

CHANGES IN VAT RATES IN THE ECONOMIC LITERATURE: IMPLICATIONS FOR CONSUMPTION AND SME ACTIVITY

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Abstract:

Value-added tax is one of the most widely used fiscal policy instruments, playing an important role in supporting budget revenues and influencing economic activity. In this context, this study aims to analyze the economic literature on the effects of changes in VAT rates on consumption and the activity of small and medium-sized enterprises. The research is based on a narrative analysis of the specialized literature, conducted using 34 scientific articles identified in the Web of Science Core Collection database. The results highlight that changes in VAT rates influence consumption, price levels, and inflation, with the effects depending on the economic context and the characteristics of the goods analyzed. At the same time, the analyzed literature indicates that SMEs are more sensitive to changes in fiscal policies compared to large companies, with effects observed on liquidity, investment, competitiveness, exports, and economic performance. The analysis also highlights the limitations of current research, stemming from a focus on narrow geographic and economic contexts, as well as the need for comparative studies that capture differences across economic sectors, categories of enterprises, and tax systems.

Key words: Value added tax, consumption, SMEs, fiscal policies, business performance

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1. INTRODUCTION

As one of the most sustainable fiscal policy instruments at the international level, the value-added tax has been the subject of numerous studies in the economic literature. Both in Romania and across the entire European Union, the value-added tax is one of the main sources of tax revenue, playing an essential role in maintaining budgetary balance and influencing economic activity. Through its mechanism of operation, value-added tax transcends the strictly fiscal dimension, generating effects on price levels, consumption, and the economic behavior of economic agents (Ebrill et al., 2001).

In the literature, changes in VAT rates are frequently associated with shifts in consumption patterns and aggregate demand, and are regarded as an important tool for economic intervention (Benkovskis & Fadejeva, 2014). An increase in VAT rates can lead to higher prices and lower consumption, while a decrease in VAT rates is generally associated with stimulating demand and supporting economic activity (Buettner & Madzharova, 2021). In this context, small and medium-sized enterprises are among the economic sectors most vulnerable to changes in tax policy, due to their limited financial resources and reduced ability to adapt to economic and legislative changes. Recent research shows that changes in VAT rates can indirectly influence the operations of SMEs through their impact on consumption, costs, and market demand (Peng et al., 2022), (Liu et al., 2023).

Academic interest in the impact of changes in VAT rates on the economy has been on the rise, with a slight decline in 2020 and a more pronounced increase in 2024, driven by inflationary pressures, tax reforms, and concerns about the sustainability of economic activity. Existing studies examine the effects of VAT both from a macroeconomic perspective—by assessing its impact on consumption, inflation, and economic growth—and from a microeconomic perspective—by analyzing its implications for business activity and the business environment. At the same time, the literature highlights the fact that SMEs are more vulnerable to changes in fiscal policy than large companies, as they are more dependent on the stability of the economic environment and on changes in demand (Wu et al., 2021), (Dai & Zhao, 2021).

Given the diversity and complexity of the findings in the economic literature, a narrative analysis of the literature serves as an important tool for synthesizing and critically interpreting previous research (Baumeister & Leary, 1997),(Ferrari, 2015). This type of analysis makes it possible to identify the main areas of research, the relationships between the economic concepts under examination, and the prevailing views on changes in VAT rates affecting consumption and SME activity. At the same time, narrative analysis helps highlight the differences between the findings of existing studies and identify the main gaps in the economic literature.

In this context, the purpose of this study is to analyze the economic literature on the effects of changes in VAT rates on consumption and SME activity, highlighting the main findings, prevailing research trends, and current perspectives in the literature. To achieve this purpose, the study pursues the following objectives:

O1. Identify the main lines of research on the effects of changes in VAT rates on consumption;

O2. Analyze studies on the impact of changes in VAT rates on the activity of small and medium-sized enterprises;

O3. Highlighting the main perspectives and findings in the economic literature regarding the relationship between VAT, consumption, and SME activity;

O4. Identifying the main limitations and future research directions regarding the impact of VAT on economic activity;

Based on these objectives, this article aims to answer the following research questions:

RQ1. How do changes in VAT rates influence consumer behavior?

RQ2. What are the main effects identified in the literature regarding the activity of SMEs?

RQ3. What are the dominant trends and current limitations of research on the impact of VAT on the economy and the business environment?

2. RESEARCH METODOLOGY

The literature review protocol was developed in a transparent and rigorous manner; the selection of studies was not arbitrary but was guided by the previously established research objectives and questions. (Ferrari, 2015) emphasizes that a detailed description of the process of identifying, selecting, and analyzing the literature is an essential element for validating a narrative review, as it allows the reader to understand how the studies included in the analysis were selected. Similarly, (Green et al., 2006) emphasize that a rigorous protocol must include the databases used, the search terms, and the criteria for including and excluding studies. At the same time, (Baumeister & Leary, 1997) argue that the rigor and transparency of the literature search protocol help to counter the criticism that narrative reviews are overly subjective. The literature review protocol was developed in direct alignment with the research objectives and aimed to identify studies analyzing the effects of changes in VAT rates on consumption, inflation, corporate performance, and SME performance; the selection strategy is presented in Table 1.

Table 1. Literature Selection Strategy

COMPONENT	DESCRIPTION	DETAILS
Database	Source used to identify relevant studies	Web of Science Core Collection
Fields	Research areas used to refine the results	Finance, Management, Business, Accounting, Economics
Target population/area of interest	The area of interest on which the analysis focuses	SMEs, businesses, the business community, macroeconomic aggregates
Phenomenon under analysis	An economic or political phenomenon that is the subject of research	changes in VAT rates, tax reforms, fiscal policies
Key performance indicators	Economic indicators used in the impact assessment	consumption, inflation, GDP, economic growth, profitability, liquidity, investment, competitiveness, performance

Countries/area analyzed	The geographic or economic context covered by the study	The European Union, emerging economies, international comparative studies
Period	The time period covered by the included studies	2008–May 2026
Language	The language in which the selected studies were published	English
Document type	Types of documents considered eligible for selection	articles and reviews

Source: Author's own work

The search strategy was based on a series of concepts and keywords presented in Table 2:

Table 2. Structure of search concepts and terms

NAME	SEARCH TERMS	ROLE IN RESEARCH
Tax	“value added tax” OR “value-added tax”	The key variable of the study—changes in VAT rates
Fiscal policies	rate* OR reform* OR increas* OR reduc* OR chang* OR fiscal OR policy OR taxation	The political and international context in which the VAT changes are taking place
Economic entities	SME* OR „small and medium enterprise” OR micro* OR business* OR enterprise* OR compan*	Target population/area of interest—businesses and the business community
Macroeconomic and performance indicators	consum* OR inflation OR GDP OR growth OR demand OR profit* OR liquid* OR invest* OR competitiv* OR performance OR productivity	Indicators used to assess the impact of changes in VAT

Source: Compiled by the author

To identify the literature relevant to our study, we used the Web of Science Core Collection database, an indispensable tool for research that provides access to credible, high-quality information. The preliminary use of the acronym VAT in testing the search query generated a large number of publications. Upon careful analysis of the resulting publications, it was found that most articles were from the medical field, due to the fact that VAT is also the abbreviation for a medical term, namely “ventilatory anaerobic threshold”; thus, it was necessary to include the full name of the tax, “value added tax,” in the search criteria. Since a significant number of studies address the issue of tax evasion, analyzing tax revenue losses due to VAT fraud, while others examine the effects of VAT on the competitiveness of various sectors or the challenges of harmonizing national legislation with European Union legislation, and still others address the impact of digitalization with direct implications for value-added tax, we considered it necessary to include terms such as “SME,” “small and medium enterprise,” “rate,” “increase,” “reduction,” and “change” in the set of keywords. We also included the term “consumption” in the analysis; although the effects of changes in consumption are felt primarily by the general public, their effects—along with those of inflation—are also felt by the business community, particularly by small and medium-sized enterprises.

Applying the Boolean formula to the Web of Science Core Collection database yielded an initial total of 1,291 publications. Subsequently, by applying filters for relevant research fields, language of publication, and document type, the number of articles was narrowed down to 509. In the final stage, through individual analysis of the titles, abstracts, and full text of the studies, 34 articles were identified as relevant to the research objectives. The resulting 34 scientific articles were analyzed individually by reading the full text and synthesizing the essential information into a tabular format to facilitate comparison and interpretation of the results. Among the elements analyzed were: the title of the paper, the name of the author or authors, the year of publication, the geographical context of the analysis, the methodology used, the variables analyzed, the main conclusions reached by the researchers, the degree of relevance of the studies to the research objectives, as well as the main gaps identified in the specialized literature. The comparative analysis of the studies was conducted by comparing the methodology used, the economic context analyzed, and the results highlighted in previous research.

3. THE EFFECTS OF CHANGES IN VAT RATES IN THE ECONOMIC LITERATURE

Value-added tax, as one of the main indirect taxes, plays a key role in the tax structure of an economy, serving both as a major source of government revenue and as an instrument of economic and social policy. Through their fiscal policies, governments can use reduced VAT rates to stimulate consumption of certain goods and services considered essential or having a high social impact, such as medicines, basic foodstuffs, organic products, books, school textbooks, or cultural services. Conversely, increasing VAT rates can help discourage the consumption of certain products considered harmful or with negative health effects, such as alcohol, tobacco, or products with high sugar content.

During periods of economic crisis, temporary reductions in VAT rates are frequently used as a measure to stimulate consumption and support economic activity, a situation that has also been observed in several European Union countries in the context of the COVID-19 pandemic. Germany, for example, implemented a temporary reduction in VAT rates from July to December 2020, lowering the standard rate from 19% to 16% and the reduced rate from 7% to 5%. Similarly, Austria decided to reduce the VAT rate for hotels, restaurants, and certain cultural services to support sectors severely affected by the economic crisis. Greece also reduced the VAT rate from 24% to 6% for certain essential pharmaceutical products, such as protective masks, gloves, and disinfectants.

These measures highlight the importance of the value-added tax as a fiscal policy tool capable of influencing both consumption and economic activity. Although VAT is borne directly by the final consumer, changes in rates also have an indirect impact on the business environment, particularly on small and medium-sized enterprises, which are more sensitive to fluctuations in demand and changes in the economic environment.

3.1. THE EFFECTS OF CHANGES IN VAT RATES ON CONSUMPTION AND MACROECONOMIC INDICATORS

The literature consistently highlights the fact that changes in VAT rates directly influence consumption levels, price dynamics, and inflation trends. Most of the studies analyzed support the idea that increasing VAT rates leads to a decline in domestic consumption and heightened inflationary pressures, with these effects observed in European economies as well as in countries in Asia and Africa. The findings in the economic literature are supported by a variety of methodologies, ranging from econometric regressions and difference-in-difference models to CGE simulations and household-level analyses. One of the studies relevant to this line of research is that conducted by (Benkovskis & Fadejeva, 2014), which highlights the fact that increases in VAT rates in Latvia contributed significantly to rising inflation and a decline in household purchasing power. The authors emphasize that the effects were most pronounced at the time of the tax reform's implementation, gradually diminishing over the medium and long term. Similar findings are also reported in the study conducted by Semenova (Semenova, 2020) on the Russian economy, where increases in VAT rates were associated with rising prices, reduced consumption, a decline in industrial production, and a drop in GDP.

In addition to the effects on inflation and consumption, the literature also examines the extent to which changes in VAT rates are passed on to consumers in the form of higher final prices. In this regard, the study conducted by (Bernardino et al., 2025), in Portugal shows that the temporary reduction in VAT rates on food products was passed on almost entirely to the final prices charged by large retail chains. Similar results are also highlighted in the analysis of the Spanish economy conducted by (Forteza et al., 2025), which notes significant differences between processed and unprocessed goods, between branded and unbranded goods, and between domestic and imported goods.

The significance of changes in VAT rates on price levels is also highlighted by the study conducted by (Dixon et al., 2020), which analyzes the effects of the Great Recession of 2008–2009

at the European level. The authors conclude that changes in VAT and inflationary pressures had a stronger impact on price adjustments than the effects generated by the economic recession itself.

A comprehensive overview of consumer behavior before and after the implementation of tax reforms is provided by the study conducted by (Buettner & Madzharova, 2021), based on data from 22 European Union member states and 33 legislative changes regarding VAT. The results highlight that the anticipation of VAT rate increases leads to an acceleration in consumption prior to the implementation of the tax reform, particularly for durable goods such as large household appliances, followed by a significant decline in sales after the tax changes take effect.

The economic literature also highlights the existence of asymmetric effects between increases and decreases in VAT rates. In this regard, the analysis conducted by (Gabriel & Reiff, 2010) for the Hungarian economy shows that inflation is directly influenced by the frequency of price changes resulting from fiscal policies. The authors conclude that the effects of VAT rate increases on inflation are significantly stronger compared to the effects generated by equivalent tax cuts.

In recent years, the literature on value-added tax has begun to pay increasing attention to the relationship between taxation and sustainability. The issue of reducing environmental impact and promoting sustainable consumption has become an important area of research, with numerous studies examining the possibility of using VAT as a tool to encourage responsible economic behavior. In this context, the research conducted by (Gutiérrez et al., 2025) highlights that the application of differentiated VAT rates can help mitigate negative environmental impacts by imposing additional taxes on polluting products and providing tax incentives for sustainable products.

At the European level, (Maier & Ricci, 2024) and (Amores et al., 2023), highlight the fact that increases in VAT rates can have significant regressive effects on the population, particularly on low-income households. The authors emphasize that taxing basic consumption contributes to exacerbating social inequalities in certain European Union member states. Similar issues regarding tax regressivity are also highlighted by (Huesca & Llamas, 2025), who show that the redistributive effects of VAT depend directly on the nature of the goods taxed. Although VAT revenues in Latin American countries are lower than those in the European Union, the authors consider that additional taxation of luxury goods may represent an alternative for boosting budget revenues without increasing the tax burden on vulnerable groups.

The literature highlights the fact that changes in VAT rates directly influence consumption, price levels, and inflation trends, with the effects varying depending on the economic context and the type of goods targeted by tax reforms. At the same time, recent research underscores the fact that the implications of VAT changes extend beyond the strictly fiscal dimension, generating significant effects on both consumers and the business environment.

3.2. THE EFFECTS OF CHANGES IN VAT RATES ON SME ACTIVITY

The literature highlights the fact that small and medium-sized enterprises are more sensitive to changes in VAT rates than large companies, with the effects being felt in terms of costs, liquidity, investments, exports, and economic performance. Most of the studies analyzed use firm-level data and Difference-in-Difference econometric methodologies, confirming the existence of differentiated effects between SMEs and large companies. A significant portion of recent empirical research in economics focuses on China, where successive value-added tax reforms have allowed for the assessment of the impact of fiscal policies on the business environment.

One of the studies relevant to this line of research is that conducted by (Peng et al., 2022), which highlights the fact that China's VAT reform contributed to the modernization of enterprises by improving the efficiency and quality of economic activity. The authors show that the reduction in the tax burden had more pronounced effects on small enterprises, as they are more sensitive to changes in capital costs compared to large companies.

Similar results are also highlighted in the study by (Liu et al., 2023), which analyzes the effects of VAT reductions on the debt levels of Chinese companies. The research shows that a reduction in

the value-added tax has a stronger impact on small and medium-sized enterprises, particularly in terms of reducing short-term debt and improving their financial position.

The impact of tax reforms on firms' external competitiveness is analyzed by (Wu et al., 2021) who highlight that the VAT reform had a positive effect on the domestic value added of China's exports. The authors emphasize that local SMEs were more strongly affected by changes in tax policies, contributing to a greater extent to integration within value chains and to supporting exports. Similarly, (Wang & Anwar, 2022) show that the increase in the VAT refund rate in China influenced both the price and volume of mechanical product exports.

The literature also highlights the effects of changes in VAT rates on firms' investment and innovation behavior. The study conducted by (Dai & Zhao, 2021) shows that China's VAT reform stimulated firms' engagement in research and development activities, with the effects being more pronounced among firms with fewer financial resources and greater sensitivity to tax costs.

In addition to the effects on investment and exports, some studies examine the impact of changes in VAT rates on business liquidity. In this regard, the study conducted by (Pisačić & Mladineo, 2017), applied to companies in the hospitality and catering sectors, highlights the fact that the VAT reduction had positive effects on firms' liquidity, with increases observed in both current liquidity and quick and cash liquidity.

However, the reviewed literature also highlights the existence of inconclusive findings regarding the differing impact of VAT rates on SMEs and large companies. Some studies use firm-level data without making direct comparisons between categories of enterprises, while other studies focus exclusively on social effects or on a single type of enterprise. These issues highlight the existence of methodological limitations and the need to develop more in-depth comparative research on the impact of changes in VAT rates on different categories of firms. The main transmission mechanisms of the effects of changes in VAT rates on consumption, macroeconomic indicators, and SME activity are summarized in Figure 1.

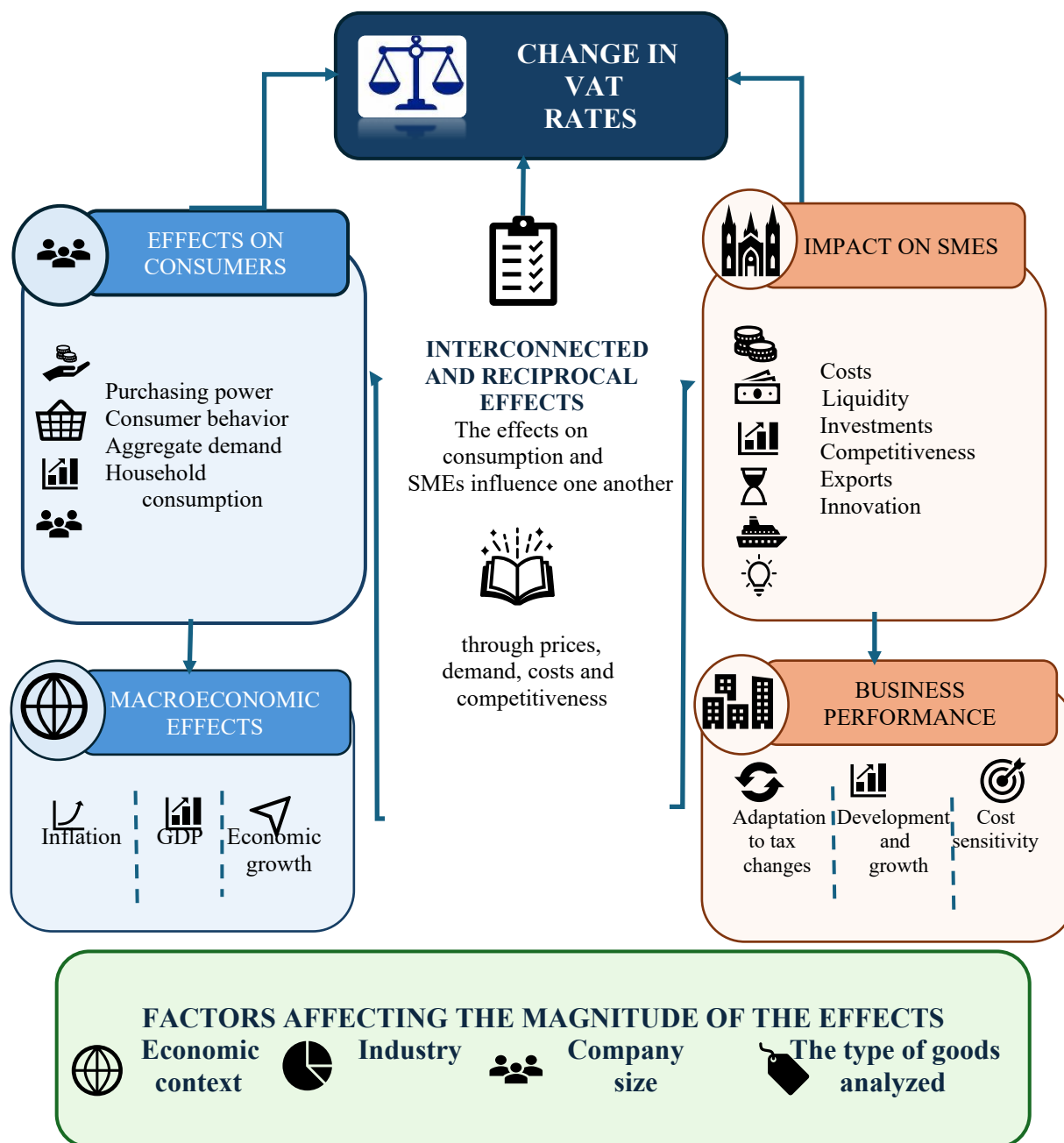


Figure 1. The mechanism by which changes in VAT rates are transmitted throughout the economy

Source: Author's own work

4. CONCLUSIONS, LIMITATIONS, AND FUTURE RESEARCH DIRECTIONS

The literature provides a comprehensive overview of the effects of changes in VAT rates, highlighting their implications for both consumption and inflation, as well as for business activity and consumer behavior (Benkovskis & Fadejeva, 2014; Buettner & Madzharova, 2021). The studies reviewed show that periods of economic crisis have been the primary contexts for research on the impact of tax reforms. In this regard, the Great Recession of 2008–2009, the COVID-19 pandemic, and the economic effects of the war in Ukraine have led many countries to adopt measures to adjust VAT rates, generating increased academic interest in analyzing the resulting effects on the economy and society. At the same time, the literature highlights the fact that VAT policies are frequently influenced by policies aimed at supporting certain social groups or at securing electoral support. The main conclusions, dominant themes, and gaps identified in the analyzed literature are summarized in Figure 2.

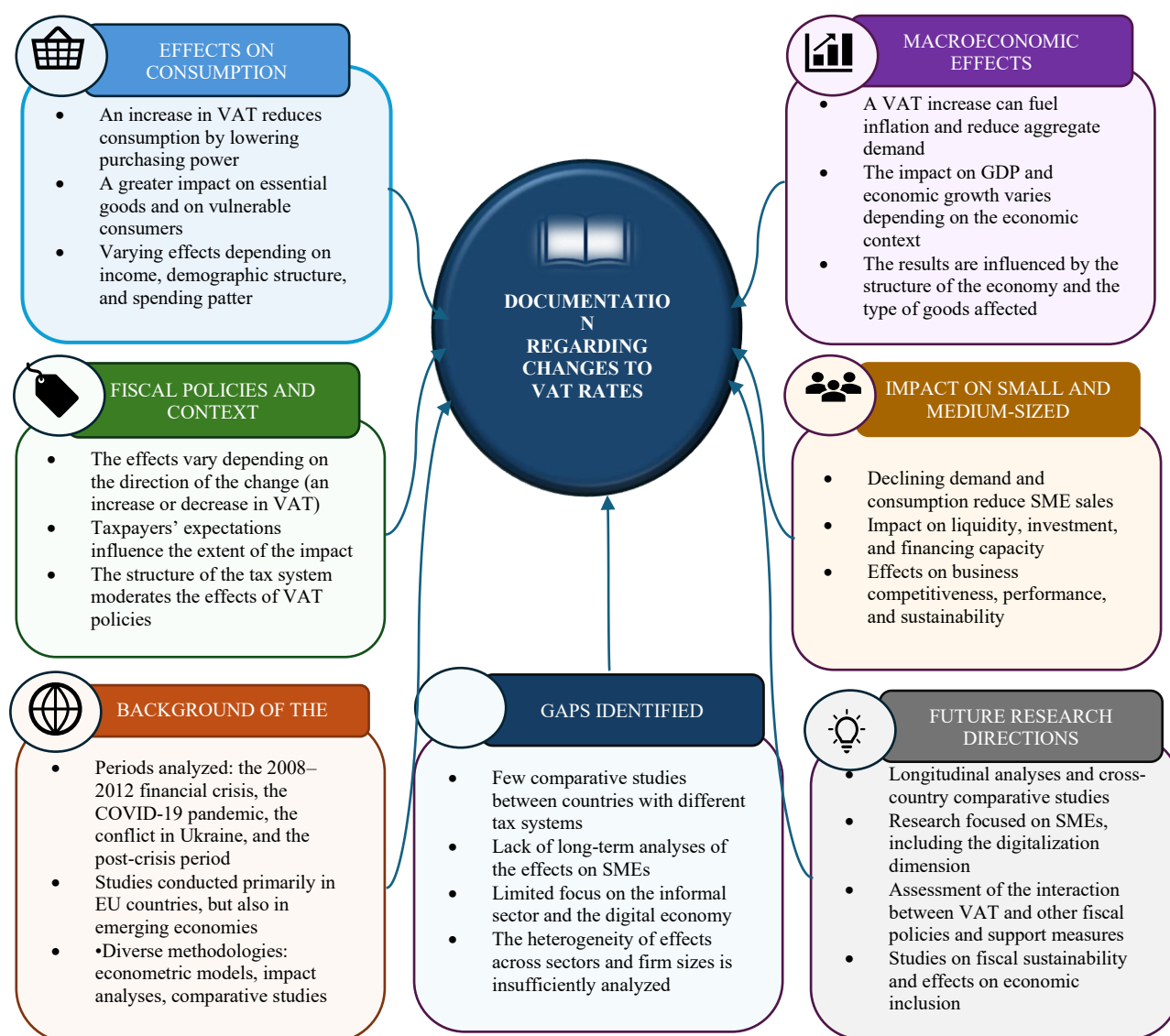


Figure 2. Key findings from the literature regarding changes in VAT rates

Source: Author's own work

One of the most hotly debated topics in the economic literature is the extent to which changes in VAT rates are passed on to the final prices of goods and services. The studies reviewed show that VAT increases are passed on to a large extent to the prices paid by consumers, while the effects of VAT reductions yield less consistent results. The literature highlights that large retail chains pass on tax cuts to a greater extent in final prices compared to small and medium-sized enterprises, where part of the tax benefit is absorbed at the level of profitability or operational costs. Recent research also highlights the existence of indirect effects on complementary products or on goods not directly targeted by tax reforms. Consumer behavior represents another important area of research identified in the literature (Buettner & Madzharova, 2021; Gabriel & Reiff, 2010). Numerous studies highlight that the anticipation of VAT rate increases leads to a surge in consumption prior to the implementation of tax reforms, particularly for durable goods such as household appliances or high-value products. Following the implementation of fiscal measures, the literature notes the emergence of periods of stagnation or decline in consumption, with the effects varying depending on the nature of the goods analyzed and consumer behavior.

At the same time, an analysis of the selected studies highlights significant limitations in the current literature on the effects of changes in VAT rates. Most research is conducted at the level of a single country or a limited group of European Union member states, with comparative analyses between economies with different tax structures, consumption patterns, and cultural contexts being

less developed. Furthermore, many studies focus on a single economic sector or a limited time period, which limits the ability to draw meaningful conclusions.

The reviewed literature also highlights a lack of research on the differentiated effects of changes in VAT rates on economic sectors. The impact of tax reforms can vary significantly depending on the type of goods and services analyzed (Forteza et al., 2025; Huesca & Llamas, 2025). In the case of essential goods, the effects of changes in VAT rates tend to be more rapid and visible in terms of consumption, whereas for durable goods, consumer behavior is influenced by expectations of tax reforms, leading to temporary shifts in demand and effects felt over the longer term.

Consequently, the literature highlights the complex nature of the effects resulting from changes in VAT rates, as well as the need for more extensive comparative research that integrates economic, social, and behavioral perspectives on the impact of this fiscal instrument.

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