

The impact of a permanent VAT hike and a temporary VAT cut on household spending: Evidence from Hypothetical Scenarios

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Abstract

This paper examines the impact of a change in the value added tax (VAT) rate on household spending based on randomly assigned hypothetical VAT rate scenarios. Our findings are as follows. First, an unanticipated VAT hike from the current 10% to 20% lowers non-durable spending, but is not statistically significant. Second, an unanticipated temporary VAT cut from 10% to 0% significantly stimulates household spending through intertemporal substitution effects. Finally, the way in which increased tax revenue by the VAT hike is used and the way in which decreased tax revenue by the VAT cut is compensated do not affect household spending behavior.

Keywords: value added tax, household expenditure, hypothetical scenarios, randomized control trial

JEL Classification: E21, E62, H20, H31

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