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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 incomes of households, non-profit institutions serving households (NPISHs) and government units are transformed into their adjusted disposable incomes 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 dispensers of social benefits.
- 8.5 Understanding the difference between four related concepts is crucial to an appreciation of the two accounts described in this chapter. These terms are social insurance, social security, social assistance and social transfers in kind. These are explained very briefly below and in greater detail in later parts of the chapter.
- 8.6 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. The social benefits payable by social insurance schemes are of two kinds, pensions and other benefits such as medical, education, housing or unemployment benefits. Pensions are always paid in cash; non-pension benefits may be payable in cash or in kind.
- 8.7 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. Pensions payable under these schemes may or may not be related to levels of salary of the beneficiary or history of employment. Non-pension benefits are less frequently linked to salary levels.
 - b. The second type consists of other employment-related schemes. These schemes derive from an employer-employee relationship in the provision of pension entitlement that is part of the conditions of employment and where responsibility for the provision of benefits does not devolve to general government under social security provisions.
- 8.8 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 requiring participation usually by means of social contributions.
- 8.9 Social transfers in kind consist of social security benefits payable in kind and social assistance benefits payable in kind.

1. The secondary distribution of income account

- 8.10 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. *Capital transfers are unrequited transfers where either the party making the transfer realises the funds involved by disposing of an asset (other than cash or inventories) or the party receiving the transfer is obliged to acquire an asset (other than cash) or both conditions are met.* Capital transfers are often large and irregular but neither of these are necessary conditions for a transfer to be considered a capital rather than a current transfer. 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 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.

8.11 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.

8.12 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.

8.13 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 recorded in the financial account, most often under accounts receivable/payable.

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

- a. Current taxes on income, wealth, etc.;
- b. Social contributions and benefits;
- c. Other current transfers.

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

Current taxes on income, wealth, etc.

8.15 *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

8.16 *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 scheme to their employees (even exceptionally households if in their capacity as unincorporated enterprises they run a social insurance scheme for their employees) 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.

8.17 *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.* Social benefits may be provided under social insurance schemes or by social assistance.

Table 8.1: The secondary distribution of income account – uses - concise form

Uses										
Code	Transactions and balancing items	S11	S12	S13	S14	S15	S1	S2	Goods and services	Total
		Non-financial corporations	Financial corporations	General government	Households	NPISHs	Total economy	Rest of the world		
D5	Current transfers	98	277	248	582	7	1 212	17		1 229
D51	Current taxes on income, wealth, etc.	24	10	0	178	0	212	1		213
D52	Net social contributions				333		333	0		333
D53	Social benefits other than social transfers in kind	62	205	112	0	5	384	0		384
D54	Other current transfers	12	62	136	71	2	283	16		299
	Disposable income, gross	182	12	345	1 264	42	1 845			1 845
	Disposable income, net	45	2	315	1 222	39	1 623			1 623

8.18 Social insurance benefits in kind provided by employers are treated as if they were paid in cash and included in the secondary distribution of income account. If this were not so, the purchase of the goods and services concerned would have to be shown as incurred by employers but these products are not intermediate consumption and enterprises cannot have final consumption. 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

8.19 *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 to and from NPISHs and between resident and non-resident households.

2. Disposable income (B6)

8.20 *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:*

- d. *Adding all current transfers, except social transfers in kind, receivable by that unit or sector; and*
- e. *Subtracting all current transfers, except social transfers in kind, payable by that unit or sector.*

8.21 Disposable income, like the balance of primary incomes, may be recorded gross or net of consumption of fixed capital. As elsewhere, the net measure is conceptually preferable but it may be necessary to record the balancing items 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.

8.22 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 or services in question as if the transfers were received in cash.

8.23 Households also receive several kinds of imputed property income flows that are not available to the household to spend as they wish. These include investment income on insurance, annuity and pension entitlements as well as income from investment fund shares or units. Income flows related to investment funds and to life insurance and annuities that are not treated as social insurance do carry through to disposable income even though they automatically go to increase the assets held by households in the financial institutions managing these funds and policies and the household therefore has no discretion about spending these amounts. Income flows that are related to non-life insurance and social insurance schemes are recorded in the secondary distribution of income account as if repaid to the non-life insurance

Table 8.1: The secondary distribution of income account – resources - concise form

Code	Transactions and balancing items	Resources								
		S11 Non-financial corporations	S12 Financial corporations	S13 General government	S14 Households	S15 NPISHs	S1 Total economy	S2 Rest of the world	Goods and services	Total
	Balance of primary incomes, gross / National income, gross	208	15	226	1 426	8	1 883			1 883
	Balance of primary income, net / National income, net	71	5	196	1 384	5	1 661			1 661
D5	Current transfers	72	274	367	420	41	1 174	55		1 229
D51	Current taxes on income, wealth, etc.			213			213	0		213
D52	Net social contributions	66	212	50	0	5	333	0		333
D53	Social benefits other than social transfers in kind				384		384	0		384
D54	Other current transfers	6	62	104	36	36	244	55		299

corporation or social insurance schemes and are not included in disposable income except for the part already committed to meet the service charge associated with the insurance policy or social insurance scheme. Disposable income also includes SNA interest on deposits by households, which is higher than bank-interest, and the excess of bank interest less SNA interest on loans to households. These differences are also pre-committed to meeting the indirect service charges levied by financial institutions on loans and deposits (FISIM).

Links with economic theoretic concepts of income

- 8.24 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

- 8.25 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:***
- Adding all current transfers in cash or in kind receivable by resident institutional units from non-resident units; and***
 - Subtracting all current transfers in cash or in kind payable by resident institutional units to non-resident units.***
- 8.26 Among the more important current transfers taking place between residents and non-residents are the following:
- Social contributions and/or benefits;
 - Payments of current taxes on income or wealth;
 - Non-life insurance premiums and claims;
 - 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;
 - Remittances between resident and non-resident households.
- 8.27 The net disposable income of a country is a better measure than its net national income (NNI) for purposes of analysing its consumption possibilities.

Table 8.2: The redistribution of income in kind account – uses -concise form

Uses										
Code	Transactions and balancing items	S11 Non-financial corporations	S12 Financial corporations	S13 General government	S14 Households	S15 NPISHs	S1 Total economy	S2 Rest of the world	Goods and services	Total
D6	Social transfers in kind			212		15	227			227
B7g	Adjusted disposable income, gross	182	12	133	1 491	27	1 845			1 845
B7n	Adjusted disposable income, net	45	2	103	1 449	24	1 623			1 623

3. The redistribution of income in kind account

8.28 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.

8.29 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.

8.30 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 is recorded at the intersection of the row for this item and the uses column for the general government sector. Social transfers receivable by the household sector 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 (B7)

8.31 *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.

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 and only receivable by 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, NPISHs and households, the distinction between adjusted disposable income and disposable income being irrelevant at the level of the economy as whole.

8.32 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.

Table 8.2: The redistribution of income in kind account – resources - concise form

Code	Transactions and balancing items	S11	S12	S13	S14	S15	S1	S2	Resources	
		Non-financial corporations	Financial corporations	General government	Households	NPISHs	Total economy	Rest of the world	Goods and services	Total
	Disposable income, gross	182	12	345	1 264	42	1 845			1 845
	Disposable income, net	45	2	315	1 222	39	1 623			1 623
D6	Social transfers in kind				227		227			227
B7g										
B7n										

B. Current transfers (D5)

- 8.33 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. However, the fact that a transfer has been made does not automatically mean a benefit will be received by the unit making the transfer nor, if it does, that the amount of the benefit is commensurate with the amount of the transfer. It is for this reason that the System holds there is no direct counterpart to the transfer.
- 8.34 The process of government collecting taxes and using the revenue generated to pay for the provision of government services and the process by which an insurance corporation accepts premiums for non-life insurance in a year from many policyholders 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.
- 8.35 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. For life insurance, the insurance corporation manages 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 life insurance and annuities entitlement.
- 8.36 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 is that social security is essentially a process of redistribution across a wide section of the population with many individuals contributing so that those in need may benefit. A 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 survivor) dies. In this pension entitlements are distinct from other financial assets that are unaffected by the death of the owner.
- ### 1. The distinction between current and capital transfers
- 8.37 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. As noted above, a capital transfer is one that is linked to the acquisition or disposal of an asset. 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 (for example, 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.
- 8.38 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 infrequent.
- 8.39 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.

2. The recording of transfers

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

Transfers in cash

8.41 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

8.42 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 of medicine
Use of income account	Expenditure on medicine			
Financial account	Decrease in financial asset			Increase in financial asset

8.43 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 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 of medicine
Use of income account	Expenditure on medicine					
Financial account	Decrease in financial asset					Increase in financial asset

Social transfers in kind

8.44 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.

8.45 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	

8.46 This method of recording does not portray 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. This method is illustrated below.

8.47 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 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](#).)

8.48 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.

8.49 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

	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			

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.

	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 medicine					
Financial account			Decrease in financial asset			Increase in financial asset

8.50 This example also covers the case in which the household purchases the medicine directly from a pharmacist and is then reimbursed by the social security fund, other government unit or NPISH that ultimately bears the cost. 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.

C. Current taxes on income, wealth, etc. (D51)

8.51 **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 directly 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 7](#). The taxes cannot be described simply as “current taxes on income and wealth” because they include some periodic taxes on households that are assessed neither on the income nor the wealth of the household or its members, for example, poll taxes.

- 8.52 The general nature of taxes and the accounting rules governing their recording in the System were described in paragraphs 7.75 to 7.81. For convenience, these paragraphs are repeated below.

Taxes versus fees

- 8.53 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 revenue, 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 that 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. The borderline between taxes and payments of fees for services rendered is not always clear-cut in practice (see paragraph 8.62 (c) for a further explanation of this matter in the case of households).

Links with the IMF and OECD tax classifications

- 8.54 The coverage of taxes in the SNA coincides with that of “tax revenue” as defined in the GFSM2001, and also with “taxes” as defined in *Revenue Statistics*. In contrast to the latter, the SNA includes imputed taxes or subsidies resulting from the operation of official multiple exchange rates, imputed taxes and subsidies resulting from a central bank imposing interest rates above or below the market rate and does not classify social security contributions under the heading of taxes. Chapter 5 of the GFSM2001 contains a detailed listing and classification of taxes according to the nature of the tax. Annex A of *Revenue Statistics* contains a closely related classification.
- 8.55 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 GFSM2001/OECD classification;
 - b. The type of institutional unit paying the tax;
 - c. The circumstances in which the tax is payable.
- 8.56 Thus, payments of exactly the same tax may be recorded under two different headings in the System. 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 GFSM2001/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 GFSM2001 and OECD classifications. It should be noted, though, that the SNA categories are included within the GFSM2001 and OECD categories but may not be identical with them.

The accrual basis of recording

- 8.57 All taxes should be recorded on an accrual basis in the System, that is, when the activities, transactions or other events occur that create the liabilities to pay taxes. 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. 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, that create liabilities in the form of clear obligations to pay on the part of taxpayers. (In assessing the amount of tax accruing, care must be taken not to include tax unlikely ever to be collected.) 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 8.60).
- 8.58 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

- 8.59 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 in practice they are usually grouped with taxes.

1. Taxes on income (D511)

8.60 *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. Income 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 (GFSM2001, 1111; 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 (GFSM2001, 1112; 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 that 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 (GFSM2001, 1111-1113; 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 (GFSM2001, 1111-1113; OECD, 1120).

The recording of tax credits is discussed in [chapter 22](#).

2. Other current taxes (D519)

Current taxes on capital

8.61 *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 (GFSM2001, 1131; 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 (GFSM2001, 1132; 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 (GFSM2001, 1136; OECD, 4600).

Miscellaneous current taxes

8.62 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 (GFSM2001, 1162; 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 (GFSM2001, 1162; 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. So are payments to government for the right to undertake certain activities, such as operating a casino or driving a taxi-cab. [Chapter 17 part 5](#) discusses when a licence to use a natural resource is treated as an asset. Payments for all other kinds of licences (for example, driving or pilot's licences, television or radio licences, firearm licences, etc.) or fees

to government (for example, 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 (GFSM2001, 11451 and 11452; OECD, 5200);

d. *Taxes on international transactions*: These consist of taxes on travel abroad, foreign remittances, foreign investments, etc., except those payable by producers (GFSM2001, 1155 and 1156; OECD, 5127).

D. Social insurance schemes

8.63 *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.

1. Circumstances covered by social insurance schemes

8.64 Social benefits may be divided into two main classes; pensions and all other social benefits, described in the System as non-pension benefits. The most important type of pension is one paid to an individual when they cease employment on retirement. Pensions may also be payable to other individuals, for example a bereaved spouse or someone suffering from a permanent disability. Payments made while a person is temporarily unemployed or suffering a medical condition that prevents them from working for a period are treated as non-pension benefits.

8.65 Six kinds of circumstances illustrate when social insurance non-pension 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 that 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 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, including involuntary unemployment, including temporary lay-offs and short-time working, and 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 that 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.

8.66 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.

8.67 Similar benefits may be payable as part of social assistance. Typically social assistance is provided by government to all persons who are in need without any formal requirement to participate as evidenced by the payment of contributions, for example. The extent of social assistance varies very considerably from country to country. In many countries, benefits are only payable to people on low incomes. This is often described as saying the benefits are "means-tested", where the term "means" is used in the sense of indicating a maximum qualifying level of income.

2. The organization of social insurance schemes

8.68 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.

8.69 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.

8.70 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 insurance taken out on a personal basis. 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 8.65, and in addition, one or more of the following conditions must be satisfied:

- 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;
- 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;
- 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.

Table 8.3: The secondary distribution of income account – with detail for taxes and social contributions – uses

Uses		S11	S12	S13	S14	S15	S1	S2		Total
Code	Transactions and balancing items	Non-financial corporations	Financial corporations	General government	Households	NPIs	Total economy	Rest of the world	Goods and services	
D5	Current transfers	98	277	248	582	7	1 212	17		1 229
D51	Current taxes on income, wealth, etc.	24	10	0	178	0	212	1		213
D511	Taxes on income	20	7	0	176	0	203	1		204
D519	Other current taxes	4	3	0	2	0	9			9
D52	Net social contributions				333		333	0		333
D521	Employers' actual social contributions				181		181	0		181
D5211	Employers' actual pension contributions				168		168	0		168
D5212	Employers' actual non-pension contributions				13		13	0		13
D522	Employers' imputed social contributions				19		19	0		19
D5221	Employers' imputed pension contributions				18		18	0		18
D5222	Employers' imputed non-pension contributions				1		1	0		1
D523	Households' actual social contributions				129		129	0		129
D5231	Households' actual pension contributions				115		115	0		115
D5232	Households' actual non-pension contributions				14		14	0		14
D524	Households social contributions supplements				10		10	0		10
D5241	Households pension contribution supplements				8		8	0		8
D5242	Households non-pension contribution supplements				2		2	0		2
	Social insurance scheme service charges				6		6	0		6
D53	Social benefits other than social transfers in kind	62	205	112	0	5	384	0		384
D54	Other current transfers	12	62	136	71	2	283	16		299
	Disposable income, gross	182	12	345	1 264	42	1 845			1 845
	Disposable income, net	45	2	315	1 222	39	1 623			1 623

8.71 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.

8.72 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 a social insurance scheme for the benefit of its employees.

8.73 All social insurance schemes are founded on an employment relationship even if the participants are self-employed or currently unemployed. 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. Pensions payable under these schemes may or may not be related to levels of salary of the beneficiary or history of employment. Non-pension benefits are less frequently linked to salary levels.
- b. The second type consists of other employment-related schemes. These schemes derive from an employer-employee relationship in the provision of pension and possibly other entitlements that are part of the conditions of employment and where responsibility for the provision of benefits does not devolve to general government under social security provisions.

Making this distinction is difficult in some countries where the ultimate responsibility for administering the scheme and paying benefits is undertaken by government on behalf of many employers not working for general government. In countries where there is no such arrangement, 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 other employment-related schemes and not remain within social security schemes.

Table 8.3: The secondary distribution of income account – with detail for taxes and social contributions – resources

Code	Transactions and balancing items						Resources			
		S11 Non-financial corporations	S12 Financial corporations	S13 General government	S14 Households	S15 NPI/SIs	S1 Total economy	S2 Rest of the world	Goods and services	Total
	Balance of primary incomes, gross / National income, gross	208	15	226	1 426	8	1 883			1 883
	Balance of primary income, net / National income, net	71	5	196	1 384	5	1 661			1 661
D5	Current transfers	72	274	367	420	41	1 174	55		1 229
D51	Current taxes on income, wealth, etc.			213			213	0		213
D511	Taxes on income			204			204	0		204
D519	Other current taxes			9			9			9
D52	Net social contributions	66	212	50	0	5	333	0		333
D521	Employers' actual social contributions	31	109	38	0	3	181	0		181
D5211	Employers' actual pension contributions	27	104	35	0	2	168	0		168
D5212	Employers' actual non-pension contributions	4	5	3	0	1	13	0		13
D522	Employers' imputed social contributions	12	2	4	0	1	19	0		19
D5221	Employers' imputed pension contributions	12	1	4	0	1	18	0		18
D5222	Employers' imputed non-pension contributions	0	1	0	0	0	1	0		1
D523	Households' actual social contributions	25	94	9	0	1	129	0		129
D5231	Households' actual pension contributions	19	90	6	0	0	115	0		115
D5232	Households' actual non-pension contributions	6	4	3	0	1	14	0		14
D524	Households social contributions supplements		10				10	0		10
D5241	Households pension contribution supplements		8				8	0		8
D5242	Households non-pension contribution supplements		2				2	0		2
	Social insurance scheme service charges	2	3	1			6	0		6
D53	Social benefits other than social transfers in kind				384		384	0		384
D54	Other current transfers	6	62	104	36	36	244	55		299

Social security schemes

- 8.74 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, controlled and financed 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 funds. 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, are generally compulsory by law, but some other individuals may choose to pay voluntarily in order to qualify for the receipt of social security benefits.

Other employment-related social insurance schemes

- 8.75 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.
- 8.76 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. A complete overview of the recording of pension schemes is given in [chapter 17](#).

E. Net social contributions (D52)

- 8.77 In the System, all contributions to social insurance schemes are shown as 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 and other provisions 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 on any reserves established for non-pension benefits. These are attributed to households in the allocation of primary income account and, like the employers' contributions, are 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 may be the sum of costs incurred by the employer in administering the scheme if it is not a separate unit. Depending on the nature of the scheme, either the contribution by the employer or the property income includes the value of the service charge
- 8.78 Table 8.3 shows table 8.1 with social contributions disaggregated according to these criteria. For practical reasons, the tables show the employers' contributions and property income at the same value as recorded in the distribution of primary income account with the service charge shown specifically. This charge, though, is not a redistributive transaction but part of output and consumption expenditure. It is included in the table to clarify the way in which social insurance is funded. Each heading is discussed briefly in turn below. A more extensive discussion of the

transactions to be recorded for pension schemes is given in [chapter 17](#).

1. Components of social contributions

- 8.79 *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 (D521)

- 8.80 This item is exactly the same as that recorded in the allocation of primary income account and described in [paragraph 7.57](#).

3. Employers' imputed social contributions (D522)

- 8.81 This item is exactly the same as that recorded in the allocation of primary income account and described in [paragraphs 7.58 to 7.63](#).

4. Households' actual social contributions (D523)

- 8.82 *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 on an accrual basis. For those in work, this is at the times when the work that gives rise to the liability to pay the contributions is carried out.

5. Households' social contribution supplements (D524)

8.83 Household's social contribution supplements consist of the property income earned during the accounting period on the stock of pension and non-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 other than social transfers in kind (D53)

8.84 Social benefits are current transfers received by households intended to provide for the needs that arise from certain events or circumstances. Benefits are divided into two groups, the first consists of pensions and the second of all other (non-pension) benefits. These cover, for example, payments due in respect of sickness, unemployment, housing, education or family circumstances.

8.85 The way in which the receipt of social benefits is recorded in the accounts depends on a number of intersecting factors. As well as the type of social benefit, pension or non-pension, it is necessary to specify whether the benefits are payable under a social insurance scheme or not, whether they are paid by government or not and whether they are paid in cash or not. The following sections discuss the different institutional arrangements for paying benefits, then the different types of benefits before summarising how these appear in the accounts.

1. Institutional arrangements

Social insurance schemes or social assistance

8.86 Social benefits may be payable as part of a social insurance scheme or by government as social assistance. Unlike social assistance, all social insurance schemes require formal participation by the beneficiaries. This participation is linked to employment and is usually evidenced by the payment of contributions to the scheme either by the participants, an employer or both. Social security is an important kind of social insurance and like social assistance, is provided by government. It is therefore necessary to determine when a social benefit provided by government is made as part of social security and when it is part of social assistance.

Social security and social assistance

8.87 There is a fundamental difference between government provision of benefits under social security and under social assistance although the proportion of benefits allocated to one or the other heading varies considerably from country to country depending on national institutional arrangements.

8.88 Social security is one form of a social insurance scheme. The beneficiary is enrolled in the scheme or participates usually by paying a contribution to the scheme or having one paid to the scheme on his behalf. The payment may be made by the employer or a family member or even in some cases by government itself (perhaps for the duration of unemployment, for instance). Because it is a contributory scheme, there is

some sort of contract between the government and the beneficiaries. In some countries this contract has a strict legal form and cannot be altered retrospectively; in others the contract is much looser and retroactive adjustments are possible. For all social security schemes, the difference between the contributions receivable and the benefits payable is monitored in the context of the government budget since persistent deficits cannot be sustained for ever without intervention to raise contributions, lower benefits or both.

8.89 Social assistance is distinguished from social security in that eligibility to receive social assistance benefits is not dependent on having elected to participate as demonstrated by the payment of contributions. Usually all members of resident households are entitled to apply for social assistance but the conditions under which it is granted are often restrictive. Frequently there is an assessment of available income in relation to the perceived needs of a household and only those households falling below a given threshold may be entitled to this type of social assistance. (This process is often described as "means-testing".)

8.90 The extent to which social assistance provides incomes to households varies extensively from country to country. In some countries, indeed, there is no social security and all provision by government of income to meet social needs is provided without contribution but this is not the general case.

2. Types of social benefits

8.91 Social benefits may be paid under three different sorts of institutional arrangement. They may be paid by government as either social assistance or social security or they may be paid by other employment related social insurance schemes. Pensions under all three arrangements are recorded in a similar way but with a distinction drawn between those that are made under social assistance and those that are made under social insurance. Non-pension benefits payable in cash are also recorded in a similar way but with a distinction drawn between those that are made under social assistance and those that are made under social insurance. Non-pension benefits payable in kind are recorded differently for those payable by government, whether as social assistance or social security.

Pensions

8.92 The main social benefit payable in cash is pension provision for retirees. However, others may be entitled to pensions, for example widows and the permanently disabled. Pensions are

almost always paid in cash though there may be some circumstances where housing is available free or at a reduced rate to some pensioners in which case the value of this housing benefit is treated as part of the cash payment with the same amount showing as purchase of housing services from the provider.

- 8.93 As noted, pensions payable under social insurance pensions are distinguished from those payable as social assistance

Non-pension benefits payable in cash

- 8.94 While the nature of a pension payment is generally unambiguous, other social insurance payments must be carefully distinguished from other payments made to households. Once such payments are eliminated, non-pension benefits in cash are recorded under social insurance non-pension benefits and social assistance benefits in cash.

Receivables by households that are not social benefits

- 8.95 Government may make payments to a household in respect of the production activities of the household. An example might be a payment to encourage the production of a particular agricultural crop. Such payments are treated as subsidies to the household enterprise. Less common, but conceptually possible, is if government made a payment to permit the household to acquire a fixed asset for use in production, this would be recorded as an investment grant (a capital transfer).
- 8.96 An employer, whether government or not, may provide an employee with equipment that is necessary to carrying out the labour services the employee provides. Examples are uniforms or small tools, such as scissors for hairdressers or bicycles for delivering mail. This equipment is recorded as intermediate consumption of the employing enterprise and is never recorded as being acquired by the household to which the employee belongs. The same convention applies to

services provided to employees carrying out their tasks, for example the cost of hotel accommodation when travelling on business is treated as intermediate consumption of the employer and not final consumption of the employee.

- 8.97 When an employer makes available to the employee a good or service that the employee does use other than in the course of his employment, these goods and services are treated as the provision of wages and salaries in kind that are recorded as being in cash with corresponding expenditure by the employees on the goods and services. Examples include the provision of free housing or making a car available to the employee to use for personal purposes as well as for business. Typically the value of these goods and services will be treated as part of the employee's income for tax purposes.

- 8.98 Households may receive significant gifts from other households, both resident in the same economy and abroad, or may receive compensation from another unit in respect of an injury sustained or wrongful arrest, for example. Even though these payments may enable the household to improve their standard of living (as might a lottery win also) they are not treated as social benefits in the System. Other current transfers, both those payable and receivable by households and other sectors of the economy also, are discussed in more detail in section G.

Non-pension benefits payable in kind

- 8.99 All benefits arising from employment-related social insurance schemes other than social security are recorded as if they are received in cash. Even if the employee does not initially pay for health treatment, for example, but simply sends the bill to his social insurance scheme for payment by them, the amount paid by the social insurance scheme is recorded as paid to the employee and the expenditure on the health service is then recorded as being undertaken by the employee. The rationale for this is that a private social insurance scheme operates simply as a financial corporation and cannot have final

Table 8.4: The secondary distribution of income account – with detail of social benefits – uses

Uses		S11	S12	S13	S14	S15	S1	S2		
Code	Transactions and balancing items	Non-financial corporations	Financial corporations	General government	Households	NP/SHs	Total economy	Rest of the world	Goods and services	Total
D5	Current transfers	98	277	248	582	7	1 212	17		1 229
D51	Current taxes on income, wealth, etc.	24	10	0	178	0	212	1		213
D52	Net social contributions				333		333	0		333
D53	Social benefits other than social transfers in kind	62	205	112	0	5	384	0		384
D531	Social security benefits in cash			53			53	0		53
D5311	Social security pension			45			45	0		45
D5312	Social security non-pension benefits in cash			8			8	0		8
D532	Other social insurance benefits	62	205	7	0	5	279	0		279
D5321	Other social insurance pensions	49	193	5	0	3	250	0		250
D5322	Other social insurance non-pension benefits	13	12	2	0	2	29	0		29
D533	Social assistance benefits in cash			52			52			52
D54	Other current transfers	12	62	136	71	2	283	16		299
	Disposable income, gross	182	12	345	1 264	42	1 845			1 845
	Disposable income, net	45	2	315	1 222	39	1 623			1 623

consumption expenditure. Some services provided by an employer are regarded as intermediate consumption by the employer, for example a medical service at the workplace to provide assistance to someone falling ill at work or training that it is in the interests of the employer that the employee should undertake. However, general health and education provision via a social insurance scheme are part of the compensation package of the employee and not part of the intermediate consumption of the employer. This manner of recording in-kind payments is consistent with the method of recording current transfers in kind in general as discussed above.

Benefits provided in kind by government

- 8.100 Social benefits paid in cash allow households to use this cash indistinguishably from income coming from other sources. When social benefits are payable in kind, the household has no discretion over the use of the benefit; the benefits simply relieve the household from having to meet these expenses out of income from other sources. However, governments all over the world take on responsibility to provide households with services they can make use of but not trade for other services or exchange them with other households. These are the individual services provided by government to households either free or at prices that are not economically significant. These benefits are described as social transfers in kind. They are recorded not in the secondary distribution of income account but in the redistribution of income in kind account as described below in section H.
- 8.101 A special case of benefits payable in kind is that of reimbursements, when the household initially makes a cash outlay but the government reimburses some or all of the expense. For example, when a payment is made by an employee or other member of a resident household for health or education benefits and these are subsequently reimbursed by government, they are not shown as a social insurance benefit and thus as part of compensation of employees but as

part of the expenditure by government on health services provided to individual household members. The expenditure by government on individual services is part of government final consumption expenditure and not part of household final consumption expenditure nor of compensation of employees.

- 8.102 If a household is reimbursed by government for only a part of the health (or other) services provided, the part that is reimbursed is treated as government final consumption expenditure and the part that is not reimbursed by government as household final consumption expenditure. Only if the employer explicitly agrees to reimburse the part of the expenditure not reimbursed by government is it treated as part of compensation of employees.
- 8.103 All social benefits in kind provided by government are treated in the same way with no attempt made to separate these into social security and social assistance.

3. Social benefits recorded in the secondary distribution of income account

- 8.104 Taking the foregoing considerations into account, social benefits recorded in the secondary distribution of income account are structured as follows:

Social benefits other than social transfers in kind (D53)
 Social security benefits in cash (D531)
 Social security pension benefits (D5311)
 Social security non-pension benefits in cash (D5312)
 Other social insurance benefits (D532)
 Other social insurance pension benefits (D5321)
 Other social insurance non-pension benefits (D5322)
 Social assistance benefits in cash (D533).

- 8.105 *Social security benefits in cash are social insurance benefits payable in cash to households by social security funds.* The benefits are divided between pensions and non-pension benefits.

Table 8.4: The secondary distribution of income account – with detail of social benefits – resources

Code	Transactions and balancing items	Resources								
		S11 Non-financial corporations	S12 Financial corporations	S13 General government	S14 Households	S15 NPISHs	S1 Total economy	S2 Rest of the world	Goods and services	Total
	Balance of primary incomes, gross / National income, gross	208	15	226	1 426	8	1 883			1 883
	Balance of primary income, net / National income, net	71	5	196	1 384	5	1 661			1 661
D5	Current transfers	72	274	367	420	41	1 174	55		1 229
D51	Current taxes on income, wealth, etc.			213			213	0		213
D52	Net social contributions	66	212	50	0	5	333	0		333
D53	Social benefits other than social transfers in kind				384		384	0		384
D531	Social security benefits in cash				53		53	0		53
D5311	Social security pension				45		45	0		45
D5312	Social security non-pension benefits in cash				8		8	0		8
D532	Other social insurance benefits				279		279	0		279
D5321	Other social insurance pensions				250		250	0		250
D5322	Other social insurance non-pension benefits				29		29	0		29
D533	Social assistance benefits in cash				52		52			52
D54	Other current transfers	6	62	104	36	36	244	55		299

- 8.106 *Other employment-related social insurance benefits are social benefits payable by social insurance schemes other than social security to contributors to the schemes, their dependants or survivors.* The benefits are divided between pensions and other benefits.
- 8.107 *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 requiring participation usually by means of social contributions.* They therefore exclude all benefits paid by social security funds. The benefits are divided between pensions and other benefits.
- 8.108 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.
- 8.109 Table 8.4 shows table 8.1 with the disaggregation of social benefits described here.

G. Other current transfers (D54)

- 8.110 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 four categories are insurance-related transactions, transfers within government, current international cooperation and miscellaneous current transfers. Each of these is described in turn below
- 8.111 Table 8.5 shows table 8.1 with this disaggregation of current transfers..
- 1. Insurance-related transactions**
- 8.112 There are three types of transactions included under the heading of insurance. These are net premiums and claims related to direct insurance, net premiums and claims related to reinsurance and payments related to standardised guarantees. Each of these is described below. A more detailed description of transactions to be recorded for insurance appears in [part 1 of chapter 17](#).
- 8.113 It should be noted that in this context “net” as applied to premiums implies that the service charge for the insurance services has been deducted from actual premiums paid plus premium supplements. There is no netting between direct insurance and reinsurance; each is recorded in full and separately from the other.

Table 8.5: The secondary distribution of income account – with detail of transfers – uses

Uses										
Code	Transactions and balancing items	S11 Non-financial corporations	S12 Financial corporations	S13 General government	S14 Households	S15 NPISHs	S1 Total economy	S2 Rest of the world	Goods and services	Total
D5	Current transfers	98	277	248	582	7	1 212	17		1 229
D51	Current taxes on income, wealth, etc.	24	10	0	178	0	212	1		213
D54	Other current transfers	12	62	136	71	2	283	16		299
D541	Net non-life insurance premiums	8	13	4	31	0	56	2		58
D5411	Net non-life direct insurance premiums	8	0	4	31	0	43	1		44
D5412	Net non-life reinsurance premiums		13				13			13
D542	Non-life insurance claims		48				48	12		60
D5421	Net non-life direct insurance claims		45				45	0		45
D5422	Net non-life reinsurance claims		3				3	12		15
D543	Current transfers within general government			96				96	0	96
D544	Current international cooperation			31				31	1	32
D545	Miscellaneous current transfers	4	1	5	40	2	52	1		53
D5451	Current transfers to NPISHs	1	1	5	29	0	36	0		36
D5452	Current transfers between resident and non-resident households				7		7	1		8
D5459	Other miscellaneous current transfers	3	0	0	4	2	9	0		9
	Disposable income, gross	182	12	345	1 264	42	1 845			1 845
	Disposable income, net	45	2	315	1 222	39	1 623			1 623

Net non-life insurance premiums (D541)

- 8.114 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, government units, NPISHs 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. *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 paragraphs 6.181 to 6.187. After deducting the service charges from the sum of non-life insurance premiums and premium supplements, the remainder is described as net non-life insurance premiums. Only 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.

Non-life insurance claims (D542)

- 8.115 *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 that gives rise to a valid claim accepted by

the insurance enterprise. The settlement of a non-life insurance claim is treated as a transfer to the claimant. The claimant is usually but not invariably the policyholder. Claims are usually treated 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 that have been damaged or destroyed need not necessarily be repaired or replaced.

- 8.116 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.
- 8.117 In exceptional circumstances, some proportion of claims may be recorded not as current transfers but as capital transfers. The description of the functioning of the insurance activity in part of chapter 17 explains when this is deemed to be appropriate.

Net reinsurance premiums and claims

- 8.118 Direct insurers provide a means of redistribution amongst regular policyholders. Instead of a large loss on an irregular basis, policyholders face regular smaller costs in the knowledge that, when and if a large loss happens, it will be settled by the insurance company and thus avoid the policyholder from bearing 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.

Table 8.5: The secondary distribution of income account – with detail of transfers – resources

Code	Transactions and balancing items						Resources			
		S11 Non-financial corporations	S12 Financial corporations	S13 General government	S14 Households	S15 NPISHs	S1 Total economy	S2 Rest of the world	Goods and services	Total
	Balance of primary incomes, gross / National income, gross	208	15	226	1 426	8	1 883			1 883
	Balance of primary income, net / National income, net	71	5	196	1 384	5	1 661			1 661
D5	Current transfers	72	274	367	420	41	1 174	55		1 229
D51	Current taxes on income, wealth, etc.			213			213	0		213
D54	Other current transfers	6	62	104	36	36	244	55		299
D541	Net non-life insurance premiums		47				47	11		58
D5411	Net non-life direct insurance premiums		44				44			44
D5412	Net non-life reinsurance premiums		2				2	11		13
D542	Non-life insurance claims	6	15	1	35	0	57	3		60
D5421	Net non-life direct insurance claims	6		1	35		42	3		45
D5422	Net non-life reinsurance claims		15				15	0		15
D543	Current transfers within general government			96			96	0		96
D544	Current international cooperation			1			1	31		32
D545	Miscellaneous current transfers	0	0	6	1	36	43	10		53
D5451	Current transfers to NPISHs					36	36			36
D5452	Current transfers between resident and non-resident households				1		1	7		8
D5459	Other miscellaneous current transfers			6			6	3		9

8.119 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

8.120 Some units, especially government units, may provide a guarantee against a creditor defaulting in conditions that have many of the same characteristics as 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 probable level of defaults overall. 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. **Part 3 of chapter 17** discusses the topic of standardised loan guarantees in detail.

2. Current transfers within general government (D543)

8.121 *Current transfers within general government consist of current transfers between different government units.* They include current transfers between different levels of government, such as frequently occur between central and state or local government units, and between general government 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.

8.122 One government unit may act as an agent on behalf of a second government unit by, for example, collecting taxes that 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.

3. Current international cooperation (D544)

8.123 *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.

4. Miscellaneous current transfers (D545)

8.124 *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 described below.

Current transfers to NPISHs

8.125 *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. Gifts of unwanted or used articles from households typically do not have a market value and so do not feature in the accounts as transfers. Gifts of valuables are treated as transfers of the value of the valuable in the balance sheet. 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 paragraph 4.83)**. They are recorded in the production account as intermediate consumption and not in the secondary distribution of income account.

Current transfers between households

8.126 *Current transfers between households consist of all current transfers made, or received, by resident households to or from other resident or non-resident households.* The transfers include all cash transfers and the value of transfers in kind. 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 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.

8.127 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 show 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. Payments to abroad are defined correspondingly. For more details, reference should be made to [chapter 26](#) and to the [BPM6](#).

Fines and penalties

8.128 *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 8.59](#)).

Lotteries and gambling

8.129 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.

8.130 Some lotteries may be organised with three components, the two as just described and a third element that is donated to charity. This element shows as a transfer to the charity, usually an NPISH.

8.131 When non-resident households take part there may be significant net transfers between the household sector and the rest of the world.

8.132 In some cases the winner of a lottery does not receive a lump sum immediately but a stream of income over future periods. In the System this should be recorded as the receipt of the lump sum and the immediate purchase of an annuity. The recording of annuities is described in [part 1 of chapter 17](#).

Payments of compensation

8.133 *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 (D6)

8.134 As explained in section G, the secondary distribution of income account is concerned with how income is redistributed among sectors by means of transfers in cash or transfers that are treated as if they are in cash. However, there remains an important class of transfers that are recorded as transfers in kind. *Social transfers in kind consist of goods and services provided to households by government and NPISHs either free or at prices that are not economically significant.* These transfers are sufficiently distinctive that two separate accounts are devoted to recording them.

8.135 Social transfers in kind consist of final consumption expenditure undertaken by government and NPISHs on behalf of households. For this reason they are described as individual goods and services. This is in distinction from public goods such as defence and street lighting, which the System refers to as collective services. (There is more discussion on the difference between individual and collective expenditure of government in [chapter 9](#).) There are two main reasons why government may choose to provide individual services to households. One is that by meeting the

needs of very large sections, or even all, the population centrally there are cost efficiencies to be realised. The other is that the government can ensure that these services are available to the population at reasonable cost to households, prescribe the standards of the service to be observed and can insist that households avail themselves of the services, for example by requiring children to attend school.

8.136 For some analytical purposes, it is instructive to consider a measure of household consumption that includes the goods and services provided as social transfers in kind. The expanded view of consumption, though, must be matched by a similarly extended view of income since household saving is unaffected by this different perspective. In order to accommodate this different view of household income and consumption, the System introduces two accounts, one of which derives an alternative measure of income (the redistribution of income in kind account) and the other shows the alternative measure of consumption. The second is the use of adjusted disposable income account and is described in [chapter 9](#).

- 8.137 The redistribution of income in kind account takes the balancing item of the secondary distribution of income account, disposable income, and adjusts this for the value of social transfers in kind to reach a new balancing item called adjusted disposable income. For households, adjusted disposable income is higher than disposable income; for government and NPISHs, it is lower.
- 8.138 In principle, social transfers in kind may be paid to non-residents. One simple example is emergency medical care provided to a foreign tourist by a hospital within general government. However, just as non-resident households may

benefit from social transfers in kind from the national government, so resident households may benefit from social transfers in kind paid by the government of another economy. In general these flows to non-residents will be small relative to the total level of social transfers in kind and, unless there is strong evidence to the contrary, by convention it may be assumed that the flows to non-residents are balanced by flows from governments (and NPISHs) of other economies. Subject to this convention, it is therefore the case that total disposable income for the total economy is exactly equal to total adjustable disposable income.