Taxation in a high inflation-Inflated Economy

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Abstract

This study investigates the impact of taxation policy on hyperinflation within distressed economies, with a focus on advising the 2026 Nigerian government and tax policymakers. Adopting a descriptive methodology based on existing literature and library research, the study explores hyperinflation scenarios in various nations. Literature indicates that recently, Nigeria met the necessary condition to be term and hyperinflated economy considering global benchmark and IAS 29 necessary condition but failed to meet sufficient conditions to warrant inflation accounting. The observations from literature consulted reveal a complex relationship between taxation and hyperinflation, with distinct patterns observed during wartime and peacetime. While increasing tax rates during war exacerbate economic conditions, dragging taxpayers into higher brackets negatively correlates with hyperinflation control. Conversely, in peaceful times, raising taxes and introducing new levies have negligible effects on hyperinflation but worsen economic conditions. Additionally, the effectiveness of taxation in addressing hyperinflation depends on external factors such as economic mismanagement, political instability, and corruption. Measures like printing new currency provide short-term relief but lead to long-term economic harm. The findings further reveals that taxation effect on hyperinflation is the same either during war or peaceful times. Consequently, the study recommends a balanced taxation approach, considering the contextual effects during different periods and addressing external factors, while coordinating with prudent monetary policies to ensure long-term economic stability.

Keywords: *global economy; financial conditions; tax policy; inflation*

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1. Introduction

The global economy is grappling with a multitude of challenges, including tightened financial conditions, the enduring effects of COVID-19, volatile commodity markets, climate change, geopolitical tensions, and disruptions in supply chains, all of which have contributed to a surge in inflation worldwide. High inflation disproportionately burdens the poor, particularly through increased food and energy prices, while their incomes fail to keep pace. Addressing high inflation through tax policy involves navigating two key channels (World Bank, 2022). Firstly, inflation directly impacts tax systems due to nominal features, resulting in timing discrepancies and varying real revenue changes across countries. While achieving full neutrality to inflation would require significant reforms, minor adjustments can mitigate its effects on revenue and efficiency. Secondly, tax policy can be utilized to alleviate the impact of high inflation on vulnerable populations, such as by addressing soaring energy and food costs. However, policymakers must tread carefully to avoid exacerbating inflation through misguided interventions, especially considering the additional strain caused by COVID-19 policy responses, which included tax cuts and leniency in administration, leading to substantial revenue losses in some nations (World Bank, 2022).

Hyperinflation, a phenomenon characterized by rapidly escalating prices leading to a breakdown in the value of a country's currency, has been a recurring challenge for Nigeria's economy. The country has grappled with bouts of hyperinflation, significantly impacting its economic stability and the livelihoods of its citizens. Factors such as fiscal deficits, currency devaluation, political instability, and external shocks have all contributed to the exacerbation of inflationary pressures in Nigeria (Nkoro & Uko, 2016; Umaru, 2020). Particularly notable was the hyperinflationary period in the late 1980s, where inflation rates soared, severely undermining the purchasing power of the Nigerian naira and causing widespread economic distress (Ajide, Lawal, & Raheem 2019). Despite various attempts at implementing economic stabilization measures, hyperinflation has persisted in Nigeria, posing significant challenges to sustainable economic growth and development (Adeniran, 2018). Understanding the root causes and consequences of hyperinflation in Nigeria is imperative for devising effective policy responses aimed at restoring economic stability and safeguarding the welfare of its populace.

Nigeria's inflation rate surged to 29.90% in January 2024 from 28.92% in December 2023, marking its highest level in two decades, contrasting with the global trend of declining inflation. Nigeria witnessed a significant increase in its inflation rate, rising to 33.20% in March 2024 from the February 2024 headline inflation rate of

31.70%. Petrol cost per liter increased by 226.75% in 2023 to N626.21 from N191.65, in January 2025, it was further increased to N950 per liter (Blueprint Newspapers Limited, 2025; Conversation, 2024; National Bureau of Statistics 2024; Vanguard, 2024). This phenomenon, characterized by escalating food costs and rising inflation, is primarily attributed to a combination of domestic challenges including fiscal deficits, currency depreciation, political instability, and supply chain disruptions (Conversation, 2024; National Bureau of Statistics 2024). Consequently, understanding the complex interplay of these factors is crucial for devising effective policy interventions to mitigate Nigeria's inflationary predicament and restore economic stability.

Taxation encounters significant hurdles in hyper-inflated economies, which can worsen economic instability, impede recovery endeavors, and deepen social disparities (Bolbol & Jack, 1996; Cagan, 1956; Fischer, 1993; Hanke & Nicholas, 2012, 2013). Hyperinflation, marked by swift and uncontrollable price surges, fundamentally reshapes taxation dynamics, necessitating policymakers to employ unconventional approaches to uphold fiscal stability and ensure fair resource allocation (Cagan, 1956; Fischer, 1993; Hanke & Nicholas, 2012, 2013). Mendoza and Linda, (2021) examined the challenges in environments of persistently low interest rates, which may have implications for taxation strategies in inflationary contexts. Previous researchers like Olatunji (2013), Anichebe (2015), Obaretin and Sadiq (2019), Anichebe (2015), Mark and Alexander (2023), focused only on the relationship between taxation and inflation. This study is therefore unique and different in that it considers the impact of taxation on hyperinflation.

IAS 29 focuses on financial reporting in hyper-inflationary economies. It provides guidance and insight on how companies operating in hyperinflationary environments should prepare their financial reports. The standards made provisions on restatement of financial statements, monetary items, preference for stable foreign currencies, inflation adjusted credit, wages, cumulative three years inflation rate, indexation, translation of financial statements, income statement adjustments (FRC, 2025; International Accounting Standard Board, 2019). Unfortunately, IAS 29 was complete silent on the correlation between taxation and hyperinflation which is the cardinal focus of this study.

While this study is primarily focus on taxation which is the actual process of collecting taxes from firms, businesses, and other entities. Taxation has very close correlation with tax policy which is the principles, strategies, and laws employed by the government to design the tax system structure. Interestingly, the structure

and objectives set in the tax policy such as fairness, simplicity, and efficiency determines how taxation is implemented. Furthermore, taxation translate tax policy into practice through tax authorities, systems and enforcement (Anyaduba & Ofori 2014; Okoye & Akenbor 2010). The usage of the term tax policy in this study is fundamentally not because the study is centered on tax policy, but because the term taxation has a very close union with tax policy. Also, for better understanding of the subject.

The primary challenge lies in identifying and exploring an appropriate taxation rate capable of addressing Nigeria's hyperinflation crisis. This paper specifically focuses on assessing the impact of taxation rate on hyperinflation, recognizing the interconnections of tax rate and tax practice within the economic landscape. It aims to determine whether taxation policy exerts positive or negative effects on hyperinflation in a distressed economies. This study aims to provide concrete advice to the 2025 Nigerian government and tax policymakers. The central question revolves around the extent to which taxation policy influences inflation rates during hyper-inflationary periods. Employing a descriptive methodology based on existing literature and library research, this study seeks to shed light on this critical issue.

2. Taxation

Taxation encompasses the process of levying charges on individuals or entities by governments to finance public expenditures (Bahl, 2008; Bird, 2014; Boskin et al., 2013; Cebula & Belton,

2019; Gruber, 2016; Hyde, 2008; Keen & Slemrod, 2017; Musgrave & Musgrave, 1989; Piketty, 2014; Rosen & Gayer, 2014). It involves the compulsory transfer of resources from the private sector to government entities, as well as the collection of money from citizens or businesses by their government to fund public services and goods (Bahl, et. al 2008; Cebula & Belton, 2019; Musgrave & Musgrave, 1989; Rosen et. al 2014;). Through taxation, governments generate revenue to cover essential state expenses, redistribute income, influence the behavior of individuals and firms, and meet public expenditure needs (Boskin et al., 2013; & Gruber, 2016). These definitions collectively underscore taxation's role as a fundamental mechanism for financing government operations and public services while shaping economic and social dynamics.

3. Hyperinflation

Hyperinflation denotes a state where prices escalate rapidly, causing a currency's value to plummet, often exceeding 50% per month (Cagan, 1956). It manifests as an uncontrollable surge in the general price level of goods and services within an economy (Dornbusch & Fischer, 1990 McMahon, 2009;). Hyperinflation entails an extreme and sustained elevation in inflation rates, with prices doubling within short intervals and resulting in a currency's collapse (Fischer, 1981; Shambaugh, 2021). This phenomenon arises when the money supply expands drastically without a commensurate rise in economic output (Darity, 2008; Dornbusch, 1991). It leads to a loss of confidence in the currency and undermines its purchasing power (Krugman & Obstfeld, 2009; Zimbabwe National Statistics Agency, 2008). Hyperinflation is characterized by an unprecedented surge in prices, often exceeding 100% per month, and poses significant challenges to monetary stability (Burdekin & Burkett, 2011; Ghana Statistical Service, 2010; Hanke & Krus, 2012). David (1355 BC) noted that the Lord detest and hates dishonest scales and rates, but fair and accurate weights and rates finds favor with him.

Similarly, IAS 29 defines hyper-inflationary economy as an economy where the cumulative inflation rate over three years approaches or exceeds 100%. This inflation rate is employed as a foundational indicator in assessing whether an economy is hyper-inflated (International Accounting Standard Board, 2019, PWC, 2020). Relating IAS 29 Standard definition with the Nigeria practical experience where fuel price was inflated above 200% within a week, which resulted in a cumulative general price increase approaching or exceeding 100% within weeks and months against the three years period indicated in IAS 29. It is not unlikely that Nigeria has witness a form of hyperinflation in recent time.

While some researchers believe that for an inflation to be term hyperinflation, price increase per month should not be less than 50% price increase. On the contrary, some others believes that 100% price increase per month can only be term hyperinflation. However, this study is taking a middle position. For this study, hyperinflation is a monthly price increase of 75%. While previous studies fails to show the duration of the monthly price increase. Nevertheless, for this study, 75% price increase within a two months period is term hyperinflation. Notwithstanding, 150% price increase in one month is also considered hyperinflation.

Table 2.0. Hyper inflation and Nigeria

S/N	ITEMS	Jan. 2023 unit price	Jan. 2025 unit price	Inflation rate
1	Rice	N45,000 bag	N78,000-N96,000	+73% -113%
2.	Beans	N40,000 bag	N90,000	+125%
3.	Bread	N550	N1,550	+182%
4	Garri	N17,000 bag	55,000	+224%
5.	Cooking oil	N5,000	10,500	+110
6.	Petrol	N257.12	N960	+274

(Source National Bureau of Statistics 2023, 2025, Financial Times, 2025)

Table 2.0 reveal items prices in Nigeria in 2023 and 2025 respectively. Also, the inflation rate in item prices over this period of two years. Basic households consumables were selected. The average cumulative inflation rate exceed 100%. This justifies the assertion of this paper that Nigeria experience a form of hyper-inflation in recent times. Also, the submission of Table 2.0 is in congruence with the provisions and submission of accounting standard on hyper inflation (IAS 29).

On the contrary, FRC (Jan. 2025), after examining the indicators under IAS 29, concluded that Nigeria does not meet the criteria to be group as an hyperinflated economy. This was after the calculated cumulative inflation rate was about 110.09% as at Dec. 2024. FRC believe that this rate is not sufficient on its own to trigger hyperinflation accounting. Other indicators considered were, confidence in the naira, Pricing practices and wage structures. Nigeria still holds assets denominated in naira including treasury bill, mutual funds etc. Also, prices and wages are still quoted and paid in naira (FRC, 2025).

However, it must be stated clearly that the focus of FRCN was more likely on the application of hyperinflation on financial reporting and accounting. The necessary condition for terming an economy an hyper inflated economy by global experts and scholars (Burdekin & Burkett, 2011; Darity, 2008; Dornbusch, 1990, 1990; Ghana Statistical Service, 2010; Hanke & Krus, 2012; McMahon, 2009) together with IAS 29 was attained (three years cumulative inflation rate approaching or exceeding 100%).

Furthermore, expert (BusinessDay, 2024; CBN, 2021; IMF, 2022; Nigerian Economic Summit Group, 2022; Premium Times, 2023) highlighted that Nigerians prefer to safe and keep their money in U.S dollars for several interlinked and inter-correlated rationale such as economic stability, naira devaluation, and inflationary pressures. This is probably a direct contrast with the submission of FRC (2025) that Nigerians has confidence in the naira. CBN (2021) noted clearly that Nigerian are loosing

confidence in the naira by saving their money in U.S dollars as a store of value. Also, Premium Times (2023) noted that in Nigeria, rent agreements, school fees, and even wages are currently denominated in US dollars. A further direct contrast with the provision of the FRC (2025). Also, the Nigerian Economic Summit Group (2022) added that there is a growing shift towards holding savings in U.S dollars due to fear naira depreciation.

4. Taxation and Hyperinflation

Recent studies examining the relationship between tax policy and hyperinflation control are limited, given the rarity of hyperinflation in modern economies. However, insights can be gleaned from broader research on fiscal policy and inflation dynamics. For instance, studies such as Hausmann and Sturzenegger (2015) investigate the impact of fiscal policies, including taxation, on inflationary pressures in countries like Venezuela, highlighting how fiscal mismanagement can contribute to inflation. Similarly, Dabla-Norris et al. (2013) explored the implications of income inequality for macroeconomic stability, indirectly addressing how tax policies aimed at reducing inequality may influence inflation dynamics by affecting aggregate demand and income distribution. While these studies may not directly focus on hyperinflation, they provide valuable insights into the broader relationship between tax policy, fiscal management, and inflation.

Understanding the intricate relationship between hyperinflation and taxation is essential for comprehending the dynamics of economic instability. Hyperinflation, characterized by an uncontrollable surge in prices within a short period, results from various factors including excessive money supply growth, fiscal deficits, and loss of confidence in the currency (Cagan, 1956). In hyperinflationary environments, taxation plays a crucial role both as a revenue generation tool and as a policy instrument to mitigate inflationary pressures. However, hyperinflation can severely compromise the effectiveness of taxation due to factors such as erosion of the tax base, fiscal drag, and lack of fiscal credibility (Heymann, 2011). Taxation policies and practices are significantly impacted by hyperinflation, leading to volatility in tax revenues, ad hoc tax policy responses, and social and political implications (Heymann, 2011).

Historical and contemporary case studies, such as the hyperinflationary episodes in Zimbabwe and Venezuela, offer valuable insights into the challenges of implementing effective taxation policies in hyperinflationary environments (Hanke

& Krus, 2012). In Zimbabwe, for instance, attempts to finance expenditures through money printing and arbitrary taxation measures exacerbated hyperinflationary pressures, contributing to economic collapse (Moyo, 2010). Similarly, Venezuela's reliance on money printing and ineffective taxation policies has fueled hyperinflation and economic instability (Hanke & Krus, 2012). Addressing the complex interplay between hyperinflation and taxation requires prudent fiscal and monetary policies, enhanced tax administration capacity, and restoration of public confidence in fiscal institutions (Heymann, 2011). International cooperation and assistance may also be necessary to mitigate the adverse effects of hyperinflation on taxation and economic development (Moyo, 2010).

4.1. Effect of Taxation on Hyperinflation

Tax policy alone does not serve as a direct catalyst for hyperinflation, but it can indirectly contribute to such a scenario when implemented irresponsibly or in conjunction with other economic factors. For instance, governments resorting to financing budget deficits through money creation rather than taxation or borrowing may lead to an influx of money into the economy without a corresponding increase in goods and services, potentially resulting in demand-pull inflation that could spiral into hyperinflation (Cagan, 1956). Additionally, fiscal imbalances arising from inadequate tax revenue and high government spending can exacerbate hyperinflationary pressures if governments rely on money printing as a primary means of financing expenditures, rather than implementing sound fiscal policies (Feldman, 1969).

Moreover, poorly designed tax policies that distort market incentives or create inefficiencies can contribute to economic instability, further exacerbating inflationary pressures. Excessive taxation or policies that hinder economic growth and investment may lead to supply-side constraints, exacerbating inflationary pressures (Hanke & Krus, 2012). Additionally, if taxpayers perceive tax policies as inequitable or ineffective, it can undermine confidence in the government's ability to manage the economy, potentially leading to capital flight and currency depreciation, which, if not addressed promptly, can culminate in hyperinflation. Therefore, prudent and responsible fiscal management, including sound tax policies, is imperative to prevent hyperinflation and maintain economic stability (Friedman, 1970).

5. Evidence from Nations

5.1 Germany's Experience: During Germany's hyperinflation in the 1920s, tax policy played a significant but complex role in worsening the economic crisis. The government attempted to address fiscal challenges by raising various taxes, including income and sales taxes, but these measures failed to bridge the budget gap. Consequently, the relentless monetary expansion continued, fueling hyperinflation (Feldman, 1969). Additionally, the phenomenon of fiscal drag emerged as nominal incomes surged, pushing taxpayers into higher tax brackets, further distorting the economy and disincentivizing productivity. However, these tax hikes and fiscal drag only worsened the crisis by eroding public confidence in the government's ability to manage the economy and exacerbating inflationary pressures (Feldman, 1969). The hyperinflation period in Germany lasted from approximately 1921 to 1924, with prices skyrocketing to unprecedented levels, leading to severe economic hardship and social unrest among the population. A loaf of bread costed 250 marks in 1921 Jan. hyperinflated to 200,000 marks in 1923. Typically cause was deficit war financing (Feldman, 1969.

5.2 The Zimbabwe Experience: During the late 2000s, Zimbabwe encountered one of the most severe instances of hyperinflation in history, with monthly inflation rates reaching an astonishing

79.6 billion percent by November 2008 (Hanke & Krus, 2012). During the hyperinflation era in Zimbabwe, which primarily occurred from the late 1990s to the early 2000s, the government introduced several measures in response to the economic turmoil. The hyperinflation in Zimbabwe peaked in November 2008, with monthly inflation rates reaching extraordinary levels, estimated at approximately 79.6 billion percent (Hanke & Krus, 2012). Amid the economic crisis, the Zimbabwean government implemented various measures to address the situation, including currency devaluations and price controls, but specific details regarding tax policy changes are not extensively documented. Zimbabwe was not engaged in a conventional war during the hyperinflation crisis. However, it was involved in various conflicts and military interventions during that time, which contributed to economic strain and budget deficits. One significant military engagement was Zimbabwe's involvement in the Democratic Republic of Congo (DRC) conflict in the late 1990s and early 2000s.

During Zimbabwe's hyperinflation crisis, the government implemented various tax policies in an attempt to generate revenue and stabilize the economy. These policies included increased tax rates on personal income, corporate profits, and property, as

well as the introduction of windfall taxes on resource extraction and transaction taxes on financial transactions (Lange, 2010). Import duties were also imposed or increased to protect domestic industries and raise revenue (Ncube & Ndlela, 2008). However, the effectiveness of these measures was limited due to widespread economic mismanagement, political instability, and structural imbalances in the economy. Additionally, corruption and a lack of administrative capacity undermined efforts to enforce tax compliance and widen the tax base (Brixiova et al., 2011). Consequently, despite these tax policies, Zimbabwe's hyperinflation crisis persisted, exacerbating the country's economic challenges.

In Zimbabwe, Hanke and Krus, (2012) believed that documentation on tax policy is limited. On the contrary, Lange, (2010), Ncube and Ndlela (2008) itemized the various taxes which were increased during the hyper-inflationary period. This various position is better understood when studied collectively. It is probable that Hanke and Krus, (2012) had access to limited information at the time of their research.

5.3 Yugoslavia Experience: Yugoslavia grappled with hyperinflation in the early 1990s amidst political turmoil and economic mismanagement, witnessing a peak monthly inflation rate of 313 million percent in January 1994 (Hanke & Krus, 2012). These instances underscore the catastrophic economic repercussions of hyperinflation in various countries across different historical periods.

During the hyperinflation period in Yugoslavia in the early 1990s, the tax policy played a significant role in exacerbating the economic crisis rather than alleviating it. The Yugoslav government implemented various tax measures in an attempt to address the hyperinflation, but these policies often failed to effectively stabilize the economy and, in some cases, worsened the situation. One notable tax policy during the hyperinflation period was the introduction of high marginal tax rates. The government believed that imposing higher taxes on income and profits would help control inflation by reducing consumer demand and slowing down economic activity (Apostolov, 2003; Cagan, 1956; Hanke & Krus, 2012). However, this approach had unintended consequences. High tax rates discouraged investment and entrepreneurship, leading to a decline in production and further exacerbating supply shortages. Additionally, businesses struggled to cope with the burden of high taxes, which contributed to widespread bankruptcies and unemployment (Cagan, 1956; Hanke & Krus 2012).

Another aspect of tax policy during the hyperinflation period was the government's reliance on seigniorage revenue. Seigniorage refers to the profit made by the

government from issuing currency. In hyperinflationary environments, governments often resort to printing money as a source of revenue, effectively taxing the population through inflation. However, this short-term solution only fuels inflation further, as the increase in the money supply outpaces real economic growth, leading to a depreciation of the currency and a loss of confidence in its value (Apostolov, 2003; Hanke & Krus 2012). The combination of high taxes, excessive money printing, and economic mismanagement exacerbated the hyperinflation in Yugoslavia, leading to a collapse of the economy and the eventual breakup of the country. The tax policies implemented during this period failed to address the root causes of hyperinflation, such as fiscal imbalances, currency overissuance, and political instability (Apostolov, 2003; Cagan, 1956).

5.4 Hungary's Experience: Similarly, Hungary experienced hyperinflation following World War II, triggered by economic collapse and substantial war debts, resulting in a monthly inflation rate soaring to over 1000 percent in July 1946 (Hanke & Krus, 2012). During Hungary's hyperinflation in the 1940s and early 1950s (Groszmann, 1977), the government's tax policies significantly aggravated the economic crisis. The tax measures implemented during this period aimed to generate revenue to cover budget deficits arising from wartime expenditures and economic disruptions (Kornai, 1947). These policies included imposing high-income taxes on individuals and businesses, levies on goods and services, and special taxes or surcharges for specific government expenses. Additionally, the government resorted to inflationary finance through monetary expansion, indirectly taxing individuals and businesses through currency devaluation (Kornai, 1947).

The impact of these tax policies on hyperinflation was profound. Excessive taxation reduced disposable income for individuals and profits for businesses, stifling consumption and investment. High tax rates also discouraged formal economic activity, leading to increased participation in the informal or underground economy (Bánki, 2018). Moreover, the monetary expansion to finance budget deficits, exacerbated by tax shortfalls, flooded the economy with excess currency, driving up prices and eroding the value of money. This distortion of incentives and economic disruption caused by high taxes contributed to a loss of confidence in the currency, further accelerating hyper-inflationary pressures (Bánki, 2018).

The duration of Hungary's hyperinflation, peaking in the immediate aftermath of World War II and gradually subsiding in the late 1940s and early 1950s, was influenced by various factors. These included the magnitude of wartime

expenditures and economic disruptions, as well as the effectiveness of stabilization measures implemented by the government. These measures encompassed currency reforms, price controls, and austerity measures aimed at restoring economic stability. Additionally, external factors such as international aid and geopolitical developments also played a role in shaping Hungary's economic and political environment during this tumultuous period (Groszmann, 1977).

5.5 Venezuela's Situation: Venezuela has experienced one of the most severe hyperinflationary crises in modern history, significantly influenced by tax policy among other factors. The hyperinflationary episode, which commenced in the early 2010s, witnessed inflation rates skyrocketing to unprecedented levels in subsequent years (Hanke & Krus, 2019). Tax policy in Venezuela played a pivotal role in exacerbating hyperinflation, as the government heavily relied on money printing to cover budget deficits, coupled with ineffective and arbitrary taxation measures. For instance, the government implemented ad hoc tax policies, such as raising valueadded taxes (VAT) and imposing arbitrary tax hikes, in attempts to shore up revenue amidst the fiscal crisis (Hausmann & Rigobon, 2019).. However, these measures failed to address fundamental structural issues and instead worsened inflationary pressures by further eroding purchasing power and undermining confidence in the national currency.

Furthermore, Venezuela's tax policy exhibited characteristics of opacity and inconsistency, contributing to taxpayer non-compliance and exacerbating economic distortions. The arbitrary nature of tax policies, compounded by widespread corruption and mismanagement, eroded public trust in fiscal institutions and impeded efforts to restore economic stability (Hausmann & Rigobon, 2019). Despite subsequent attempts to implement stabilization measures, including currency reforms and price controls, hyperinflation persisted, reaching an alarming annual rate of over 1,000,000% in 2018 (Hanke & Krus, 2019). This prolonged hyperinflationary crisis has inflicted severe economic hardship and social unrest, highlighting the critical role of tax policy in exacerbating and prolonging hyperinflationary episodes in Venezuela.

5.6 Nigeria Past Experience: Hyperinflation plagued Nigeria during the late 1980s and early 1990s, primarily spurred by fiscal mismanagement, extensive money printing, and external shocks like declining oil prices (Ayodele, 2019). This hyperinflationary period endured from approximately 1988 to 1995, witnessing staggering inflation rates exceeding 50% per month at its zenith (Anyanwu & Oaikhena, 2012). To combat fiscal challenges, the government implemented tax policies aimed at bolstering revenue streams, notably introducing Value Added Tax

(VAT) in 1993. This measure aimed to broaden the tax base and enhance government income by levying consumption taxes on goods and services throughout production and distribution channels.

The confluence of hyperinflation and tax policy adjustments, including the introduction of VAT, wrought profound ramifications on Nigeria's economy and society. Hyperinflation significantly devalued the national currency, eroding purchasing power for individuals and businesses alike. Meanwhile, the imposition of VAT augmented the cost of living for ordinary citizens, exacerbating the economic strain caused by hyperinflation. These policies, while implemented to address fiscal challenges, inadvertently compounded the hardships faced by Nigerians during the hyperinflationary era (Anyanwu & Oaikhena, 2012; Ayodele, 2019).

5.7 Nigeria Today: Nigeria's inflation rate surged to 29.90% in January 2024 from 28.92% in December 2023, marking its highest level in two decades, contrasting with the global trend of declining inflation. Nigeria witnessed a significant increase in its inflation rate, rising to 33.20% in March 2024 from the February 2024 headline inflation rate of 31.70%. Petrol cost per liter increased by 226.75% in 2023 to N626.21 from N191.65. (Conversation, 2024; National Bureau of Statistics 2024; Vanguard, 2024). Whereas, in December 2022, the inflation rate was 21.34%.

This surge in inflation reflects a substantial erosion in the purchasing power of the Nigerian currency, exacerbated by the Naira's depreciation against the US dollar, reaching an alarming N1,618 (Paul, 2024). The causes of this hyperinflation, including the COVID-19 pandemic's economic disruptions, insecurity affecting agricultural production, and the government's lack of fiscal discipline leading to excessive borrowing and money printing, have dire consequences for economic growth, social welfare, and national stability. Addressing this crisis requires a comprehensive approach encompassing fiscal consolidation, monetary tightening, structural reforms, and social protection measures.

Chukwu (2024) noted that Nigeria is on the verge of hyperinflation. He noted that the inflation pressure will continue all through the year 2024. He believes that the cause is the CBN funding of the government's growing budget, poor food production, and the weakening naira. The significant taxation policies and practices that evolved in 2023 probably to reduce the effect of inflation include an introduction of taxation of gains on the disposal of digital assets, including cryptocurrency, at a rate of 10%, while allowing for the deduction of capital losses on assets for gains tax purposes with a provision to carry forward such losses for

up to 5 years (Emeka, & Akpeme, 2023).. Rollover relief on the sale of shares is contingent upon the reinvestment of proceeds within the same year for assessment, alongside the removal of investment allowance on plant and equipment. Additionally, goods imported into Nigeria from outside Africa incur a 0.5% levy, and all services, including telecommunication, are subject to taxation as per presidential directives. Furthermore, tax deductions for premiums paid on insurance, particularly on own life and spouse, have been restored (Emeka, & Akpeme, 2023).

The electronic money transfer (EMT) levy, set at 15%, is to be shared with 50% going to the Federal Government and 35% to State Governments and Local Governments 15% (Emeka, & Akpeme, 2023). The application of transfer pricing rules to VAT transactions between connected persons is deemed artificial or fictitious, while companies appointed to withhold VAT at source must remit such VAT to the FIRS by the 14th day of the following month. VAT on goods

purchased via electronic platforms from nonresident suppliers is chargeable VAT unless proof of appointment and registration with FIRS is provided. The redefinition of buildings for VAT purposes excludes any structure not permanently affixed to land for most of its useful life. Additionally, the Tertiary Education Tax rate increases from 2.5% to 3% of assessable profits. (Emeka, & Akpeme, 2023).

Given the prevailing conditions of inflation and hyperinflation in Nigeria, it's evident that the government implemented new taxation policies in 2023. These changes involved the introduction of new taxes, the removal of tax incentives, and an increase in some tax rates. However, there is likely no immediate evidence showing the effectiveness of these tax policies in addressing the ongoing hyperinflation in Nigeria. However, it is not clear if the Nigerian tax policy reforms of 2023 is a contributory determinant to the growing inflation rate in Nigeria.

The 2025 Nigerian Tax Reform Act introduced a revised progressive tax structure aimed at increasing equity in tax contributions. Under the new tax regime, individuals earning up to ₦800,000 annually are exempt from taxation (0%), while income within the next ₦2,200,000 is taxed at 15%, followed by 18% for the next ₦9,000,000, 21% for the next ₦13,000,000, 23% for the next ₦25,000,000, and 25% for income exceeding ₦50,000,000 (Federal Inland Revenue Service, 2025). This represents a shift from the previous tax structure, where income up to ₦300,000 was taxed at 7%, the next ₦300,000 at 11%, the next ₦500,000 at 15%, the next ₦500,000 at 19%, the next ₦1,600,000 at 21%, and income above ₦3,200,000 at 24% (Nairametrics, 2025). These reforms aim to ease the tax burden on lower-income

earners while ensuring high-income individuals contribute proportionally to national revenue generation. However, it is not unlikely that, expanding the current tax rate in a period of growing cost of living might and reduction in standard of living might impact negatively on the taxpayer.

6.8 Empirical Evidence from Nigeria

According to Mark and Alexander (2023), they discuss how inflation typically doesn't directly impact regular individuals in private economies. However, they emphasize that problems arise when taxes aren't adjusted for inflation. They point out that tax systems often treat inflation unfairly, leading to higher taxes on inflationary gains even during periods of low inflation. Additionally, they highlight the inequity of only adjusting certain incomes for inflation. Their paper presents new evidence demonstrating how inflation can diminish the value of tax incentives, such as those for investment. Mark and Alexander conclude by proposing solutions to rectify these issues within tax policy.

Obaretin and Sadiq (2019) conducted a study on the relationship between tax revenue sources and inflation in Nigeria. They found that Customs and Excise Duties exhibited a positive but statistically insignificant relationship with inflation, indicating that although an increase in Customs and Excise Duties revenue driven by higher imports might theoretically lead to higher inflation, the actual impact on inflation is not significant. Similarly, Companies' Income Tax showed a positive but insignificant relationship with inflation, suggesting that higher Companies' Income Tax revenue resulting from increased economic activities might contribute to inflationary pressures, but the effect is not statistically significant. Additionally, VAT), a consumption tax, displayed a positive but statistically insignificant relationship with inflation. This implies that while higher consumption levels may lead to higher VAT revenue and potentially higher inflation, the observed relationship is not statistically significant. The study fail to show if these impact will be in the short run or long run period.

Research by Buzugbe and Ohwofasa (2025) revealed that company income tax, gas income tax, and petroleum profit tax negatively influence inflation while value added tax and stamp duty tax have a positive relationship and influence on inflation. Meanwhile, Samson and Peter (2023) study shows that government expenditure and revenue are positively related to inflation.

Anichebe (2015) investigated the impact of tax policy on inflation in Nigeria was investigated using data spanning from 1981 to 2012. Various estimation techniques were employed, including the Johansen Co-integration test, Ordinary Least Square Technique, and Granger Causality/Block Exogeneity Wald Test. The findings indicated that there exists a long-term relationship between tax policy and inflation in Nigeria. Specifically, it was observed that the personal income tax rate negatively affects inflation in the long run, whereas company income tax rate and consumption and property tax exhibit significant positive relationships with inflation over the long term. Moreover, the results from the Granger Causality/Block Exogeneity Wald Test revealed that all variables included in the inflation model collectively have a causal relationship with inflation in Nigeria. Consequently, the study suggests that policymakers should consider tax policy implications when devising strategies to manage inflation.

The study by Beer, et. al (2023) revealed that expected inflation has few real effects in purely private economies. The study, however, did not indicate the existence of unexpected inflation which best describes the Nigerian situation in recent months where a commodity has two prices in one day.

7. Theoretical Review

Taxation in an economy experiencing hyperinflation poses distinct challenges, influenced by theories that elucidate the dynamics of fiscal policy amidst extreme currency devaluation. Seigniorage theory, as expounded by Cagan (1956), underscores the reliance of governments on seigniorage - revenue derived from money creation - during fiscal distress. However, an overreliance on seigniorage exacerbates hyperinflation by injecting excessive currency into the economy. Moreover, fiscal drag, a concept introduced by Baumol (1952), elucidates how inflation pushes individuals into higher tax brackets, augmenting tax revenues without adjustments in tax rates, thereby imposing an exacerbated burden on taxpayers. In a hyperinflated environment, fiscal drag distorts economic incentives and further complicates fiscal management.

Additionally, tax policies in hyperinflated economies can significantly impact inflation expectations and economic behavior. Rational expectations theory, pioneered by Muth (1961), posits that individuals form expectations about future inflation based on all available information, including anticipated changes in tax policy. Consequently, expectations of future tax increases to finance government

expenditures may exacerbate inflationary pressures, prompting individuals to expedite spending and investment decisions.

Furthermore, thedynamicsof the Laffercurve, elucidatedby Laffer(1974), assume unconventional characteristics in hyperinflationary contexts. Extremely high inflation rates can distort tax compliance incentives and economic activity, potentially leading to situations where reducing tax rates could stimulate economic growth and increase revenue, contrary to conventional expectations.

In navigating taxation amidst hyperinflation, policymakers must grapple with these complex theoretical underpinnings. Effective tax policies necessitate a delicate balance between revenue generation, inflation containment, and economic stabilization. References to seminal works in economics provide valuable insights into understanding and addressing the multifaceted challenges associated with taxation in hyperinflated economies.

8. Summary and Conclusion

While Nigeria has not experienced hyperinflation on the scale witnessed in some other nations, the country has faced significant hyperinflation challenges at various points having met the necessary condition. In the 1980s, Nigeria encountered elevated inflation rates exceeding 40% annually, attributed to factors like excessive government spending and economic mismanagement (Amassoma & Iganiga, 2017; Umoh, 2019). This period of inflationary pressure contributed to economic instability and hardship for the populace. More recently, Nigeria has grappled with inflationary pressures stemming from currency depreciation, fuel subsidy removal, and disruptions in the supply chain (Amassoma & Iganiga, 2017; Blueprint Newspapers Limited, 2025; Conversation, 2024; National Bureau of Statistics 2024; Umoh, 2019; Vanguard, 2024).

The observation from literature in this study are in two dimensions. Firstly, were the findings from previous reports from nations with hyperinflation records. Secondly, were the findings from extant and existing research papers. The observations from previous experience with nations include the following;

In times of war, increasing tax rates exacerbates economic conditions in a hyperinflated economy. Also, in wartime, dragging taxpayers into higher tax brackets is negatively correlated with hyperinflation control.

Furthermore, in a peaceful economy, raising taxes and introducing new taxes (e.g., VAT, windfall taxes, customs duties) have a negligible effect on managing and controlling hyperinflation. Instead, they worsen economic conditions. Moreover, the effectiveness of any tax policy in addressing hyperinflation also depends on existing external factors such as economic mismanagement, political instability, structural imbalances in the economy, corruption, and a lack of administrative capacity.

Finally, printing new currency and relying on seigniorage in a hyperinflated economy provide only short-term relief with long-term detrimental effects on the economy. Tax policy effect on hyperinflation is the same either during war or peaceful times.

It can be concluded from literature consulted that tax policy only have significant effect on inflation in the long run period only. From historical experiences, it is evident that during times of war, increasing tax rates exacerbate economic conditions in hyperinflated economies, while in peaceful times, raising taxes and introducing new taxes have negligible effects on hyperinflation management and may even worsen economic conditions. Furthermore, the effectiveness of tax policy in addressing hyperinflation is contingent upon various external factors such as economic mismanagement, political instability, and corruption. Additionally, resorting to measures such as printing new currency and relying on seigniorage offers only short-term relief but leads to longterm detrimental effects on the economy. The suggestions from extant research further reinforce the significance of tax policy in inflation dynamics, with certain tax components exhibiting significant relationships with inflation over the long term.

Recommendations

1. **Long-term Tax Policy Planning:** Policymakers should adopt a long-term perspective when formulating tax policies, considering their potential implications on inflation dynamics. This entails comprehensive assessments of economic conditions, including factors such as political stability, economic management, and administrative capacity.

2. **Balanced Taxation Strategies:** Taxation strategies should be balanced to mitigate inflationary pressures. While certain taxes may contribute to inflation in the long run, others may have a dampening effect. Policymakers should carefully

evaluate the mix of taxes to ensure a balanced approach that fosters economic stability.

3. **Mitigating External Factors:** Efforts to address hyperinflation should not be solely focused on tax policy but should also encompass measures to mitigate external factors such as economic mismanagement, political instability, and corruption. Addressing these underlying issues is essential for creating a conducive environment for effective inflation management.

4. **Prudent Monetary Policies:** Alongside tax policy, prudent monetary policies should be implemented to complement efforts in managing inflation. Central banks should employ measures such as controlling money supply growth and maintaining price stability to support the effectiveness of tax policies in curbing inflationary pressures.

5. **Continued Research and Monitoring:** Continuous research and monitoring of the impact of tax policy on inflation dynamics are essential. This includes analyzing emerging trends, refining models, and adapting policies to changing economic circumstances to ensure effective inflation management strategies.

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