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Social impact of VAT based tax-transition: The case of Togo


RÉSUMÉ

Does the tax system of developing countries absorb tax transition reforms based on VAT? This paper attempts to answer the question by assessing the distributional and poverty consequences of VAT based tax-tariff reforms stationed on the case of Togo. Building on a computable general equilibrium model of tax changes coupled with microsimulation framework, the paper evidences that, VAT based tax-tariff reform implemented at the country level is poverty and inequality increasing. A point for point increase in VAT to compensate for trade tax revenues with the actual VAT rate of 18% enlarges poverty at this country level. Nonetheless, a low VAT rate of 15%, with exemption of agricultural goods from VAT coverage is found to have preferred poverty consequences. Notwithstanding, the analysis reveals that, non-farmers’ households are the one that encounter the greatest increase in poverty incidence following the reform, as compare to farmers. Yet, disaggregating households according to their residence place also reveals the interesting result that, poverty is urban based within the group of farmers, while at the same time is rural based within the group of non-farmers. The paper also points out that, targeted social transfers to households with revenue brought by the reform, may counteract the poverty rising effect of the reform, while dealing with inequality to some extent.

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