

DECISION OF THE AEG ON THE TREATMENT OF TAXES ON HOLDING GAINS IN THE SNA 1993 rev 1.

The ISWGNA had included the treatment of taxes on holding gains in its list of issues to be discussed in the context of the review of the SNA. This discussion was moderated by the OECD who presented a report to the February 2004 meeting of the AEG. **The AEG has decided to adopt the recommendations proposed by the moderator.**

Background.

During the second part of the 90s, important (potential as well as realized) holding gains were made by households. However, the SNA definition of income excludes holding gains, and was therefore not affected by these (potential or effective) revenues. On the contrary, as (realized) holding gains are taxed and included in the SNA's category "taxes on income", taxes on holding gains affected negatively the SNA measure of income. This situation clearly misled some users of the accounts.

Main recommendations.

One obvious solution to resolve the contradiction would be have been to integrate holding gains in the definition of income. However, two arguments led the moderator to avoid proposing such a change: (1) it would be a too ambitious change of the structure of the SNA, at least in respect of the issue raised on taxes on holding gains; (2) many economists may not want to include holding gains in income, as they are very volatile. **The AEG confirmed this view.**

One alternative solution was to re-classify taxes on holding gains as capital transfers, thus eliminating their impact on income. Classifying taxes on holding gains as capital taxes is consistent with the fact that many households view these taxes as being as exceptional as the holding gains themselves. However, from the point of view of the government, these taxes are a definitely current income.

On top of this, the main problem in re-classifying the tax appeared to be a practical one. In most countries, the tax on holding gain is completely embedded in the income tax (simply because realized holding gains are considered revenues...). It is therefore very difficult to distinguish this item from the overall amount. **The AEG therefore agreed not to change the SNA regarding the classification of taxes on holding gains: they will continue to be classified as current taxes on income and wealth (D51).**

However, taxes on holding gains should be shown as a special sub-category within D51.

The AEG considered the possibility of discussing in some paragraphs of the SNA alternative concepts of household income. However, the AEG considered that this is not a priority for the present SNA review.