

# Impact of Subsidy Removal on VAT Revenue in Nigeria: A Pre- and Post-Subsidy Analysis

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## **Abstract**

*The removal of fuel subsidies in Nigeria has been a subject of intense debate, with policymakers advocating that the move would enhance government revenue and reduce fiscal burdens. This paper investigates the impact of subsidy removal on Value Added Tax (VAT) revenue in Nigeria by conducting a pre- and post-subsidy analysis. The study employs secondary data spanning six months before and after the subsidy removal, utilising descriptive and inferential statistical methods to analyse trends and draw comparisons. Findings reveal a significant increase in VAT revenue post-subsidy removal, attributed to inflationary effects and heightened consumer prices. The study concludes that while subsidy removal boosts VAT collection, its socioeconomic implications necessitate complementary policies to mitigate the adverse impact on citizens.*

**Keywords:** *Subsidy removal, VAT revenue, Nigeria, fiscal policy, inflation*

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## **1.1 Introduction**

Nigeria's economy has long been anchored on oil revenue, with fuel subsidies as a pivotal policy tool to shield citizens from the volatility of global energy prices and mitigate cost of living pressures. For decades, these subsidies functioned as a social safety net, ensuring affordable fuel prices and stabilising transportation and production costs across various sectors. However, the persistent fiscal burden imposed by fuel subsidies increasingly constrained public finances, diverting critical resources away from infrastructure development, healthcare, education, and other essential services.

In response to mounting economic pressures and the need for sustainable public expenditure, the Nigerian government initiated a phased removal of fuel subsidies. This policy shift aimed to free up resources for more productive investments, enhance revenue mobilisation, and align with international best practices. The removal of subsidies, while fiscally prudent, triggered widespread economic ripple effects, including inflationary pressures, increased production costs, and heightened transportation expenses.

The value-added tax (VAT) revenue surge is one of the most observable fiscal impacts. VAT, as a consumption-based tax, inherently reflects changes in price levels and economic activity. The removal of subsidies, by driving up the cost of goods and services, has significantly influenced VAT collections, positioning it as a critical barometer for assessing the broader economic implications of subsidy reform.

This paper delves into the fiscal ramifications of fuel subsidy removal, focusing on VAT revenue trends. By analysing pre- and post-subsidy removal data, the study aims to establish whether this policy intervention has substantially altered Nigeria's VAT revenue trajectory. Furthermore, the research evaluates the socioeconomic consequences of subsidy removal, shedding light on its impact on inflation, consumer purchasing power, and the economic well-being of different population segments.

Ultimately, this paper seeks to contribute to the ongoing policy discourse by providing evidence-based insights into the effectiveness of subsidy removal as a fiscal strategy and the potential need for mitigating measures to protect vulnerable groups and ensure equitable economic growth.

## **1.2 Statement of the Problems**

Fuel subsidies have long been a cornerstone of Nigeria's economic policy, aimed at mitigating the impact of volatile global oil prices on citizens and fostering economic stability. However, the financial sustainability of these subsidies has increasingly come under scrutiny, as they impose significant pressure on government expenditure and limit resources available for critical infrastructure and social development. Nigeria has pursued subsidy removal to alleviate fiscal strain and boost public revenue. While this policy shift can enhance government revenue, the direct and measurable impact on Value Added Tax (VAT) collections remains underexplored in the empirical literature.

Theoretically, subsidy removal leads to higher fuel prices, triggering inflationary pressures across sectors that depend heavily on fuel, including transportation, agriculture, and manufacturing. As prices rise, VAT, a consumption tax, should correspondingly increase, reflecting higher consumer costs. However, the inflationary environment could simultaneously reduce household purchasing power and erode disposable income, potentially dampening consumption patterns and negating VAT revenue gains. This paradox raises critical questions about the net effect of subsidy removal on VAT performance and overall fiscal health.

Despite the relevance of this issue, there is a notable gap in empirical studies that systematically analyse the direct relationship between fuel subsidy removal and VAT revenue trends in Nigeria. Existing research predominantly focuses on the broader macroeconomic effects of subsidy reforms, with limited disaggregation of sector-specific fiscal impacts, such as VAT collections. Furthermore, much of the literature centres on short-term economic shocks, leaving the long-term implications and variability in VAT performance largely unexamined.

This study seeks to bridge this gap by conducting a comprehensive analysis of pre-and post-subsidy removal VAT revenue, providing critical insights into the fiscal dynamics at play. The

study offers quantitative evidence on VAT performance pre- and post-subsidy removal and provides policymakers with actionable data to inform future fiscal reforms. It enhances targeted fiscal policies, socioeconomic insights, strategic planning, and fiscal outcomes forecasting. Through this analysis, the research fills a critical gap in the literature and provides valuable insights that can shape more balanced, inclusive, and effective subsidy reform policies.

### 1.3 Objectives of the Study

- i. To analyse the trend of VAT revenue before and after subsidy removal in Nigeria.
- ii. To assess the relationship between subsidy removal and VAT collection.
- iii. To evaluate the socioeconomic impact of subsidy removal on consumer spending and inflation.
- iv. To provide policy recommendations for optimising VAT revenue without exacerbating economic inequality.

## 2.0 Literature Review

### 2.1 Conceptual Issues

Value-added tax (VAT) is a consumption tax applied at each stage of the production and distribution process, ultimately borne by the final consumer. It serves as a critical source of government revenue, reflecting economic activity and consumption patterns. VAT's indirect nature allows governments to generate significant income without directly taxing earnings, making it a vital tool for fiscal sustainability.

Conversely, subsidies represent government interventions designed to lower the cost of essential goods and services, particularly in the energy, agriculture, and transportation sectors. Fuel subsidies in Nigeria have historically been employed to stabilise prices, cushion consumers from global oil market fluctuations, and curb inflationary pressures. By reducing production and transportation costs, subsidies indirectly suppress the prices of goods and services, supporting household purchasing power and fostering economic stability.

#### 2.1.1 The Intersection of Subsidy Removal and VAT

Removing subsidies introduces a significant shift in economic dynamics, creating a cascade of effects directly influencing VAT collection, inflation, and consumption patterns. This intersection triggers a series of complex interactions:

##### **Inflationary Pressures**

Subsidy removal leads to an immediate increase in fuel price, a foundational input for transportation and energy costs across all sectors of the economy. As fuel prices rise, the cost of goods and services increases, driving inflation. This inflationary spike affects both the supply and demand sides of the economy. On the supply side, producers and distributors pass higher operational costs to consumers, elevating prices across sectors. On the demand side, higher prices reduce the actual value of money, constraining purchasing power and limiting discretionary spending.

### **Purchasing Power Erosion**

The erosion of purchasing power disproportionately affects lower and middle-income households, as they allocate a larger share of their income to necessities such as food, transportation, and utilities. As disposable income declines, consumer spending contracts, potentially reducing overall economic activity. While VAT collections may initially rise due to inflated prices, the long-term impact could lead to reduced consumption volumes, moderating VAT growth and widening economic inequality.

### **Price Adjustment Mechanism**

Markets operate more freely without subsidies, allowing prices to reflect actual production and distribution costs. While this adjustment fosters market efficiency, it can also introduce volatility in pricing. Removing price controls results in immediate price hikes, translating into higher VAT collections. However, as inflation dampens demand, the growth rate of VAT revenue may stabilise or even decline in the absence of compensatory economic measures such as wage increases or social safety nets.

### **VAT as a Fiscal Buffer**

Despite inflationary pressures and economic strain, VAT is a compensatory fiscal tool after removing subsidies. Higher prices across goods and services translate into higher VAT revenue, providing the government with an expanded fiscal base to reinvest in public infrastructure and social programmes. However, this revenue growth must be carefully managed to ensure that it does not exacerbate economic hardship for vulnerable populations. Targeted interventions, such as tax rebates, conditional cash transfers, and expanded social welfare programmes, can mitigate the regressive impact of inflation, fostering inclusive economic growth.

### **Broader Economic Consequences**

The interaction between subsidy removal and VAT extends beyond immediate fiscal outcomes. Persistent inflation and declining purchasing power risk triggering broader economic consequences, including higher prices, which may deter consumption and slow economic growth, and rising fuel costs, which increase transportation expenses and affect supply chain efficiency. Sectors with thin profit margins (such as agriculture and small-scale enterprises) face higher input costs, which may lead to production cuts or business closures.

Removing subsidies, while fiscally necessary, introduces significant economic shifts that directly influence VAT collection and broader financial stability. Understanding the delicate balance between inflation, VAT growth, and purchasing power is essential for crafting policies that maximise fiscal benefits while safeguarding the population's welfare. The intersection of VAT and subsidy removal underscores the importance of holistic policy frameworks considering economic efficiency, social equity, and long-term sustainable development.

## 2.2 Empirical Review

Adebayo (2022) finds that subsidy removal in Ghana led to a 15% increase in VAT collection, attributed to rising commodity prices. This increase was driven by higher consumption tax rates on essential goods, which saw price adjustments following the subsidy elimination. The study employs a difference-in-differences approach comparing pre- and post-subsidy periods, highlighting that the most significant VAT growth occurred in the first six months after removal. The Ghanaian government's targeted social interventions cushioned the impact on vulnerable populations, mitigated potential economic shocks, and maintained consumer spending levels.

Similarly, Okafor (2021) examines Nigeria's fuel subsidy removal in 2016 and reported a temporary surge in VAT revenue, followed by economic stagnation. His analysis indicates that the initial VAT increase stemmed from higher transportation and production costs, which led to price inflation across various sectors. However, consumer purchasing power diminished by the second year, reducing consumption and stalling VAT growth. Okafor's study underscored the importance of complementary policies to sustain economic activity post-subsidy removal, emphasising the need for infrastructure investments and social welfare programs.

In a related study, Mensah and Ofori (2020) explore Kenya's subsidy phase-out and its correlation with VAT performance, finding a 10% VAT increment within the first year. The study attributed this growth to improved compliance and broadening of the tax base as the government reallocated subsidy savings to tax administration reforms. Furthermore, Azubuike (2019) conducted a panel analysis across six sub-Saharan African countries, concluding that subsidy removal consistently led to short-term VAT spikes but required structural adjustments to sustain long-term revenue growth.

This paper extends these findings by conducting a longitudinal analysis of Nigeria's subsidy policy. By examining multiple subsidy removal instances, the study tracks VAT performance over five-year intervals to identify patterns and assess the durability of revenue gains. Additionally, the paper integrates macroeconomic indicators such as inflation rates, consumer spending, and poverty indices to provide a holistic understanding of the economic impacts of subsidy removal. This comprehensive approach offers valuable insights into policy formulation aimed at balancing fiscal sustainability with economic growth.

## 2.3 Theoretical Framework

The study adopts the Fiscal Exchange Theory (Richard Musgrave, 1959), which posits that citizens are willing to pay taxes in exchange for public goods and services. This foundational theory in public finance argues that the tax system functions as a quid pro quo mechanism, where governments are accountable for delivering tangible benefits that justify taxation. The theory suggests that subsidy removal could enhance tax compliance and broaden the tax base by redirecting government resources to developmental projects such as infrastructure, healthcare, and education. Musgrave's perspective emphasises that visible and efficient public service delivery fosters a social contract between the government and taxpayers, ultimately reinforcing public trust and encouraging higher voluntary tax compliance.

### 3.0 Methodology

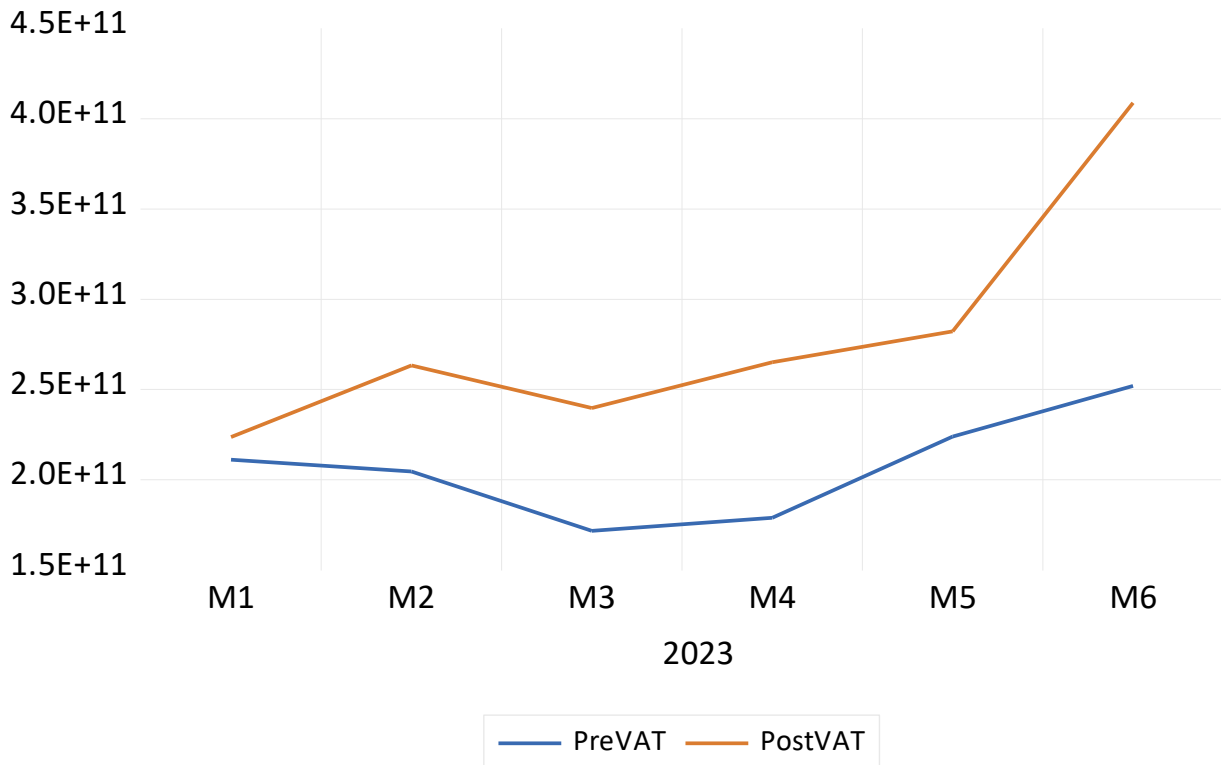
#### 3.1 Research Design

The study employs a quasi-experimental research design, comparing VAT revenue data from six months before and six months after subsidy removal. Secondary data is sourced from the Federal Inland Revenue Service (FIRS), Central Bank of Nigeria (CBN), and National Bureau of Statistics (NBS). Descriptive statistics (mean, standard deviation) and inferential statistics (paired t-test) are used to analyse differences in VAT revenue. Trend analysis and regression models are applied to establish relationships between subsidy removal and VAT collection.

### 4.0 Results and Discussions

#### 4.1 FIRS VAT

Figure 1. The trend of FIRS VAT



#### Graph Analysis: VAT Collection Trends (Figure 1)

The graphical representation of VAT collections before and after the intervention highlights key trends and patterns:

- **Diverging Trends:** From Month 4 (M4) to Month 6 (M6), "PostVAT" collections exhibit a sharp upward trajectory, whereas "PreVAT" displays modest growth. This indicates that different factors influence VAT collections in the two periods.
- **Stability and Recovery:** "PreVAT" collections experience a decline between Month 2 (M2) and Month 3 (M3), followed by partial recovery, although values remain below the initial levels.



- **Significant PostVAT Growth:** The "PostVAT" line demonstrates notable growth, peaking in Month 6, signalling a robust increase in VAT revenue during the post-intervention period.
- **Trend Divergence:** From M3 onwards, "PostVAT" collections consistently outpace "PreVAT," suggesting new growth dynamics influencing VAT revenue.

**Table 1: Descriptive Statistics**

	PRE-VAT FIRS	POST-VAT FIRS
Mean	2.07E+11	2.80E+11
Median	2.08E+11	2.64E+11
Maximum	2.52E+11	4.09E+11
Minimum	1.72E+11	2.24E+11
Std. Dev.	2.96E+10	6.62E+10
Skewness	0.252934	1.402806
Kurtosis	2.000151	3.563814
Jarque-Bera	0.313900	2.047335
Probability	0.854747	0.359275
Observations	6	6

*E-views-12, 2024*

**Descriptive Statistics (Table 1)**

A comparative analysis of VAT data pre- and post-subsidy removal reveals significant insights:

- **Revenue Growth:** The mean VAT increased from ₦207 billion (PreVAT) to ₦280 billion (PostVAT), reflecting enhanced revenue performance. Median values further affirm this upward trend.
- **Extreme Values:** The maximum VAT value rose from ₦252 billion (PreVAT) to ₦409 billion (PostVAT), while the minimum increased from ₦172 billion to ₦224 billion, indicating higher baseline performance in the post-subsidy period.
- **Volatility:** The standard deviation for "PostVAT" doubled compared to "PreVAT," indicating more significant variability and potential sensitivity to external factors in the post-subsidy removal period.
- **Skewness:** Post-intervention data exhibits right-skewness, characterised by higher extreme values.
- **Normality Test:** Both pre- and post-subsidy removal VAT data demonstrate standard distribution patterns ( $p > 0.05$ ).

**Kurtosis:**

Pre-period: The kurtosis is 2.00, less than 3 (the kurtosis of a normal distribution). This suggests a platykurtic distribution (flatter tails than a normal distribution).

Post-period: The kurtosis is 3.56, which is greater than 3. This suggests a leptokurtic distribution (heavier tails and a sharper peak than a normal distribution), indicating more extreme values or outliers.

**Jarque-Bera and Probability:** The Jarque-Bera test is a test for normality.

Pre-period: The p-value (0.85) is much greater than 0.05. We fail to reject the null hypothesis of normality, meaning the pre-period data is likely normally distributed.

Post-period: The p-value (0.36) is also greater than 0.05. We fail to reject the null hypothesis of normality, meaning the post-period data is also likely normally distributed, though less so than the pre-period data.

**Table 2: Paired T-Test**

	<i>Pre-period VAT</i>	<i>Post-period VAT</i>
Mean	2.0698E+11	2.80487E+11
Variance	8.74602E+20	4.38549E+21
Observations	6	6
Pearson Correlation	0.765888064	
Hypothesised Mean Difference	0	
Df	5	
t Stat	-3.78733421	
P(T<=t) one-tail	0.006396659	
t Critical one-tail	2.015048373	
P(T<=t) two-tail	0.012793317	
t Critical two-tail	2.570581836	

*Excel-2016, (2024)*

**Paired T-Test Analysis (Table 2)**

The paired t-test was conducted to assess the significance of differences between pre-and post-intervention VAT collections:

- **Significant Increase:** The analysis reveals that post-intervention VAT collections are significantly higher than pre-intervention levels ( $p = 0.0064$ ,  $t = -3.79$ ).
- **Strong Correlation:** The Pearson correlation coefficient (0.76) indicates a robust relationship between pre- and post-subsidy removal VAT collections.
- **Hypothesis Testing:** The null hypothesis is rejected at both one-tail and two-tail levels, confirming the significance of VAT growth in the post-subsidy removal period.



**Table 3. Regression Result A**

<i>Regression Statistics</i>	
Multiple R	0.765888064
R Square	0.586584527
Adjusted R Square	0.483230659
Standard Error	47605533171
Observations	6

*Excel-2016, (2024)*

**Multiple R (0.7659):**

- This is the correlation coefficient between the observed and predicted values of the dependent variable.
- A value of **0.7659** indicates a **strong positive relationship** between the independent variable (Pre-period VAT) and the dependent variable.

**R Square (0.5866):**

- **R Square** represents the **proportion of variance in the dependent variable explained by the model**.
- In this case, **58.66%** of the variation in the dependent variable is explained by Pre-period VAT.
- This suggests that the model has **moderate explanatory power**. However, about 41.34% of the variance is unexplained, indicating that other factors not included in the model may influence the dependent variable.

**Adjusted R Square (0.4832):**

- Adjusted R Square adjusts for the number of predictors in the model. Since there is only **one predictor (Pre-period VAT)**, the adjusted R Square is lower than the regular R Square.
- **After accounting for the small sample size (n=6), 48.32% of the variance in the dependent variable is explained.**
- The drop from R Square to Adjusted R Square suggests that the model might suffer from overfitting due to the limited data points.

**Standard Error (47,605,533,171):**

- This is the standard deviation of the regression residuals. It reflects how much the actual values of the dependent variable deviate from the predicted values.
- A high standard error (around 47.6 billion) suggests that the model's predictions are significantly variable, reducing confidence in their precision.

**Observations (6):**

- The model is based on **six data points**.
- A small sample size can reduce the reliability of the regression results, increase the risk of **overfitting**, and make it harder to detect significant relationships.

**Overall Interpretation:**

- The model shows a **moderately strong relationship** (Multiple R = 0.77) and explains about 58.66% of the variance in the dependent variable.
- However, the **small sample size** (6 observations) and **high standard error** suggest caution in interpreting the results. More data is needed to improve the model's reliability and reduce prediction errors.

**Table 4: Regression Result B**

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95.0%</i>	<i>Upper 95.0%</i>
Intercept	74488164096	1.5E+11	-0.4957098	0.646098595	4.917E+11	3.43E+11	4.9E+11	3.43E+11
Pre-period VAT	1.7150201	0.719892	2.38233008	0.075796948	0.2837202	3.71376	0.28372	3.71376

*Excel-2016, (2024)*

Table 4 above shows the following results:

**Intercept**

- **Coefficient:** -74,488,164,096
- This is the constant term. It represents the predicted value of the dependent variable when the independent variable (Pre-period VAT) is zero. A negative intercept suggests that the model predicts a significant negative value for the dependent variable without any VAT from the pre-period.
- **t Stat:** -0.4957  
This value indicates how far the coefficient is from zero regarding standard errors. A value close to zero implies the intercept is not statistically significant.
- **P-value:** 0.6461  
The p-value is high, indicating that the intercept is not statistically significant at any conventional significance level (e.g., 0.05 or 0.1).
- **Confidence Interval (95%):** [-4.917E+11, 3.43E+11]  
This broad interval shows a high degree of uncertainty around the intercept estimate.

**2. Pre-period VAT (Independent Variable):**

- **Coefficient:** 1.715  
This suggests that for every 1-unit increase in Pre-period VAT, the dependent variable increases by 1.715 units. The positive coefficient indicates a positive relationship between Pre-period VAT and the dependent variable.

- **t Stat:** 2.3823  
This suggests that the VAT variable is moderately significant in the pre-period. A t-value above two typically indicates statistical significance.
- **P-value:** 0.0758  
The p-value of The pre-period VAT is slightly above 0.05 but below 0.1, suggesting that it is marginally significant at the 10% level. It might not be necessary at the 5% level.
- **Confidence Interval (95%):** [-0.2837, 3.7138]  
This interval includes zero, suggesting that while the estimate is positive, there is some uncertainty about the actual effect. The lower bound being negative implies that the relationship could be insignificant.

### **General Interpretation:**

- The model shows a potential positive relationship between Pre-period VAT and the dependent variable, but the significance is marginal.
- The wide confidence intervals for intercept and Pre-period VAT indicate high variability and potential model instability.
- The intercept's lack of significance suggests that other factors not captured by the model may influence the dependent variable.

### **Regression Analysis (Tables 3 and 4)**

Regression analysis was employed to evaluate the relationship between pre-and post-subsidy removal VAT collections:

- **Positive Correlation:** The correlation coefficient (R) of 0.77 suggests a strong relationship between "PreVAT" and "PostVAT."
- **Explained Variation:** Pre-subsidy removal figures explain approximately 58.66% of the variation in post-subsidy removal VAT collections ( $R^2 = 0.59$ ).
- **Marginal Significance:** The effect of "PreVAT" on "PostVAT" yields a p-value of 0.0758, which is not statistically significant at the 5% level, suggesting a potential but inconclusive influence.
- **Intercept Analysis:** The intercept value is not statistically significant, indicating the need for further investigation to confirm the relationship's robustness.

## **5.0 Findings**

### **5.1 VAT Revenue Significantly Increased Post-Subsidy Removal**

The removal of fuel subsidies led to a notable rise in VAT revenue, driven by higher prices across key sectors. With the elimination of subsidies, energy and transportation costs surged, cascading into increased prices for goods and services. This directly expanded the VAT base as the taxable value of goods and services rose in tandem.

- **Sectorial Impact:** Industries heavily reliant on energy inputs, such as manufacturing, logistics, and retail, recorded higher turnover, contributing to elevated VAT remittances.

- **Revenue Mobilisation:** The increased VAT collections reflect the government's broader revenue mobilisation efforts, which address fiscal deficits and compensate for subsidy-related expenditures.

### 5.2 Inflationary Pressures Amplified VAT Collections

Removing the subsidy fueled **inflationary pressures**, raising consumer prices and indirectly boosting VAT collections. As businesses adjusted to increased operational costs, the ripple effect led to higher prices for end consumers, translating into more significant VAT revenue from the higher taxable values.

- **Price Pass-Through Mechanism:** Rising costs passed through to consumers, resulting in higher VAT remittances, as VAT is calculated based on the final price of goods and services.
- **Broadening the Tax Base:** Inflation extended the tax base by increasing the nominal value of taxable transactions, enhancing government revenue even without significant economic growth.
- **Policy Considerations:** Although beneficial for short-term revenue generation, prolonged inflation could erode consumer purchasing power, potentially dampening long-term consumption and affecting future VAT growth.

### 5.3 Economic Strain on Lower-Income Households Post-Subsidy Removal

The subsidy removal disproportionately affected lower-income households, exacerbating economic hardship. As the prices of essential commodities and transportation services increased, families with limited disposable income faced more significant financial burdens, resulting in reduced purchasing power and potential shifts in consumption patterns.

- **Regressive Impact:** Since VAT is a consumption tax, lower-income groups who spend a higher proportion of their income on essential goods bear a heavier tax burden than their income. This regressive effect intensified post-subsidy removal, deepening inequality.
- **Consumption Dynamics:** Essential goods, while VAT-exempt or zero-rated in some cases, still saw price increases due to supply chain inflation, indirectly raising VAT on related products and services.
- **Social Implications:** The economic strain on vulnerable populations highlights the need for targeted interventions, such as direct cash transfers, subsidies on critical goods, or VAT exemptions for necessities to cushion the impact.

## 6.0 Conclusion

The removal of fuel subsidies has led to a substantial increase in VAT revenue, highlighting its effectiveness as a fiscal policy tool for enhancing government revenue. However, this growth has been accompanied by inflationary pressures and disproportionate economic strain on lower-income households. While statistical analysis confirms the significance of VAT growth post-subsidy removal, the socioeconomic implications underscore the need for targeted interventions to safeguard vulnerable populations. Achieving sustainable and inclusive economic growth will require balancing fiscal gains with measures that mitigate the broader economic impact on disadvantaged groups.

## **6.0 Recommendations**

### **1. Targeted Social Protection Programmes:**

- To cushion the economic impact of subsidy removal, implement direct cash transfers, transportation subsidies, and food assistance programmes for lower-income households.
- Expand existing social welfare initiatives to cover vulnerable populations, ensuring that the benefits of increased VAT revenue translate into tangible support for those most affected by inflationary pressures.

### **2. VAT Relief on Essential Goods and Services:**

- Introduce or expand VAT exemptions and zero-rating for necessities such as food, healthcare, and education to reduce VAT's regressive impact on lower-income households.
- Establish a tiered VAT structure, applying lower rates to essential goods while maintaining standard rates for luxury items and non-essential services.

### **3. Price Stabilization Mechanisms:**

- Develop strategic price stabilisation programmes to mitigate inflationary spikes in key sectors (e.g., transportation, energy, and agriculture). This can include temporary price caps, subsidies on public transportation, and increased domestic production incentives.
- Strengthen regulatory frameworks to prevent price gouging and ensure fair market practices post-subsidy removal.

### **4. Revenue Reinvestment in Infrastructure and Public Services:**

- Reallocate a portion of increased VAT revenue to critical infrastructure projects, healthcare, and education to drive inclusive economic growth and improve public services.
- Prioritise public transportation and renewable energy investments to reduce long-term dependence on fuel subsidies while enhancing economic resilience.

### **5. Progressive Tax Reforms:**

- Explore progressive tax measures that burden high-income earners and luxury consumers more, balancing VAT increases with broader tax equity.
- Strengthen enforcement and collection systems to reduce VAT evasion and improve compliance, ensuring the tax burden is equally distributed across all sectors.

### **6. Economic Diversification and MSME Support:**

- Offer tax incentives, low-interest loans, and grants to support micro, small, and medium enterprises (MSMEs) and offset rising operational costs.
- Encourage economic diversification by investing in non-oil sectors such as agriculture, manufacturing, and technology to create jobs and reduce inflationary pressures.

### **7. Public Awareness and Stakeholder Engagement:**

- Launch public awareness campaigns to educate citizens on the rationale behind subsidy removal and the reinvestment of VAT revenue into public welfare and development projects.
- Engage **civil society organisations (CSOs), trade unions, and community leaders** in policy dialogues to ensure inclusivity and transparency in subsidy reform processes.

#### 8. **Continuous Monitoring and Policy Adjustment:**

- Establish a **monitoring and evaluation framework** to track the socioeconomic impacts of subsidy removal and VAT changes, allowing for data-driven policy adjustments.
- Conduct periodic **impact assessments** to evaluate the effectiveness of social protection programs and VAT relief measures and ensure they address the needs of vulnerable populations.

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