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TAX REFORM AND FINANCIAL STRESS: ASSESSING THE PSYCHOLOGICAL IMPACT OF TAX POLICY CHANGES ON NIGERIANS' MENTAL HEALTH

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ABSTRACT

Tax reforms are essential for economic growth, yet they often introduce financial stress, affecting individuals' mental well-being. This review paper examines the psychological impact of tax policy changes on Nigerians' mental health, emphasising financial stress as a key factor. It explores existing literature on the relationship between taxation, financial burden, and psychological distress, focusing on anxiety, depression, and coping mechanisms among affected individuals. The study adopts a qualitative methodology, relying on secondary data sources such as books, peer-reviewed journals, government reports, and policy documents. Theoretical perspectives such as Social Stress Theory, Stress Process Theory, Behavioural Economics Theory, Cognitive Dissonance Theory, and Psychosocial Theory provide a framework for understanding how tax-induced financial stress influences mental health outcomes. Empirical evidence from global and Nigerian contexts highlights the disproportionate effects of taxation on low-income earners and vulnerable groups. Findings suggest that tax policy changes, particularly those increasing the financial burden on individuals, contribute to heightened stress levels, anxiety, and reduced mental well-being. The study recommends policy adjustments that balance revenue generation with citizens' financial stability and psychological welfare. Additionally, it calls for greater integration of mental health considerations into tax policy formulation.

Keywords: Tax Reform, Financial Stress, Mental Health, Taxation Policy, Psychological Impact, Nigeria.

INTRODUCTION

Taxation is a fundamental instrument for economic growth and national development, serving as a primary source of government revenue for public services such as infrastructure, education, and healthcare (Organisation for Economic Co-operation and Development (OECD), 2023). Owing to this, Nigeria has implemented several tax reforms aimed at increasing revenue collection and reducing dependence on oil revenue. The Finance Act 2019, for instance, revised various tax laws, including Value Added Tax (VAT), Company Income Tax (CIT), and Personal Income Tax (PIT), to improve tax compliance and revenue generation (FIRS, 2022). While these reforms were necessary for economic sustainability, they introduced additional financial burdens on individuals and businesses, many of whom were already struggling with economic hardship due to inflation, unemployment, and low wages (World Bank, 2023). Studies have established a strong relationship between financial stress and mental health. For example, Madanian, Norris & Parry (2020) found that financial difficulties significantly contribute to increased levels of stress, anxiety, and depression. Similarly, Drydakis (2022) revealed that individuals experiencing financial distress due to economic policies are more likely to suffer from low self-esteem, sleep disorders, and poor emotional well-being.

In the Nigerian context, taxation has been linked to economic hardship, particularly among low-income earners and small business owners (Adebayo & Adedokun, 2021). A study by Eze & Nwankwo (2021) found that increased tax rates led to higher financial stress among Nigerian workers, resulting in lower productivity and higher levels of workplace stress. Likewise, Uchenna & Ogbonna (2022) examined the effect of taxation on small business owners in Lagos and found that tax burdens negatively impacted their financial stability and psychological health.

Financial stress, characterized by persistent concerns about meeting financial obligations, has been linked to mental health disorders such as anxiety, depression, and emotional distress (Goyal et al., 2021). Studies have also shown that economic hardship and increased taxation can lead to psychological distress (Drydakis, 2022). In Nigeria, where approximately 63% of the population

(133 million people) live in multidimensional poverty (National Bureau of Statistics [NBS], 2022), additional tax burdens can exacerbate financial strain, leading to significant mental health challenges.

While taxation is a vital economic tool, from our knowledge, its psychological consequences remain underexplored in Nigeria. Most studies on taxation focus on its economic and fiscal effects, with little emphasis on the financial stress and mental health burden it imposes on citizens (Okafor & Onuoha, 2022). The lack of integration between economic policy and mental health considerations creates a significant policy gap that needs urgent attention. Despite these findings, most tax policies in Nigeria fail to consider their psychological implications, focusing primarily on revenue generation. Given the high unemployment rate of 33.3% (NBS, 2022) and an inflation rate of 28.92% as of December 2023 (CBN, 2024), many Nigerians are struggling to meet their basic financial needs. The additional strain from tax obligations can contribute to mental health issues such as anxiety, depression, and financial-induced stress (Oladokun et al., 2023). To address these gaps, this review seeks to answer the following research questions:

1. How do tax reforms contribute to financial stress among Nigerians?
2. What are the psychological effects of financial stress induced by tax policies?
3. How can policymakers balance tax reforms with mental health considerations?

Conceptual Clarification/Literature Review

Understanding Tax Reform and Its' Types

Tax reform refers to the process of modifying existing tax policies to enhance their efficiency, equity, and effectiveness in revenue generation. Such reforms aim to improve tax administration, broaden the tax base, and adjust tax rates to align with economic objectives. Theoretical foundations guiding tax reforms include: Laffer Curve Theory: Proposes that there is an optimal tax rate that maximizes revenue without discouraging productivity. Behavioral Economics Theory: Examines how psychological factors influence taxpayers' compliance and responsiveness to tax policies.

These reforms can be broadly categorized into several types, each addressing specific aspects of taxation as follows:

Rate Adjustments: Rate adjustments involve modifying existing tax rates to optimize revenue without overburdening taxpayers. This can include increasing or decreasing rates for income tax, corporate tax, or value-added tax (VAT). For instance, Russia implemented a flat tax rate of 13% in 2001, replacing its progressive tax system. This reform led to a 25.2% increase in real revenues from personal income tax in the first year, followed by 24.6% and 15.2% increases in the subsequent two years, respectively

Base Broadening: Base broadening aims to expand the tax base by reducing exemptions, deductions, and loopholes, thereby ensuring a more equitable distribution of tax liabilities. By widening the tax base, governments can maintain or lower tax rates while increasing revenue. This approach also minimizes tax avoidance and evasion.

Administrative Reforms: Administrative reforms focus on enhancing the efficiency and effectiveness of tax collection processes. This includes modernizing tax administration through the adoption of technology, improving taxpayer services, and strengthening enforcement mechanisms. For example, Nigeria established the Federal Inland Revenue Service (FIRS) as an

autonomous agency in 2007 to professionalize tax administration and improve tax collection mechanisms.

Structural Reforms: Structural reforms involve comprehensive changes to the tax system to align it with contemporary economic realities and developmental goals. This can include overhauling tax laws, introduce new forms of taxation, or shift the tax burden between different economic agents. For instance, Nigeria introduced the Value Added Tax (VAT) in 1993, replacing the existing sales tax, to broaden the tax base and enhance revenue collection.

Equity-Oriented Reforms: These reforms aim to make the tax system more progressive, ensuring that higher-income individuals or entities contribute a fairer share to national revenue. This can involve increasing tax rates for higher income brackets or implementing wealth taxes. For example, Nigeria's proposed tax reform bill seeks to allocate VAT revenue based on the tax contributions of the states rather than population size, potentially benefiting economically productive regions.

Consumption-Based Reforms: Shifting the tax burden from income to consumption is another form of tax reform. This approach includes implementing or increasing taxes on goods and services, such as sales tax or VAT, to encourage savings and investment. However, such reforms must be designed carefully to avoid disproportionately affecting lower-income individuals.

Financial Stress: Meaning and Dimensions

Financial stress refers to the emotional tension and anxiety experienced due to financial challenges, such as debt, insufficient income, or unexpected expenses. This form of stress can significantly impact an individual's mental and physical well-being. Financial stress arises when individuals perceive their financial resources as inadequate to meet their obligations or lifestyle desires. Common causes include:

- **Debt Accumulation:** High levels of debt, such as credit card balances or student loans, can lead to significant stress.
- **Insufficient Income:** Earning less than needed to cover basic living expenses can cause ongoing anxiety.
- **Unexpected Expenses:** Sudden costs, like medical emergencies or car repairs, can disrupt financial stability.
- **Economic Downturns:** Recessions or economic instability can result in job loss or reduced income, heightening financial concerns.
- **Perceived Inequity:** If individuals feel the tax system is unfair, it can lead to dissatisfaction and stress.

Historical Context of Tax Policy Changes in Nigeria

Nigeria's tax policy has undergone significant transformations, reflecting the nation's evolving economic, political, and social landscapes. From the colonial era to the present day, these changes have aimed to enhance revenue generation, promote equity, and stimulate economic growth.

Colonial Era and Early Independence (1900s - 1960s)

During British colonial rule, Nigeria's taxation system was primarily designed to extract resources for the colonial administration. The introduction of taxes such as the "hut tax" and "personal tax" placed a direct burden on indigenous populations, often leading to resistance and unrest. Post-independence, the Nigerian government sought to reform these colonial tax structures to better

serve national development goals. The Income Tax Management Act (ITMA) of 1961 was a pivotal legislation that standardized income taxation across regions, marking a significant shift towards a unified tax system

Oil Boom and Economic Shifts (1970s - 1980s)

The 1970s oil boom drastically altered Nigeria's economic landscape, with oil revenues accounting for a substantial portion of government income. This shift led to a reduced emphasis on non-oil taxation, causing distortions in the economy. In response, the government enacted the Petroleum Profits Tax Act (PPTA) in 1959, imposing taxes on profits from petroleum operations. However, by 1980, despite oil-generated revenues reaching an all-time high of US\$24.9 billion, Nigeria faced an international debt of \$9 billion, highlighting fiscal mismanagement and over-reliance on oil.

Structural Adjustment and Tax Reforms (1980s - 1990s)

The economic downturn of the 1980s prompted Nigeria to adopt Structural Adjustment Programs (SAPs) under the guidance of international financial institutions. A key component of these programs was tax reform aimed at diversifying revenue sources. The introduction of the Value Added Tax (VAT) in 1993 replaced the existing sales tax, broadening the tax base and enhancing revenue collection. The VAT was set at a flat rate, initially contributing significantly to non-oil revenues.

Democratic Era and Modernization (1999 - 2010s)

With the return to democracy in 1999, Nigeria embarked on comprehensive tax reforms to improve efficiency and compliance. The establishment of the Federal Inland Revenue Service (FIRS) as an autonomous agency in 2007 marked a significant step towards professionalizing tax administration. The FIRS (Establishment) Act of 2007 granted the agency greater autonomy, leading to improved tax collection mechanisms. Additionally, the enactment of the Tertiary Education Trust Fund (TET Fund) Act in 2011 introduced a 2% education tax on assessable profits of companies, aimed at revitalizing the education sector.

THEORETICAL FRAMEWORK

Four theories necessitate an exploration of theoretical frameworks that elucidate how taxation policies can influence financial stress and, subsequently, mental health outcomes.

Social Stress Theory: Developed in the mid-20th century posits that stressors, particularly those stemming from socio-economic challenges, can adversely affect mental health. Financial stress, characterized by concerns over debt, income insufficiency, or unexpected expenses, is a significant stressor within this framework (Lazarus, & Folkman, 1984). Empirical evidence supports this theory, demonstrating that financial strain is associated with psychological distress, including anxiety and depression. For instance, a study utilizing data from the 2018 National Health Interview Survey found a significant association between financial worries and increased psychological distress among U.S. adults. Notably, this relationship was more pronounced among individuals who were unmarried, unemployed, had lower income levels, or were renters. Another comprehensive analysis of 40 observational studies found a consistent positive association between financial stress and depression across diverse populations, with stronger effects observed among low-income groups. Longitudinal data from Dutch households during the COVID-19 Pandemic Study (2022) revealed that increases in financial stress predicted declines in mental health, highlighting the significant role of financial stressors during economic downturns.

Furthermore, Australia (2024) report highlighted that over 50% of Australians experienced mental health issues due to rising living costs, with financial stress leading to anxiety and depression. While Arta Finance (2024) study found that 38% of Gen Z individuals faced financial instability and mental health struggles, with financial stress identified as a primary factor.

Stress Process Theory: Introduced by Pearlin, Menaghan, Lieberman, & Mullan (1981), emphasizes the role of chronic stressors, such as financial strain, in influencing mental health outcomes. This model suggests that ongoing financial difficulties can lead to sustained psychological distress, which may manifest as anxiety, depression, or other mental health disorders. Research indicates that financial stress is linked to both physical and mental health morbidity, underscoring its significance as a chronic stressor. Studies have found that financial stress is associated with increased inflammation, suggesting a link between economic strain and physical health, which can further affect mental well-being (Pearlin, Menaghan, Lieberman, & Mullan, 1981). Research further indicates that debt functions as a direct stressor, leading to mental health issues like depression and anxiety. This relationship is mediated by factors such as coping mechanisms and available social support (Richardson, Elliott, & Roberts, 2013).

Behavioral Economics Perspective, developed by (Thaler & Sunstein, 2008): Highlights how tax burdens influence financial decision-making and emotional responses. This model further highlights how individuals make irrational tax-related decisions due to stress and economic pressure. Empirical studies have demonstrated a robust association between financial worries and mental health issues (Congdon, Kling, & Mullainathan, 2009). Sweet, Nandi, Adam, & McDade, 2013 in examining the psychological costs of financial constraints found that financial stress is prevalent among U.S. households and is strongly associated with measures of financial constraints, suggesting that financial stress can have significant economic consequences. Additional study utilizing data from the 2018 National Health Interview Survey found that higher financial worries were significantly associated with increased psychological distress among U.S. adults. This relationship was more pronounced among unmarried, unemployed, lower-income households, and renters (Ong & Edwards, 2008). More so, Bridges & Disney, 2010 indicate that economic downturns, which often lead to increased financial stress, are linked to higher risks of depression and mental distress. A behavioral economics perspective enriches our understanding of the intricate relationships between taxation, financial stress, and mental health.

Cognitive Dissonance Theory (CDT), developed by Leon Festinger in 1957, posits that individuals experience psychological discomfort when their beliefs, attitudes, or behaviors are inconsistent. This discomfort motivates them to reduce the dissonance by altering their attitudes or rationalizing their decisions. In the context of tax reform in Nigeria, CDT explains how taxpayers react to policy changes, particularly when they perceive taxation as unfair, burdensome, or inconsistent with their economic expectations, leading to resistance or tax evasion. Dissonance occurrence – arises when individuals face conflicting cognitions (e.g., believing in fair taxation but experiencing unfair tax burdens). Motivation to reduce dissonance – individuals attempt to reduce psychological discomfort by changing attitudes, behaviors, or perceptions. Selective exposure – people seek information that aligns with their existing beliefs while avoiding contradictory evidence. Rationalization strategies – taxpayers justify their actions (e.g., tax evasion) as a response to perceived government inefficiency or corruption. Empirical evidence suggests that perceived tax burdens and government inefficiencies contribute to psychological discomfort, influencing compliance decisions. For example, Olawale & Adebayo (2022) found that over 55% of Nigerian taxpayers felt tax policies were inequitable, leading to increased tax resistance. Bello et al. (2023) reported that individuals experiencing high tax burdens rationalized non-compliance as a necessary response to economic hardship. Besides, Eze & Chukwu (2022) found that 47%

of Nigerian small business owners engaged in tax avoidance behaviors, citing inconsistencies in tax policies as justification. World Bank (2023) reported that when tax rates increased, nearly 60% of Nigerian households adjusted spending behaviors to offset additional costs, while Adamu et al. (2023) found that 70% of Nigerian respondents believed tax evasion was acceptable when government services were perceived as inadequate. Ajayi & Okonkwo (2023) showed that high-income earners engaged in tax evasion at a rate 30% higher than middle-income earners due to perceived policy inefficiencies. McGee (2012) examined tax compliance in developing economies, finding that dissonance often arises when taxpayers perceive government inefficiency. OECD (2023) highlighted that countries with high levels of corruption and weak public trust exhibit greater tax resistance due to cognitive dissonance effects. Ibrahim et al. (2022) found that taxpayers who viewed government spending as wasteful were 40% less likely to comply with tax policies. Uche et al. (2023) reported that the introduction of new taxes without clear justification led to widespread dissatisfaction and increased rationalization of tax avoidance. CDT provides a valuable framework for understanding taxpayer behavior in Nigeria.

Psychosocial Theory considers the influence of social and psychological factors on financial stress and mental health. This approach acknowledges that financial stress does not occur in isolation but is intertwined with social status, interpersonal relationships, and community factors. For example, financial stress has been linked to inflammation, with psychological well-being and social perceptions playing mediating roles. The interplay between taxation, financial stress, and mental health has been extensively examined through a psychosocial lens, revealing significant insights into how financial factors influence psychological well-being. A systematic review of 40 observational studies found a positive association between various measures of financial stress and depression in adults. This association was evident in both high-income and low- and middle-income countries, with a stronger correlation among populations with low income or wealth. The review also highlighted that financial stress could lead to anxiety, depression, sleep disturbances, and physical health issues (Richardson, Elliott, & Roberts, 2022). A study involving 84,263 respondents in Sweden demonstrated that individuals experiencing high financial stress but with substantial social support had lower odds of poor psychological well-being and fewer psychosomatic symptoms compared to those with low support. This suggests that strengthening social networks can mitigate the adverse effects of financial stress on mental health (Åslund, Larm, Starrin, & Nilsson, 2014). Psychological factors such as personal agency, self-esteem, and coping mechanisms play a crucial role in the relationship between financial hardship and mental health. A systematic review indicated that these factors could either exacerbate or alleviate the impact of financial stress on mental health outcomes. For instance, individuals with higher self-esteem and effective coping strategies are better equipped to manage financial stress, thereby reducing the risk of mental health issues (Frankham, Richardson, & Maguire, 2020). The COVID-19 pandemic has intensified financial stress for many individuals, adversely affecting mental and physical health. A 2021 study analyzing responses from 2,290 individuals found that changes in income, employment status, and expectations regarding future income significantly impacted perceived mental and physical health, with financial stress acting as a significant mediator. This underscores the importance of addressing financial stress to maintain overall well-being, particularly during economic downturns (Heo, Yao, & Cho, 2024). A Social stress theory, the stress process model, behavioral economics, and psychosocial perspectives collectively provide a comprehensive understanding of how financial stressors impact mental health.

Nigeria Evidence on Tax Reform

Tax policy plays a crucial role in Nigeria's economic growth, revenue generation, and socio-economic development. Over the years, Nigeria has implemented various tax reforms to improve compliance, broaden the tax base, and enhance revenue collection. However, these tax policies have had mixed outcomes, affecting businesses, individuals, and government revenue differently.

Nigeria's tax system comprises direct and indirect taxes, including personal income tax (PIT), corporate income tax (CIT), Value Added Tax (VAT), excise duties, and petroleum profit tax (PPT). The Federal Inland Revenue Service (FIRS) oversees tax administration at the federal level, while state and local governments manage other forms of taxation (FIRS, 2023). Key tax reforms in Nigeria include:

- Value Added Tax (VAT) Increase (2020): VAT was increased from 5% to 7.5% to boost government revenue. Adamu et al. (2023) found that the 2020 VAT hike disproportionately affected low-income earners, with 72% reporting higher living costs. A survey by NBS (2022) indicated that 60% of consumers reduced non-essential spending due to increased VAT on goods and services
- Finance Act (2019-2023): Introduced various tax incentives, digital taxation, and streamlined tax administration. A study by Olawale & Adebayo (2022) found that simplifying tax procedures and digitizing tax collection increased compliance rates by 35% among SMEs.
- Tax Incentives for SMEs: Exemptions for businesses with annual turnover below ₦25 million. Eze & Chukwu (2022) examined the impact of corporate tax on business sustainability and found that higher tax burdens led to a 20% decline in SME profitability. Bello & Yusuf (2023) found that corporate tax incentives improved foreign direct investment (FDI) inflows by 15%.
- Petroleum Industry Act (2021): Revised tax structures in the oil and gas sector. Akinyemi & Bello (2023) analyzed the Petroleum Industry Act (PIA) and found that tax reforms in the sector led to a 25% increase in government revenue from oil and gas. Ibrahim et al. (2022) reported that multinational oil companies faced an average 18% increase in tax liabilities, leading to investment restructuring.
- Digital Service Tax (2022): Taxation of non-resident digital companies offering services in Nigeria. Ajayi & Okonkwo (2023) found that Nigeria's digital service tax generated ₦100 billion in revenue within its first year, but compliance from foreign tech firms remained low. It was also noted that taxing digital transactions increased online business costs, affecting 35% of small digital entrepreneurs.

Relationship between Tax Reform Policy and Financial Stress in Nigeria

Tax reform in Nigeria has been a subject of extensive analysis, particularly concerning its impact on financial stress and economic hardship among citizens. Recent policy changes, such as the proposed increase in the value-added tax (VAT) to 12.5% by 2026, aim to streamline tax codes and enhance revenue. While these reforms are intended to stabilize the economy and curb inflation, they have sparked debates about their potential to exacerbate economic inequalities, especially between the more affluent southern states and the poorer northern regions. Empirical studies have established a link between financial stress and mental health issues in Nigeria. For instance, research conducted in Southeast Nigeria by Obidigbo, G. C. (2021), titled "socio-economic hardship, psychological health and human wellbeing in Nigeria: A Southeast study", revealed a high prevalence of financial crises and socioeconomic stressors, which significantly impact individuals' psychological health and well-being. The study highlighted those economic hardships contribute to increased anxiety and stress among the populace.

Furthermore, Nigeria faces a substantial mental health crisis, with approximately 25-30% of the population suffering from mental illnesses. Alarmingly, less than 10% of these individuals have access to professional assistance. The country also grapples with a severe shortage of mental health professionals, with only about 350 psychiatrists serving a population of over 200 million. This shortage, coupled with inadequate infrastructure and societal stigma, leaves about 80% of those with serious mental illnesses without adequate care.

The economic challenges are further underscored by the country's high inflation rate, which reached 34.6% in November 2024. This surge in inflation has intensified the cost-of-living crisis, leading to increased poverty and financial stress among Nigerians. In summary, tax reforms in Nigeria, while aimed at economic stabilization, have complex implications for financial stress and mental health. The interplay between economic policies and mental well-being necessitates comprehensive strategies that address both fiscal objectives and the psychological health of the population.

Psychological Impact of Tax Reform Changes on Nigerians' Mental Health

Tax reform changes can have significant psychological effects on individuals, particularly in a developing country like Nigeria where economic stability is a major concern. Changes in tax policies can lead to financial strain, job insecurity, increased cost of living, and uncertainty about the future—all of which can contribute to stress, anxiety, and other mental health challenges. Below are key psychological impacts of tax reform changes on Nigerians' mental health:

1. **Increased Financial Stress and Anxiety:** One of the most immediate impacts of tax reform is financial stress. When taxes increase, disposable income decreases, making it harder for individuals and families to afford basic necessities such as food, housing, and healthcare. This financial strain can lead to chronic stress and anxiety. A study by Chekwubechukwu (2021) found that financial crises and economic hardships in Nigeria are strongly linked to increased anxiety and stress, leading to a decline in mental health. According to the World Bank (2023), over 63% of Nigerians live in multidimensional poverty, and any additional financial burden, such as increased taxation, can worsen their mental well-being.
2. **Depression Due to Job and Economic Insecurity:** Tax reforms that impose higher business taxes may lead to downsizing, layoffs, and salary reductions. Individuals who lose their jobs or fear unemployment experience heightened levels of depression and hopelessness. A report by Vanguard (2023) indicated that Nigeria's economic downturn, coupled with increased taxation, has worsened mental health conditions, with many individuals expressing feelings of hopelessness due to job losses. Nigeria's suicide rate doubled between 2020 and 2023 (BusinessDay, 2024), with financial hardship being a key contributing factor.
3. **Increased Psychological Distress Among Business Owners:** For small and medium-scale enterprises (SMEs), tax reforms that increase levies, VAT, or corporate taxes can cause financial instability. Many entrepreneurs experience mental distress when faced with excessive taxation, which may lead to reduced business profits or closures. A study by the Nigerian Association of Small Business Owners (NASBO) (2023) found that over 65% of SME owners reported experiencing high levels of psychological distress due to tax burdens and financial uncertainty. Entrepreneurial stress has been linked to mental health disorders such as anxiety and depression (Okafor & Adepoju, 2023).
4. **Disruptions in Family and Social Relationships:** Financial stress due to tax reforms can strain relationships, leading to increased family conflicts, marital issues, and social isolation. Individuals experiencing financial hardship may withdraw from social circles, leading to loneliness and a higher risk of developing mental health disorders. Evidence by Obokoh (2024) found that financial difficulties in Nigerian households significantly contributed to increased domestic violence and marital conflicts. The Nigerian Psychological Society (2023) reported a rise in reported cases of depression and relationship breakdowns due to economic hardships.
5. **Limited Access to Mental Health Services:** While tax reforms might be aimed at increasing government revenue, they often do not translate into better social welfare programs, including

mental health services. Nigeria already has a mental health crisis, with only 10% of people in need receiving treatment (WHO, 2023). Increased financial burden from taxes may further reduce people's ability to afford mental health care. Nigeria spends less than 3% of its healthcare budget on mental health (Wada, 2021). With one (1) psychiatrist per one (1) million Nigerians (WHO, 2023), many individuals suffering from financial stress-related mental illnesses do not receive proper care.

6. **Increased Workplace Stress and Burnout:** Tax reforms that impact businesses, such as increased corporate taxes or payroll deductions, can create stress among employees. Employers may transfer the financial burden to workers through salary reductions, job cuts, or increased work pressure. This can lead to workplace stress and burnout. A study conducted by the Centre for Economic Policy Research (2022) found that 58% of Nigerian workers reported increased work-related stress after the government implemented a new corporate tax policy. Psychological research indicates that job insecurity, driven by economic policies, contributes to burnout and reduced workplace productivity (Adebayo & Olatunji, 2021).
7. **Hopelessness:** When individuals feel overburdened by taxation, especially in a struggling economy, they may develop feelings of hopelessness and despair. This is particularly true for low-income earners and small business owners who might perceive tax changes as a direct threat to their financial survival. A survey by Business Day Nigeria (2023) revealed that 42% of small business owners reported increased depressive symptoms after the introduction of a new value-added tax (VAT) policy. Studies in economic psychology indicate that financial strain is a significant predictor of depression, particularly among populations with limited coping resources (Obi & Eke, 2020).

Deriving from the above analyses, the drawing below is the model of the psychological impact of tax reform changes on Nigerians' mental health.

Model 1: Psychological Impact of Tax Reform Changes on Nigerians' Mental Health



Psychological Interventions for Tax-Induced Financial Stress

Effective psychological interventions, including CBT, financial literacy programs, social support networks, workplace initiatives, and policy-level strategies, can mitigate the negative effects of taxation:

- **Cognitive-Behavioral Therapy (CBT) for Financial Stress Management**

Cognitive-Behavioral Therapy (CBT) is a widely used psychological intervention for managing stress and anxiety. CBT helps individuals restructure negative thought patterns associated with financial burdens and develop coping strategies to handle economic uncertainties (Beck, 2011). Research by Ellis et al. (2019) highlighted that CBT interventions improved financial decision-making among individuals experiencing economic distress.

- **Financial Literacy and Psychological Resilience Programs**

Financial literacy programs equip individuals with knowledge about tax policies, budgeting, and saving strategies, reducing uncertainty and stress. When combined with psychological resilience training, these programs help individuals develop coping mechanisms to handle financial challenges. A report by the Central Bank of Nigeria (CBN, 2022) found that individuals with higher financial literacy levels reported 40% lower financial stress compared to those with limited financial knowledge. Adebayo and Salisu (2021) found that combining financial literacy with resilience training improved financial coping skills among 75% of participants in their study.

- **Social Support and Community-Based Interventions**

Social support networks help individuals manage financial stress by providing emotional and practical assistance. Community-based interventions, such as peer support groups and cooperative societies, offer a platform for shared experiences and collective problem-solving. Studies by Hobfoll (2018) on the Conservation of Resources Theory suggest that social support protects individuals from stress by providing emotional reassurance and tangible resources.

- **Workplace-Based Psychological Interventions**

Many Nigerians experience tax-induced financial stress in the workplace, leading to reduced productivity and job dissatisfaction. Employers can implement workplace-based mental health programs to support financially stressed employees. A study by the Nigerian Institute for Occupational Health (2022) found that 68% of employees who received workplace financial wellness training reported improved job satisfaction and reduced stress. Babatunde and Eze (2021) found that companies offering Employee Assistance Programs (EAPs) saw a 30% reduction in workplace-related stress and absenteeism.

- **Policy-Level Psychological Interventions**

Government policies can play a role in reducing tax-induced financial stress by integrating mental health considerations into economic reforms. Public awareness campaigns and economic policies that protect vulnerable populations can mitigate financial anxiety. · World Health Organization (WHO, 2023) recommends incorporating psychological support into financial policies to improve public mental health outcomes. Studies by Ogunyemi and Afolabi (2022) found that social safety nets, such as tax reliefs and subsidies, reduced financial stress among 55% of low-income earners in Nigeria.

Conclusion

This review aims to assess the psychological impact of tax policy changes on Nigerians' mental health. Therefore, the study conclude that tax reforms play a crucial role in shaping economic growth and government revenue, but they also have significant psychological and financial consequences for individuals and businesses. This study has demonstrated that tax policy changes in Nigeria contribute to financial stress, which in turn affects the mental health and overall well-being of taxpayers. Increased tax burdens, complexities in tax administration, and economic uncertainties often heighten anxiety, depression, and financial distress among citizens. Therefore, it is essential for policymakers to balance revenue generation with the psychological and economic stability of the populace to ensure sustainable development and social welfare.

Policy Recommendations

Policy recommendations to address the concerns with the Nigeria tax reform policy are outline below:

- i. **Tax Simplification and Transparency:** The government should simplify tax policies and improve transparency in tax administration to reduce confusion and uncertainty, which often lead to financial stress.
- ii. **Progressive Taxation System:** A fair and progressive tax system should be implemented to ensure that tax burdens are equitably distributed, minimizing undue pressure on low-income earners.
- iii. **Public Awareness and Education:** The government should conduct tax education programs to enhance public understanding of tax reforms, their benefits, and how to manage tax-related financial stress.
- iv. **Psychosocial Support Services:** Mental health support services, such as counseling and financial advisory programs, should be integrated into tax policy frameworks to help individuals cope with financial stress.
- v. **Stakeholder Engagement:** Engaging business owners, employees, and tax professionals in policymaking processes can ensure that tax reforms are designed in a way that minimizes psychological distress.
- vi. **Tax Relief and Incentives:** The government should consider tax relief measures, such as temporary tax breaks or exemptions for financially distressed individuals and businesses, to reduce the negative impact on mental health.
- vii. **Collaboration with Mental Health Institutions:** The government should collaborate with mental health professionals and financial experts to develop policies that promote financial resilience and psychological well-being.
- viii. **Data-Driven Tax Reforms:** Government agencies should conduct regular research on the psychological and financial effects of tax policies to inform future reforms and prevent unintended negative consequences.

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