Supply-Use Tables
Session 2.3: Specific issues

by
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Plan for the module

- Monday afternoon
  - Overview
- Tuesday morning
  - CIF/FOB adjustment
  - Trade credits (visitors’ expenditure)
  - Commercial trade margins
  - Taxes on products (especially VAT)
  - Other issues…
- Tuesday afternoon & Wednesday morning
  - Balancing workshop
Specific issues (1)

CIF/FOB adjustment

What is the problem?

- In the balance of payments (BoP), according to IMF, imports of goods are valued FOB.
  - This is primarily for checking if imports=exports worldwide using FOB valuations for both.
  - Insurance & freight paid to non-resident carriers is included in the import of services
  - Customs values are more often on a CIF basis, especially where the insurance & freight is also imported.
- In an SUT, either may be used, and differing adjustments will be needed in each case.
Imports on a CIF basis (1)

- If data on imported goods are valued CIF (based on Customs values), then:
  - This is the value of imports as they reach the country (but before local duties, clearing charges and internal transport costs are paid).
  - There is no need to adjust the values of imported goods back to FOB. The CIF value is just fine.
  - But the Central Bank may make a global adjustment for BoP purposes.

Imports on a CIF basis (2)

- This CIF/FOB adjustments (for insurance and for freight) should be entered as negative imports in the transport and insurance services rows.
  - If national freight carriers are involved in the international transport of imported goods, the resulting total “imports” of transport services will be negative.
  - This is fine. It represents the use of the output of national carriers in importing goods. This value is already included in the CIF value of goods, but is not in fact an import – hence the deduction.
Imports on an FOB basis

- If the detailed data on imported goods are valued FOB (based on Customs entries), then:
  - We need an extra column to convert to values to CIF.
  - The total for the column should be zero, as with margins
  - Negative balancing values should appear in the transport and insurance rows

Are your imports valued at FOB or at CIF prices?

Discussion please
Specific issues (2)

Visitors’ expenditure

Visitor spending by product

- In the balance of payments, “travel credits” represents total spending by visitors when they are in the country
  - This excludes international travel to & from the country
  - It includes a portion of package tours
- The total should be split by product in the SUT, for example: spending in hotels & restaurants, local transport, clothes, souvenirs, etc.
- An extra column is needed in the final demand,
- This is, in effect, a tourist satellite account
If visitors are important to your economy, is there a survey of visitors’ expenditure by type?

Discussion please

Specific issues (3)

Trade and transport margins
What are the problems?

- Distributing margins accurately between products is not easy
  - especially if you are starting from scratch
- Even if you have data on percentage mark-ups
  - Not all goods are marketed
  - Not all available goods pass through traders
- What if you do not have any data on mark-ups?
  - Start from a previous SUT or a similar country

Data sources

- What type of data is ideally needed?
  - Survey of traders showing the value and the cost of sales for each type of product, separately for wholesale and retail
  - If this detail is not available, the total value and the cost of sales by type of trader could be used instead
- Why not compare producer and retail price data?
  - This would not take account of wastage and losses
  - True averages are not easy to obtain
  - But such comparisons could give some indications
Compilation methods

- Two main approaches are possible
  - Mark-ups on the supply of goods
  - Margins within the demand for goods
  Note: the percentage rates are different – a mark-up of 25% is equal to a margin (compared to selling value) of 20%
- My main experience has been with mark-ups

In the end, the total of the margins column must be zero, with total output in the W&R trade row inserted as a negative in the margins column

The proportions traded

- A lot of agricultural production is not marketed
  - Own consumption data usually included in Household Budget Surveys for poverty analysis
- To assess the proportion of goods traded, you might try comparing:
  - Traders’ total cost of sales with total marketed supply (at producer prices) for each group of products, or
  - Their total value of sales (plus tax) with demand
What data do you have on margins? How recent is it?

Discussion please

Specific issues (4)

Taxes on products (especially VAT)
What is the problem?

- How do we allocate total taxes on products to the corresponding products?
- For some types of tax, there is no problem:
  - Excise and similar duties are normally product specific (e.g., on beer, petrol, airtime…)
  - Import duties (classified by HS) are normally available from Customs.
- But how can VAT be allocated to products?

Value added tax (VAT)

- (Non-deductible) VAT is an SNA “tax on products”, implemented in many countries, covering most activities
- It is levied by the Revenue Authorities in two ways
  - On imports (by Customs)
  - On local “value added” by registered VAT traders
- Registered VAT traders charge “output” VAT on their sales to customers. They deduct “input” VAT and pay the difference (net VAT) to the revenue authority.
- “Input” VAT is deductible VAT that VAT traders already paid on imports or purchases from other VAT traders
More on the VAT system

- Unless you are a registered VAT trader, you cannot claim VAT back.
- Exports are normally “zero-rated”.
- If input VAT exceeds output VAT, the difference may be reclaimed from the revenue authority.
- Essentially VAT is a tax on final consumption.
- There is a turnover threshold. You are “exempt” if your annual turnover is below it.
  - So value added by small businesses and the informal sector is not taxed.

VAT data

- Three types of VAT:
  - VAT on imported goods
  - Output VAT
  - Input VAT
- Customs will have data on VAT on imports (classified by HS)
- So no problem allocating this type of VAT to products…
VAT data

- The VAT department of the revenue authority normally has a monthly database showing:
  - taxable sales
  - zero-rated sales
  - other sales
  - purchases
  - output VAT
  - input VAT
  - net VAT payable
  - amount actually paid, etc.

Allocating VAT to products

- VAT traders are usually classified by kind of activity (often ISIC) when registering.
- If statistics from this database can be obtained (as for external trade) then:
  - Output & input VAT can be classified by activity
  - So output VAT can be allocated by product
- But input VAT is not classified by product
  - Ideally a modified IC matrix is needed to do so
Too complicated? No data?

- Alternatively, another (more common) approach is to estimate, for each product purchased by households, how much VAT is included.
  - If the rate \((r)\) is 10%, the VAT included in a purchase will be not more than \(9\% = \frac{r}{1+r}\)
  - But many products (eg. food) will contain little or no VAT especially if produced and marketed informally
- The estimates will be constrained to agree with the total revenue receivable by government

Any problems?

Discussion please