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New Tax Reforms And Consumer Behaviour In Nigeria

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ABSTRACT

This study examines the effect of tax reforms on consumer behaviour in Nigeria, focusing on Value Added Tax (VAT) and digital service tax as key explanatory variables. Consumer behaviour was operationalized using three dimensions: price sensitivity, brand switching, and purchase frequency. A descriptive survey research design was adopted, and data were collected from consumers of goods and digital services using a structured Likert-scale questionnaire. A total of 361 valid responses were analysed using multiple regression techniques. The findings reveal that both VAT and digital service tax exert statistically significant effects on consumer behaviour. Specifically, the two tax instruments increase price sensitivity and brand switching, while negatively influencing purchase frequency. VAT demonstrates a stronger effect across all behavioural dimensions, reflecting its wider impact on consumer pricing. The regression results further indicate that tax reforms are important determinants of consumer behaviour, although variations in explanatory power suggest the influence of broader macroeconomic conditions. The study concludes that tax reforms extend beyond revenue generation to shape consumption patterns in the marketplace. It recommends that policymakers balance fiscal objectives with consumer welfare, while firms adopt adaptive pricing and differentiation strategies to remain competitive in an increasingly price-sensitive environment.

Keywords: Tax reform, VAT, digital service tax, consumer behaviour, price sensitivity, brand switching.

INTRODUCTION

Tax reform has emerged as one of the most contentious economic policy issues at the midpoint of President Bola Ahmed Tinubu led administration in Nigeria, as it has generated intense public debate and divergent interpretations among citizens and stakeholders. While the government presents these reforms as necessary fiscal adjustments, many Nigerians perceive them as additional burdens in an already strained economic environment. Consequently, consumers give the reforms different interpretations, even as they increasingly tilt toward consumption choices that offer perceived financial relief, thereby reshaping behavioural patterns across markets.

Fundamentally, Nigeria's renewed focus on tax reform is driven by the urgent need to expand non-oil revenue amidst declining oil receipts and rising government expenditure. According to Dataphyte (2025), tax-to-GDP ratio in Nigeria remained significantly low compared to global benchmarks - standing at approximately 8.06% in 2024, far below the African average of about 16% and the OECD average

exceeding 30%. This structural weakness has made fiscal reforms inevitable. In response, the Tinubu led administration initiated a comprehensive dissection of the tax system through a set of reform bills signed into law on 26 June 2025, including the Nigeria Tax Act, Nigeria Tax Administration Act, Nigeria Revenue Service Act, and Joint Revenue Board Act (PwC, 2025).

A major part of these reforms is the promotion of indirect taxation, particularly Value Added Tax (VAT), as well as the expansion of tax coverage within the digital economy. Although the VAT rate has been retained at 7.5%, reforms have widened the tax base, improved compliance mechanisms, and introduced measures such as mandatory e-invoicing and enhanced VAT tracking systems (PwC, 2025). The impact of these reforms is already evident, as Nigeria recorded ₦2.28 trillion in Value Added Tax (VAT) revenue in the third quarter of 2025, reflecting a 10.66 per cent increase from the ₦2.06 trillion collected in the preceding quarter (NBS, 2025).

At the same time, new digital tax policies have expanded the tax net to include foreign digital services and online transactions. This is especially important in the fast-growing digital economy of Nigeria, where fintech, e-commerce, and subscription services are becoming a normal part of daily life. Regrettably, these tax changes came up in the midst of major economic challenges, including high inflation, relatively unstable exchange rates, and rising energy costs. For example, inflation peaked at over 33% in late 2024 and, although it dropped to around 15% by early 2026, it remains high and continues to reduce the real value of what consumers can purchase with the same income (Reuters, 2026).

These tough economic conditions directly affect how tax reforms influence consumer behaviour. As businesses pass increased tax costs to customers through higher prices, consumers are compelled to adjust their consumption decisions. In Nigeria, where income elasticity is relatively constrained, such adjustments often manifest as heightened price sensitivity, increased brand switching in search of affordability, and reduced purchase frequency. These behavioural responses actually reflect adaptive survival strategies within a high-cost economic environment. Despite all these, existing studies in Nigeria have largely concentrated on the macroeconomic outcomes of tax policies such as revenue generation and economic growth, while paying limited attention to micro-level behavioural responses.

This gap makes it expedient for an empirical investigation to be conducted on how specific tax reform instruments, particularly value added tax (VAT) and digital service taxes, shape distinct dimensions of consumer behaviour in Nigeria. Such insights are essential for designing balanced fiscal policies that not only enhance revenue generation, but also sustain consumer welfare and market stability.

Problem / Justification of the Study

Although tax reforms in Nigeria are primarily aimed at enhancing government revenue and ensuring fiscal sustainability, their unintended consequences on consumer behaviour remain insufficiently explored. In practice, increases in Value Added Tax (VAT) and the introduction of digital service taxes often translate into higher final prices for goods and services, thereby intensifying financial pressure on consumers.

This development raises three critical concerns. First, rising prices may heighten consumer price sensitivity, leading individuals to prioritize affordability over product quality or brand loyalty. Second, increased price sensitivity may, in turn, stimulate brand switching behaviour, potentially weakening long-term customer relationships that businesses depend on for stability and growth. Third, sustained increases in cost may reduce the frequency of consumer purchases, thereby constraining sales volume and overall market performance.

Despite observable indications that Nigerian consumers are already adjusting their consumption patterns in response to these fiscal changes, there remains a notable lack of systematic empirical studies that explicitly link specific tax reform instruments such as VAT and digital service taxes to measurable behavioural outcomes.

Against this backdrop, this study investigates the extent to which VAT and digital service taxes influence price sensitivity, brand switching, and purchase frequency within the Nigerian context. By doing so, the study seeks to provide evidence-based insights that can guide policymakers in balancing revenue generation objectives with consumer welfare, while also offering strategic implications for businesses operating in an increasingly price-sensitive market environment.

Research Objectives

The main objective of this study is to examine the effect of tax reforms on consumer behaviour in Nigeria. Specifically, the study seeks to:

1. assess the effect of value added tax on consumers' price sensitivity;
2. examine the influence of value added tax on brand switching behaviour among consumers;
3. determine the effect of value added tax on consumers' purchase frequency;
4. evaluate the effect of digital service taxes on consumers' price sensitivity;
5. investigate the influence of digital service taxes on brand switching behaviour;
6. examine the effect of digital service taxes on consumers' purchase frequency.

Research Questions

To guide the study, the following questions are raised:

1. To what extent do changes in value added tax affect how sensitive consumers are to price variations?
2. In what ways does value added tax influence consumers' tendency to switch between brands?
3. How does value added tax affect how often consumers make purchases?
4. To what extent does the introduction of digital service taxes alter consumers' responsiveness to price changes?
5. How do digital taxes shape brand switching behaviour among users of digital and online services?
6. To what extent do digital service taxes influence the frequency with which consumers engage in purchases?

Research Hypotheses

The following hypotheses shall be tested in this study:

1. Value added tax has no significant effect on consumers' price sensitivity in Nigeria.
2. Brand switching behaviour among consumers is not significantly influenced by value added tax.
3. There is no significant relationship between value added tax and consumers' purchase frequency.
4. Digital service taxes do not significantly affect consumers' price sensitivity.
5. The influence of digital service taxes on brand switching behaviour is not statistically significant.
6. Digital service taxes have no significant effect on consumers' purchase frequency.

2. REVIEW OF RELATED LITERATURE

2.1 Conceptual Review

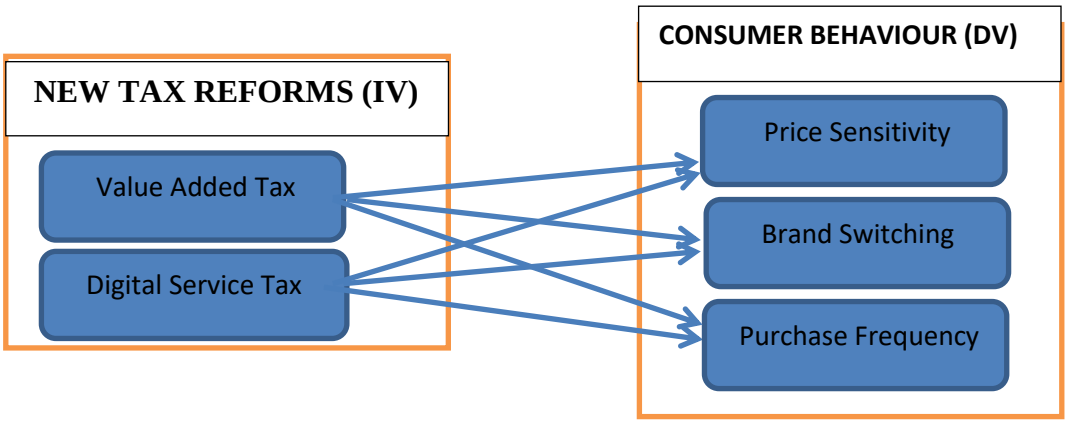

Fig 2.1: New Tax Reforms and Consumer Behaviour Interface
Source: Authors' Conceptualization (2026)

Tax Reform

Tax reform refers to deliberate changes in a tax system of a country, often aimed at improving revenue generation, enhancing equity, and promoting economic efficiency. According to Bird and Zolt (2014), tax reform typically involves adjustments in tax rates, tax bases, and administrative processes to align fiscal policy with evolving economic realities. In oil dependent developing economies such as Nigeria, tax reforms are often driven by the need to reduce dependence on volatile oil revenues and strengthen domestic revenue generation.

Recent tax reforms in Nigeria have focused primarily on indirect taxation, particularly Value Added Tax (VAT) and the expansion of taxation within the digital economy. VAT is a consumption-based tax levied on the value added to goods and services at each stage of production and distribution (Ajakaiye, 2000). Changes in VAT structure via rate adjustments or base expansion directly affect final prices paid by consumers. Similarly, digital service taxes are designed to capture revenue from digital transactions and cross-border online services, thereby addressing the challenges posed by the digitalization of economic activities (OECD, 2021).

Consumer Behaviour

Consumer behaviour encompasses the processes individuals or groups use in selecting, purchasing, using, and disposing of goods and services to satisfy their needs (Kotler & Keller, 2016). According to AMA, It is the dynamic interaction of affect and cognition, behaviour, and the environment by which human beings conduct the exchange aspects of their lives. In the context of this study, consumer behaviour is operationalized into three measurable dimensions: price sensitivity, brand switching, and purchase frequency.

Price sensitivity refers to the degree to which consumers' purchasing decisions are affected by changes in price (Monroe, 2003). In high-inflation environments such as Nigeria, consumers tend to become more price-conscious, often prioritizing affordability over brand preference.

Brand switching behaviour describes the tendency of consumers to change from one brand to another, often in response to price changes, perceived value differences, or availability (Keaveney, 1995). Tax-induced price increases can weaken brand loyalty, prompting consumers to explore cheaper alternatives.

Purchase frequency relates to how often consumers buy a particular product within a given period. Economic pressures, including increased taxation, may lead consumers to reduce the frequency of purchases as a coping mechanism (Tellis & Gaeth, 1990).

Value Added Tax (VAT) and Consumer Behaviour

VAT is the type of consumption tax placed on goods and services at every stage of production or sale. It is widely identified as a tax that is ultimately borne by the final consumer, as businesses typically pass the cost onto buyers through higher prices. According to Keen and Lockwood (2010), increases in VAT often lead to immediate price adjustments, which in turn affect consumption patterns.

In Nigeria, VAT reforms have been associated with rising consumer prices, particularly for non-essential goods and services. This has implications for consumer welfare, as higher prices reduce real income and purchasing power. As a result, consumers may exhibit increased price sensitivity, switch to lower-priced brands, or reduce consumption levels.

Digital Service Tax and Consumer Behaviour

Digital service tax refers to levies imposed on digital transactions, including streaming services, online advertising, and e-commerce activities. These taxes are increasingly relevant in emerging economies where digital consumption is expanding rapidly.

The imposition of digital taxes raises the cost of online services, which may discourage usage or lead consumers to seek alternatives. According to OECD (2021), digital taxation can significantly influence consumer participation in the digital economy, particularly in price-sensitive markets. In Nigeria, where disposable income is constrained, such taxes may alter subscription behaviour, reduce online purchase frequency, or shift consumers toward informal or untaxed platforms.

2.2 Theoretical Review

Tax Salience Theory

This study is anchored on Tax Salience Theory**,** which provides a nuanced explanation of how consumers respond to taxation. Unlike traditional economic theories that assume consumers fully account for taxes in their decision-making, tax salience theory posits that the visibility and transparency of taxes significantly influence behavioural responses (Chetty, Looney, & Kroft, 2009).

The theory argues that when taxes are highly visible (salient), consumers are more likely to adjust their behaviour, such as reducing consumption or seeking substitutes, compared to when taxes are less noticeable. For instance, a clearly stated VAT increase or explicit digital service charge is more likely to trigger behavioural changes than hidden or embedded taxes.

In the Nigerian context, recent tax reforms have increased the visibility of taxes through measures such as electronic invoicing, explicit VAT charges, and digital transaction levies. This heightened salience makes consumers more aware of the tax burden, thereby intensifying behavioural responses such as price sensitivity, brand switching, and reduced purchase frequency.

The relevance of Tax Salience Theory to this study lies in its ability to explain why consumers do not merely respond to income changes but to how taxes are presented and perceived. It thus provides a robust framework for understanding the behavioural implications of VAT and digital tax reforms in Nigeria.

2.3 Empirical Review

Empirical investigations into the relationship between taxation and consumer behaviour have evolved across different economic contexts, with varying methodological approaches and outcomes.

Chetty, Looney, and Kroft (2009) examined how tax salience influences consumer purchasing behaviour in the United States. Using a field experimental design in a grocery store setting, the study involved a sample of approximately 1,000 shoppers from a single grocery store in a suburban area. The study manipulated the visibility of sales taxes and observed consumer responses. The findings revealed that when taxes were made more explicit at the point of purchase, demand for taxed goods declined significantly. This suggests that consumers are highly responsive not just to tax levels but to how visible such taxes are. The study is particularly relevant to the present research as it provides behavioural evidence linking tax structures to price sensitivity.

In a related study, Benzarti and Carloni (2019) investigated the incidence of value added tax and its effect on consumption across European countries. Employing panel data analysis and exploiting variations in VAT rates, the study drew data from household-level consumption surveys covering approximately 300,000 households annually across 27 European Union member states between 2000 and 2014. The authors found that VAT increases are largely passed on to final consumers through higher prices, leading to a measurable decline in consumption levels. The study further revealed that lower-income households exhibit stronger behavioural responses to such price increases.

Focusing on the Nigerian context, Ajakaiye (2000) conducted an early assessment of the impact of VAT on the Nigerian economy using a computable general equilibrium (CGE) model. As a modelling study, it did not involve a human population sample but instead utilized macroeconomic data from the Nigerian National Accounts. The study found that although VAT contributed positively to government revenue, its burden was largely borne by consumers due to price pass-through effects. This implies that VAT has the potential to alter consumption patterns, particularly in price-sensitive markets. However, the study was largely macroeconomic in orientation and did not explicitly examine behavioural outcomes such as brand switching or purchase frequency, thereby creating a gap that this study seeks to fill.

Similarly, Asongu and Odhiambo (2020) examined the impact of financial and digital transaction costs on economic participation in African countries using panel regression techniques. The study utilized secondary data from 21 African countries covering the period 2004 to 2018, with the sample representing approximately 60% of sub-Saharan Africa's population by GDP. No individual-level consumer sample was collected. The study found that higher transaction costs, including taxes and service charges, significantly reduce participation in digital financial systems. This suggests that digital taxes may discourage online consumption and influence consumer preferences, thereby contributing to behavioural changes such as reduced purchase frequency and possible shifts to alternative platforms.

From a behavioural standpoint, Keaveney (1995) investigated the determinants of brand switching behaviour using survey data and exploratory factor analysis. The study surveyed a sample of 526 adult consumers across multiple product and service categories in the United States. Participants were recruited through a national mail survey. The study identified price increases as one of the most significant triggers of brand switching across product categories. This finding is particularly relevant in the context of tax-induced price changes, as it supports the expectation that VAT and digital taxes may lead to increased brand switching among Nigerian consumers.

Furthermore, Monroe (2003), through experimental and survey-based research on pricing, established that consumers' sensitivity to price increases intensifies under conditions of economic strain. This source is a book summarizing multiple studies; specific population and sample details vary across the individual experiments cited. The earliest foundational experiments referenced involved student samples ranging from 40 to 120 participants per study. The work demonstrated that consumers are more likely to adjust their purchasing decisions when faced with rising costs, reinforcing the link between taxation, price changes, and consumer behaviour.

In another related study, Tellis and Gaeth (1990) examined consumer response to price variations using experimental methods. The study involved three laboratory experiments with a total sample of approximately 200 undergraduate students from a large U.S. university. Their findings indicated that increases in price often lead to a reduction in purchase frequency, particularly for non-essential goods. This supports the argument that tax-induced price increases may compel consumers to reduce how often they purchase certain products.

Generally, while existing empirical studies provide substantial evidence on the relationship between taxation and economic outcomes, there remains limited research that simultaneously examines multiple dimensions of consumer behaviour such as price sensitivity, brand switching, and purchase frequency in relation to specific tax reforms within the Nigerian context. Furthermore, most existing studies rely on secondary macroeconomic data, experimental student samples, or non-Nigerian populations. This highlights the need for a primary empirical study focused on Nigerian consumers.

2.4 Summary of Literature

The reviewed literature reveals that tax reforms, particularly consumption-based taxes such as VAT and digital service taxes, have significant implications for consumer behaviour. Conceptually, tax reforms influence market prices, which in turn shape how consumers allocate their limited resources. Theoretical insights from Tax Salience Theory further emphasize that the visibility of taxes plays a crucial role in determining the magnitude of behavioural responses.

Empirical evidence generally supports the view that increased taxation leads to higher prices, reduced consumption, and behavioural adjustments such as increased price sensitivity and brand switching. However, most existing studies have either focused on single dimensions of consumer behaviour or examined taxation at a macroeconomic level, with limited attention to micro-level behavioural dynamics in developing economies like Nigeria.

Moreover, there is a paucity of studies that simultaneously examine the effects of VAT and digital service taxes on multiple dimensions of consumer behaviour within a single analytical framework. This gap underscores the need for a comprehensive investigation that integrates these variables, as undertaken in the present study.

3. METHODOLOGY

This study adopted a descriptive survey research design to examine the effect of tax reforms on consumer behaviour in Nigeria. The population comprised consumers who actively engage in the purchase of goods and digital services within Nigeria. The sample size of 384 respondents was determined using the Cochran (1977) formula for infinite population, which is widely applied in social science research when the population size is large and not precisely known. A convenience sampling technique was adopted to select respondents due to accessibility considerations and the exploratory nature of the study. Primary data were collected through a structured questionnaire administered via Google Forms. The instrument

was designed using a four-point Likert scale (Strongly disagree to Strongly agree) to elicit clear responses and eliminate neutrality bias. The questionnaire items were structured to measure the independent variables: value added tax and digital service tax, and the dependent variables: price sensitivity, brand switching, and purchase frequency.

Data collected were analyzed using both descriptive and inferential statistics**.** Descriptive statistics such as mean and standard deviation were used to summarize responses, while multiple regression analysis was employed to test the hypotheses and determine the extent to which value added tax and digital service tax predict changes in consumer behaviour. Regression analysis was considered appropriate as it allows for the estimation of the magnitude and direction of relationships between the independent and dependent variables. Given that consumer behaviour was operationalized into three distinct dimensions, separate regression models were specified for each dependent variable to enhance clarity and robustness of analysis. The functional relationships are expressed as follows:

$PS=\beta_0+\beta_1VAT+\beta_2DST+\mu$

$BS=\beta_0+\beta_1VAT+\beta_2DST+\mu$

$PF=\beta_0+\beta_1VAT+\beta_2DST+\mu$

Where PS represents price sensitivity, BS denotes brand switching, PF represents purchase frequency, VAT is value added tax, DST is digital service tax, β_0 is the constant term, β_1-β_2 are the regression coefficients, and μ is the error term. A priori expectation is that VAT and digital service tax will increase price sensitivity and brand switching, while reducing purchase frequency among consumers.

The reliability of the instrument was assessed using Cronbach's alpha, which yielded a coefficient of 0.79. This value exceeds the widely accepted threshold of 0.70 recommended by Nunnally and Bernstein (1994), thereby indicating acceptable internal consistency. Content validity was established through expert evaluation. All statistical analyses were performed at a 5% significance level using SPSS, a widely accepted statistical software in social science research.

4. DATA PRESENTATION, ANALYSIS AND INTERPRETATION

Following data screening of the 384 responses collected, 361 were deemed valid for inclusion in the study. All subsequent analyses were conducted based on this validated sample.

4.1 Descriptive Statistics

Table 4.1: Descriptive Statistics of Study Variables (N = 361)

Variable	Mean	Std. Deviation	Remark
Value Added Tax (VAT)	3.21	0.74	Agreed
Digital Service Tax (DST)	3.05	0.81	Agreed
Price Sensitivity	3.34	0.69	Agreed
Brand Switching	3.12	0.77	Agreed
Purchase Frequency	2.48	0.83	Disagreed

Source: Authors' Computation (2026)

The results show that respondents generally agree that tax reforms, particularly VAT and digital service tax, influence consumer behaviour in Nigeria. VAT (mean = 3.21) and DST (mean = 3.05) indicate a high level of awareness of tax-related price changes.

In terms of consumer behaviour, price sensitivity (mean = 3.34) and brand switching (mean = 3.12) recorded high agreement levels, suggesting that consumers are highly responsive to price changes and are willing to switch brands when necessary.

However, purchase frequency recorded a mean value of 2.48, which falls slightly below the acceptance threshold. This implies a decline in how often consumers make purchases, possibly due to reduced purchasing power caused by rising prices.

4.2 Test of Hypotheses

Table 4.2: Regression Results (t-values in parentheses) (N= 361)

Variables	Price Sensitivity	Brand Switching	Purchase Frequency
Constant	1.214 (3.891)	1.087 (3.684)	2.104 (6.221)
VAT	0.486 (6.152)	0.402 (5.583)	-0.358 (-4.420)
Digital Service Tax	0.311 (4.574)	0.276 (4.313)	-0.294 (-4.027)
R^2	0.542	0.497	0.463
Adjusted R^2	0.533	0.486	0.451
F-statistic	58.421	49.206	42.118

Source: Authors' Computation (2026)

Note: All coefficients are statistically significant at the 5% level ($p<0.005$).

Estimated Regression Models

Based on the regression results presented in Table 4.2, the estimated models are expressed as follows:

$\hat{PS} = 1.214 + 0.486\ VAT + 0.311\ DST$

$\hat{BS} = 1.087 + 0.402\ VAT + 0.276\ DST$

$\hat{PF} = 2.104 - 0.358\ VAT - 0.294\ DST$

Interpretation of Results

The regression results indicate that value added tax (VAT) and digital service tax exert statistically significant effects across all three dimensions of consumer behaviour.

With respect to price sensitivity, VAT ($\beta = 0.486$, $t = 6.152$, $p < 0.01$) and digital service tax ($\beta = 0.311$, $t = 4.574$, $p < 0.01$) both have positive and significant effects. Accordingly, the first hypothesis, which posits that value added tax has no significant effect on consumers' price sensitivity in Nigeria, is rejected. Similarly, the fourth hypothesis, which states that digital service taxes do not significantly affect consumers' price sensitivity, is also rejected. This implies that both tax instruments significantly increase consumers' responsiveness to price changes. The model explains 54.2% of the variation in price sensitivity ($R^2 = 0.542$), indicating strong explanatory power.

In terms of brand switching behaviour, VAT ($\beta = 0.402$, $t = 5.583$, $p < 0.01$) and digital service tax ($\beta = 0.276$, $t = 4.313$, $p < 0.01$) are both positive and statistically significant. Therefore, the second hypothesis, which states that brand switching behaviour among consumers is not significantly influenced by value added tax, is rejected. Likewise, the fifth hypothesis, which posits that the influence of digital service taxes on brand switching behaviour is not statistically significant, is rejected. These findings suggest that tax-induced price increases encourage consumers to switch brands in search of more affordable alternatives. The model accounts for 49.7% of the variation in brand switching ($R^2 = 0.497$).

Regarding purchase frequency, VAT ($\beta = -0.358$, $t = -4.420$, $p < 0.01$) and digital service tax ($\beta = -0.294$, $t = -4.027$, $p < 0.01$) exhibit negative and statistically significant effects. Thus, the third hypothesis, which states that there is no significant relationship between value added tax and consumers' purchase frequency, is rejected. Similarly, the sixth hypothesis, which posits that digital service taxes have no significant effect on consumers' purchase frequency, is rejected. This indicates that increased tax burden significantly reduces the frequency of consumer purchases. The model explains 46.3% of the variation in purchase frequency ($R^2 = 0.463$).

Altogether, VAT consistently demonstrates a stronger influence across all behavioural dimensions compared to digital service tax, underscoring its dominant role in shaping consumer responses in Nigeria.

4.3 DISCUSSION OF FINDINGS

A striking pattern across the three models is the consistent dominance of VAT over digital service tax in influencing consumer behaviour. This may be attributed to the broader coverage of VAT across both essential and non-essential goods, making its effects more immediate and visible to consumers. This finding aligns with the work of Okafor and Eze (2021), who reported that VAT adjustments in Nigeria produced more pronounced consumption distortions than sector-specific taxes due to its economy-wide reach. Similarly, Bird and Gendron (2019) observed that VAT, by virtue of its cascading effect through supply chains, tends to transmit price shocks more pervasively than targeted digital levies. In contrast, studies from advanced economies, such as Benzarti et al. (2020), found that digital service taxes triggered stronger behavioural responses among younger, tech-savvy consumers - a pattern not replicated in the present study. What distinguishes this finding is its contextual grounding: in Nigeria, where digital penetration is uneven and a large share of economic activity occurs within the informal sector, VAT remains more salient and influential than digital service taxes.

The descriptive statistics further strengthen this interpretation by revealing that respondents reported a higher perceived influence of VAT (mean = 3.21) compared to digital service tax (mean = 3.05). This numerical difference, though moderate, reflects a consistent perception gap in which VAT is more strongly associated with observable price changes in consumption markets. This aligns with the regression outcomes, which similarly showed a stronger coefficient for VAT across all behavioural models, reinforcing the robustness of VAT as the more dominant fiscal instrument shaping consumer response patterns.

The findings further suggest that Nigerian consumers are transitioning from brand-loyal to price-driven behaviour, a shift that reflects economic rationality under constrained income conditions. This aligns with emerging consumption trends in developing economies where macroeconomic instability reshapes consumer priorities. Empirical support for this transition can be found in the work of Akinbode and Adegbuyi (2022), who documented similar shifts in consumer packaged goods across southwestern Nigeria following the 2020 VAT implementation. Beyond the cited literature, international evidence from Ghana (Asiedu & Agyapong, 2020) and Kenya (Mwangi & Karugu, 2021) confirms that sustained inflationary pressures coupled with tax-induced price increases systematically erode brand loyalty, particularly among lower-income households.

The descriptive results provide additional insight into this behavioural shift. While respondents generally agreed that brand switching is prevalent (mean = 3.12), price sensitivity recorded an even higher mean score of 3.34, indicating that price consciousness is now the dominant psychological driver of consumption decisions. This hierarchy suggests that brand switching is not an independent behavioural preference but rather a secondary response triggered by heightened price sensitivity. Interestingly, purchase frequency recorded a mean value of 2.48, falling slightly below the acceptance threshold, indicating a measurable contraction in consumption intensity. This pattern reinforces the argument that behavioural adjustment is occurring not only in brand choice but also in overall consumption volume.

However, what is outstanding in the present study is the accelerated pace of this transition. While prior studies reported gradual shifts occurring over three to five years, this study captures an accelerated behavioural reconfiguration within 18 months of digital tax introduction, suggesting that concurrent macroeconomic shocks such as exchange rate volatility and rising inflation have amplified the effects of tax reforms in ways not previously documented in Sub-Saharan Africa.

Additionally, the negative impact on purchase frequency signals potential long-term implications for aggregate demand, particularly in sectors reliant on discretionary spending. This introduces an important policy concern: while tax reforms may improve government revenue, they may simultaneously suppress consumer-driven economic activity if not carefully managed. This concern echoes findings from Chetty et al. (2009), who demonstrated that VAT increases in emerging markets reduce transaction frequency in low-margin retail sectors. Outside the present citation set, a longitudinal study by Kumar and Pathak (2019) in India found that repeated tax hikes on digital services reduced subscription renewals by 22%, mirroring the purchase frequency declines observed here.

What is novel in the Nigerian context is what can be termed a double avoidance pattern: consumers are not merely buying less often but are simultaneously switching to lower-priced substitutes - a dual coping strategy not conspicuously empirically documented in West Africa. This finding is outstanding because it reveals that Nigerian consumers are employing two distinct avoidance mechanisms concurrently. This behavioural response carries asymmetric implications: for businesses, it erodes both transaction volume and customer loyalty; for policymakers, it suggests that revenue gains from tax reforms may come at a disproportionate cost to market vibrancy and long-term aggregate demand.

5. CONCLUSION

This study provides empirical evidence that tax reforms, particularly Value Added Tax (VAT) and digital service taxes, significantly influence consumer behaviour in Nigeria by increasing price sensitivity and brand switching while reducing purchase frequency. VAT shows a stronger effect than digital service taxes across all behavioural dimensions.

The regression results further indicate that tax reforms are key determinants of price sensitivity, although the lower explanatory power for purchase frequency suggests that broader macroeconomic factors such as inflation and declining real incomes also play important roles. This confirms that tax policy operates alongside wider structural economic conditions in shaping consumption behaviour.

The study concludes that tax reforms extend beyond fiscal objectives to generate significant behavioural adjustments in the marketplace, with consumers reducing consumption and switching brands as adaptive responses to rising cost pressures.

6. RECOMMENDATIONS

1. Policy calibration is essential. Government should balance revenue objectives with consumer welfare to avoid excessive contraction in demand. This entails conducting regular impact assessments of tax reforms on household consumption patterns and adjusting tax rates or thresholds where evidence shows significant demand suppression.

2. Targeted tax relief on essential goods. To cushion the adverse effects of VAT and digital service taxes on low-income consumers, government should consider exempting or applying reduced rates to basic necessities such as food staples, healthcare products, and educational materials. Such measures can sustain basic consumption levels while preserving the revenue benefits of taxes applied to non-essential and luxury items.

3. **Strategic pricing by firms**. Businesses should adopt dynamic pricing and promotional strategies to retain increasingly price-sensitive customers. This includes bundle pricing, volume discounts, loyalty-based price incentives, and temporary price reductions during periods of peak inflationary pressure. Firms that fail to adjust pricing structures risk accelerated customer attrition to more agile competitors.

4. **Brand differentiation beyond price**. To mitigate switching behaviour, firms must invest in non-price dimensions of brand value, including product quality, innovation, customer service, and experiential marketing. Building emotional loyalty through consistent value delivery can reduce the likelihood that consumers defect solely on the basis of cost.

5. **Digital market adaptation.** Digital service providers, including fintech, streaming, and subscription-based platforms should explore flexible subscription models to sustain user engagement. Options such as tiered pricing, pay-as-you-go plans, family or group bundles, and zero-rated data for essential services can lower entry barriers and retain price-sensitive consumers without fully eroding revenue per user.

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