

FULL SET OF COMMENTS ON CHAPTER 7: THE DISTRIBUTION OF INCOME ACCOUNTS

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Comments were received (as of 12 March 2007, CET): Australia, OECD, EUROSTAT, UNSD, IMF, ECB

COMMENTS BY PARAGRAPH NUMBER

Paragraph 7.3

European Central Bank

Delete “very” in last sentence and add the following at the end of the sentence “which shows the household sector as a recipient of primary income”. Add here that taxes on production and imports are also shown as a use by the production sectors in this account, but not as a resource of government.

Paragraph 7.3: To add a cross-reference to the industry dimension, in the supply and use tables.

P 7.3 and 7.4: Partly repetitive.

Paragraph 7.4

UNSD

To make the writing more consistent with other paras. of this chapter and those of chapter 6 on production account (para. 6.64) where GDP, GNI are prominent, it is better not to have this sentence in the para. as there is no need for this assumption in the system.

For simplicity, it will be assumed that value added is measured net, except when the context requires gross value added to be referred to explicitly.

This is also in line with Para 7.11

As already noted, value added should be measured net, that is, after deducting consumption of fixed capital. However, provision has to be made in the accounts of the System for value added, and hence all subsequent balancing items that depend on value added, to be measured gross or net of consumption of fixed capital because of the practical difficulty of measuring the latter. Operating surplus and mixed income may therefore both be expressed as gross or net.

Australia

Need to make sure that whether to use gross or net is consistent across chapters. In Ch 7 net is assumed but in Ch 6 it is gross.

Paragraph 7.5

OECD

First sentence after italics. The sentence of the old SNA was: "Taxes on production do not include any income tax payable...". The editor has added "Neither compensation of employees nor taxes on production include any income tax". The addition of "Neither compensation of employees" is wrong. On the contrary, Compensation of employees include the taxes on income (and particularly those collected at source).

Eurostat

The sentence after the italics says "Neither compensation of employees nor taxes on production include any income tax". This is wrong. Compensation of employees does include taxes on income.

European Central Bank

Instead of 'charges', 'uses'.

Paragraph 7.8

European Central Bank

Paragraph 7.8 refers to a balancing item, but such a term is not shown in the tables.

Paragraph 7.9

Australia

For clarity we think the last sentence should include the words "an activity that generates operating surplus" following the words "housing services for own final consumption".

Paragraph 7.10

UNSD

It is recommended that gross domestic product (GDP) at market prices be replaced by gross domestic product (GDP) since there is only one concept of GDP

Paragraph 7.12

European Central Bank

Prefer to say that the "operating surplus is the income which units obtain from their own use of the production facilities".

Paragraph 7.13

OECD

The old paragraph 7.9 has been deleted while it gave an interesting information on the content of the net operating surplus for government units entirely non market (which is zero by construction). As it appears that no change will be introduced regarding the estimate of the output of the non market sector in the new SNA, this sentence should be reintroduced in the text.

Eurostat

The old (deleted) paragraph 7.9 gave valuable information on the content of the net operating surplus for non-market government units (zero by definition). Perhaps this paragraph should be reintroduced.

Paragraph 7.14

European Central Bank

Content should be presented earlier.

Paragraph 7.15

UNSD

Enterprises may invest surplus funds in financial assets or even land, especially in times of uncertainty and high interest rates.

European Central Bank

Not sure whether this paragraph is needed.

Paragraph 7.16

OECD

(d) The editor has chosen, for drafting reasons, to create a category "investment income" which regroups Interest, dividends, and other property income. While we agree it is useful for explanatory purposes, we do not think it is a useful statistical aggregate. We note that there is no investment aggregate shown in table 7.8 and agree that there should be none and hence no change in the coding and classification of the transactions D41 (Interest), D42 (Distributed income of corporations), D43 (reinvested earnings), D44 (property income insurance).

European Central Bank

For completeness should there be references to property incomes from: interest; distributed income of corporations; reinvested earnings on direct foreign investment; and property income attributed to insurance policy holders?

Paragraph 7.18

OECD

b : second sentence: should be changed if UNSC decides not to include return to capital

European Central Bank

P 7.18 (b): Should be dropped following recent UNSC decision.

Paragraph 7.28

Australia

The discussion of treatment of education and training could be improved here and elsewhere in the chapter (including 7.45) to make the appropriate treatment more explicit i.e. where is the boundary between intermediate consumption and income in kind

Paragraph 7.37

OECD

The editor has changed the classification of compensation of employees by including a subcategory "contributions to social security schemes". This is not useful, because, the SNA, employers have no relationship with the schemes. They are supposed to pay all social contributions to their employees (who themselves then pay back to the social insurance schemes). So it is not necessary to split between "social security schemes" and "other schemes". The current SNA distinguishes only actual social contributions (D121) and imputed social contributions (D122). This is sufficient. Changes to classifications should be limited to what is absolutely necessary. This new category is not necessary.

Eurostat

(b) Is it really necessary to split between "social security schemes" and "other schemes". The SNA 93 distinguishes only actual social contributions (D121) and imputed social contributions (D122) which should be enough.

Paragraph 7.48

Australia

Based on work we have undertaken on salary sacrifice we believe it is more appropriate to treat as wages and salaries in cash. This is because that employees generally chooses to salary sacrifice wages and salaries that would have otherwise been payable in cash.

Paragraph 7.50

European Central Bank

Ps 7.50 to 7.52: Why to have this detailed explanation here? Most of the text could be included into a compilation guide, and even part of it could go to the description of financial derivatives.

P 7.50: A stock option is ‘not similar to a financial derivative’; it is a financial derivative.

Paragraph 7.54

OECD

We do not like the name of this category “employment related social insurance schemes”. It implies that social security is not employment related, while it is obvious that it is. This stems simply from the fact that it is precisely discussed in this section (which refers to the cost of employment!). We think therefore that a better name has to be found. We propose “other employment-related social insurance schemes”. This remark applies to paragraphs 7.54 to 7.61

7.54 social security units, rather than social security funds (i.e. social security is generally unfunded...)

This remark applies to paragraphs 7.54 to 7.61

European Central Bank

7.54 to 7.61: The text of these paragraphs might have to be modified based recent developments and accounting example. Not sure whether parts of the text should be shown here, in the pension chapter or in a compilation guide.

Paragraph 7.52

Australia

The third sentence seems to indicate that time should be spread but I think what is meant is that the value of the option should be spread over a period of time.

Paragraph 7.53

Australia

7.53 should reference the appropriate chapter for the discussion of ESOs as a financial instrument.

IMF

The wording in on the valuation of employee stock options (paragraph 7.52) differs from BPM6. The two texts will need to be aligned.

In para 7.53, a stock option should be classified separately under stock options and not as financial derivatives as stated in the text. The only exception is if the stock option can be traded on financial markets without restriction – see BPM6 para 5.89.

Paragraph 7.53 could also cover the case of stock options provided to suppliers (unless it is dealt with elsewhere) – (see BPM6 para 5.90), and provide a treatment in the accounts for the case in the final sentence of the paragraph - see BPM6, paras 8.39 and 11.93.

Paragraph 7.55

OECD

End of last sentence. This sentence says that employer social contributions are included in compensation of employees, which is fine, and then transferred by households to the social insurance schemes either as social contributions or as payment of the pension service. I disagree with this last part: employer social contributions should not be, by convention, modified when rerouted through the household account. The imputed payment of the service should be attributed to the imputed employee social contribution, as a deduction from premium supplements.

Paragraph 7.56

OECD

7.56 As mentioned earlier, there is no necessity to create a new entry here for social security, under compensation of employees. The old SNA had two entries: actual (D121) and imputed (D122), and this is sufficient.

Eurostat

7.56 Why is a new entry created for social security, under compensation of employees? The entries of old SNA: actual (D121) and imputed (D122) should be enough.

Paragraph 7.57

OECD

7.57 This should be replaced by a paragraph covering as well social security than other social insurance scheme. (see previous remark).

Paragraph 7.58

OECD

7.58 last sentences: as mentioned earlier, the payment of the service of any pension scheme should not be associated with employer social contributions, but with employee social contributions. Thus this discussion has not to be included here.

7.58 It is inappropriate to seem to limit, as is done here, the category "imputed employer contributions" to pension schemes. There are other schemes than pension schemes (health, for example) for which there should be imputed contributions. This drafting seems also to exclude from the previous category (actual contributions) any pension contribution, while there are of course, actual pension contributions. Therefore the location of these paragraphs 7.58 to 7.51 should be changed to just after paragraph 7.55 and before paragraph 7.56.

7.58 In reference to my previous comment to relocate paragraphs, the new paragraph 7.58 should be simply inspired by the old SNA paragraphs 7.45 and 7.47, which remain entirely adequate. Old paragraph 7.46 should be deleted. Thus current 7.58 would be replaced by:

7.45 (old) Some employers provide social benefits themselves directly to their employees, former employees or dependants out of their own resources without involving an insurance enterprise or autonomous pension fund, and without creating a special fund or segregated reserve for the purpose. In this situation, existing employees may be considered as being protected against various specified needs or circumstances, even though no payments are being made to cover them. Remuneration should therefore be imputed for such employees equal in value to the amount of social contributions that would be needed to secure the de facto entitlements to the social benefits they accumulate. These amounts depend not only on the levels of the benefits currently payable but also on the ways in which employers' liabilities under such schemes are likely to evolve in the future as a result of factors such as expected changes in the numbers, age distribution and life expectancies of their present and previous employees. Thus, the values that should be imputed for the contributions ought, in principle, to be based on the same kind of actuarial considerations that determine the levels of premiums charged by insurance enterprises.

7.47 (old): The two steps involved may be summarized as follows: (a) Employers are recorded, in the generation of income account, as paying to their existing employees as a component of their compensation an amount, described as imputed social contributions, equal in value to the estimated social contributions that would be needed to provide for the unfunded social benefits to which they become entitled; (b) Employees are recorded, in the secondary distribution of income account, as paying back to their employers the same amount of imputed social contributions (as current transfers) as if they were paying them to a separate social insurance scheme.

7.58 third sentence: you allow for the existence of "non autonomous defined contribution schemes". Such a situation can hardly exist, as defined contributions schemes are funded by definition, and thus necessitate a status different from the sponsor. So I think that there cannot be imputed employer social contributions for defined contribution schemes.

7.71 last sentence: on taxes, refer also to Chapter 21, and not only to paragraph 8.54.

Eurostat

7.58 Why is the category "imputed employer contributions" limited to pension schemes? There are other schemes than pension schemes for which there should be imputed contributions.

Australia

7.58 This paragraph is slightly confusing; it could be made clearer what is meant by imputing the costs of operating the scheme.

Paragraph 7.59

OECD

7.59 the last sentence has to be redrafted by: "It must be such that the sum of the employer's actual contribution plus the sum of any actual contribution by the employee plus the imputed contribution by the employer is equal to the increase in benefit due to current period employment". Note that I suppressed "the cost of operating the scheme". This has nothing to do with employer imputed social contributions.

UNSD

Para. 7.59 on defined benefit scheme

The imputed contribution by the employer is calculated as a residual. It must be such that the sum of the employer's actual contribution plus the sum of any contribution by the employee plus the imputed contribution by the employer is equal to the increase in benefit due to current period employment plus the costs of operating the scheme.

Paragraph 7.60

European Central Bank

Not sure that the imputed contribution should be attributed exclusively to the employer.

Paragraph 7.61

European Central Bank

Not clear what is meant and which basis such an imputed contribution should be compiled.

Paragraph 7.62

European Central Bank

I would have a preference to show most of the section C in a compilation guide. The rest like the classification of taxes would be better placed in the government chapter. Not clear why so many references to the IMF and OECD manuals.

Paragraph 7.72

European Central Bank

Ps 7.72 to 7.74: Should the SNA not determine the general guidelines how to classify taxes, etc.? Having said this is there a need to refer so often to other classifications/manuals? Again, issues like the links with IMF and OECD tax classifications might be better treated within the government chapter (similarly to the ROW chapter which covers the link between the ROW and the bop/iip).

Paragraph 7.75

OECD

7.75 fourth sentence: this sentence on the limitation to tax assessments is old SNA and is correct. However, the AEG supported an additional condition proposed by the TFHPSA regarding assessed taxes (see paragraph 122 of future Chapter 21): Only amounts that government realistically expect to collect should be recorded. Some of tax based on assessments are not realistically to be collected (e.g. bankruptcy).

UNSD

(Editorial) However, some economic activities, transactions or events, which under tax legislation ought to ~~impose on the units concerned the obligation to pay taxes,~~ permanently escape the attention of the tax authorities.

Paragraph 7.85

Eurostat

7.85 In the discussions leading to ESA 95 the scope of taxes on products was extended to include stamp taxes on legal documents or cheques, car registration taxes and taxes on housing services.

Paragraph 7.76

Eurostat

7.76 The new AEG recommendation on taxes unlikely to be collected is not well reflected in this paragraph. In fact this paragraph is left unchanged, starting by "In some countries and for some taxes....This gives the impression of an exceptional problem whereas this phenomenon is more or less common to all countries. We propose to include the following sentence: "In practice, taxes (and social contributions) evidenced by declarations and assessments but unlikely to be collected should be neutralized in the same accounting period by subtracting their amounts from the total amounts of taxes (and social contributions) or by a capital transfer from general government to the relevant sectors".

Paragraph 7.86

OECD

7.86 c: AEG decision. This paragraph should include a description of mobile-phone-type licences. For the moment it doesn't. So one should include at the end: "Payments for licences for use of an underlying asset (fixed or natural resource) are treated as sales of assets and not tax (see 21.116)."

Eurostat

7.86 c This paragraph should include a description of mobile-phone-type licences. So a new item should be introduced that takes into account the AEG decision.

Paragraph 7.87

7.87 – 7.88 It would be helpful to articulate more completely the border between subsidies and social benefits.

Paragraph 7.96

European Central Bank

Ps 7.96 and 7.97: I would prefer to use the term 'financial investment income' instead of 'investment income' which is too vague.

Paragraph 7.98

Australia

7.98 This para seems to have limited itself to land and subsoil assets whereas in principle the scope is broader including forests and spectrum. This could be recognised. Also, the statement that the land is returned in the same state as when the lease started assumes no depletion or degradation - this might be clarified.

Paragraph 7.99

European Central Bank

P 7.99: Instead of interest I would use 'interest receivable' or 'interest income' because interest is too vague (is also used for interest rate).

The terminology of 'Investment income disbursement' is not 'very user-friendly'. If we have to 'invent' a new terminology I would be in favor to use 'investment fund income', 'life insurance investment income', etc. Following almost the financial asset/liability classification I would not be in favor to show investment fund income together with insurance and pension investment income.

In this context it might be useful to mention the close link between financial asset classification and type of financial investment income.

Paragraph 7.100

Australia

7.100 We think the use of the term nominal interest rather than bank interest would be more appropriate and understandable. The definition in 7.101 could then be stated to be referring to nominal interest.

Paragraph 7.101

OECD

7.101 I agree that the definition of "SNA interest" should be included here. However, I hope that you will keep in the next version all the many paragraphs on interest that you have deleted. An explanation of what is accrual interest in the system is essential and these old paragraphs 7.94 to 7.111 are to be reintroduced.

European Central Bank

Ps 7.100 and 7.101: Concerning the definition of interest (receivable and payable) I would link the definition to the interest income receivable/payable based on the different financial assets (which are monetary gold, SDRs, deposits, loans (excluding RIE), debt securities, receivables/payables). Only the 'theoretical' definition does not help the compiler. It would also be nice to show a from-whom-to-whom matrix of interest receivables/payables between institutional sectors. Also the issue of 'time of recording' should be discussed here, not only in the context of dividends.

P 7.101: Drafting suggestion for the definition of interest: Refer to "interest income", stating at the end of the definition something like: "Interest income excludes any services charged by banks on loans and deposits, to be recorded as FISIM."

IMF

We agree that the definition in 7.101 has problems. We suggest that BPM6 paragraphs 11.46 and 11.47 7 could be consulted.

Eurostat

7.101 An explanation of accrual interest and its application in the system for various financial instruments is essential and the old paragraphs 7.94 to 7.111 should be reintroduced.

Paragraph 7.103

European Central Bank

P 7.103: This definition of dividends looks too wide. The paragraph 10.23 of the draft BPM6 looks more appropriate.

Paragraph 7.104

European Central Bank

P 7.104: Last sentence is not very clear: The meaning of to "capitalise own funds" is not obvious. Maybe one could speak of the transformation of reserve assets and undistributed profits into shares?

Paragraph 7.106

Eurostat

7.106 The introduction of super-dividends is a major improvement of the system, but perhaps difficult to implement in practice because of the interpretation problems of the wording "disproportionately large". We would be in favor of going a step further which would be the extension of the concept of reinvested earnings. This extension would concern public and private quasi corporations, public corporations and private corporations when the units are publicly controlled or when there is a single owner with controlling interest (at least 50%).

European Central Bank

P 7.106: Replace "notionally" by "usually"?

P 7.106: The term super-dividends should be reconsidered (excess dividends).

P 7.106: Is "distributable income" the same as "distributable earnings"? If yes, maybe more simple to use the same term twice?

Australia

7.106-108 We prefer the term "distributable income" over "distributable earnings"

Paragraph 7.107

OECD

7.107 Add at the end: For public enterprises, see 21.205 to 21.208

European Central Bank

P 7.107: States that the treatment applied also to quasi-corporations. However, P 7.108 shows a different approach for quasi-corporations, i.e. referring to "withdrawal of income". Maybe useful to clarify how P 7.107 and P 7.108 fit together?

Paragraph 7.109

European Central Bank

P 7.109 states that withdrawals of income exclude those from capital gains. But dividends do include any amount distributed, even though it may come from a capital gain. Why should there be here a different treatment?

Paragraph 7.110

7.110 The description of FDI is not consistent with the BPM definition.

Paragraph 7.112

European Central Bank

P 7.112: Last sentence is not clear. Does it intend to state that "In practice, the great majority of direct investment enterprises are completely controlled by their parent corporations or owners"?

P 7.112: What about sustainability factors as observed in various countries?

Paragraph 7.115

Eurostat

7.115 The paragraph says for non-life policies the investment income on technical provisions is treated as income attributable to the policy holder. The scope of technical provisions to which this paragraph refers is unclear, in particular are equalization provisions included?

European Central Bank

P 7.115: Drafting proposal for the second sentence: "These resources are used

Paragraph 7.118

European Central Bank

P 7.118: Second sentence: "Carried through to saving" may be too much "jargon"?

Paragraph 7.119

OECD

7.119 This section does not deal with the necessary imputed property income to be recorded between the sponsor of a pension scheme and the pension scheme when the scheme is underfunded.

European Central Bank

Ps 7.119 to 7.122: Should be included into the pension chapter.

Paragraph 7.121

OECD

7.121 The part of the sentence underlined is totally unclear to me: "The formula may be expressed in many ways including, for example, a variation on a defined contribution schemes such as the growth of earnings of the funds,..." This is really non typical to defined benefits schemes: formulae are generally based of growth of real average salary, or inflation, not on earnings from funds. If so, they become defined contribution schemes...

7.121 last sentence: this sentence merely repeats the first sentence of the paragraph.

Paragraph 7.122

OECD

7.122 This paragraph is imprecise. It presents the (imputed) property income D44 payable to policy holders by Defined Benefits schemes as equal to "the increase in pension entitlements due each year for people enrolled at the beginning of the year and who retire during the year or are one year nearer retirement at the end of the year." This property income should be presented simply as "equal to the increase of the net present value of the stock of pension entitlements due to people enrolled in the scheme at the beginning of the period. This increase reflects that the value of these past entitlements increases mechanically as the delay for retirement decreases during the year. In practice, this can be estimated by applying the discount rate used in the calculation of the net present value of future pension benefits to the stock of pension entitlements at the beginning of the year"

Paragraph 7.123

Australia

In the BPM6, dividends and reinvested earnings are shown separately. Although the SNA text correctly distinguishes the two items (see paragraph 7.123), there might be an issue if this is not reflected accordingly in the Table

Paragraph 7.129

European Central Bank

P 7.129 First sentence: Useful to explain the logic, or refer to an explanation provided elsewhere in the Manual?