

TRADE TE: Practical Session

Suppose 'EAST AFRICA' has import taxes applied sequentially as follows: customs duty is payable on the CIF value, while import excise duty is payable on the sum of CIF and customs duty. Calculate tax expenditure by tax type under the two approaches using the data below.

Figure 1: Import data with the applied and benchmark rates (in %)

Goods type	CIF Value (in \$)	Applied duty rate (%)	Benchmark duty rate (%)	Applied excise rate (%)	Benchmark excise rate (%)	Note
0	1,000,000	5%	25%	40%	40%	Duty rate reduction but no excise exemption or rate reduction
1.	5,000,000	5%	25%	40%	40%	Duty rate reduction but no excise tax exemptions/rate reduction
2.	6,000,000	25%	25%	10%	40%	No duty exemptions/rate reduction but excise rate reduction
3.	4,000,000	5%	25%	10%	40%	Rate reductions (both customs and excise)
4.	3,000,000	0%	25%	0%	40%	Exemptions (from duty and excise)

Figure 2: Calculate the TE and compare the results under the two approaches

Goods	APPROACH I		APPROACH II		
	Customs TE	Excise TE	Direct customs TE	Indirect customs TE	Excise TE
0	200,000	80,000	200,000	80,000	0
1.					
2.					
3.					
4.					
TOTAL					

HINT with a worked example

Approach I:

$$\begin{aligned} \text{Customs duty TE} \\ &= [(\mathbf{Benchmark\ duty\ rate} - \mathbf{Applied\ duty\ rate}) * (\mathbf{CIF\ value})] \end{aligned}$$

For good 'Example':

The customs duty TE is

$$\underline{= [(0.25 - 0.05) * 1,000,000 = 200,000]}$$

Excise TE

$$\begin{aligned} &= [((\mathbf{Benchmark\ excise\ rate}) * (\mathbf{CIF} + \mathbf{CIF} * \mathbf{Benchmark\ duty\ rate})) \\ &\quad - ((\mathbf{Applied\ excise\ rate} * (\mathbf{CIF} + \mathbf{CIF} * \mathbf{Applied\ duty\ rate})))] \\ &= [((\mathbf{Benchmark\ excise\ rate}) * (\mathbf{CIF}) * (\mathbf{1} \\ &\quad + \mathbf{Benchmark\ duty\ rate})) - ((\mathbf{Applied\ excise\ rate}) * (\mathbf{CIF}) * (\mathbf{1} \\ &\quad + \mathbf{Applied\ duty\ rate}))] \end{aligned}$$

The excise TE is

$$\begin{aligned} &= [((0.4) * (1,000,000) * (1 + 0.25)) - ((0.4) * (1,000,000) * (1 + 0.05))] \\ &= 500,000 - 420,000 = 80,000 \end{aligned}$$

Approach II

Direct customs duty TE

$$= [\mathbf{Benchmark\ duty\ rate} - \mathbf{Applied\ duty\ rate}] * [\mathbf{CIF\ value}]$$

Direct customs duty TE for good 0 is

$$\underline{= [(0.25 - 0.05) * (1,000,000)] = 200,000}$$

Indirect customs duty TE

$$= [(\mathbf{Benchmark\ excise\ rate}) * (\mathbf{Direct\ customs\ duty\ TE})]$$

The indirect customs duty TE is:

$$\underline{= [(0.40) * (200,000)] = 80,000}$$

Excise TE

$$= (\mathbf{Benchmark\ excise\ rate} - \mathbf{Applied\ excise\ rate}) * (\mathbf{1} + \mathbf{Applied\ duty\ rate}) * (\mathbf{CIF})$$

The Excise TE is

$$\begin{aligned} &= [(0.40 - 0.40) * (1 + 0.05) * (1,000,000)] \\ &= 0 \end{aligned}$$