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Does the Value-Added Tax Shift to Consumption Prices?

[Viren, Matti](#)

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**Abstract:** This paper deals with the question of how consumption taxes, especially the value added tax, affect consumption prices. The analyses are based on data from EU countries for the period 1970–2004. The starting point is a conventional supply-demand analysis of the tax incidence problem. This problem is solved using some simple price mark-up equations, Phillips curves and inflation forecast error equations. All these equations are estimated from panel data from EU countries using different estimators and variable specifications. In addition, an analysis is carried out with Finnish excise taxes using commodity/outlet level micro data for the early 2000s. A general result of all analyses is that more than one half of a tax increase shifts to consumer prices. By contrast, there is less evidence on shifts to producer prices.

JEL classification: H22

Keywords: Value-added tax, tax incidence, consumption taxes

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