

Tracing the Incidence of Indirect Taxes through the Production-Distribution Chain: Application to Jordan

Topic: Input-output analysis for policy making I (Chair: Francesco Tonini, Polytechnic University of Milan)

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In many countries, the balance of taxation has been shifting from trade taxes towards indirect taxes on domestic consumption, primarily the Value Added Tax (VAT). Policymakers need information regarding who bears the burden of tax changes. In theory, a broad-based VAT should be equivalent to a tax on income after taxes less saving. However, in practice, a VAT never applies to all commodities and sellers uniformly. Thus, the effective tax rate varies among final consumption items depending on the amount of tax levied and credited throughout the production-distribution chain. Furthermore, in addition to the VAT, in some countries, a considerable part of public revenues still derives from excises and customs duties, which in turn become part of the VAT base. In this study, we propose a practical approach to incidence analysis of indirect taxes and apply it to develop a better understanding of the current distribution of indirect taxes in Jordan.