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TITLE: INPUT-OUTPUT MODELS AND A BIAS IN TAX INCIDENCE

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ABSTRACT:

Two alternative methodologies, frequently used in tax incidence studies, are compared as to their impact on prices. In the first, the original technical coefficients of an input-output matrix are used, in which the corresponding coefficients for taxes are kept. In the second, the tax vectors of the original matrix are eliminated and the technical coefficients are recalculated. The tax incidence on prices is then estimated with the help of a Leontief price equation, in the presence of a matrix of indirect tax rates. The main result is that the recalculation of the matrix coefficients raises the price effect of a given indirect tax system.