Chapter 8: The redistribution of income accounts 5

Note by the editor:

The title of the chapter has been changed to indicate it covers more than the secondary distribution of income account, viz the redistribution of income in kind account also.

The section explaining how transfers are recorded in the System has been somewhat expanded to tie in with the explanation of quadruple entry in Chapter 3.

I have done little with the section on taxes; I am asking Chris Heady and Cor Gorter to check these out to ensure we remain consistent with the OECD and GFSM tax classifications, including the case of the casino licences!

The transactions relating to social contributions have been amended. The 1993 SNA specifies contributions by employees and by self- and non-employed persons separately, each of them to include contribution supplements. There is no explanation about how to determine these separately. Does a supplement for a self-employed person mean all supplements for a person now self-employed or the supplements for any person who was ever self-employed for that part of his pension entitlement? Even if this were clear, it is far from obvious that it would be possible to obtain the information unless pension schemes for employed and self-employed persons were totally separate which is certainly not the case everywhere. Therefore I have suggested four categories for contributions: Employers' actual, employers' imputed, (these two items correspond exactly to items in chapter 7 and the generation of income account), households' actual (to cover employees, self-employed and non-employed persons; these could be disaggregated if wished) and household supplements (this item matches part of property income in the allocation of primary income account). The current period contributions by employees is needed now to calculate the imputed contribution of employers since this must be exactly the amount to ensure the sum of all current period contributions matches the increase in entitlement coming from the current period's work. The proposed breakdown is thus workable in a way that he present one is not and allows a clearer understanding of the relationship between contributions and the increase in entitlements. I hope this is agreeable but should be discussed with the AEG in March.

Under transfers there is text added for reinsurance, standardised guarantees and also for the new BOP items for personal transfers and remittances from abroad.

Please consider the endnote on lotteries.

Anne Harrison

Chapter 8: The redistribution of income accounts

A. Introduction

8.1 This chapter describes two accounts that show how income is re-distributed between institutional units by means of the payments and receipts of current transfers. This redistribution represents the second stage in the process of income distribution as shown in the accounts of the System. The two accounts are the secondary distribution of income account and the redistribution of income in kind account

8.2 The secondary distribution of income account shows how the balance of primary incomes of an institutional unit or sector is transformed into its disposable income by the receipt and payment of current transfers excluding social transfers in kind.

8.3 The redistribution of income in kind account takes the process of income redistribution one stage further. It shows how the disposable income of households, non-profit institutions serving households (NPISHs) and government units are transformed into their adjusted disposable income by the receipt and payment of social transfers in kind. Non-financial and financial corporations are not involved in this process.

8.4 Much of this chapter is concerned with the detailed definition, description and classification of the various types of current transfers recorded in the secondary distribution of income and redistribution of income in kind accounts. As part of this description, there is discussion of the composition of social insurance schemes and their role as the recipients of social contributions and dispenser of social benefits.

1. The secondary distribution of income account

8.5 Apart from the balance of primary incomes, the balancing item carried forward from the primary distribution of income accounts, and disposable income, the balancing item on the secondary distribution of income account, all the entries in the secondary distribution of income account consist of current transfers. ***A transfer is a transaction in which one institutional unit provides a good, service or asset to another unit without receiving from the latter any good, service or asset in return as a direct counterpart.*** Transfers are separated into current transfers and capital transfers. ***A capital transfer is one in which the ownership of an asset is transferred or which obliges one or both parties to acquire, or dispose of an asset.*** Other transfers are described as current. ***A current transfer is a transaction in which one institutional unit provides a good, service or asset to another unit without receiving from the latter any good, service or asset directly in return as counterpart and which does not oblige one or both parties to acquire, or dispose of an asset.*** The concept of a transfer is explained in more detail in section B below.

8.6 Table 8.1 shows the concise form of the secondary distribution of income account identifying the main kinds of transfers. Current transfers may take place between resident and non-resident units as well as between resident institutional units.

Table 8.1. Account II.2: Secondary distribution of income account

8.7 The transfers payable by an institutional unit or sector are recorded on the left-hand side of the account under uses. For example, in table 8.1, taxes on income, wealth etc. payable by the household sector of 178 are recorded at the intersection of the row for this item and the uses column for the household sector. The transfers receivable by an institutional unit or sector are recorded on the right-hand side of the account under resources. For example, social benefits of 332 receivable by the household sector are recorded at the intersection of the row for this item and the resources column for the household sector.

8.8 In accordance with the general accounting rules of the System, the entries in the account, apart from the balancing items, refer to amounts payable and receivable. These may not necessarily coincide with the amounts actually paid or received in the same accounting period. Any amounts payable and not paid or receivable and not received are shown in the financial account, most often under accounts receivable/payable.

8.9 Three main kinds of current transfers are distinguished in the secondary distribution of income account:

Current taxes on income, wealth, etc.

Social contributions and benefits

Other current transfers.

Their general nature and the purposes they serve are summarized in the following paragraphs

Current taxes on income, wealth, etc.

8.10 ***Current taxes on income, wealth, etc. consist mainly of taxes on the incomes of households or profits of corporations and of taxes on wealth that are payable regularly every tax period (as distinct from capital taxes levied infrequently).*** In table 8.1, current taxes on income, wealth etc. receivable appear under resources for the general government sector and possibly the rest of the world, while taxes payable appear under uses for the household and non-financial and financial corporation sectors, and possibly for the non-profit institutions serving households (NPISHs) sector and the rest of the world..

Social contributions and benefits

8.11 ***Social contributions are actual or imputed payments to social insurance schemes to make provision for social insurance benefits to be paid.*** Social contributions may be made by employers on behalf of their employees. As such they form part of compensation of employees and are included in the balance of primary income of households. In the secondary distribution of income account, these contributions together with payments made by households themselves in their capacity as employed, self-employed or unemployed persons, are recorded as payable by households and receivable by the units responsible for the social insurance schemes.. Social contributions may be receivable by a unit in any sector in their capacity as providing a social insurance schemes to their employees (even exceptionally households) or by a third-party unit designated as the institution responsible for administering the scheme. Most contributions, however, are likely to be recorded under resources for the general government sector, including social security funds and for insurance corporations and pension funds in the financial corporate sector. Social contributions are recorded under uses only for households, either resident or non-resident.

8.12 ***Social benefits are current transfers received by households intended to provide for the needs that arise from certain events or circumstances, for example, sickness, unemployment, retirement, housing, education or family circumstances.***

8.13 Social insurance benefits in kind other than those provided by the government to all households as part of general social security or social assistance benefits are treated as if they were paid in cash and included in the secondary distribution of income account. However, social insurance benefits in kind provided under general social security schemes and all social assistance benefits in kind constitute social transfers in kind and are therefore included only in the redistribution of income in kind account. In table 8.1 social benefits, except social transfers in kind, are recorded under resources for the household sector and may, in principle, be recorded under uses for any sector operating a social insurance scheme in its capacity as an employer.

Other current transfers

8.14 ***Other current transfers consist of all current transfers between resident institutional units, or between resident and non-resident units, other than current taxes on income, wealth etc and social contributions and benefits***. The group includes net premiums and claims under non-life insurance policies, current transfers between different kinds of government units, usually at different levels of government, and also between general government and foreign governments, as well as current transfers between different households.

2. Disposable income

8.15 ***Disposable income is the balancing item in the secondary distribution of income account. It is derived from the balance of primary incomes of an institutional unit or sector by:***

(a) Adding all current transfers, except social transfers in kind, receivable by that unit or sector; and

(b) Subtracting all current transfers, except social transfers in kind, payable by that unit or sector.

8.16 Disposable income, like the balance of primary incomes, may be recorded gross or net of consumption of fixed capital. It may be necessary to record it gross because of the difficulty of measuring consumption of fixed capital even though consumption of fixed capital is a cost of production and not a component of income. The following discussion refers to the net concept of disposable income.

8.17 Disposable income is not all available in cash. The inclusion in the accounts of non-monetary transactions associated with production for own consumption or barter, or with remuneration in kind, means that households have no choice but to consume certain kinds of goods and services for which the values of the corresponding expenditures out of disposable income are imputed. Although social transfers in kind from government units or NPISHs to households are recorded separately in the redistribution of income in kind account, other transfers in kind are recorded in the secondary distribution of income account together with transfers in cash. They may include international transfers of food, clothing, medicines, etc., to relieve the effects of famine or other hardships caused by natural disasters or wars. The recipients of transfers in kind, other than social transfers in kind, are, by convention, recorded as making imputed consumption expenditures on the goods of services in question as if the transfers were received in cash.

8.18 Households also receive several kinds of imputed property income flows that are not available to the household to spend as they wish. These include part of the interest flow on deposits by households, investment income on insurance, annuity and pension entitlements as well as income from investment fund shares or units. Some of these income flows may be attributed to indirectly measured financial service charges. Those income flows that are related to non-life insurance policies and to social insurance schemes are recorded as if repaid to the non-life insurance corporation or social insurance schemes and do not form part of disposable income. Income flows related to investment funds, life insurance and annuities do carry through to disposable income even though they form a type of pre-committed saving and the household therefore has no discretion about spending these amounts.

Links with economic theoretic concepts of income

8.19 Disposable income as measured in the System can be compared with the concept of income as it is generally understood in economics. From a theoretical point of view, income is often defined as the maximum amount that a household, or other unit, can consume without reducing its real net worth. However, the real net worth of a unit may be changed as a result of the receipt or payment of capital transfers and as a result of real holding gains or losses that accrue on its assets or liabilities. It may also be changed by events such as natural disasters that change the volume of assets. Capital transfers, real holding gains or losses and other changes in the volume of assets due to the effect of events such as natural disasters are specifically excluded from disposable income as measured here. (Capital transfers are recorded in the capital account of the System, while other changes in the volume of assets and real holding gains or losses are recorded in the other changes in assets accounts.) Disposable income can be interpreted in a narrow sense as the maximum amount that a household or other unit can afford to spend on consumption goods or services during the accounting period without having to finance its expenditures by reducing its cash, by disposing of other financial or non-financial assets or by increasing its liabilities. This concept is equivalent to the economic theoretic concept only when the net worth at the beginning of the period is not changed by capital transfers, other changes in the volume of assets or real holding gains or losses.

National disposable income

8.20 Most current transfers, whether in cash or in kind, can take place between resident and non-resident institutional units as well as between resident units. ***Gross or net national disposable income may be derived from gross or net national income by:***

(a) Adding all current transfers in cash or in kind receivable by resident institutional units from non-resident units; and

(b) Subtracting all current transfers in cash or in kind payable by resident institutional units to non-resident units.

8.21 Among the more important current transfers taking place between residents and non-residents are the following:

- Current international cooperation: i.e., current transfers between different governments, such as transfers under aid programmes intended to sustain the consumption levels of populations affected by war or natural disasters such as droughts, floods or earthquakes
- Social contributions and/or benefits
- Non-life insurance premiums and claims
- Payments of current taxes on income or wealth
- Remittances between resident and non-resident households.

8.22 The net disposable income of a country is a better measure than its net national income (NNI) for purposes of analysing its consumption possibilities.

3. The redistribution of income in kind account

8.23 Apart from the balancing items, disposable income and adjusted disposable income, all the entries in the redistribution of income in kind account consist of social transfers in kind. Social transfers in kind consist only of social benefits in kind and transfers of individual non-market goods and services provided to resident households by government units, including social security funds, and NPISHs.

Table 8.2. Account II.3: Redistribution of income in kind account

8.24 As social transfers in kind only take place between government units, NPISHs and households, the redistribution of income in kind account is not needed for the non-financial and financial corporate sectors.

8.25 The social transfers in kind payable by government units or NPISHs are recorded on the left-hand side of their redistribution of income in kind accounts under uses. For example, in table 8.2, the value of individual non-market goods or services provided free, or at prices that are not economically significant, by government units, (212) is recorded at the intersection of the row for this item and the uses column for the general government sector. (These goods and services are valued by their costs of production.) The social transfers receivable by the household sector (228) are recorded on the right-hand side of their account under resources.. As only the household sector receives social transfers in kind, the resources columns for the other four sectors are empty.

4. Adjusted disposable income

8.26 Adjusted disposable income is the balancing item in the redistribution of income in kind account. It is derived from the disposable income of an institutional unit or sector by:

(a) Adding the value of the social transfers in kind receivable by that unit or sector; and

(b) Subtracting the value of the social transfers in kind payable by that unit or sector.

8.27 Adjusted disposable income, like disposable income, may be recorded gross or net of consumption of fixed capital. Because social transfers in kind are payable only by government units and NPISHs to households, it follows that the adjusted disposable incomes of the general government and NPISHs sectors are lower than their disposable incomes, while the adjusted disposable income of the household sector exceeds its disposable income by the total value of social transfers in kind. The adjusted disposable income for the total economy is the same as its disposable income. In practice, the concept of adjusted disposable income is mainly relevant to government units and households, the distinction between adjusted disposable income and disposable income being irrelevant at the level of the economy as whole.

8.28 The adjusted disposable income of a household can be interpreted as measuring the maximum value of the final consumption goods or services that it can afford to consume in the current period without having to reduce its cash, dispose of other assets or increase its liabilities for the purpose. Its consumption possibilities are determined not only by the maximum amount it can afford to spend on consumption goods and services (its disposable income), but also by the value of the consumption goods and services it receives from government units or NPISHs as social transfers in kind. Conversely, the adjusted disposable income of general government can be interpreted as measuring the maximum value of the collective services that it can afford to provide to the community without having to reduce its cash, dispose of other assets or increase its liabilities for the purpose.

B. Transfers

1. Introduction

8.29 As defined above, ***a transfer is a transaction in which one institutional unit provides a good, service or asset to another unit without receiving from the latter any good, service or asset in return as a direct counterpart***. A unit making a transfer receives no specific quantifiable benefit in return that can be recorded as part of the same transaction. Nevertheless, the payment of a social insurance contribution or non-life insurance premium may entitle the unit making the payment to some contingent future benefits. For example, a household may be entitled to receive some social benefits should certain events occur or certain conditions prevail. Alternatively, a household paying taxes may be able to consume certain collective services provided by government units. Such benefits, however, are generally uncertain or not quantifiable, or both. Moreover, the amount of benefit that may eventually be received by an individual unit may bear no relation to the amount of the transfers previously paid.

8.30 The process of government collecting taxes and using the revenue generated to pay for the provision of government services or the process by which an insurance corporation accepts premiums for non-life insurance in a year from many policy holders and pays claims to a relatively small number of them are essentially distributive in nature. Within a single accounting period, an institutional unit (the government or the insurance corporation) receives and disburses funds according to a given set of procedures but the events giving rise to payments to and disbursements by these units are not directly related. Although there may not be an exact match between the amounts received and disbursed in a single accounting period, the fact that there is a presumption of equality over the long run is indicative of a redistributive process.

8.31 In contrast, payments of premiums on individual life insurance policies taken out by members of households on their own initiative outside any social insurance scheme, and the corresponding benefits, are not transfers. The process is one of the insurance corporation managing funds on behalf of a named household. There is relatively little redistribution among the various households holding similar policies and each household is able to predict with a reasonable degree of certainty what they will receive and when. Such policies therefore constitute the acquisition and disposal of financial assets and are recorded as such in the financial accounts of the System as components of the change in the net equity of households in life insurance reserves and pension funds.

8.32 It could be argued that pension schemes function in a manner similar to life insurance schemes and that they should be treated as savings schemes of individual households. There are three reasons in the System why the designation of social insurance scheme is used to cover employment-related pensions, a designation that brings with it the recording of contributions and benefits as transfers. The first reason is that some pension schemes are funded on a pay-as-you-go basis. That is, the contributions in the period are used to pay the benefits in that period, with a closer parallel to a non-life insurance policy than to a life insurance policy. The second reason is that pensions provide a regular and stable source of funding post-retirement. In other economic applications, such as surveys of income and expenditure, pensions are regarded as income rather than dis-saving. The third reason for treating pensions as income rather than dis-saving is that they frequently cease when the pensioner (or surviving partner) dies. In this sense pension entitlements are distinct from other financial assets which are unaffected by the death of the owner.

2. The distinction between current and capital transfers

8.33 Transfers may be either current or capital. In order to distinguish one from the other, it is preferable to focus on the special characteristics of capital transfers. First, a transfer in kind is capital when it consists of the transfer of ownership of an asset other than inventories. Secondly, a transfer of cash is capital when it is linked to, or conditional on, the acquisition or disposal of an asset (other than inventories) by one or both parties to the transaction, for example, an investment grant. Institutional units must be capable of distinguishing capital from current transfers and must be presumed to treat capital transferred during the course of the accounting period in the same way as capital held throughout the period. For example, a prudent household will not treat a capital transfer that happens to be received during a particular period as being wholly available for final consumption within the same accounting period. Conversely, a household making a capital transfer (e.g., the payment of an inheritance tax) will not plan to reduce its final consumption by the whole amount of the transfer. Unless institutional units are capable of distinguishing capital from current transfers and react differently to them, it becomes impossible to measure income, both in theory and in practice.

8.34 Current transfers consist of all transfers that are not transfers of capital. They directly affect the level of disposable income and should influence the consumption of goods or services. In practice, capital transfers tend to be large, infrequent and irregular, whereas current transfers tend to be comparatively small and are often made frequently and regularly. However, while size, frequency and regularity help to distinguish current from capital transfers they do not provide satisfactory criteria for defining the two types of transfer. For example, social security benefits in the form of maternity or death benefits are essentially current grants designed to cover the increased consumption expenditures occasioned by births or deaths, even though the events themselves are obviously very infrequent.

8.35 It is possible that some cash transfers may be regarded as capital by one party to the transaction and as current by the other. For example, the payment of an inheritance tax may be regarded as a capital transfer by the household but as a current transfer by government. Similarly, a large country that regularly makes investment grants to a number of smaller countries may regard the outlays as current, even though they may be specifically intended to finance the acquisition of assets. In an integrated system of accounts such as the SNA, however, it is not feasible to have the same transaction classified differently in different parts of the System. Accordingly, a transfer should be classified as capital for both parties if it clearly involves a transfer of an asset for one of the parties.

3. The recording of transfers

8.36 Although no good, service or asset is received in return as a counterpart to a transfer, the recording of a transfer nevertheless must give rise to four entries in the accounts. The ways in which transfers in cash, ordinary transfers in kind and social transfers in kind are recorded are shown below in the following examples.

Transfers in cash

8.37 The first example is of a current transfer in cash, such as the payment of a social security benefit in cash. The transfer is recorded as payable by the social security fund and receivable by the household in the secondary distribution of income account (If the transfer were a capital transfer, it would be recorded in the capital account instead of the secondary distribution of income account.) The consequence of the transfer is a reduction in the financial assets (or increase in the financial liabilities) of the social security scheme and an increase in the financial assets of the household. The eventual use of the cash by the household is recorded subsequently as a separate transaction

	Household		Social security fund	
	Uses/ Changes in assets	Resources/ Changes in liabilities and net worth	Uses/ Changes in assets	Resources/ Changes in liabilities and net worth
Secondary Distribution of income account		Transfer receivable	Transfer Payable	
Financial account		Increase in financial asset	Decrease in financial asset	

Provisions of goods and services

8.38 The second example is of an enterprise producing medicines that donates some of its output free of charge to a charity (NPISH). The only transfers recorded in the System as being in kind are social transfers in kind (discussed below). For all other transfers, both current and capital, a cash transfer is imputed followed by an imputed cash purchase of the goods and services being provided. This implies that two transactions should be recorded, each with four entries. In this example, the first is the provision of a transfer by the enterprise to the NPISH, the second is the purchase of the medicine by the NPISH using the funds made available by the transfer. Both transactions imply two entries in the financial account and, if both transactions are completed in the same accounting period, these changes in financial assets will cancel each other for both units involved, leaving only four entries apparent in the accounts. However, if there is a difference in the timing between when the transfer is recorded and when the delivery of the medicine takes place, there will be need to include the entries in the financial accounts.

	NPISH		Enterprise	
	Uses/ Changes in assets	Resources/ Changes in liabilities and net worth	Uses/ Changes in assets	Resources/ Changes in liabilities and net worth
Secondary Distribution of income account		Transfer receivable	Transfer Payable	
Financial account		Increase in financial asset	Decrease in financial asset	
Production account				Output/sale of medicine
Use of income account	Expenditure on medicine			
Financial account	Decrease in financial asset			Increase in financial asset

8.39 A more complex variant occurs if enterprise A purchases the medicine from enterprise B and then gives it to an NPISH. Although A actually purchases the goods from B, they do not form part of A's intermediate consumption or capital formation. Nor can they be recorded as final consumption by A, since it is an enterprise. As before, a cash transfer is imputed from enterprise A to the NPISH and an imputed cash purchase by the NPISH. If both transactions occur in the same accounting period, the two entries of the financial account for the NPISH will cancel, leaving only six of the eight entries apparent in the accounts.

	NPISH		Enterprise A		Enterprise B	
	Uses/ Changes in assets	Resources/ Changes in liabilities and net worth	Uses/ Changes in assets	Resources/ Changes in liabilities and net worth	Uses/ Changes in assets	Resources/ Changes in liabilities and net worth
Secondary Distribution of income account		Transfer receivable	Transfer Payable			
Financial account		Increase in financial asset	Decrease in financial asset			
Production account						Output/sale of medicine
Use of income account	Expenditure on medicine					
Financial account	Decrease in financial asset					Increase in financial asset

Social transfers in kind

8.40 In the System, final consumption expenditure is incurred only by general government, NPISHs and households. All consumption expenditure by households is incurred on their own behalf. Consumption expenditure by general government, on the other hand, is either for the benefit of the community at large (collective consumption) or for the benefit of individual households. This distinction between collective and individual consumption expenditure is of considerable importance in the System and is discussed in detail in chapter 9. Consumption expenditures by general government and NPISHs on behalf of households (their individual consumption expenditures) are undertaken for the purpose of making social transfers in kind. They cover the non-market output of both general government and NPISHs delivered to households free, or at prices that are not economically significant, as well as goods and services bought from market producers and provided to households free or at prices that are not economically significant. Social transfers in kind are recorded differently from the provision of other goods and services without charge.

8.41 The next example is of an education service provided to a household by a non-market producer owned by a government unit. The provision of the service is actually recorded twice in the accounts of the System. First, it is recorded in the traditional way in national accounting as output by government in the production account and final consumption expenditure of government in the use of income account. As this transaction is recorded as an internal transaction within government, it leads to only two, not four entries, in the accounts, both being recorded under general government.

	General government	
	Uses/ Changes in assets	Resources/ Changes in liabilities and net worth
Production account		Output of education services
Use of income account	Consumption expenditure of education services	

8.42 This method of recording ignores, and obscures, the fact that in reality the education service is actually provided to a household as a social transfer in kind paid for by government. A second method of recording is, therefore, adopted in the System that recognizes this fact.

	Household		General government	
	Uses/ Changes in assets	Resources/ Changes in liabilities and net worth	Uses/ Changes in assets	Resources/ Changes in liabilities and net worth
Production account				Output of education services
Redistribution of income in kind account		Social transfers in kind receivable	Social transfer in kind payable	
Use of adjusted disposable income account	Actual consumption of education services			

8.43 In this case the consumption of the education service is recorded as actual consumption by households in the use of adjusted disposable income account. The resources for this are provided via the transfer of social transfers in kind from government to households in the redistribution of income in kind account. (The distinction between actual consumption and consumption expenditure for households, general government and NPISHs is further elaborated in chapter 9.).

8.44 The final example is a more complex case involving two interrelated transactions in which a government unit, or NPISH, purchases a good or service, such as a medicine, from a market producer and then provides it free to a household.

8.45 Under the normal recording in the System, four entries would be required showing the sale of the medicine by the enterprise and the purchase as final consumption expenditure of government with consequences for the financial accounts for both units. the purchase would be recorded as consumption expenditure by government. When explicitly recording social transfers in kind, the entry for the consumption expenditure by government is replaced by two entries for the social transfers in kind and one for actual consumption by households. The entries for the financial account remain as under the normal recording of government purchases.

8.46 This example also covers the case in which the household purchases the medicine directly from a pharmacist and is then reimbursed by a social security fund or other government unit or NPISH. In this case, the household is not recorded as actually incurring any expenditure, the expenditure being attributed to social security ~~fund~~ or other unit that ultimately bears the cost.

	Household		General government		Enterprise	
	Uses/ Changes in assets	Resources/ Changes in liabilities and net worth	Uses/ Changes in assets	Resources/ Changes in liabilities and net worth	Uses/ Changes in assets	Resources/ Changes in liabilities and net worth
Production account						Output/sale of medicine
Redistribution of income in kind account		Social transfers in kind receivable	Social transfer in kind payable			
Use of adjusted disposable income account	Actual consumption of education services					
Financial account			Decrease in financial asset			Increase in financial asset

C. Current taxes on income, wealth, etc.

1. Introduction

8.47 ***Taxes are compulsory, unrequited payments, in cash or in kind, made by institutional units to government units.*** They are transfers because the government provides nothing in return to the individual unit paying the tax, although governments do provide goods or services to the community as a whole or to other individual units, or groups of units, depending on their general economic and social policy. Current taxes on income, wealth, etc., consist mainly of taxes levied on the incomes of households and corporations. They constitute charges against income and are recorded under uses for the households and corporate sectors in the secondary distribution of income account. The taxes may also be payable by non-residents or possibly by government units or non-profit institutions. Current taxes on income, wealth, etc., would have been described as “direct taxes” in the past, but the terms “direct” and “indirect” are no longer used in the System, as explained in chapter VII. The taxes cannot be described simply as “current taxes on income and wealth” because they include some periodic taxes on households which are assessed neither on the income nor the wealth of the household or its members, for example, poll taxes.

8.48 The general nature of taxes and the accounting rules governing their recording in the System were described in paragraphs 7.55 to 7.61 of chapter VII. For convenience, the paragraphs are repeated below.

Taxes versus fees

8.49 One of the regulatory functions of governments is to forbid the ownership or use of certain goods or the pursuit of certain activities, unless specific permission is granted by issuing a licence or other certificate for which a fee is demanded. If the issue of such licences involves little or no work on the part of government, the licences being granted automatically on payment of the amounts due, it is likely that they are simply a device to raise taxes, even though the government may provide some kind of certificate, or authorization, in return. However, if the government uses the issue of licences to exercise some proper regulatory function, for example, checking the competence, or qualifications, of the person concerned, checking the efficient and safe functioning of the equipment in question, or carrying out some other form of control which it would otherwise not be obliged to do, the payments made should be treated as purchases of services from government rather than payments of taxes, unless the payments are clearly out of all proportion to the costs of providing the services. borderline between taxes and payments of fees for services rendered is not always clear-cut in practice (see paragraph 8.54 (c) below for a further explanation of this matter in the case of households).

Links with the IMF and OECD tax classifications

8.50 coverage of taxes in the SNA coincides with that of “tax revenue” as defined in the *Government Finance Statistics Manual, 2001*, or GFSM, of the International Monetary Fund (IMF), and also with “taxes” as defined in the Organisation for Economic Co-operation and Development’s (OECD) annual publication *Revenue Statistics of OECD Member Countries*, except that the SNA includes imputed taxes or subsidies resulting from the operation of official multiple exchange rates and does not classify social security contributions under the heading of taxes. Chapter IV of the GFS contains a detailed listing and classification of taxes according to the nature of the tax. This classification is also reprinted as annex IV in the *Handbook of National Accounting: Public Sector Accounts* (United Nations, 1988). Part II of *Revenue Statistics* contains an almost identical classification. Verify

8.51 The categories of tax distinguished in the System depend on the interaction of the following three factors, of which the nature of tax is only one:

(a) The nature of the tax, as specified in the GFSM/OECD classification;

(b) The type of institutional unit paying the tax;

(c) The circumstances in which the tax is payable.

8.52 Thus, payments of exactly the same tax may be recorded under two different headings in the SNA. For example, payment of an excise duty may appear under “taxes on imports, except value added taxes (VAT) and duties” or under “taxes on products, except VAT, import and export taxes” depending upon whether the excise duty is paid on an imported or domestically produced good. Similarly, payments of an annual tax on automobiles may be recorded under “taxes on production” or under “current taxes on income, wealth, etc.” depending upon whether the tax is paid by an enterprise or by a household. For this reason, it is not possible to arrive at the SNA categories simply by regrouping the GFSM/OECD classifications. However, in order to take advantage of the existence of these detailed classifications, each category of tax listed below contains a cross-reference to the corresponding GFSM and OECD classifications.

The accrual basis of recording

8.53 In contrast to the GFSM similar systems that require taxes to be recorded when they are actually paid, all taxes should be recorded on an accrual basis in the SNA, i.e., when the activities, transactions or other events occur which create the liabilities to pay taxes. wever, 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. It would be unrealistic to assume that such activities, transactions or events give rise to financial assets or liabilities in the form of payables and receivables. For this reason the amounts of taxes to be recorded in the System are determined by the amounts due for payment only when evidenced by tax assessments, declarations or other instruments, such as sales invoices or customs declarations, which create liabilities in the form of clear obligations to pay on the part of taxpayers. Nevertheless, in accordance with the accrual principle, the times at which the taxes should be recorded are the times at which the tax liabilities arise. For example, a tax on the sale, transfer or use of output should be recorded when that sale, transfer or use took place, which is not necessarily the same time as that at which the tax authorities were notified, at which a tax demand was issued, at which the tax was due to be paid or the payment was actually made. Some flexibility is permitted, however, as regards the time of recording of income taxes deducted at source (see paragraph 8.52 below).

8.54 In some countries, and for some taxes, the amounts of taxes eventually paid may diverge substantially and systematically from the amounts due to be paid to the extent that not all of the latter can be effectively construed as constituting financial liabilities as these are understood within the System. In such cases, it may be preferable for analytic and policy purposes to ignore unpaid tax liabilities and confine the measurement of taxes within the System to those actually paid. Nevertheless, the taxes actually paid should still be recorded on an accrual basis at the times at which the events took place that gave rise to the liabilities.

Interest, fines or other penalties

8.55 In principle, interest charged on overdue taxes or fines, or penalties imposed for the attempted evasion of taxes, should be recorded separately and not as taxes. However, it may not be possible to separate payments of interest, fines or other penalties from the taxes to which they relate, so that they are usually grouped with taxes in practice.

2. Taxes on income

8.56 ***Taxes on income consist of taxes on incomes, profits and capital gains***. They are assessed on the actual or presumed incomes of individuals, households, NPISHs or corporations. They include taxes assessed on holdings of property, land or real estate when these holdings are used as a basis for estimating the income of their owners. In some cases the liability to pay income taxes can only be determined in a later accounting period than that in which the income accrues. Some flexibility is therefore needed in the time at which such taxes are recorded. Some taxes deducted at source, such as pay-as-you-earn taxes, and regular prepayments of income taxes, may be recorded in the periods in which they are paid and any final tax liability on income can be recorded in the period in which the liability is determined. Taxes on income include the following types of taxes:

(a) *Taxes on individual or household income*: These consist of personal income taxes, including those deducted by employers (pay-as-you-earn taxes), and surtaxes. Such taxes are usually levied on the total declared or presumed income from all sources of the person concerned: compensation of employees, property income, pensions, etc. - after deducting certain agreed allowances. Taxes on the income of owners of unincorporated enterprises are included here (GFSM, 1.1; OECD, 1110);

(b) *Taxes on the income of corporations*: These consist of corporate income taxes, corporate profits taxes, corporate surtaxes, etc. Such taxes are usually assessed on the total incomes of corporations from all sources and not simply profits generated by production (GFSM, 1.2; OECD, 1210);

(c) *Taxes on capital gains*: These consist of taxes on the capital gains (described as holding gains in the System's terminology) of persons or corporations which become due for payment during the current accounting period, irrespective of the periods over which the gains have accrued. They are usually payable on nominal, rather than real, capital gains and on realized, rather than unrealized, capital gains (GFSM, 1.1, 1.2; OECD, 1120, 1220)

(d) Taxes on winnings from lotteries or gambling: These are taxes payable on the amounts received by winners as distinct from taxes on the turnover of producers that organize gambling or lotteries which are treated as taxes on products (GFSM, 1.3; OECD, 1130).

3. Other current taxes

Current taxes on capital

8.57 ***Current taxes on capital consist of taxes that are payable periodically, usually annually, on the property or net wealth of institutional units, excluding taxes on land or other assets owned or rented by enterprises and used by them for production, such taxes being treated as other taxes on production.*** They also exclude taxes on property or wealth levied infrequently and at irregular intervals, or in exceptional circumstances (e.g., death duties), such taxes being treated as capital taxes. They also exclude income taxes assessed on the basis of the value of the property owned by institutional units when their incomes cannot be estimated satisfactorily, such taxes being recorded under the previous heading, taxes on income. Current taxes on capital include the following:

(a) *Current taxes on land and buildings*: These consist of taxes payable periodically, in most cases annually, on the use or ownership of land or buildings by owners (including owner-occupiers of dwellings), tenants or both, excluding taxes on land or buildings rented or owned by enterprises and used by them in production (GFSM, 4.1; OECD, 4100);

(b) *Current taxes on net wealth*: These consist of taxes payable periodically, in most cases annually, on the value of land or fixed assets less any debt incurred on those assets, excluding taxes on assets owned by enterprises and used by them in production (GFSM, 4.2; OECD, 4200);

(c) *Current taxes on other assets*: These include taxes payable periodically, usually annually, on assets such as jewellery or other external signs of wealth (GFSM, 4.6; OECD, 4600).

Miscellaneous current taxes

8.58 These consist of various different kinds of taxes payable periodically, usually annually, of which the most common are the following:

(a) *Poll taxes*: These are taxes levied as specific amounts of money per adult person, or per household, independently of actual or presumed income or wealth. The amounts levied may vary, however, according to the circumstances of the person or household (GFSM, 7.1; OECD, 6000);

(b) *Expenditure taxes*: These are taxes payable on the total expenditures of persons or households instead of on their incomes. Expenditure taxes are alternatives to income taxes and may be levied at progressively higher rates in the same way as personal income taxes, depending upon the total level of expenditure. They are uncommon in practice (GFSM, 7.3; OECD, 6000);

(c) *Payments by households to obtain certain licences*: Payments by persons or households for licences to own or use vehicles, boats or aircraft and for licences to hunt, shoot or fish are treated as current taxes. Payments for all other kinds of licences (e.g., driving or pilot's licences, television or radio licences, firearm licences, etc.) or fees to government (e.g., payments for passports, airport fees, court fees, etc.) are treated as purchases of services rendered by governments. The boundary between taxes and purchases of services is based on the practices actually followed in the majority of countries in their own accounts (GFSM, 5.5.2 and 5.5.3; OECD, 5200);

(d) *Taxes on international transactions*: These consist of taxes on travel abroad, foreign remittances, foreign investments, etc., except those payable by producers (GFSM, 6.5 and 6.6; OECD, 5127).

D. Social insurance schemes

1. Introduction

8.59 ***Social insurance schemes are schemes in which social contributions are paid by employees or others, or by employers on behalf of their employees, in order to secure entitlement to social insurance benefits, in the current or subsequent periods, for the employees or other contributors, their dependants or survivors.*** They may be organized privately or by government units. Social insurance benefits may be provided in cash or in kind. They become payable when certain events occur, or certain circumstances exist, that may adversely affect the welfare of the households concerned either by imposing additional demands on their resources or reducing their incomes. The contingencies covered are liable to vary from scheme to scheme. However, the identification of certain receivables as social insurance benefits depends not just on the contingencies covered but also the way in which coverage is provided.

2. Circumstances covered by social insurance schemes

8.60 Six kinds of circumstances illustrate when social insurance benefits may be payable as follows:

(a) The beneficiaries, or their dependants, require medical, dental or other treatments, or hospital, convalescent or long-term care, as a result of sickness, injuries, maternity needs, chronic invalidity, old age, etc. The social insurance benefits are usually provided in kind in the form of treatment or care provided free or at prices which are not economically significant, or by reimbursing expenditures made by households. Social insurance benefits in cash may also be payable to beneficiaries needing health care;

(b) The beneficiaries have to support dependants of various kinds: spouses, children, elderly relatives, invalids, etc. The social insurance benefits are usually paid in cash in the form of regular dependants' or family allowances;

(c) The beneficiaries suffer a reduction in income as a result of not being able to work, or not being able to work full-time. The social insurance benefits are usually paid regularly in cash for the duration of the condition. In some instances a lump sum may be provided additionally or instead of the regular payment. People may be prevented from working for various different reasons, in particular:

  (i) Voluntary or compulsory retirement;

  (ii) Involuntary unemployment, including temporary lay-offs and short-time working;

  (iii) Sickness, accidental injury, the birth of a child, etc. that prevents a person from working, or from working full-time;

(d) The beneficiaries suffer a reduction in income because of the death of the main income earner. The social insurance benefits are usually paid in cash in the form of regular allowances or, in some instances, a lump sum;

(e) The beneficiaries are provided with housing either free or at prices which are not economically significant or by reimbursing expenditure made by households;

(f) The beneficiaries are provided with allowances to cover education expenses incurred on behalf of themselves or their dependants; education services may occasionally be provided in kind.

8.61 The above are typical circumstances in which social insurance benefits are payable. However, the list is illustrative rather than exhaustive. It is possible, for example, that under some schemes other benefits may be payable. Conversely, by no means do all schemes provide benefits in all the circumstances listed above. In practice, the scope of social insurance schemes is liable to vary significantly from country to country, or from scheme to scheme within the same country.

3. The organization of social insurance schemes

8.62 The schemes themselves are intended to cover beneficiaries and their dependants during their working lives and usually also into retirement, whether they are employees, employers, own-account workers, or persons temporarily without employment. Eligibility for social insurance benefits requires social contributions to have been paid by, or on behalf of, the beneficiaries or their dependants in the current or previous accounting periods. As already noted, the social contributions may be payable not only by the participants themselves but also by employers on behalf of their employees.

8.63 Social insurance schemes must be organized collectively for groups of workers or be available by law to all workers or designated categories of workers, possibly including non-employed persons as well as employees. They may range from private schemes arranged for selected groups of workers employed by a single employer to social security schemes covering the entire labour force of a country. Participation in such schemes may be voluntary for the workers concerned, but it is more common for it to be obligatory. For example, participation in schemes organized by individual employers may be required by the terms and conditions of employment collectively agreed between employers and their employees. Participation in nationwide social security schemes organized by government units may be compulsory by law for the entire labour force, except perhaps for persons who are already covered by private schemes.

8.64 Many social insurance schemes are organized collectively for groups of workers so that those participating do not have to take out individual insurance policies in their own names. In such cases, there is no difficulty about distinguishing social insurance from private insurance. However, some social insurance schemes may permit, or even require, participants to take out policies in their own names. In order for an individual policy to be treated as part of a social insurance scheme the eventualities or circumstances against which the participants are insured must be of the kind listed in paragraph 8.56 above, and in addition, one or more of the following conditions must be satisfied:

(a) Participation in the scheme is obligatory either by law for a specified category of worker, whether employer or non-employed, or under the terms and conditions of employment of an employee, or group of employees;

(b) The scheme is a collective one operated for the benefit of a designated group of workers, whether employees or non-employed, participation being restricted to members of that group;

(c) An employer makes a contribution (actual or imputed) to the scheme on behalf of an employee, whether or not the employee also makes a contribution.

The premiums payable, and claims receivable, under individual policies taken out under a social insurance scheme are recorded as social contributions and social insurance benefits.

8.65 Thus, social insurance schemes are essentially schemes in which workers are obliged, or encouraged, by their employers or by general government to take out insurance against certain eventualities or circumstances that may adversely affect their welfare or that of their dependants. When individuals take out insurance policies in their own names, on their own initiative and independently of their employers or government, the premiums payable and claims receivable are not treated as social contributions and social insurance benefits, even though the policies may be taken out against the same kinds of eventualities or situations as are covered by social insurance schemes such as accident, ill health, retirement, etc. The premiums payable and claims receivable under such individual insurance policies are recorded as current transfers in the secondary distribution of income account in the case of non-life insurance, while the premiums payable and claims receivable under individual life insurance policies are recorded as acquisitions and disposals of financial assets in the financial account.

8.66 As can be seen from the consideration of individual insurance policies, the nature of the benefit is by no means sufficient to identify the social nature of the transactions. For example, the receipt of free medical services does not always constitute a social benefit. If the medical services received by one household are paid for by another, they are not social benefits but transfers between households. First aid rendered to employees at work is not a social benefit, the costs involved being recorded as intermediate consumption of the employer. In general, social benefits cannot be provided by one household to another except in the relatively rare case in which an unincorporated enterprise owned by a household operates an unfunded scheme for the benefit of its employees.

8.67 Two main types of social insurance schemes may be distinguished:

(a) The first consists of social security schemes covering the entire community, or large sections of the community, that are imposed, controlled and financed by government units. Benefits under these schemes are often not related to levels of salary of the beneficiary or history of employment

(b) The second type consists of employment-related schemes. These schemes derive from an employer-employee relationship in the provision of pension entitlement which is part of the conditions of employment.

Social insurance schemes organized by government units for their own employees, as opposed to the working population at large, should, if possible, be included in the group of employment-related schemes and not remain within social security schemes.

Social security schemes

8.68 In many countries, social security schemes are by far the most important category of social insurance schemes and it is worth summarizing their main characteristics. Social security schemes are schemes imposed and controlled by government units for the purpose of providing social benefits to members of the community as a whole, or of particular sections of the community. The social security funds established for this purpose are separate institutional units organized and managed separately from other government units. Their receipts consist mainly of contributions paid by individuals and by employers on behalf of their employees, but they may also include transfers from other government funds. The payment of social security contributions by, or on behalf of, certain specified individuals, such as employees, may be compulsory by law, but some other individuals may choose to pay voluntarily in order to qualify for the receipt of social security benefits. The benefits paid to individuals, or households, are not necessarily determined by the amounts previously paid in contributions, while the levels of the benefits paid out to the community as a whole may be varied in accordance with the requirements of the government's overall economic policy.

Employment-related social insurance schemes

8.69 The terms of employment-related social insurance schemes are determined by employers, possibly in conjunction with their employees and may be administered by the employers themselves. Very often, though, the funds may form a separate institutional unit (an autonomous pension fund) or may be managed by an insurance corporation on behalf of the employer.

8.70 Not all employment-related social insurance schemes are adequately funded. In the secondary distribution of income account, transactions are recorded as if the schemes are adequately funded and any discrepancies are recorded in the financial account under other accounts receivable/payable.[i] A complete overview of the recording of pension schemes is given in chapter 17.

E. Social contributions

8.71 All contributions to social insurance schemes are made by households. There are, however, several elements to the amounts paid. The first is the amount of contributions made by the employer on behalf of the employee. This amount is part of compensation of employees and is received by households in the generation of income account and thus forms part of the balance of primary income of households. The second element consists of actual payments made by households in the current period to cover their share of the pension provision relating to the current period. These payments may be made by employees, self-employed persons or non-employed persons. A third element consists of contribution supplements, or imputed payments by households, which represent the return to the pension fund of the property income earned on the start of year pension entitlement and which was attributed to households in the allocation of primary income account and , like the employers' contributions, was included in the balance of primary incomes for households. Set against these is the service fee charged by the unit administering the pension scheme. This may be an explicit charge made by a unit separate from the employer or it may be the sum of costs incurred by the employer in administering the scheme if it is not a separate~~d~~ unit.

8.72 Each type of actual contribution can be further divided to show which contributions are compulsory and which are voluntary. Table 8.3 shows table 8.1 with disaggregation of social contributions according to these criteria. Each heading is discussed briefly in turn below. A more extensive discussion of the transactions to be recorded for pension scheme is given in chapter 17.

Table 8.3 here

1. Social contributions

8.73 ***Social contributions are the actual or imputed contributions made by households to social insurance schemes to make provision for social benefits to be paid. Fees charged by the administrators of the schemes are excluded from contributions payable.*** These fees are treated as consumption expenditure by households in the use of income account.

2. Employers' actual social contributions

8.74 This item is exactly the same as that recorded in the allocation of primary income account and described in chapter 7 paragraphs XXXXX

3. Employers' imputed social contributions

8.75 This item is exactly the same as that recorded in the allocation of primary income account and described in chapter 7 paragraphs XXXXX

4. Households' actual social contributions

8.76 ***Households' actual social contributions are social contributions payable on their own behalf by employees, self-employed or non-employed persons to social insurance schemes.*** They are recorded at the times when the work that gives rise to the liability to pay the contributions is carried out.

5. Households' social contribution supplements

8.77 Household's social contribution supplements consist of the property income earned during the accounting period on the stock of pension entitlements. This amount is included in property income payable by the administrators of pension funds to households in the allocation of primary income account.

F. Social benefits

8.78 The benefits paid to households are recorded differently in the accounts depending whether they are paid under a social insurance scheme or not and possibly whether they are paid in cash or in kind.

8.79 The first distinction is to be made benefits payable under a social assistance scheme and those payable under as social assistance. Social insurance scheme are defined and described in section D above. It is a determining feature of a social insurance scheme that the benefits are funded primarily by contributions. Social assistance benefits are intended to meet the same kinds of needs as social insurance benefits but are provided outside of an organized social insurance scheme and are not conditional on previous payments of contributions.

8.80 Benefits in kind payable under social assistance or social security schemes are initially recorded as government consumption expenditure. The routing of these benefits to households takes place via social transfers in kind payable to households in the redistribution of disposable income account and the acquisition of the goods and services concerned is recorded as actual consumption ion the use of adjusted disposable income account.

8.81 Three items remain to be recorded as social benefits in the secondary distribution of income account. These are employment-related social insurance benefits, social security benefits in cash and social assistance benefits in cash. These items appear in table 8.4 and are described below in turn.

Table 8.4 here

1. Employment-related social insurance benefits

8.82 ***Employment-related social insurance benefits are social benefits payable by social insurance schemes to contributors to the schemes, their dependants or survivors.*** benefits typically include:

(a) The continued payment of normal or reduced wages during periods of absence from work as a result of ill health, accidents, maternity needs, etc.;

(b) The payment of family, education or other allowances in respect of dependants;

(c) The payment of retirement or survivors' pensions to former employees or their survivors, and the payment of severance allowances to workers or their survivors in the event of redundancy, incapacity, accidental death, etc.;

(d) General medical services not related to the employee’s work;

(e) Convalescent and retirement homes.

8.83 When employers provide social benefits to their own employees it may not always be easy to distinguish them from the payment of wages or salaries in cash. For example, the continued payment of wages and salaries to employees during absence from work as a result of sickness, accident, maternity needs, etc. is a social benefit but it may be difficult to separate such payments from ordinary wages and salaries, except perhaps in the case of prolonged absences of several months or more.

2. Social security benefits in cash

8.84 ***Social security benefits in cash are social insurance benefits payable in cash to households by social security funds.*** They may take the form of:

(a) Sickness and invalidity benefits

(b) Maternity allowances

(c) Children’s or family allowances, other dependants’ allowances

(d) Unemployment benefits

(e) Retirement and survivors’ pensions

(f) Death benefits

(g) Other allowances or benefits.

The list is intended to be illustrative only as the coverage and range of benefits provided under social security schemes may vary from country to country.

3. Social assistance benefits in cash

8.85 ***Social assistance benefits in cash are current transfers payable to households by government units or NPISHs to meet the same needs as social insurance benefits but which are not made under a social insurance scheme incorporating social contributions and social insurance benefits.*** They therefore exclude all benefits paid by social security funds. Social assistance benefits may be payable in the following circumstances:

(a) No social insurance scheme exists to cover the circumstances in question;

(b) Although a social insurance scheme, or schemes, may exist, the households in question do not participate and are not eligible for social insurance benefits;

(c) Social insurance benefits are deemed to be inadequate to cover the needs in question, the social assistance benefits being paid in addition.

8.86 Social assistance benefits do not include current transfers paid in response to events or circumstances that are not normally covered by social insurance schemes. Thus, social assistance benefits do not cover transfers in cash or in kind made in response to natural disasters such as drought, floods or earthquakes. Such transfers are recorded separately under other current transfers.

G. Other current transfers

Table 8.5 here

1. Introduction

8.87 ***Other current transfers consist of all current transfers between resident institutional units, or between residents and non-residents, except for current taxes on income, wealth, etc., and social contributions and benefits.*** Other current transfers include a number of different kinds of transfers serving quite different purposes. The most important categories are described below.

2. Insurance related activities

8.88 There are three types of activities included under the heading of insurance. These are net premiums and claims related to direct insurance, net premiums and claims related to reinsurance and payment related to standardised guarantees. Each of these is described below.

Net non-life insurance premiums

8.89 Non-life insurance policies provide cover against various events or accidents resulting in damage to goods or property or harm to persons as a result of natural or human causes (for example, fires, floods, crashes, collisions, sinkings, theft, violence, accidents, sickness, etc.) or against financial losses resulting from events such as sickness, unemployment, accidents, etc. Such policies are taken out by enterprises or individual households. The policies taken out by individual households are those taken out on their own initiative and for their own benefit, independently of their employers or government and outside any social insurance scheme.

8.90 ***Net non-life insurance premiums comprise both the actual premiums payable by policyholders to obtain insurance cover during the accounting period (premiums earned) and the premium supplements payable out of the property income attributed to insurance policyholders less the service charges payable to the insurance corporation.*** The way in which the service charges are calculated is explained in chapter VI, paragraphs 6.138 to 6.140. After deducting the service charges from the sum of non-life insurance premiums [illegible] premium supplements, the remainder is described as net non-life insurance premiums. [illegible]nly the net non-life insurance premiums constitute current transfers and are recorded in the secondary distribution of income account. The service charges constitute purchases of services by the policyholders and are recorded as intermediate or final consumption, as appropriate.

8.91 Conceptually, non-life insurance policies might be taken out by non-resident units but to date it is generally not possible for a non resident unit to take out a policy with a resident insurance corporation except if there is no resident insurance corporation and policies are established by an insurance auxiliaries abroad acting as agents of resident insurance corporation. In this case the premiums is recorded as payable by the non-resident unit to the resident insurance corporation with a fee payable by the new non-resident policy holder to the non-resident agent, reducing the net premium payable from the non-resident policy holder to the resident insurance corporation.

Non-life insurance claims

8.92 ***Non-life insurance claims are the amounts payable in settlement of damages that result from an event covered by a non-life insurance policy during the current accounting period***. Claims become due at the moment when the eventuality occurs which gives rise to a valid claim accepted by the insurance enterprise. [illegible] settlement of a non-life insurance claim is treated as a transfer to the claimant. Such payments are always [illegible]ted as current transfers, even when large sums may be involved as a result of the accidental destruction of a fixed asset or serious personal injury to an individual. The amounts received by claimants are usually not committed for any particular purpose and goods or assets which have been damaged or destroyed need not necessarily be repaired or replaced. Claims do not include payments to households in the form of social insurance benefits.

8.93 Some claims arise because of damages or injuries that the policyholders cause to the property or persons of third parties, for example, the damages or injuries that insured drivers of vehicles may cause to other vehicles or persons. In these cases, valid claims are recorded as being payable directly by the insurance enterprise to the injured parties and not indirectly via the policyholder

8.94 Some exceptionally large claims are treated not as current transfers but as capital transfers. The description of the functioning of he insurance activity in chapter 17 explains when this is deemed to be appropriate.

Net reinsurance premiums and claims

8.95 Direct insurers provide a means of redistribution amongst regular policy holders. Instead of a large loss on an irregular basis, policy holders face regular smaller costs in the knowledge that, when and if a large loss happen, it will be settled by the insurance company and thus avoid the policy holder from showing a large loss in that year. Reinsurance policies work in the same way to allow direct insurers (and other reinsurers) to protect themselves against particularly heavy claims by taking out a policy with another insurance corporation that specialises in reinsurance.

8.96 Net reinsurance premiums and claims are calculated in exactly the same manner as non-life insurance premiums and claims. However, because the reinsurance business is concentrated in a few countries, globally most reinsurance policies are with non-resident units.

Fees and calls under standardised guarantees

8.97 Some units, especially government units, may provide a guarantee against a creditor defaulting in conditions that are very like non-life insurance. This happens when many guarantees of the same sort are issued and it is possible to make a realistic estimate of the overall level of defaults. In this case, the fees paid (and the property income earned on them) are treated in the same way as non-life insurance premiums and the calls under the guarantees are treated in the same way as non-life insurance claims.

3. Current transfers within general government

8.98 ***Current transfer within central government consist of current transfers between different government units or different sub-sectors of general government.*** They include current transfers between different levels of government, such as frequently occur between central and state or local government units, and between government units and social security funds. They do not include transfers of funds committed to finance gross fixed capital formation, such transfers being treated as capital transfers.

8.99 One government unit may act as an agent on behalf of a second government unit by, for example, collecting taxes which are due to the second unit, at the same time as it collects its own taxes. Taxes collected on behalf of the second unit in this way are to be recorded as accruing directly to the second unit and are not to be treated as a current transfer from the first to the second unit. Delays in remitting the taxes from the first to the second government unit give rise to entries under “other accounts receivable/payable” in the financial account.

4. Current international cooperation

8.100 ***Current international cooperation consists of current transfers in cash or in kind between the governments of different countries or between governments and international organizations.*** This includes:

(a) Transfers between governments that are used by the recipients to finance current expenditures, including emergency aid after natural disasters; they include transfers in kind in the form of food, clothing, blankets, medicines, etc.;

(b) Annual or other regular contributions paid by member governments to international organizations (excluding taxes payable to supra-national organizations);

(c) Payments by governments or international organizations to other governments to cover the salaries of those technical assistance staff who are deemed to be resident in the country in which they are working.

Current international cooperation does not cover transfers intended for purposes of capital formation, such transfers being recorded as capital transfers.

5. Miscellaneous current transfers

8.101 ***Miscellaneous current transfers consist of current transfers other than insurance related premiums and claims, current transfers within general government and current international cooperation.*** Some of the more important examples are shown below.

Current transfers to NPISHs

8.102 ***Current transfers to NPISHs consist of transfers received from other resident or non-resident institutional units in the form of membership dues, subscriptions, voluntary donations, etc. whether made on a regular or occasional basis.*** Transfers in the form of gifts of food, clothing, blankets, medicines, etc. to charities for distribution to resident or non-resident households are included to the extent that they are newly acquired and are treated as transfers in cash used to purchase these commodities. Transfers of used articles from households do not have a market value and so do not feature in the accounts.. Transfers to NPISHs are intended to cover the costs of the non-market production of NPISHs or to provide the funds out of which current transfers may be made to resident or non-resident households in the form of social assistance benefits. Payments of membership dues or subscriptions to market NPIs serving businesses, such as chambers of commerce or trade associations, are treated as payments for services rendered and are therefore not transfers (see chapter VI, paragraph 6.59). They are recorded in the production account as intermediate consumption and not in the secondary distribution of income account.

Current transfers between households

8.103 ***Current transfers between households consist of all current transfers in cash or in kind made, or received, by resident households to or from other resident or non-resident households.*** They include regular remittances between members of the same family resident in different parts of the same country or in different countries, usually from a member of a family working in a foreign country for a period of a year or longer. Earnings remitted by seasonal workers to their families are not international transfers as the workers remain resident in their country of origin (that is they are still members of their original households) when they work abroad for short periods of less than a year. Their earnings are recorded as compensation of employees from abroad if they have the status of an employee in the non-resident country while they are working there or as the provision of services otherwise.

8.104 Transfers from non-resident households to resident households (and vice versa) are an item of considerable policy interest. In addition, memorandum items in the balance of payments are suggested for personal remittances and total remittances. Personal remittances from abroad are equal to personal transfers from abroad plus compensation of employees from abroad less expenditure abroad by the employees. Personal remittances thus shows the total flows into a resident household from households abroad or from a member of the household working abroad for part of the year. Total remittances from abroad is equal to personal remittances plus social benefits and private pensions due from abroad in relation to earlier work abroad by a member of the household. Payment to abroad are defined correspondingly. For more details, reference should be made to chapter 24 and to the BPM6.

Fines and penalties

8.105 ***Fines and penalties imposed on institutional units by courts of law or quasi-judicial bodies are treated as compulsory current transfers.*** However, fines or other penalties imposed by tax authorities for the evasion or late payment of taxes cannot usually be distinguished from the taxes themselves and are, therefore, grouped with the latter in practice and not recorded under this heading; nor are payments of fees to obtain licences, such payments being either taxes or payments for services rendered by government units (see paragraph 8.45).

Lotteries and gambling

8.106 The amounts paid for lottery tickets or placed in bets consist of two elements: the payment of a service charge to the unit organizing the lottery or gambling and a residual current transfer that is paid out to the winners. The service charge may be quite substantial and may have to cover taxes on the production of gambling services. The transfers are regarded in the System as taking place directly between those participating in the lottery or gambling, that is, between households. When non-resident households take part there may be significant net transfers between the household sector and the rest of the world[ii].

Payments of compensation

8.107 ***Payments of compensation consist of current transfers paid by institutional units to other institutional units in compensation for injury to persons or damage to property caused by the former that are not settled as payments of non-life insurance claims.*** Payments of compensation could be either compulsory payments awarded by courts of law, or ex gratia payments agreed out of court. This heading covers compensation for injuries or damages caused by other institutional units and ex gratia payments made by government units or NPISHs in compensation for injuries or damages caused by natural disasters.

H. Social transfers in kind

1. Introduction

8.108 The only items other than balancing items recorded in the redistribution of income in kind account are social transfers in kind. These consist of individual goods and services provided in kind to individual households by government units (including social security funds) and NPISHs, whether purchased by government or NPISHs on the market or produced as non-market output by these units. The cost of the goods and services may be financed out of taxation, other government income or social security contributions, or out of donations and property income in the case of NPISHs. If it is not possible to segregate the accounts of social security funds from those of other sub-sectors of government, it may not be possible to divide social benefits into those provided by social security and others. Social security benefits in kind are subdivided into two types: those where beneficiary households actually purchase the goods or services themselves and are then reimbursed, and those where the relevant services are provided directly to the beneficiaries.

8.109 The number and type of social transfers in kind provided to households by government units reflects their general economic and social policy concerns. Whereas the recipients of current cash transfers may dispose of them as they wish, the recipients of social transfers in kind have little or no choice. The attraction of transfers in kind over transfers in cash to policy makers is that the resources transferred can be targeted towards meeting specific needs, such as health or education, and must be consumed in the ways that their providers intend.

8.110 The most common types of individual non-market goods and services are education and health services provided free, or at prices that are not economically significant, to individual households by non-market producers owned by government units or NPISHs. They are described in chapter 9.

8.111 There are four categories of social transfers in kind, as follows:

- Social security benefits, reimbursements
- Other social security benefits in kind
- Social assistance benefits in kind
- Transfers of individual non-market goods and services.

Each of these categories is described in more detail below.

Table 8.6 here

2. Social security benefits, reimbursements

8.112 ***Social security benefits, reimbursements, consist of the reimbursement by social security funds of approved expenditures made by households on specified goods or services.*** They represent a form of social benefit in kind. Examples of expenditures that may be reimbursable are expenditures on medicines, medical or dental treatments, hospital bills, optometrists' bills, etc.

8.113 When a household purchases a good or service for which it is subsequently reimbursed, in part or in whole, by a social security fund, the household can be regarded as if it were an agent acting on behalf of the social security fund. In effect, the household provides a short-term credit to the social security fund that is liquidated as soon as the household is reimbursed. The amount of the expenditure reimbursed is recorded as being incurred directly by the social security fund at the time the household makes the purchase, while the only expenditure recorded for the household is the difference, if any, between the purchaser's price paid and the amount reimbursed. Thus, the amount of the expenditure reimbursed is not treated as a current transfer in cash from the social security fund to households.

3. Other social security benefits in kind

8.114 ***Other social security benefits in kind consist of social transfers in kind, except reimbursements, made by social security funds to households***. Most are likely to consist of medical or dental treatments, surgery, hospital accommodation, spectacles or contact lenses, medical appliances or equipment, and similar goods or services associated with the provision of health care. The services may be provided by market or non-market producers and should be valued accordingly. In both cases any nominal payments made by the householders themselves should be deducted. The transfers should be recorded at the times the goods are transferred or services provided.

4. Social assistance benefits in kind

8.115 ***Social assistance benefits in kind consist of transfers in kind provided to households by government units or NPISHs that are similar in nature to social security benefits in kind but are not provided in the context of a social insurance scheme.*** Like social assistance benefits in cash, they tend to be provided under the following circumstances:

(a) No social insurance scheme exists to cover the circumstances in question;

(b) Although a social insurance scheme, or schemes, may exist, the households in question do not participate and are not eligible for its social benefits;

(c) Social insurance benefits are deemed to be inadequate to cover the needs in question, the social assistance benefits being paid in addition.

5. Transfers of individual non-market goods or services

8.116 ***Transfers of individual non-market goods and services consist of goods or services provided to individual households free, or at prices which are not economically significant, by non-market producers of government units or NPISHs.*** Although some of the non-market services produced by NPISHs have some of the characteristics of collective services, all the non-market services produced by NPISHs are, for simplicity and by convention, treated as individual in nature. Non-market producers are described in more detail in chapter VI. Services provided free, or at prices that are not economically significant, to households are described as individual services to distinguish them from collective services provided to the community as a whole, or large sections of the community. Individual services consist mainly of education and health services, although other kinds of services such as housing services, cultural and recreational services are also frequently provided. They may be provided either by market or non-market producers and are valued accordingly. They are described in more detail in chapter IX.

8.117 The services provided as social transfers in kind to households are recorded at the times they are provided. These are the times at which they are produced. Any goods provided directly to households by non-market producers should be recorded at the times the change of ownership takes place.

---

[i] The exact location of any under-or over-funding of pension schemes is still to be discussed and agreed by the AEG.

[ii] The BPM team have raised a query on this. It is apparently common for very big payouts not to be made immediately but in the form of an annuity. This means there are financial claims and liabilities existing between the winners and the lottery organizers. It is not possible to accommodate these within a framework where the net stakes and winnings balance in any period.