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Original Article

What VAT Policy Reduces Inequalities of Consumption and Income in Togo?

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Abstract: *The objective of this article is to analyze the impact of a tax policy of reducing or increasing the VAT rate on consumption and income inequalities. To achieve this objective, this article uses the Computable General Equilibrium Model (CGEM), which is part of a dynamic recursive PEP-1-t framework, and the 2018 Social Accounting Matrix (MCS) of Togo. The results show, on the one hand, that a reduction in the VAT rate to 15% positively affects consumer spending and income. On the other hand, an increase in this rate to 20% has the opposite effect. The study concludes that the reduction or increase in the VAT rate does not influence the reduction of inequalities. So, she suggests that the current rate of 18% is retained but that the administration fights against the evasion and fraud of this tax. Also, there should be a removal of exemptions on primary goods, and instead, the government should make direct social transfers to poor households to reduce inequalities.*

Keywords: *VAT, MEGC, Inequalities.*
JEL Classification : E62, H30, D58

I. INTRODUCTION

Most economists concur that developing nations must increasingly mobilize their internal resources to support economic development and that enacting an efficient tax policy is arguably the most crucial tool for doing so (Wilford et al., 2023). Indeed, today, taxes play an important role in a country's economic development and policymaking (Chen et al., 2023; Elshani et al., 2023; Maganya, 2020). They are widely regarded as significant contributors to a country's total domestic income on a global scale (Lutfi et al., 2023) and are, therefore, the backbone of most countries' efforts to stimulate and improve their economies (Tehul and Dinber, 2015; Vadd, 2014). According to American economists North (1993) and Williamson (2000), the state uses various tools to address the biases and distortions of the market game. Fiscal policy remains one of the key economic policy instruments the state uses to establish equity, reduce income inequalities, and boost economic activity (Hefnaoui et al., 2022; Aftati, 2021; Nasiru et al., 2016). In such a context, the primary concern of most countries around the world is to strive to achieve rapid overall development through optimal tax collection and a broadened revenue base (Abd Hakim, 2022; Abata et al., 2023). Many nations are selectively implementing new taxing schemes to boost their fiscal capacity to accomplish this goal, which aims to improve the socioeconomic circumstances of their inhabitants and achieve rapid economic development (Murray, 2015).

Thus, after introducing personal income tax, Value-Added Tax (VAT) has emerged as one of the most important innovations in tax policy (Kaisa et al., 2019). The latter spread to most developing countries in the 1990s. Naiyeju (1996) defined VAT as a tax levied on value added at various sale stages. According to Chehreghani et al. (2020), there are two ways that VAT can be applied based on the origin and destination principles. Consequently, there are three possible bases for introducing this tax in the VAT base, contingent on how capital goods are acquired. Three types of VAT exist: those based on consumption (consumption type), net domestic production (income type), and gross domestic production (production type).

In Togo, VAT is prominent in tax revenues (Combey, 2020; World Bank, 2018). Indeed, VAT revenues accounted for 43.1% of total revenues in Togo in 2017, or 7.3% of GDP (Diagne et al., 2018), and they appear to be a major instrument of tax revenue mobilization for African countries in general and Togo more specifically. However, revenue mobilization continues to be a major challenge in Togo. Indeed, the target of 20% of GDP set by the West African Economic and Monetary Union (WAEMU) as a criterion for macroeconomic convergence has not been achieved. Stylized facts show that in Togo, Tax breaks are frequently employed as a remedy and are regarded as the preferred fiscal policy tool to boost economic activity and public accounting. The Togolese government has chosen a socially centered policy to make growth more inclusive in light of the country's high cost of living and estimated 55.1% poverty rate in 2015.

Indeed, implementing a Value-Added Tax (VAT) system can simultaneously increase public revenues and economic efficiency and reduce inequalities, a major challenge for developing countries (De Quatrebarbes et al., 2016). The distributive

impact of VAT design has received much attention in the literature. For example, the fiscal interventionism thesis advocated by post-Keynesians advocates integrating fiscal policy in developing countries (DCs) as an important variable of fiscal policy in the hands of the state for cyclical or structural stabilization (Kaldor, 1967; Barrère, 1965; etc.). In contrast to this thesis, the fiscal determinism advocated by liberals has a linear vision of development, and for the defenders of this theory (Hinrichs, 1966; Colm and Helzner, 1960; etc.), a fiscal policy favorable to development imposes low taxes. Empirically speaking, the impact of taxation, and VAT in particular, on inequality is not unanimously debated. Some authors find a non-significant impact of VAT on inequality (Demidov and Pugachev (2023), Asri and Suseno (2023), André and Biotteau (2021), Maina (2017). Warwick et al. (2022) find that while preferential VAT rates reduce poverty, they do not generally target poor households.

The above literature review highlights several shortcomings. Results on the impact of VAT on inequality are inconclusive, whether in developed or developing countries. VAT is recognized for its ability to simultaneously achieve the objectives of fiscal stabilization, equity, efficiency, and economic growth if pure and effective. Unfortunately, Togo is far from exploiting the benefits of taxation as a tool for reducing inequality. To our knowledge, no study in Togo has analyzed the impact of VAT on inequality. Thus, the interest of this work is to determine the effect of VAT on inequalities in Togo. In addition, by using a dynamic CGE model, this study makes it possible to define the VAT policy as favorable to reducing inequalities (of income and consumption) in Togo, thus enriching the literature on this question.

Following this section, point 2 will present the literature review on the relationship between taxation and the evolution of inequalities. Then, the methodology adopted for the framework of this article will be discussed in section 3. In section 4, the results of this research will be presented and discussed, and a conclusion will bring this work to a close.

II. LITERATURE REVIEW ON THE IMPACT OF VAT ON INEQUALITY IN TOGO

The core of many ideas has been pursuing the ideal tax rate to maximize tax revenues for economic growth and social welfare. Adam Smith believed that taxes were a way to fund the government. Ricardo defended capital taxes, which are necessary (in part) to fund government operations as capital and labor are components of production. Taxation serves as a means of allocating national income as part of its regulatory role. Taxation plays a catalytic role in generating economic development, stimulating investment, and raising the value of effective demand. A number of theories support the idea of taxes.

Public finance theory suggests that taxation can play three essential roles, which derive from the three functions attributed to the state by Musgrave (1959). These functions are wealth redistribution, resource allocation, and economic stabilization. Through these three functions, taxation helps to correct market failures. However, even in developed countries, the tax policy pursued in practice often deviates from this theoretical model and does not correspond exactly to the recommendations of economic theory (Piketty, 1996). In the specific case of developing countries, other theoretical models for using the tax tool have been mobilized, emphasizing its role in economic development, notably the tax interventionism thesis, and the tax determinism thesis.

The post-Keynesian thesis of fiscal interventionism advocates integrating fiscal policy in Developing Countries (DCs) as an important variable of fiscal policy in the hands of the state for cyclical or structural stabilization (Kaldor, 1967; Barrière, 1965; etc.). In contrast to this thesis, the liberal thesis of fiscal determinism is based on a linear vision of development, according to which the transition from a traditional society to a high-consumption society, which occurred in developed countries, is reproducible in developing countries. Under this hypothesis, the level and structure of taxation in developing countries are essentially determined by the economic structures that mark each growth stage (Colm and Helzner, 1960). The fiscal determinism thesis of liberals who believe in the market's ability to self-regulate suggests the neutrality of taxation. For advocates of this theory (Hinrichs, 1966; Colm and Helzner, 1960; etc.), a tax policy that favors development imposes low taxes. In other words, lower taxes should lead to faster economic growth, enabling the state to increase tax revenues. Under these conditions, tax policy provides an incentive for investment and innovation while at the same time providing sufficient resources to finance sustainable infrastructure. These arguments, known as the “too much tax kills tax” Laffer curve, are criticized in the development economics literature. These two theses applied in developing countries continue to fuel the debate on the role of taxation in the economic development process of these countries.

Empirically, Sajadifar et al. (2012) use A Computable General Equilibrium (CGE) model to study the impacts of implementing the VAT system on the Iranian economy by stimulating an increase in the VAT rate of 3.4% and 10%. The results show that while government revenues significantly increase, gross domestic production and household welfare decline. Boeters et al. (2010) quantitatively analyze this distributional concern for Germany. They find that abolishing VAT differentiation has negligible redistributive effects. Instead, it turns out that reduced VAT rates act as sectoral subsidies.

Aminu (2019) examines, using a dynamic recursive CGE model simulated over 10 years, how the government can implement an increase in the VAT rate to ensure that the final rate of 15% is achieved in a way that satisfies the public (households and businesses) and guarantees maximum revenue collection for the government. Starting from the VAT rate of 5%, he finds that

the best policy option is to increase the rate by 2.5% per year over the next four years. This option gives the best results for real GDP (and its growth), investment, intermediate imports, government spending, and household consumption compared with the other options of a 5% increase and a 10% increase. In addition, Mahler and Jesuit (2018) explore the role of indirect taxes in financing public social transfers in developed countries. For them, high indirect taxes finance public social transfers. They are often the product of a political process in which democratic corporatism, institutional structures, and unionization rates play a key role. They show that the regressive effect of indirect taxes is offset by the redistribution achieved by the public social transfers they help to finance.

In the same vein, Martorano (2018) seeks to better understand the connection between taxes and inequality in developing nations through his study, particularly emphasizing Latin America's recent experience. He discovers that from the early 2000s, tax reforms have aided in the advancement of equality. Specifically, the rise in direct tax contributions relative to indirect tax contributions has supported the tax system's progressivity and helped to lessen inequality.

Demidov and Pugachev (2023) examine the effects of indirect taxes, particularly VAT, on inequality under the assumption that indirect taxation in Russia has no significant impact on inequality but can reduce it. They conclude that indirect taxes in Russia have no discernible effect on inequality using correlation regression analysis, time series analysis, structural analysis, and the index technique. However, in certain years, VAT receipts made up a greater portion of GDP and overall tax collections, and this trend was accompanied by decreased inequality. For Asri and Suseno (2023), the implementation of VAT policy significantly influences state revenues. Thus, using panel data from 2017 to 2021, they reveal that while VAT directly affects per capita income, it has no discernible influence on inequality, directly or indirectly, in Indonesia.

For their part, De La Fuente et al. (2017) assess the redistributive impact of tax policy and its elements in Zambia. They find that Zambia's 2015 tax policy reduces inequality; the most significant reduction is created by in-kind public service spending in education. Maina (2017), in the case of Kenya, which has 47% of its population living below the poverty line and a Gini coefficient of 0.445 in 2013 using two OLS models, confirms that consumption taxes are regressive. Consumption tax is positively related to GDP per capita.

Anyaduba and Otulugbu (2019) examine taxation and income inequality (GINI); in particular, they determine the impact of Value-Added Tax (VAT), Customs And Excise Duties (CED), Petroleum Profits Tax (PPT) and Corporate Income Tax (CIT) on GINI in Nigeria between 1990 and 2016. Using a cointegration and Error Correction Model (ECM), they found that VAT, DAC, and PPT positively correlated with GINI when measured at a critical 5% level. However, VAT and DAC were not significant. CIT had a negative but significant impact on GINI. Based on these results, they conclude that only CIT could reduce income inequality. They, therefore, suggest that VAT should be imposed on goods and services consumed by high-income earners. André and Biotteau (2021), using the Ines micro-simulation model, analyze the effect of a VAT increase on inequality. They find that three years after a three-point increase in the standard VAT rate, the standard of living, adjusted for VAT and rental expenses, would be, on average, 0.6% lower in real terms than it would have been had there been no increase. This delayed effect is equivalent to 45% of the initial effect. This means that the poorest 10% of the population will suffer a relative drop in their adjusted standard of living three times greater than the rest.

Low- and middle-income countries (LMICs) have VAT systems that give reduced rates and exemptions on specific goods and services, just like high-income nations. Targeting goods believed to account for a larger portion of the budget of lower-income households, these policies are frequently driven by distributional considerations. Warwick et al. (2022) explore the effectiveness of these policies in six low-income countries. In order to compare their effects with those of current cash transfer programs and a hypothetical Universal Transfer (UTT) funded by expanding the VAT base, they assess their influence on tax revenues, inequality, and poverty. According to the study, preferential VAT rates help alleviate poverty but do not effectively target low-income households. Although they are more focused, the current cash transfer schemes often cover a smaller area. The poorest households would see large net gains from a universal transfer funded by a larger VAT base, which would lessen inequality. According to their findings, targeting low-income households by applying special VAT treatment to specific items and services is expensive. However, Alavuotunki et al. (2019), examining how the implementation of the value-added tax affected inequality and public revenues, shows that, in contrast to earlier research, the revenue effects of VAT were negative. The findings show that while consumption disparity remained unchanged after the implementation of VAT, income-based inequality rose.

The study by Maskaeva et al. (2019) analyzed the impact of a VAT cut on capital goods (electricity, vehicles, machinery, and equipment) under two different closure rules: fixed government spending and flexible government saving and flexible government spending and fixed government saving, show that under the first regime, government saving fell and industries that relied heavily on public investment suffered. On the other hand, under the second regime, production increased in all industrial sectors, leading to a fall in average unemployment. Real consumption increased for all household categories except the wealthiest. Following this, Obiakor et al. (2015) use an ex post facto research model to investigate the effects of value-added tax on consumer

spending and the consumer price index in Nigeria. The results reveal that VAT and one-period lagged durable goods consumption expenditure significantly affect household durable goods consumption expenditure. In addition, significant positive effects were found for VAT on household consumption expenditure on non-durable goods. This means that VAT, its variants, and previous spending levels have not discouraged household consumer spending. Moreover, VAT has had no significant impact on the consumer price index.

Giraldo and García (2018), to examine the efficacy and effects of tax system modifications on growth, welfare, and income distribution, employ a Computable General Equilibrium (CGE) model that has been adjusted for the Colombian economy. They believe that low-income households' welfare must be maintained at a low cost to prevent their welfare from being impacted by a rise in indirect taxes, as indicated by the compensated variation. For their part, Bhattarai et al. (2019) apply a static multi-sector, multi-household Computable General Equilibrium (CGE) tax model to assess the impact of taxes on the Vietnamese economy as a whole. They examine two tax reform scenarios based on the tax reform plan proposed by the Vietnamese Ministry of Finance. They recommend that the Vietnamese government increase the standard VAT rate to 12% and reduce the corporate income tax rate to 17% to shift the tax burden from capitalists to consumers.

In contrast, Bhattarai (2006) employs a general equilibrium model with production and closed-form analytical solutions to demonstrate how taxes affect prices and the real wage rate. The model results demonstrate that when revenues are allocated to families through transfers, consumption taxes are more effective than combinations of different taxes. These findings hold when the model is used on the UK economy's benchmark database.

Chehreghani and al. (2020) study the effects of VAT on Iran's macroeconomic variables, including inflation, Gross Domestic Production (GDP), and consumption, using a Computable General Equilibrium (CGE) model developed by Lofgren et al. (2002), calibrating it to the Iranian social accounting matrix for the year 2011. Two scenarios, including VAT at 6% and 9%, were used to conduct the policy analysis. The agricultural sector's VAT rate was set at zero in both cases. The findings demonstrated that Iran's introduction of VAT raised inflation, which in turn caused a drop in GDP and household spending. Benjasak and Bhattarai (2017), meanwhile, build a CGE model of Thailand to assess the impact of Value-Added Tax (VAT) and Corporate Income Tax (CIT) reforms on welfare and the reallocation of resources between production sectors in the Thai economy. Their model was calibrated on the micro-consistent benchmark dataset contained in the input-output table published in 2010 by the Office of the National Economic and Social Development Council (NESD), with some restructuring into 18 sectors. The results reveal that the aggregate net welfare changes of a 10% VAT are better than those of a 0% VAT. Thus, increasing VAT from 7% to 10% becomes a desirable policy action based on economy-wide welfare analysis, as the utility of public services to households more than compensates for their loss of utility due to higher taxes. On a net welfare basis, reducing the income tax rate from 30% to 20% is preferable to a 23% income tax.

In terms of analyzing the impact of VAT on the Consumer Price Index (CPI), Njogu (2015), in the case of Kenya from a causal study, indicates that a percentage change in the incident CPI rate corresponds to a 9.2% increase in each unit increase in VAT. The study deduces a non-significant positive relationship between VAT rates and CPI.

III. RESEARCH METHOD

To assess the impact of taxation on economic growth, we estimate a Solow (1957) production function. The elasticity of labor supply (Jones et al., 1999; Stokey and Rebelo, 1995), the elasticity of substitution between physical and human capital (King and Rebelo, 1990), and capital accumulation and innovation (Lucas, 1990) are some of the conditions that may make the effects of tax policy in endogenous growth models permanent.

The model used here to analyze the potential ex-post impacts of taxation applied to economic development is a CGE model within a recursive dynamic framework PEP-1-t, version 2.0 (Decaluwé et al., 2013). The advantage of this model lies in the fact that it comprises two modules: (i) a static module that describes the behavior of economic agents and macroeconomic equilibria in each period and (ii) a dynamic module that translates the adjustments of dynamic variables over time. This model is adapted to the structure of Togo's Social Accounting Matrix (SAM), constructed by the Institut National de la Statistique et des Études Économiques et Démographiques au Togo (INSEED-Togo) for the year 2018.

Togo's SAM (2018) represents economic interactions through six (06) categories of accounts: (i) 31 production activity accounts; (ii) 31 goods and services accounts (each activity produces a single good or service and a single activity produces each good and service); (iii) 4 factors of production (2 types of labor and two categories of capital); (iv) 8 household categories according to the activity of the head of household (1 wage earner, 1 self-employed farmer, 1 self-employed non-farmer, 1 unpaid worker, and 1 non-employed); (v) 2 other institutional agents: the Government and the Rest of the World; 2 other accounts (investment and inventory change). It is carried out in Togo by the Institut National de la Statistique et des Études Économiques et Démographiques (INSEED). In view of the objectives of this study and the CGE model used, the 31 branches of production have been grouped into 4 branches: Agriculture, Industry, Service, and Administration. Similarly, considering the area of

residence and income level, four (4) household types were identified: poor rural household, poor urban household, rich rural household, and rich urban household.

In this study, the variable of interest is the value-added tax. The simulation of increases and decreases in the value-added tax rate is in line with Togo's vision of emergence and the country's achievement of the SDGs (Sustainable Development Goals) by 2030. Indeed, since 2010, Togo has returned to planning exercises, developing a vision of Togo 2030 and the ambition to lay all the political foundations to stimulate sustainable and inclusive economic growth.

In addition, it should be noted that the increase or decrease in the VAT rate for simulations is governed by the provisions of article 29 of Directive n° 02/98/CM/UEMOA of December 22, 1998, on the harmonization of the laws of member states relating to Value Added Tax (VAT). This rate may not be lower than 15% or higher than 20%. The VAT rate currently applied in Togo is 18%. In view of the above, this study simulates a reduction in the VAT rate to 15% and an increase in this rate to 20% over five (5) successive years, in line with the government's 2020-2025 roadmap.

IV. DATA ANALYSIS AND DISCUSSION

A) Results Presentation

The CMEG results are as follows.

a. Simulation 1: reduction in VAT rate to 15%.

- Effect on household consumption budget

This reduction led to an average increase in household consumption budgets of 0.49%, 0.54%, 0.57%, and 0.60%, respectively, for poor, poor, rich, and rich urban households. This is contrary to the results of Alavuotunki et al. (2019), who found, using macro data and conventional country-fixed-effects regressions, that VAT does not affect consumption inequality.

Table 1: Average impact of the 15% VAT cut on household consumption budgets

Household types	Designation	Average variation (%)
HRP	Poor rural household	**0,49**
HUP	Poor urban household	**0,54**
HRR	Rich rural household	**0,57**
HUR	Rich urbain household	**0,60**

Source: *Author based on 2018 Social Accounting Matrix (SAM)data from Togo.*

- Effect on the consumer price index

This reduction in the VAT rate led to an average fall in the consumer price index of 0.07%, as shown in Table 2 below. This fall was observed in the first three years, and a gradual rise was observed from the fourth year onwards. This confirms the results of Njogu (2015), who, using a causal analysis in the case of Kenya, finds that a one-percent increase in the VAT rate leads to a 9.2% rise in the consumer price index rate.

Table 2: Impact of lowering the VAT rate to 15% on the consumer price index

YEARS	BAU[1]	SIM1[2]	VARIATION (%)
1	1,3149	1,3116	**-0,25**
2	1,2923	1,2907	**-0,13**
3	1,2745	1,2740	**-0,04**
4	1,2603	1,2606	**0,02**
5	1,2488	1,2497	**0,07**
AVERAGE			**-0,07**

[1]*Business as usual*
[2]*Situation following the cut in VAT to 15%.*
Source: *Author based on 2018 Social Accounting Matrix (SAM)data from Togo.*

- Impact on household incomes

This policy of lowering VAT rates generated positive variations in household incomes averaging 0.42%, 0.47%, 0.50%, and 0.53%, respectively, for poor rural households, poor urban households, rich rural households, and rich urban households. This is in line with the findings of Warwick et al. (2022), who conclude that while preferential VAT rates reduce poverty, they are not targeted at poor households in general.

Table 3: Effect of lowering VAT rate to 15% on household income distribution

YEARS	1	2	3	4	5	AVERAGE
HRP	0,41	0,45	0,45	0,42	0,39	**0,42**
HUP	0,45	0,49	0,49	0,48	0,46	**0,47**
HRR	0,45	0,50	0,52	0,52	0,51	**0,50**
HUP	0,53	0,55	0,55	0,53	0,50	**0,53**

Source: *Author based on 2018 Social Accounting Matrix (SAM)data from Togo.*

b. Simulation 2: VAT rate increased to 20%.

- Effect on household consumption budgets

This increase in the VAT rate led to an average drop in the consumption budget of different households of 0.32%, 0.35%, 0.37%, and 0.39%, respectively, for poor rural households, poor urban households, rich rural households, and rich urban households. This is in line with the findings of Chehreghani et al. (2022), who show that introducing VAT led to a fall in consumer spending.

Table 4: Effect of an increase in the VAT rate to 20% on household consumption budgets

HOUSEHOLD TYPES	DESIGNATION	AVERAGE VARIATION (%)
HRP	Poor rural household	**-0,32**
HUP	Poor urban household	**-0,35**
HRR	Rich rural household	**-0,37**
HUR	Rich urban household	**-0,39**

Source: *Author based on 2018 Social Accounting Matrix (SAM)data from Togo.*

- Effect on the consumer price index

The policy of raising VAT rates led to an average increase of 0.04%. This increase is seen in the first three years; from the fourth year onwards, there is a gradual decline. This is in line with the findings of Njogu (2015), who finds that a one-percent increase in the VAT rate leads to a 9.2% rise in the consumer price index rate.

Table 5: Effect of a VAT rate increase to 20% on the consumer price index

YEARS	BAU	SIM2[1]	VARIATION (%)
1	1,31	1,32	**0,16**
2	1,29	1,29	**0,08**
3	1,27	1,27	**0,03**
4	1,26	1,26	**-0,01**
5	1,25	1,25	**-0,04**
AVERAGE			**0,04**

[1]*SIM2: Situation after the VAT rate was raised to 20%.*

Source: *Author based on 2018 Social Accounting Matrix (SAM)data from Togo.*

- Effect on household incomes

The increase in the VAT rate induced an average decrease in household incomes of 0.28%, 0.31%, 0.33%, and 0.35%, respectively, for poor rural households, rich urban households, rich rural households, and rich urban households. For Alavuotunki et al. (2019), VAT increases income-based inequality using conventional country-fixed-effects regressions and instrumental variables. This aligns with Maina's (2017) conclusion that consumption taxes, including VAT, are regressive.

Table 6: Effect of an increase in the VAT rate to 20% on household income distribution

YEARS	1	2	3	4	5	AVERAGE
HRP	-0,27	-0,29	-0,29	-0,28	-0,25	**-0,28**
HUP	-0,29	-0,32	-0,32	-0,32	-0,30	**-0,31**
HRR	-0,29	-0,33	-0,34	-0,34	-0,33	**-0,33**
HUR	-0,34	-0,36	-0,36	-0,35	-0,33	**-0,35**

Source: *Author based on 2018 Social Accounting Matrix (SAM)data from Togo.*

B) Discussion

The results show that lowering the VAT rate to 15% would increase household consumption budgets and incomes and reduce the consumer price index. This result contradicts the Keynesian fiscal interventionism thesis, which advocates a progressive tax, and is in line with the neoclassical thesis of fiscal determinism, which envisages a regressive tax. According to

the determinism thesis, a tax policy favorable to development imposes low taxes (Hinrichs, 1966; Colm and Helzner, 1960; etc.). These arguments are known as the “too much tax kills tax” Laffer curve.

V. CONCLUSION, IMPLICATION, SUGGESTION, AND LIMITATIONS

The objective of any public policy is to improve the population's well-being, and it must be aligned with the need for emerging countries to mobilize their internal resources, especially fiscal resources, to promote their development. It is, therefore, important for these countries to define tax policies capable of meeting the challenges of tax revenue mobilization, growth, and equity. According to its promoters, the recently introduced VAT seems to be the ideal tax for meeting these concerns.

This study uses a CGE model within a dynamic recursive PEP-1-t framework to determine the VAT policy capable of reducing inequality in Togo. Simulation results show that when the VAT rate is reduced to 15%, household consumption budgets and incomes rise, and the consumer price index falls. On the other hand, an increase in the VAT rate to 20% would have the opposite effect.

She envisages maintaining the current rate of 18%, reducing exemptions, and favoring more direct transfers to reduce inequalities. She recommends that a study be carried out to analyze the impact of this VAT policy on economic growth and the productivity of production factors.

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