goods and services so long that the level of tax is kept reasonable and the goods are not placed hopelessly out of the reach of ordinary people, the incentive effort of such tax raises productivity and benefit the nation as a whole.

Furthermore, consumption tax is seen as regressive taxation because its burden is more on the poor than the rich people in the society. However, income surrounded in the tax has greater utility on the poor than the rich in the society. Usually, the advert effect of consumption tax is to some extent

reduced if basic necessities are not taxed. So, the repressiveness of consumption tax makes it impossible for the households to consume such goods and services in which the tax is imposed. The rich will; live big with the tax while the poor find it difficult to maintain their consumption standard in the society. This type of disparity causes disaffection especially among the poor with low income (Abata, 2014).

Batina (1999) also opines that consumption tax is always regressive because it falls heavily on the poor income households than the rich as the income surrendered by the tax has greater utility on the poor than the rich in the society. However, the burden of such tax he maintains falls heavily upon the poor than the rich thereby reducing the standard of living of the poor households in the society. Although, the advert effects of consumption tax to some extent is reduced if the basic necessities are not taxed.

In the same vein, Beck, Demirguc-Kunt and Levine (2010) argued that consumption tax is a progressive taxation based on personal consumption expenditure. He advocated that consumption rather than income is a more appropriate tax base. Hence, consumption tax taxes income according to its usage. Which means that it is the income used for consumption proposes that is taxed but income not saved.

In addition, Bird (2005) is of the view that consumption tax is a broad base type of taxation that could be used with progressive, proportional or regressive tax rate and could sometimes permits certain deductions or exemptions from the tax base, he maintain that consumption tax basis would eliminate the bias against savings although the validity and significance of this depend on the motives for savings, According to Barro and Sala-i-Martin (1992) discussing on persons direct and immediate level of living depends on the person's consumption expenditure. If the person's consumption is low, which means that the person saves now and consumes later it then implies that the person will be caught at the time of ultimate consumption. Usually, when a person currently consumes from previously accumulated savings or inherited savings, it requires that he makes some current contribution to the government on the basis of his consumption expenditure. However the opposition against consumption tax is its violation on equity. This is because it favours the income group who generally are in better position to save. On the other hand, if

consumption tax is applied to all consumers at a proportional rate, the burden is almost certain to be discriminated against large families who spend most of their income on consumer goods (Adereti, Adesina and Sanni, 2011).

Owolabi and Okwu (2011) empirically evaluated the contribution of VAT to the development of Lagos State economy. Development aspects considered included infrastructural development, environmental management, education sector development, youth and social development, agricultural sector development, health sector development and transportation sector development. Result showed that VAT revenue contributed positively to the development of the respective sectors. However, the positive contribution was statistically significant only in agricultural sector development.

Feldstein and Krugman (1990) carried out research on the international trade effects of Value Added Taxation. Their study was based on the widespread belief that VAT is levied on imports and rebated on exports as a combination of protection and export subsidy of traded goods sectors of countries with VAT as an advantage over the corresponding sectors of countries that rely on income taxation. The research used a simple model to show that this view is almost completely wrong. A VAT is not a protectionist measure; indeed, the allegedly pro competitive device of export rebates is necessary if the VAT is not to act as an export tax, which in turn is actually a protectionist measure that would reduce both imports and exports. It was also established that in practice, VAT would almost surely fall more heavily on traded rather than non traded goods, which would constitute a bias against both exports and imports.

Chelliah, Bass and Kelly (1975) showed that the agriculture share is negative while the mining share is positively related to tax share, and the export ratio is not significant. Using panel data on 43 Sub-African Countries for the period 1990-1995 to measure the determinants of tax-GDP ratio to construct an index of tax effort for these countries, Stotsky and Woldemariam (1977) found that the countries with a relatively high tax- GDP ratio tended to have a relatively high index of tax effort, although the results varied across countries. Tait and Gratz (1979) later updated the work of Chelliah et al (1975) using the same sample of developing countries for the period 1972-1976. However, they did not find the agric-GDP ratio to be significant but their measure of tax effort indices yielded similar results to the initial study.

Accordingly, Toder and Rosenberg (2010) worked on the effects of imposing a value added tax to replace payroll taxes or corporate taxes (in the US). The research work was conducted against the background that the United States is the only country in the developed world that does not impose a broad-based consumption tax. The typical form of broad-based consumption tax used worldwide is a credit-invoice Value Added Tax (VAT). The credit-invoice VAT, a subtraction –method VAT or Business Transfer Tax (BTT), and a Retail Sales Tax (RST) are all intended to tax the final consumption once at the retail level, but the collection mechanisms differ among the three taxes. The researchers found out that VAT has administrative advantages over both BTT and RST. Both VAT and BTT are easier to enforce than RST because under a tax collected at different stages of production, evasion by the final seller still leaves much of the tax in place. Compared with BTT, VAT makes it easier to exempt sales of categories of consumption goods, including export sales, but more difficult to grant preferences to selected industries.

The distributional burden of VAT, it was found, is roughly proportional at the bottom of income distribution but regressive at the top. VAT was introduced by The Federal Government of Nigeria in January, 1993. It was believed by many Nigerians that the tax was introduced as a means of avoiding taking loans from international agencies (Ochei, 2010). According to analysts, the tax was intended to be a 'super tax' to eradicate completely many other taxes related on goods and services. VAT was then imposed on virtually all goods and services, whether produced or rendered in Nigeria or not. Exemptions however were granted in respect of medical and pharmaceutical products, basic food items, fertilizers, agricultural and centenary medicine, books and educational items, farming and transport equipment, etc. VAT effectively replaced the former sales tax, which, under the constitution, was supposed to be charged by states and not the Federal Government.

Naiyeju (1996) argued that the positive result received from any tax depends on the extent of how it is properly managed. The extent of how the tax law is interpreted and implemented as well as the publicity brought into it will determine how a particular tax is able to meet its objectives.

Ariyo (1997) in his study on productivity of the Nigerian tax system reported a satisfactory level of productivity of the tax system before the oil boom. The

report underscored the urgent need for the improvement of the tax information system to enhance the evaluation of the performance of the tax system and facilitate adequate macroeconomic planning and implementation.

Ajakaiye (2000) worked on the impact of VAT on key sectoral and macroeconomic aggregates, using a Computable General Equilibrium (CGE) model considered suitable for Nigeria. The study developed three scenarios. In order to approximate the presumed Nigerian situation, the study assumed that government pursued an active fiscal policy involving the re-injection of the VAT via increases in government final consumption expenditure in combination with a presumed non-cascading treatment of the VAT.

Olaoye (2009) worked on the administration of VAT in Nigeria. The objective of the study was to seek ways of improving government revenue generation base in order to improve on the economy. The study among other things, recommended that more awareness was needed on VAT. Adegbie and Fakile (2011) worked on company income tax and Nigeria's economic development. They used the GDP to capture the Nigerian economy and Petroleum Profit Tax (PPT), Company Income Tax (CIT), Customs and Excise Duties and VAT to measure Company Income Tax. Findings revealed that there is a significant relationship between company income tax and Nigerian economic development and that tax evasion and avoidance are the major hindrances to revenue generations.

METHODOLOGY

Model Specification

The study utilized household standard of living proxy or measured by Household Consumption Expenditure (HCE) as the dependent variable and consumption tax proxy by Value Added Tax (VAT), personal income Tax (INT) and excise tax (EXT) as the explanatory variables.

To specify the effect of consumption tax on household standard of living using the estimation technique of ECM, it is anchored on the Benefit-received theory of taxation which states that there is basically an exchange relationship between tax-payers and the government. The government provides certain goods and services to the members of the society and they contribute to the cost of these supplies in proportion to the benefits received (Bhartia, 2009). Hence, if government provides certain goods and services to the members of

the households with the broad objective to increase their consumption expenditures, this will invariably bring about increase in standard of living among households in Nigeria.

The functional form of the model is represented in equation [1] as:

To correct for the short-run effect of the explanatory variables and to integrate it with the long-run, the Error Correction Mechanism (ECM) was used. ECM is an appropriate estimation technique that captures the short-run and long-run effects of the differenced variables. The Error Correction Model used in this study is specified in equation [2] as:

[2] $Ä?nHCE_t = â_0 + â_1 \sum_{t=1}^{n} Äl\ nVAT_{t-1} + â_2 \sum_{t=1}^{n} Äl\ nINT_{t-1} + â_3 \sum_{t=1}^{n} Äl\ nEXT_{t-1} + ó_i ECM\ (1) + å_t$ Where:

HCE = Household Consumption Expenditure (Proxy for household standard of living).

VAT= Value Added Tax

INT= Personal Income tax

EXD= Excisetax

The explanatory variables defined in equation [2] based on a priori expectation ground, we expect the estimates of $â_1<0$, $â_2<0$ and $â_3<0$. The coefficient of the ECM variables ($ó_i$) contains information about whether the past values of variables affect the current values of the dependent variable. The size and statistical significance of the coefficient of the error correction term ($ó_i$) measures the tendency of each variable to return to equilibrium level. A significant coefficient implies that past equilibrium errors plays a role in determining the current outcomes. In other words, it shows the ability of the model to correct the short-term shocks in equilibrium in the long-run.

Type of Data and Source

The data on the chosen disaggregated consumption tax (value added tax, personal income tax and excise tax) and household standard of living proxy by per capita income were sourced from the Central Bank of Nigeria Statistical Bulletin, 2015. The study focused on the Effect of Consumption Tax on Household Standard of Living in Nigeria. The study covered a period of 23 years; from 1994-2016.

DISCUSSION OF RESULTS AND FINDINGS

Stationarity Test

To ascertain the order of integration of the variables, this test is carried out to test for the presence of unit-roots (that is whether the variables are stationary or not) using the Augmented Dickey-Fuller *(ADF)* test.

Table 1: Stationary Test Result

Variables	ADF	Critical values (5%)	Probability	order of integration
HCE	-4.083	-3.004	0.005*	I (1)
VAT	-4. 859	-2.971	0.006*	I (1)
INT	-7.960	-3.012	0.005*	I (1)
EXT	-4. 455	-3.012	0.002*	I (1)

*indicates significance at five per-cents

The stationarity test in Table 1 shows that all the variables have the same order of integration i.e. one since there were all differenced once before there became stationary. This shows an evidence of co-integration and we can carry out the co-integration test to see whether there is any long run relationship among the variables or not.

Using differenced variables for the estimation of regression only would suggest a loss of valuable information about the long run equilibrium between variables, therefore, there is need to integrate the short run dynamics with the long run equilibrium using the Error Correction Model *(ECM)*. The *ECM* reveals the ability of the model to restore to equilibrium path. In doing this, a co-integration test was conducted using the Johansen co-integration test.

Co-Integration Test

The co-integration test is used to test for the stationary equilibrium relationship between variables. The result of the co-integration test is given below

Table 2: Co-integration Test Result.

Hypothesized	Eigenvalue	Trace	0.05	prob. **	Max-Eigen	0.05	prob. **
No of CE(s)	Statistic	critical value			Statistic	critical value	
None*	0.692	63.785	47.785	0.008*	33.004	27.584	0.009*
At most 1*	0.602	30.781	29.797	0.038*	25.806	21.131	0.012*
At most 2	0.140	4.974	15.494	0.811	4.254	14.264	0.831
At most 3	0.025	0.720	3.841	0.396	0.720	3.841	0.396

Trace test and max-eigenvalue test indicates 2 co-integrating eqn(s) at the 0.05 level
*Denotes rejection of the hypothesis at the 0.05 level
**MacKinnon-Hau-Michelis (1999) p-values

From the Johansen co-integration test result in Table 2, the trace test statistics indicates 2 co-integrating equations at 5% level of significance while the max-Eigen value also indicates 2 co-integrating equations at 5% critical level. Since these variables are co-integrated, it means long run equilibrium exists. If at least one variable is co-integrated, it calls for the Error Correction Model *(ECM)*.

Table 3: Parsimonious Error Correction Test Result

Dependent Variable: D(LNHCE)
Metho d: Least Squares
Date: 11/08/17 Time: 17:32
Samp le (ad justed): 1997 2016
Included observations: 20 after adjustments

Var iable	Coefficient	Std. Error	t-Statistic	Prob.
C	317.9444	1033.810	0.307546	0.7637
D(LNVAT)	-0.743638	0.239457	-3.105518	0.0213
D(LNINT)	-0.822385	0.120285	-6.836971	0.0049
D(LNEXT)	-0.660819	0.100791	-6.556329	0.0175
D(LNVAT(-1))	0.251737	0.960456	0.262101	0.7977
D(LNEXT(-1))	0.132107	0.111435	1.185516	0.2588
D(LNVAT(-2))	0.034822	1.093255	0.031852	0.9751
ECM(-1)	-0.701378	0.248515	-2.822276	0.0122

R-squared	0.960981	Mean dependent var	-104.1897
Adjusted R- squared	0.938220	S.D. dependent var	9394.464
S.E. of regression	2335.052	Akaike info criterion	18.63863
Sum squared r esid	65429587	Schwarz cr iter ion	19.03692
Lo g likelihood	-178.3863	Hannan-Qu inn criter.	18.71638
F-statistic	42.22031	Durbin-Watso n stat	1.743913
Prob(F-statistic)	0.000000		

Source: Author's computation using Eviews 9.5

From table 3 above, the t-statistic values of the independent variables Value Added Tax (VAT), Personal Income Tax (INT) and Excise Tax (EXT) in the Parsimonious Error Correction Model turned out to be significant at 5% level and the variables are negatively signed. Hence we observed that, a 1% increase in value added tax (VAT) on the average will bring about 74% decrease in household consumption expenditure (HCE) vis-à-vis fall in household standard of living in Nigeria. Also, 1% increase in personal income tax (INT) on the average will bring about 82% decrease in household consumption expenditure (HCE) in Nigeria, 1% increase in excise tax (EXT) on the average will bring about 66% decrease in household consumption expenditure (HCE) in Nigeria. The R^2 i.e. coefficient of determination value of about 96% shows that the model is a good fit. The explanatory variables [Value Added Tax (VAT), Personal Income Tax (INT) and Excise Tax (EXT)] account for about 96% of the total variation in the dependent variable household consumption expenditure (HCE); while the remaining 4% unexplained is captured by the stochastic variable or error term. The coefficient of the Error Correction Model (ECM) captured the adjustment towards the long-run equilibrium. The result indicates that about 70 percent of the deviation is corrected within one year. The coefficient is properly signed and significant.

CONCLUSION

The study was meant to examine the effect of consumption tax on household standard of living in Nigeria using Error Correction Model (ECM). From the findings, it was discovered that increase in value added tax, personal income tax and excise tax led to a decrease in household standard of living in Nigeria within the study period.

RECOMMENDATIONS

Based on the findings, the following recommendations are considered very necessary in order to alleviate the problems of inconsistent in consumption behavior of households due to increase in consumption tax in Nigeria.

I. Tax administrators should ensure that revenue accruing from consumption of taxes such as value added tax; personal income tax and excise tax are streamlined to increase household consumption

expenditure in order to induce household consumption behavior in different part of the country. This if implemented will lead to increase in standard of living of households in Nigeria.

ii. Government should ensure that consumption tax is imposed mainly on goods highly consumed by the rich than the poor in order to bridge the gap of inequality between the consumption behaviour of different households in Nigerian economy.

iii. Government should ensure that excise tax is reduced to the barest minimum level so as to encourage mass production of locally produced goods in the country in order to reduce household consumption expenditure of the consumers towards increasing their standard of living in Nigeria.

iv. Finally, government should make sure that revenue generated from different consumption taxes are not diverted by tax administrators to private pockets for personal use. This can be done by gazetting the tax base of different tax sources into a system for monitoring and scrutinizing for optimal utilization of the revenue so as to increase household standard of living in Nigeria.

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