EN

EUROPEAN COMMISSION

Brussels, 20.12.2010
COM(2010) 774 final
Annex A/Chapter 04

ANNEX A to the

Proposal for a

REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

on the European System of national and regional accounts in the European Union

ANNEX A

CHAPTER 4: DISTRIBUTIVE TRANSACTIONS

4.01 Definition:	Distributive transactions are transactions whereby the value added generated by production is distributed to labour, capital and government, and transactions redistributing income and wealth.

A distinction is drawn between current and capital transfers, with capital transfers redistributing saving or wealth, rather than income.

COMPENSATION OF EMPLOYEES (D.1)

4.02 Definition:	Compensation of employees (D.1) is defined as the total remuneration, in cash or in kind, payable by an employer to an employee in return for work done by the latter during the accounting period.

Compensation of employees is made up of the following components:

(a) wages and salaries (D.11):

– wages and salaries in cash;

– wages and salaries in kind.

(b) employers' social contributions (D.12):

– employers' actual social contributions (D.121);

 – employers' actual pension contributions (D.1211);

 – employers' actual non-pension contributions (D.1212).

– employers' imputed social contributions (D.122):

 – employers' imputed pension contributions (D.1221);

 – employers' imputed non-pension contributions (D.1222).

WAGES AND SALARIES (D.11)

Wages and salaries in cash

4.03 Wages and salaries in cash include social contributions, income taxes, and other payments payable by the employee, including those withheld by the employer and paid directly to social insurance schemes, tax authorities, etc. on behalf of the employee:

Wages and salaries in cash include the following kinds of remuneration:

a) basic wages and salaries payable at regular intervals;

b) enhanced payments, such as payments for overtime, night work, weekend work, disagreeable or hazardous circumstances;

c) cost of living allowances, local allowances and expatriation allowances;

d) bonuses or other exceptional payments linked to the overall performance of the enterprise made under incentive schemes; bonuses based on productivity or profits, Christmas and New Year bonuses excluding employee social benefits (see paragraph 4.07. c); “13th to 14th month” pay also known as annual supplementary pay;

e) allowances for transport to and from work, excluding allowances or reimbursement of employees for travelling, separation, removal and entertainment expenses incurred in the course of their duties (see paragraph 4.07. a);

f) holiday pay for official holidays or annual holidays;

g) commissions, tips, attendance and directors' fees paid to employees;

h) payments made by employers to their employees under saving schemes;

i) exceptional payments to employees who leave the enterprise, if those payments are not linked to a collective agreement;

j) housing allowances paid in cash by employers to their employees.

Wages and salaries in kind

4.04 Definition:	Wages and salaries in kind consist of goods and services, or other non-cash benefits, provided free of charge or at reduced prices by employers, that can be used by employees in their own time and at their own discretion, for the satisfaction of their own needs or wants or those of other members of their households.

4.05 Examples of wages and salaries in kind are:

a) meals and drinks, including those consumed when travelling on business but excluding special meals or drinks necessitated by exceptional working conditions. Price reductions obtained in free or subsidised canteens, or obtained by luncheon vouchers, are included in wages and salaries in kind;

b) own account and purchased housing or accommodation services of a type that can be used by all members of the household to which the employee belongs;

c) uniforms or other forms of special clothing which employees choose to wear frequently outside of the workplace as well as at work;

d) the services of vehicles or other durables provided for the personal use of employees;

e) goods and services produced as outputs from the employer's own processes of production, such as free travel for the employees of railways or airlines, free coal for miners, or free food for employees in agriculture;

f) the provision of sports, recreation or holiday facilities for employees and their families;

g) transportation to and from work, except when organised in the employer's time, car parking when it would otherwise have to be paid for;

h) child care for the children of employees;

i) payments for the benefit of employees, made by employers to works councils or similar bodies;

j) bonus shares distributed to employees;

k) loans to employees at reduced rates of interest. The value of this benefit is estimated as the amount the employee would have to pay if interest at market conditions were charged, less the amount of interest actually paid. The benefit is recorded in wages and salaries in the generation of income account, and the corresponding imputed payment of interest from the employee to employer is recorded in the primary distribution of income account;

l) Stock options, when an employer gives an employee the option to buy stocks or shares at a specified price at a future date (see paragraphs 4.168 to 4.178);

m) Incomes generated by non-observed activities in corporate sectors and transferred to the employees participating in these activities for their private use.

4.06 Goods and services given to employees as wages and salaries in kind, are valued at basic prices when produced by the employer, and at purchasers' prices when purchased by the employer. When provided free, the whole value of the wages and salaries in kind is calculated according to the basic prices (or purchasers' prices of the employer when purchased by the employer) of the goods and services in question. This value is reduced by the amount paid by the employee when the goods and services are given at reduced prices rather than free of charge.

4.07 Wages and salaries do not include the following:

a) expenditure by employers necessary for the employers' production process. Examples are the following:

(1) allowances or reimbursement of employees for travelling, separation, removal and entertainment expenses incurred in the course of their duties;

(2) expenditure on providing amenities at the place of work, medical examinations required because of the nature of the work, supplying working clothes which are worn for work;

(3) accommodation services at the place of work of a kind which cannot be used by the households to which the employees belong, for example cabins, dormitories, workers’ hostels, and huts;

(4) special meals or drinks necessitated by exceptional working conditions;

(5) allowances paid to employees for the purchase of tools, equipment or special clothing needed for their work, or that part of their wages or salaries which, under their contracts of employment, employees are required to devote to such purchases. To the extent that employees who are required by their contract of employment to purchase tools, equipment, special clothing, etc., are not fully reimbursed, the remaining expenses they incur are deducted from the amounts they receive in wages and salaries and the employers' intermediate consumption increased accordingly.

Such expenditure on goods and services that employers are obliged to provide to their employees in order for them to be able to carry out their work is treated as intermediate consumption by employers.

b) The amounts of wages and salaries which employers pay to their employees temporarily in the case of sickness, maternity, industrial injury, disability, etc. These payments are treated as other social insurance non-pension benefits (D.6222), with the same amounts recorded under employers' imputed non-pension social contributions (D.1222);

c) other employment-related social insurance benefits, in the form of children's, spouses', family, education or other allowances in respect of dependants, and in the form of the provision of free medical services (other than those necessitated by the nature of the work) to employees or their families;

d) taxes payable by the employer on the wage and salary bill — for example, a payroll tax. Such taxes payable by enterprises are assessed either as a proportion of the wages and salaries paid or as a fixed amount per person employed. They are treated as other taxes on production.

e) payments to outworkers on piecework rates. When the income received by the outworker is a function of the value of the outputs from some process of production for which that person is responsible, however much or little work was put in, this kind of remuneration implies that the worker is self-employed.

EMPLOYERS' SOCIAL CONTRIBUTIONS (D.12)

4.08 Definition:	Employers' social contributions are social contributions payable by employers to social security schemes or other employment-related social insurance schemes to secure social benefits for their employees.

An amount equal to the value of the social contributions incurred by employers in order to secure for their employees the entitlement to social benefits is recorded under compensation of employees. Employers' social contributions may be either actual or imputed.

Employers' actual social contributions (D.121)

4.09 Definition:	Employers' actual social contributions (D.121) consist of the payments made by employers for the benefit of their employees to insurers (social security and other employment-related social insurance schemes). These payments cover statutory, conventional, contractual and voluntary contributions in respect of insurance against social risks or needs

Although paid directly by employers to the insurers, these employers' contributions are treated as a component of the compensation of employees. The employees are then recorded as paying the contributions to the insurers.

Employers' actual social contribution is comprised of two categories: the contributions related to pensions, and contributions for other benefits, are recorded separately under the following headings:

a) Employers' actual pension contributions (D.1211);

b) Employers' actual non-pension contributions (D.1212).

Employers' actual non-pension contributions correspond to contributions related to social risks and needs other than pensions, such as sickness, maternity, industrial injury, disability, redundancy, etc. of their employees.

Employers' imputed social contributions (D.122)

4.10 Definition:	*Employers' imputed social contributions* (D.122) represent the counterpart to other social insurance benefits (less eventual employees' social contributions) paid directly by employers to their employees or former employees and other eligible persons without involving an insurance enterprise or autonomous pension fund, and without creating a special fund or segregated reserve for the purpose.

Employers' imputed social contributions is split in two categories:

a) Employers' imputed pension contributions (D.1221)

Social insurance schemes in respect of pensions are classified as defined contribution schemes or defined benefit schemes.

A defined contribution scheme is one where the benefits are determined by the contributions made to the scheme and the return from the investment of the funds. At the time of retirement it is the employee that takes on all risks regarding benefits payable. For such schemes there are no imputed contributions unless the employer operates the scheme himself. In this case, the costs of operating the scheme are treated as an imputed contribution payable to the employee as part of compensation of employees. This amount is also recorded as final consumption expenditure by households on financial services.

A defined benefit scheme is one where benefits payable to the members are determined by the rules of the scheme, i.e. by the use of a formula to determine the payment or a minimum payment. In a typical defined benefit scheme, both employer and employee make contributions, with the employee contribution compulsory, being a percentage of current salary. The costs of meeting the quoted benefits are the responsibility of the employer. It is the employer who takes the risk for providing the benefits.

Under a defined benefit scheme, there is an imputed contribution by the employer calculated according to the following calculation:

The imputed contribution by the employer is equal to

The increase in benefit due to current period employment

less the sum of the employer's actual contribution

less the sum of any contribution by the employee

plus the costs of operating the scheme.

Some schemes may be expressed as non-contributory because no actual contributions are made by either the employer or employee. Nevertheless, an imputed contribution by the employer is calculated and imputed as just described.

Where pension entitlements of schemes for government employees are not recorded in the core accounts, the government employers' imputed pension contributions are to be estimated on the basis of actuarial calculations. Only in cases where the actuarial calculations cannot obtain a sufficient level of reliability, two other approaches are possible to estimate government employers' imputed pension contributions as follows:

(1) on the basis of a reasonable percentage of wages and salaries paid to current employees or

(2) as equal to the difference between current benefits payable and actual contributions payable (by both employees and government as employer).

b) Employers' imputed non-pension contributions (D.1222)

The fact that certain social benefits are paid directly by employers, and not through the medium of social security funds or other insurers, does not prevent them being recorded as social welfare benefits. Since the costs of these benefits form part of employers' labour costs, they are also included in the compensation of employees. Remuneration is therefore imputed for such employees equal in value to the amount of social contributions that is needed to secure the entitlements to the social benefits that they accumulate. These amounts take into account any actual contributions made by the employer or employee and depend not only on the levels of the benefits currently payable but also on the ways in which employers' liabilities under such schemes are likely to evolve in the future as a result of factors such as expected changes in the numbers, age distribution and life expectancies of their present and previous employees. The values imputed for the contributions are based on the same kind of actuarial calculations that determine the levels of premiums charged by insurance enterprises.

In practice, however, it may be difficult to calculate precisely the amounts of such imputed contributions. The employer may make estimates itself, perhaps on the basis of the contributions paid into similar funded schemes, in order to calculate its likely liabilities in the future, and such estimates may be used when available. Another acceptable method is to use a reasonable percentage of wages and salaries paid to current employees. Otherwise, the only practical alternative is to use the unfunded non-pension benefits payable by the employer during the same accounting period as an estimate of the imputed remuneration that would be needed to cover the imputed contributions. The benefits actually paid in the current period provide an acceptable estimate of the contributions and associated imputed remuneration.

4.11 In the accounts of the sectors, the costs of direct social benefits appear first among uses in the generation of income account, as a component of the compensation of employees, and a second time among uses in the secondary distribution of income account, as social benefits. In order to balance the latter account, it is assumed that the households of employees pay back to the employers' sectors the employers' imputed social contributions which finance together with eventual employees' social contributions the direct social welfare benefits provided to them by these same employers. This notional circuit is similar to that for employers' actual social contributions, which pass through the accounts of households and are then deemed to be paid by them to the insurers.

4.12 Time of recording of compensation of employees:

a) wages and salaries (D.11) are recorded in the period during which the work is done. However, *ad hoc* bonuses or other exceptional payments such as 13th month payments, are recorded when they are due to be paid. The time of recording of stock options is spread over the period between the grant date and vesting date. If the data are inadequate, the value of the option is recorded at vesting date;

b) employers' actual social contributions (D.121) are recorded in the period during which the work is done;

c) employers' imputed social contributions (D.122 are recorded according to following categories:

(1) Those representing the counterpart of compulsory direct social benefits are recorded in the period during which the work is done;

(2) Those representing the counterpart of voluntary direct social benefits are recorded at the time these benefits are provided.

4.13 The compensation of employees consists of the following components:

a) the compensation of resident employees by resident employers;

b) the compensation of resident employees by non-resident employers;

c) the compensation of non-resident employees by resident employers.

These different items are recorded as follows:

(1) the compensation of resident and non-resident employees by resident employers groups together items (a) and (c) and is recorded as uses in the generation of income account of the sectors and industries to which the employers belong;

(2) the compensation of resident employees by resident and non-resident employers groups together items (a) and (b) and is recorded as resources in the allocation of primary income account of households;

(3) item (b), compensation of resident employees by non-resident employers, is recorded as uses in the external account of primary incomes and current transfers;

(4) item (c), compensation of non-resident employees by resident employers is recorded as resources in the external account of primary incomes and current transfers.

TAXES ON PRODUCTION AND IMPORTS (D.2)

4.14 Definition:	Taxes on production and imports (D.2) consist of compulsory, unrequited payments, in cash or in kind which are levied by general government, or by the institutions of the European Union, in respect of the production and importation of goods and services, the employment of labour, the ownership or use of land, buildings or other assets used in production. These taxes are payable irrespective of the profits made.

4.15 Taxes on production and imports are comprised of the following components:

a) taxes on products (D.21):

(1) value added type taxes (VAT) (D.211);

(2) taxes and duties on imports excluding VAT (D.212);

– import duties (D.2121);

– taxes on imports excluding VAT and duties (D.2122);

(3) taxes on products, except VAT and import taxes (D.214);

b) other taxes on production (D.29).

TAXES ON PRODUCTS (D.21)

4.16 Definition:	Taxes on products (D.21) are taxes that are payable per unit of some good or service produced or transacted. The tax may be a specific amount of money per unit of quantity of a good or service, or it may be calculated as a specified percentage of the price per unit or value of the goods and services produced or transacted. Taxes assessed on a product, irrespective of which institutional unit pays the tax, are included in taxes on products, unless specifically included in another heading.

Value-added type taxes (VAT) (D.211)

4.17 Definitio*n:*	A value added type tax (VAT) is a tax on goods or services collected in stages by enterprises and which is ultimately charged in full to the final purchasers.

This heading value added type taxes (D.211) comprises the value added tax which is collected by the general government and which is applied to national and imported products, as well as other deductible taxes applied under similar rules to those governing VAT. All VAT type taxes are hereinafter referred to as “VAT”. The common feature of VAT type taxes is that producers are obliged to pay to the government only the difference between the VAT on their sales and the VAT on their purchases for intermediate consumption and gross fixed capital formation.

VAT is recorded net in the sense that:

a) outputs of goods and services and imports are valued excluding invoiced VAT;

b) purchases of goods and services are recorded inclusive of non-deductible VAT. VAT is recorded as being borne by purchasers, not sellers, and then only by those purchasers who are not able to deduct it. The greater part of VAT is recorded as being paid on final uses, mainly on household consumption.

For the total economy, VAT is equal to the difference between total invoiced VAT and total deductible VAT (see paragraph 4.27).

Taxes and duties on imports excluding VAT (D.212)

4.18 Definition:	Taxes and duties on imports excluding VAT (D.212) comprise compulsory payments levied by general government or the institutions of the European Union on imported goods, excluding VAT, in order to admit them to free circulation on the economic territory, and on services provided to resident units by non-resident units.

These payments include:

a) import duties (D.2121): these consist of customs duties, or other import charges, payable according to customs tariff schedules on goods of a particular type when they enter for use in the economic territory of the country of utilisation;

b) taxes on imports, excluding VAT and import duties (D.2122).

This heading includes:

(1) levies on imported agricultural products;

(2) monetary compensatory amounts levied on imports;

(3) excise duties and special taxes on certain imported products, provided such duties and taxes on similar products of domestic origin are paid by the producer branch itself;

(4) general sales taxes payable on imports of goods and services;

(5) taxes on specific services provided by non-resident enterprises to resident units within the economic territory;

(6) profits of public enterprises exercising a monopoly over the imports of some goods or services, which are transferred to the State.

Net taxes and duties on imports excluding VAT are calculated by deducting import subsidies (D.311) from taxes and duties on imports excluding VAT (D.212).

Taxes on products, except VAT and import taxes (D.214)

4.19 Definition:	Taxes on products, except VAT and import taxes (D.214) consists of taxes on goods and services that become payable as a result of the production, export, sale, transfer, leasing or delivery of those goods or services, or as a result of their use for own consumption or own capital formation.

4.20 This heading includes, in particular:

a) excise duties and consumption taxes (other than those included in taxes and duties on imports);

b) stamp taxes on the sale of specific products, such as alcoholic beverages or tobacco, and on legal documents or cheques;

c) taxes on financial and capital transactions, payable on the purchase or sale of non-financial and financial assets, including foreign exchange. They become payable when the ownership of land or other assets changes, except as a result of capital transfers (mainly inheritances and gifts). They are treated as taxes on the services of intermediaries;

d) car registration taxes;

e) taxes on entertainment;

f) taxes on lotteries, gambling and betting, other than those on winnings;

g) taxes on insurance premiums;

h) other taxes on specific services: hotels or lodging, housing services, restaurants, transportation, communication, advertising;

i) general sales or turnover taxes (excluding VAT type taxes): these include manufacturers' wholesale and retail sales taxes, purchase taxes, turnover taxes;

j) profits of fiscal monopolies which are transferred to the State, except those exercising a monopoly over the imports of some good or services (included in D.2122). Fiscal monopolies are public enterprises which have been granted a legal monopoly over the production or distribution of a particular kind of good or service in order to raise revenue and not in order to further the interests of public economic or social policy. When a public enterprise is granted monopoly powers as a matter of deliberate economic or social policy because of the special nature of the good or service or the technology of production — for example, public utilities, post offices and telecommunications, railways and so on — it is not considered as a fiscal monopoly.

k) export duties and monetary compensatory amounts collected on exports.

4.21 Net taxes on products are obtained by deducting subsidies on products (D.31) from taxes on products (D.21).

OTHER TAXES ON PRODUCTION (D.29)

4.22 Definition:	Other taxes on production (D.29) consists of all taxes that enterprises incur as a result of engaging in production, independent of the quantity or value of the goods and services produced or sold.

Other taxes on production may be payable on the land, fixed assets or labour employed in the production process or on certain activities or transactions.

4.23 Other taxes on production (D.29) includes the following:

a) taxes on the ownership or use of land, buildings, or other structures utilised by enterprises in production (including owner-occupiers of dwellings);

b) taxes on the use of fixed assets (for example vehicles, machinery, equipment) for purposes of production, irrespective of the assets being owned or rented;

c) taxes on the total wage bill and payroll taxes;

d) taxes on international transactions (for example travel abroad, foreign remittances, or similar transactions with non-residents) for purposes of production;

e) taxes paid by enterprises for business and professional licences if those licences are granted automatically on payment of the amounts due. In this case, it is likely that they are simply a means of raising revenue, even though the government may provide a certificate, or authorisation, in return. However, if the government uses the issue of licences to exercise some proper regulatory function, for example, when the government carries out checks on the suitability or safety of the business premises, on the reliability or safety of the equipment employed, on the professional competence of the staff employed, or on the quality or standard of goods or services produced as a condition for granting such a licence, the payments are treated as purchases of services rendered, unless the amounts charged for the licences are out of all proportion to the costs of the checks carried out by the government;

f) taxes on pollution resulting from production activities. These consist of taxes levied on the emission or discharge into the environment of noxious gases, liquids or other harmful substances. They do not include payments made for the collection and disposal of waste or noxious substances by public authorities, which constitute intermediate consumption of enterprises;

g) under-compensation of VAT resulting from the flat rate system, frequently found in agriculture.

4.24 Other taxes on production excludes taxes on the personal use of vehicles etc. by households, which are recorded under current taxes on income, wealth, etc.

TAXES ON PRODUCTION AND IMPORTS PAID TO THE INSTITUTIONS OF THE EUROPEAN UNION

4.25 The taxes on production and imports paid to the institutions of the European Union include the following taxes collected by national governments on behalf of the institutions of the

European Union: receipts from the common agricultural policy: levies on imported agricultural products, monetary compensatory amounts levied on exports and imports, sugar production levies and the tax on isoglucose, co-responsibility taxes on milk and cereals; - receipts from trade with third countries: customs duties levied on the basis of the Integrated Tariff of the European Union (Taric);

The taxes on production and imports paid to the Institutions of the European Union do not include the VAT based third own resource which is included in other current transfers under the heading VAT and GNI – based EU own resources (D.76) (see paragraph 4.140)

TAXES ON PRODUCTION AND IMPORTS: TIME OF RECORDING AND AMOUNTS TO BE RECORDED

4.26 Recording of taxes on production and imports: taxes on production and imports are recorded when the activities, transactions or other events occur which create the liabilities to pay taxes.

4.27 Some economic activities, transactions or events, which generate an obligation to pay taxes, escape the notice of the tax authorities. Such activities, transactions or events do not give rise to financial assets or liabilities in the form of payables or receivables. The amounts recorded are only those evidenced by tax assessments, declarations or other instruments which create liabilities in the form of obligations to pay on the part of taxpayers. No imputations are made for taxes not evidenced by tax assessments.

Taxes recorded in the accounts are derived from two sources: amounts evidenced by assessments and declarations or cash receipts.

a) If assessments and declarations are used, the amounts shall be adjusted by a coefficient reflecting assessed and declared amounts never collected. An alternative treatment is that a capital transfer (D.995 as described in paragraph 4.165j), to the relevant sectors is recorded equal to the same adjustment. The coefficients shall be estimated on the basis of past experience and current expectations in respect of assessed and declared amounts never collected. They shall be specific to different types of taxes.

b) If cash receipts are used, they shall be time-adjusted so that the cash is attributed when the activity took place to generate the tax liability. This adjustment is based on the average time difference between the activity and cash tax receipt.

4.28 The total value of the taxes recorded includes interest charged on arrears of taxes due and fines imposed by taxation authorities where such interest and fines are not separately identifiable. The total value of taxes includes charges imposed in connection with the collection or recovery of taxes outstanding. The total value is reduced by the amount of any tax rebates made by general government as a matter of economic policy and any tax refunds made as a result of over-payments.

4.29 In the system of accounts, taxes on production and imports (D.2) are recorded as follows:

a) among uses in the generation of income account of the total economy;

b) among resources in the allocation of primary income account of the general government sector and in the external account of primary incomes and current transfers.

Taxes on products are recorded as resources in the goods and services account of the total economy. This enables the resources of goods and services — valued exclusive of taxes on products — to be balanced with the uses, which are valued inclusive of these taxes.

Other taxes on production (D.29) are recorded among uses in the generation of income accounts of the industries or sectors which pay them.

SUBSIDIES (D.3)

4.30 Definition:	Subsidies (D.3) are current unrequited payments which general government or the institutions of the European Union make to resident producers.

Examples of the objectives of giving subsidies are the following:

a) influencing levels of production;

b) influencing the prices of products; or

c) influencing the remuneration of the factors of production.

Non-market producers can receive *other subsidies on production* only if those payments depend on general regulations applicable to both market and non-market producers.

Subsidies on products are not recorded on non-market output (P.13).

4.31 Subsidies granted by the institutions of the European Union cover only current transfers made directly by them to resident producer units.

4.32 Subsidies are classified into:

a) subsidies on products (D.31):

(1) import subsidies (D.311);

(2) other subsidies on products (D.319);

b) other subsidies on production (D.39).

SUBSIDIES ON PRODUCTS (D.31)

4.33 Definition:	*Subsidies on products* (D.31) are subsidies payable per unit of a good or service produced or imported.

The amount of *subsidies on products* can be specified in the following ways:

a) a specific amount of money per unit of quantity of a good or service;

b) a specified percentage of the price per unit;

c) the difference between a specified target price and the market price paid by a buyer.

A subsidy on a product usually becomes payable when the good is produced, sold or imported, but it may also be payable in other circumstances such as when a good is transferred, leased, delivered or used for own consumption or own capital formation.

Subsidies on products only apply to market output (P.11) or to output for own final use (P.12).

Import subsidies (D.311)

4.34 Definition:	Import subsidies (D.311) consist of subsidies on goods and services that become payable when the goods cross the frontier for use in the economic territory or when the services are delivered to resident institutional units.

Import subsides include losses incurred as a matter of deliberate government policy by government trading organisations whose function is to purchase products from non-residents and then sell them at lower prices to residents.

Other subsidies on products (D.319)

4.35 Other subsidies on products (D.319) include the following:

a) subsidies on products used domestically: these consist of subsidies payable to resident producers in respect of their production which is used or consumed within the economic territory;

b) losses of government trading organisations whose function is to buy the products of resident producers and then sell them at lower prices to residents or non-residents, when they are incurred as a matter of deliberate government economic or social policy;

c) subsidies to public corporations and quasi-corporations to compensate for persistent losses which they incur on their productive activities as a result of charging prices which are lower than their average costs of production as a matter of deliberate government or European economic and social policy;

d) direct subsidies on exports payable directly to resident producers when the goods leave the economic territory or the services are provided to non-residents — except repayments at the customs frontier of taxes on products previously paid and waiving of the taxes that would be due if the goods were to be sold or used inside the economic territory.

OTHER SUBSIDIES ON PRODUCTION (D.39)

4.36 Definition:	*Other subsidies on production* (D.39) consist of subsidies except subsidies on products which resident producer units may receive as a consequence of engaging in production.

For their non-market output, non-market producers can receive other subsidies on production only if those payments from general government depend on general regulations applicable to market and non-market producers as well.

4.37 *Other subsidies on production* includes the following examples:

a) subsidies on payroll or work force: these consist of subsidies payable on the total wage or salary bill, or total work force, or on the employment of particular types of persons such as physically handicapped persons or persons who have been unemployed for long periods, or on the costs of training schemes organised or financed by enterprises;

b) subsidies to reduce pollution: these consist of current subsidies intended to cover some or all of the costs of additional processing undertaken to reduce or eliminate the discharge of pollutants into the environment;

c) grants for interest relief made to resident producer units, even when they are intended to encourage capital formation. When a grant serves the dual purpose of financing both the amortisation of the debt and the payment of interest on it, and when it is not possible to apportion it between two elements, the whole of the grant is treated as an investment grant. Grants for interest relief are current transfers designed to lighten producers' operating costs. They are treated in the accounts as subsidies to the producers benefiting from them, even when the difference in the interest is paid directly by the government to the credit institution granting the loan;

d) over-compensation of VAT resulting from the flat rate system, often for example found in agriculture.

4.38 The following are not treated as subsidies:

a) current transfers from general government to households in their capacity as consumers. These are treated either as social benefits (D.62 or D.63) or as miscellaneous current transfers (D.75);

b) current transfers between different parts of general government in their capacity as producers of non-market goods and services, except *other subsidies on production* (D.39). The current transfers are recorded as current transfers within general government (D.73);

c) investment grants (D.92);

d) extraordinary payments into social insurance funds, in so far as these payments are designed to increase the actuarial reserves of these funds. Such payments are recorded as other capital transfers (D.99);

e) transfers made by general government to non-financial corporations and quasi-corporations to cover losses accumulated over several financial years, or exceptional losses due to factors outside the control of the enterprise, are recorded as other capital transfers (D.99);

f) the cancellation of debts which producer units have incurred towards the government (resulting, for example, from loans advanced by a government agency to a non-financial enterprise which has accumulated trading losses over several financial years). These transactions are treated in the accounts as other capital transfers (D.99);

g) payments made by general government or by the rest of the world for damage to, or losses of, capital goods as a result of acts of war, other political events or national disasters are recorded as other capital transfers (D.99);

h) shares and other equities in corporate enterprises purchased by general government, which are shown under the heading equity and investment fund shares (AF.5);

i) payments made by a general government agency which has assumed responsibility for abnormal pension charges affecting a public enterprise. These payments are recorded as miscellaneous current transfers (D.75);

j) payments made by general government to market producers to pay entirely, or in part, for goods and services that those market producers provide directly and individually to households in the context of social risks or needs (see paragraph 4.84), and to which the households have a right. These payments are included in individual consumption expenditure of general government (P.31) and subsequently in social transfers in kind – market production purchased by government and NPISHs (D.632) and actual individual consumption of households (P.41).

4.39 Time of recording: Subsidies are recorded when the transaction or the event (production, sale, import, etc.) which gives rise to the subsidy occurs.

Particular cases are the following:

a) subsidies which take the form of the difference between the purchase price and the selling price charged by a government trading agency are recorded at the time the goods are bought by the agency ;

b) subsidies intended to cover a loss incurred by a producer are recorded at the time the general government agency decides to cover the loss.

4.40 Subsidies are recorded as:

a) negative uses in the generation of income account of the total economy;

b) negative resources in the allocation of primary income account of the general government sector and in the external account of primary incomes and current transfers.

Subsidies on products are recorded as negative resources in the goods and services account of the total economy.

Other subsidies on production (D.39) are recorded as resources in the generation of income accounts of the industries or sectors which receive them.

Consequences of a system of multiple exchange rates on taxes on production and imports and on subsidies: multiple exchange rates are not currently applicable among the Member States of the European Union. In such a system:

a) implicit taxes on imports are treated as taxes on imports excluding VAT and import duties (D.2122);

b) implicit taxes on exports are treated as taxes on products, except VAT and import taxes (D.214);

c) implicit subsidies on imports are treated as import subsidies (D.311);

d) implicit subsidies on exports are treated as other subsidies on products (D.319).

PROPERTY INCOME (D.4)

4.41 *Definition:*	Property income (D.4) accrues when the owners of financial assets and natural resources put them at the disposal of other institutional units. The income payable for the use of financial assets is called investment income while that payable for the use of a natural resource is called rent. Property income is the sum of investment income and rent.

Property incomes are classified as follows:

a) interest (D.41);

b) distributed income of corporations (D.42):

(1) dividends (D.421);

(2) withdrawals from income of quasi-corporations (D.422);

c) reinvested earnings on foreign direct investment (D.43);

d) other investment income (D.44)

(1) investment income attributable to insurance policy holders (D.441);

(2) investment income payable on pension entitlements (D.442);

(3) investment income attributable to collective investment fund shareholders (D.443);

e) rents (D.45).

INTEREST (D.41)

4.42 Definition:	Interest (D.41) is property income receivable by the owners of the following financial assets: (a) deposits (AF.2); (b) debt securities (AF.3); (c) loans (AF.4); (d) other accounts receivable (AF.8). for putting the financial asset at the disposal of another institutional unit.

Income on SDR holdings and allocations and on unallocated gold accounts is treated as interest. The financial assets giving rise to interest are claims of creditors over debtors. Creditors lend funds to debtors that lead to the creation of one or other of the financial instruments listed above.

4.43 Interest on deposits and loans

The amounts of interest on loans and deposits payable to and receivable from financial institutions include an adjustment for a margin that represents an implicit payment for the services provided by the financial institutions in providing loans and accepting deposits. The payment or receipt is divided into the service part and into the national accounts concept of interest. The actual payments or receipts to or from financial institutions, described as bank interest, need to be partitioned so that the national accounts concept of interest and the service charges may be recorded separately. The amounts of national accounts interest paid by borrowers to financial institutions is less than bank interest by the estimated values of the charges payable, while the amounts of national accounts interest receivable by depositors is higher than bank interest by the amount of the service charge payable. The values of the charges are recorded as sales of services in the production accounts of financial institutions and as uses in the accounts of their customers.

Interest on debt securities

4.44 Interest on debt securities comprise interest on bills and similar short term instruments, and interest on bonds and debentures.

Interest on bills and similar short-term instruments

4.45 The difference between the face value and the price paid at the time of issue (i.e. the discount) is a measure of the interest payable over the life of the bill. The increase in the value of a bill due to the accumulation of accrued interest does not constitute a holding gain because it is due to an increase in the principal outstanding and not a change in the price of the asset. Other changes in the value of the bill are treated as holding gains/losses.

Interest on bonds and debentures

4.46 Bonds and debentures are long-term securities that give the holder the unconditional right to: a fixed or contractually determined variable money income in the form of coupon payments, or a stated fixed sum on a specified date or dates when the security is redeemed, or both these two terms.

a) zero-coupon bonds: there are no coupon payments. The interest based on the difference between the redemption price and the issue price has to be distributed over the years to the maturity of the bond. The interest accruing each year is reinvested in the bond by its holder, thus counterpart entries equal to the value of the accrued interest are recorded in the financial account as the acquisition of more bond by the holder and as a further issue of more bond by the issuer or debtor (i.e. as a growth in the "volume" of the original bond);

b) other bonds, including deep-discounted bonds. The interest has two components:

(1) the amount of the money income receivable from coupon payments each period;

(2) the amount of interest accruing each period attributable to the difference between the redemption price and the issue price, calculated in the same way as for zero-coupon bonds;

c) index-linked securities:

(1) the amounts of the coupon payments and/or the principal outstanding are linked to a general price index. The change in the value of the principal outstanding between the beginning and the end of a particular accounting period due to the movement in the relevant index is treated as interest accruing in that period, in addition to any interest due for payment in that period;

(2) the amounts to be paid at maturity are linked to a narrow index that includes a holding gain motive. Interest accruals are to be determined by fixing the rate of accrual at the time of issue. Accordingly, interest is the difference between the issue price and the market expectation, at inception, of all payments that the debtor will have to make; this amount is recorded as interest accruing over the life of the instrument. This approach records as income the yield-to-maturity at issuance, which incorporates the results of the indexation that are foreseen at the moment the instrument was created. Any deviation of the underlying index from the originally expected path leads to holding gains or losses which will not normally cancel out over the life of the instrument.

The interest accruing as a result of the indexing is effectively reinvested in the security and must be recorded in the financial accounts of the holder and issuer.

Interest rate swaps and forward rate agreements

4.47 Payment resulting from any kind of swap arrangement is recorded as a transaction in financial derivatives in the financial account, and not as interest recorded as property income. Transactions under forward rate agreements are recorded as transactions in financial derivatives in the financial account, and not recorded as property income.

Interest on financial leases

4.48 A financial lease is a method of financing for example the purchase of machinery and equipment. The lessor purchases the equipment and the lessee contracts to pay rentals which enable the lessor, over the period of the contract, to recover his costs including the interest foregone on the money used to purchase the equipment.

The lessor is treated as making a loan to the lessee equal to the value of the purchaser's price paid for the asset, this loan being repaid over the period of the lease. The rental paid each period by the lessee is therefore treated as having two components: a repayment of principal and a payment of interest. The rate of interest on the imputed loan is determined by the total amount paid in rentals over the life of the lease in relationship to the purchaser's price of the asset. The share of the rental that represents interest declines over the duration of the lease as the principal is repaid. The initial loan by the lessee, together with the subsequent repayments of principal, are recorded in the financial accounts of the lessor and lessee. The interest payments are recorded as interest in the primary distribution of income account.

Other interest

4.49 Other interest comprises the following:

a) interest charged on bank overdrafts;

b) extra interest paid on deposits left longer than originally agreed; and

c) payments determined by lottery, to bond holders

Time of recording

4.50 Interest is recorded on an accrual basis: that is, interest is recorded as accruing continuously over time to the creditor on the amount of principal outstanding. The interest accruing in each accounting period must be recorded whether or not it is actually paid or added to the principal outstanding. When it is not paid, the increase in the principal is recorded in the financial account as an acquisition of a financial asset by the creditor and an equal acquisition of a liability by the debtor.

4.51 Interest is recorded before the deduction of taxes levied on it. Interest received and paid is recorded inclusive of grants for interest relief, irrespective of whether those grants are directly paid to financial institutions, or to the beneficiaries (see paragraph 4.37).

The value of the services provided by financial intermediaries being allocated among different customers, the actual payments or receipts of interest to or from financial intermediaries are adjusted to eliminate the margins that represent the implicit charges made by financial intermediaries. The amounts of interest paid by borrowers to financial intermediaries must be reduced by the estimated values of the charges payable, and similarly the amounts of interest receivable by depositors must be decreased. The values of the charges are treated as payments for services rendered by financial intermediaries to their customers and not as payments of interest.

4.52 In the system of accounts, interest is recorded as:

a) resources and uses in the allocation of primary income account of the sectors;

b) resources and uses in the rest of the world account of primary incomes and current transfers.

DISTRIBUTED INCOME OF CORPORATIONS (D.42)

Dividends (D.421)

4.53 Definition:	Dividends (D.421) are a form of property income to which owners of shares (AF.5) become entitled as a result of for example placing funds at the disposal of corporations.

Raising equity capital through the issue of shares is a way of raising funds. In contrast to loan capital, equity capital does not give rise to a liability that is fixed in monetary terms and it does not entitle the holders of shares of a corporation to a fixed or predetermined income. Dividends are all distributions of profits by corporations to their shareholders or owners.

4.54 Dividends also includes:

a) shares issued to shareholders in payment of the dividend for the financial year. Issues of bonus shares which represent the capitalisation of own funds in the form of reserves and undistributed profits and give rise to new shares to shareholders in proportion for their holdings are not included;

b) the income paid to general government by public enterprises which are recognised as independent legal entities not constituted as corporate enterprises;

c) incomes generated by non-observed activities and transferred to the owners of corporations who participate to these activities for their private use.

4.55 Dividends (D.421) excludes super-dividends.

Super-dividends are dividends large relative to the recent level of dividends and earnings. In order to assess whether the dividends are large, the concept of distributable income is used. Distributable income of a corporation are equal to entrepreneurial income plus all current transfers receivable less all current transfers payable and less the adjustment for the change in pension entitlements. The ratio of dividends to distributable income over the recent past is used to assess the plausibility of the current level of dividends. If the level of dividends declared is greatly in excess, the dividends causing the excess are treated as financial transactions and denominated "super–dividends". These super-dividends are treated as the withdrawal of owners' equity from the corporation (F.5). This treatment applies to corporations, whether incorporated or quasi-corporate and whether subject to foreign or domestic private control.

4.56 In the case of public corporations, super-dividends are large and irregular payments or payments that exceed the entrepreneurial income of the relevant accounting period, which are funded from accumulated reserves or sales of assets. Super-dividends of public corporations are to be recorded as withdrawal of equity (F.5) for the difference between the payments and the entrepreneurial income of the relevant accounting period (see paragraph 20.206).

Interim dividends are described in paragraph 20.207.

4.57 Time of recording: Although dividends represent a part of income that has been generated over a period, dividends are not recorded on an accrual basis. For a short period after a dividend is declared but before it is actually payable, shares may be sold 'ex dividend' meaning that the dividend is still payable to the owner at the date the dividend was declared and not to the owner on the date payable. A share sold 'ex dividend' is therefore worth less than one sold without this constraint. The time of recording of dividends is the point in time at which the share price starts to be quoted on an ex-dividend basis and not at a price that includes the dividend.

Dividends are recorded as:

a) uses in the allocation of primary income account of the sectors in which the corporations are classified;

b) as resources in the allocation of primary income account of the sectors in which shareholders are classified;

c) as uses and resources in the rest of the world account of primary incomes and current transfers.

Withdrawals from the income of quasi-corporations (D.422)

4.58 Definition:	*Withdrawals from the income of quasi-corporations* (D.422) are the amounts which entrepreneurs withdraw for their own use from the profits earned by the quasi-corporations which belong to them.

These withdrawals are recorded before the deduction of current taxes on income, wealth, etc. which are deemed always to be paid by the owners of the businesses.

When a quasi-corporation makes a trading profit, the unit which owns it may choose to leave part or all of the profit in the business, especially for investment purposes. This income left in the business appears as saving by the quasi-corporation, and only the profits actually withdrawn by the owner units are recorded in the accounts under the heading withdrawals from the income of quasi-corporations.

4.59 When profits are earned in the rest of the world by the branch-offices, agencies, etc. of resident enterprises, in so far as these branch-offices etc. are treated as non-resident units, retained earnings appear as reinvested earnings on foreign direct investment (D.43). Only the income actually transferred to the parent enterprise is treated in the accounts as withdrawals from the income of quasi-corporations received from the rest of the world. The same principles are applied to deal with the relations between branch-offices, agencies, etc. operating on the economic territory and the non-resident parent enterprise to which they belong.

4.60 *Withdrawals from the income of quasi-corporations* includes the net operating surplus received by residents as owners of land and buildings in the rest of the world, or by non-residents as owners of land or buildings on the economic territory. In respect of transactions in land and buildings carried out on the economic territory of a country by non-resident units, notional resident units are created, in which the non-resident owners own the equity.

The rental value of owner-occupied dwellings abroad is registered as imports of services and the corresponding net operating surplus as primary income received from the rest of the world; the rental value of owner-occupied dwellings belonging to non-residents is registered as exports of services and the corresponding net operating surplus as primary income paid to the rest of the world.

Withdrawals from the income of quasi-corporations includes incomes generated by non-observed activities of quasi-corporations that are transferred to the owners participating to these activities for their private use.

4.61 Withdrawals from the income of quasi-corporations does not include amounts which their owners receive:

a) from the sale of existing fixed capital goods;

b) from the sale of land and other non-produced assets;

c) from withdrawals of equity .

These amounts are treated as withdrawals from equity in the financial account as they amount to a partial or total liquidation equity in the quasi-corporation. If the quasi-corporation is owned by government, and if it runs a persistent operating deficit as a matter of deliberate government economic and social policy, any regular transfers of funds into the enterprise made by government to cover its losses are treated as subsidies.

4.62 Time of recording: withdrawals from the income of quasi-corporations are recorded when they are made by the owners.

4.63 In the system of accounts, withdrawals from the income of quasi-corporations appear as:

a) uses in the allocation of primary income account of the sectors in which the quasi-corporations are classified;

b) resources in the allocation of primary income account of the owner sectors;

c) uses and resources in the external account of primary incomes and current transfers.

REINVESTED EARNINGS ON FOREIGN DIRECT INVESTMENT (D.43)

4.64 Definition:

Reinvested earnings on foreign direct investment (D.43) are equal to the operating surplus of the foreign direct investment enterprise.

Plus	any property incomes or current transfers receivable
Minus	any property incomes or current transfers payable, including actual remittances to foreign direct investors and any current taxes payable on the income, wealth, etc., of the foreign direct investment enterprise.

4.65 A foreign direct investment enterprise is an incorporated or unincorporated enterprise in which an investor resident in another economy owns 10 % or more of the ordinary shares or voting power for an incorporated enterprise, or the equivalent for an unincorporated enterprise. Foreign direct investment enterprises comprise those entities that are identified as subsidiaries, associates and branches. A subsidiary is where the investor owns more than 50%, an associate is where the investor owns 50% or less, and a branch is a wholly or jointly owned unincorporated enterprise. The foreign direct investment relationship may be direct or indirect as a result of a chain of ownership. ‘Foreign direct investment enterprises’ is a broader concept than ‘foreign controlled corporations’.

4.66 Actual distributions may be made out of the entrepreneurial income of foreign direct investment enterprises in the form of dividends or withdrawals of income from quasi-corporations. In addition, retained earnings are treated as if they were distributed and remitted to foreign direct investors in proportion to their ownership of the equity of the enterprise and then reinvested by them by means of additions to equity in the financial account. Reinvested earnings on foreign direct investment can be either positive or negative.

4.67 Time of recording: reinvested earnings on foreign direct investment are recorded when they are earned.

In the system of accounts, reinvested earnings on foreign direct investment are recorded as:

a) uses and resources in the allocation of primary income account of the sectors;

b) uses and resources in the external account of primary incomes and current transfers.

OTHER INVESTMENT INCOME (D.44)

INVESTMENT INCOME ATTRIBUTABLE TO INSURANCE POLICY HOLDERS (D.441)

4.68 Definition:	Investment income attributable to insurance policy holders corresponds to total primary incomes received from the investment of insurance technical reserves. The reserves are those where the insurance corporation recognises a corresponding liability to the policyholders.

Insurance technical reserves are invested by insurance enterprises in financial assets or land (from which net property income, i.e. after deducting any interest paid, is received) or in buildings (which generate net operating surpluses).

Investment income attributable to insurance policy holders is recorded separately between holders of non-life and life policies.

For non-life policies, the insurance corporation has a liability towards the policy holder of the amount of the premium deposited with the corporation but not yet earned, the value of any claims due but not yet paid and a reserve for claims not yet notified or notified but not yet settled. Set against this liability, the insurance corporation holds technical reserves. The investment income on these reserves is treated as income attributable to the policy holders, then distributed to the policy holders in the allocation of primary income account and paid back to the insurance corporation as a premium supplement in the secondary distribution of income account.

For an institutional unit operating a standardised loan guarantee scheme against fees, there may also be investment income earned on the reserves of the scheme and this must also be shown as being distributed to the units paying the fees (who may not be the same units which stand to benefit from the guarantees) and treated as supplementary fees in the secondary distribution of income account.

For life insurance policies and annuities, the insurance corporations have liabilities towards the policy holders and annuitants equal to the present value of expected claims. Set against these liabilities, the insurance corporations have funds belonging to the policy holders consisting of bonuses declared for with profits policies as well as provisions for both policy holders and annuitants of the payment of future bonuses and other claims. These funds are invested in a range of financial and non-financial assets.

The bonuses declared to holders of life policies are recorded as investment income receivable by the policyholders and are treated as premium supplements paid by the policyholders to the insurance corporations.

The investment income attributable to life insurance policy holders is recorded as payable by the insurance company and receivable by households in the allocation of primary income account. Unlike the case of non-life insurance or pensions, the amount carries through to saving and is then recorded as a financial transaction, specifically an increase in the liabilities of life insurance corporations, in addition to new premiums less the service charge less benefits payable.

INVESTMENT INCOME PAYABLE ON PENSION ENTITLEMENTS (D.442)

4.69 Pension entitlements arise from one of two different types of pension schemes. These are defined contribution schemes and defined benefit schemes.

A defined contribution scheme is one where contributions by both employers and employees are invested on behalf of the employees as future pensioners. No other source of funding of pensions is available and no other use is made of the funds. The investment income payable on defined contribution entitlements is equal to the investment income on the funds plus any income earned by renting land or buildings owned by the fund.

The characteristic of a defined benefit scheme is that a formula is used to determine the level of payments to be made to pensioners. This characteristic makes it possible to determine the level of entitlements as the present value of all future payments, calculated using actuarial assumptions about life lengths and economic assumptions about the interest or discount rate. The present value of the entitlements existing at the start of the year increases because the date when the entitlements become payable has become one year nearer. This increase is regarded as investment income attributed to the pension holders in the case of defined benefit scheme. The amount of the increase is not affected by whether the pension scheme actually has sufficient funds to meet all the obligations nor by the type of increase in the funds, whether it is investment income or holding gains, for example.

INVESTMENT INCOME ATTRIBUTABLE TO COLLECTIVE INVESTMENT FUND SHAREHOLDERS (D.443)

4.70 Investment income attributable to collective investment fund shareholders, including mutual funds and unit trusts, is composed of two separate items:

– Dividends attributable to collective investment fund shareholders (D.4431).

– Retained earnings attributable to collective investment fund shareholders (D.4432).

The dividend component is recorded in exactly the same manner as dividends for individual corporations, as described above. The retained earnings component is recorded using the same principles as those described for foreign direct investment enterprises but is calculated excluding any reinvested earnings on foreign direct investment. The remaining retained earnings are attributed to the investment fund shareholders leaving the investment fund with no saving, and are re-injected into the fund by the investment fund shareholders in a transaction recorded in the financial account.

The property income received by mutual funds is recorded as shareholders' property income even if it is not distributed but reinvested on their behalf.

Shareholders indirectly pay out of their fund shares to management companies for managing their investments. This service charge is expenditure by shareholders, and not expenditure of funds.

Time of recording: other investment income is recorded when it accrues.

4.71 In the system of accounts, other investment income is recorded as:

a) resources in the allocation of primary income account of policy and investment fund holders;

b) uses in the allocation of primary income account of the insurers, pension funds and investment funds;

c) resources and uses in the external account of primary incomes and current transfers.

RENT (D.45)

4.72 Definition: Rent is the income receivable by the owner of a natural resource for putting the natural resource at the disposal of another institutional unit.

There are two different types of resource rents: rent on land, and rent on sub-soil resources. Resource rents on other natural resources such as radio spectra follow the same pattern.

The distinction between rent and rentals is that rent is a form of property income and rentals are payments for services. Rentals are payments made under an operating lease to use a fixed asset belonging to another unit. Rent is a payment made under a resource lease for access to a natural resource.

Rent on land

The rent received by a landowner from a tenant constitutes a form of property income. Rents on land also include the rents payable to the owners of inland waters and rivers for the right to exploit such waters for recreational or other purposes, including fishing.

A landowner pays land taxes and incurs maintenance expenses a consequence of owning the land. These taxes and expenses are treated as payable by the person entitled to use the land, who is deemed to deduct them from the rent that he would otherwise be obliged to pay to the landowner. Rent reduced in this way by taxes or other expenses for which the landowner is liable is called ‘after-tax rent’.

4.73 Rents on land do not include the rentals of buildings and of dwellings situated on it; those rentals are treated as the payment for a market service provided by the owner to the tenant of the building or dwelling, and are recorded in the accounts as the intermediate or final consumption of the tenant. If there is no objective basis on which to split the payment between rent on land and rental on the buildings situated on it, the whole amount is treated as rent when the value of the land is estimated to exceed the value of the buildings on it and as rental otherwise.

Rents on sub-soil assets

4.74 This heading includes the royalties that accrue to owners of deposits of minerals or fossil fuels (coal, oil or natural gas), whether private or government units, who grant leases to other institutional units permitting them to explore or to extract such deposits over a specified period of time.

4.75 Time of recording of rents: rents are recorded in the period when payable.

4.76 In the system of accounts, rents are recorded:

a) among resources and among uses in the allocation of primary income account of sectors;

b) among resources and among uses in the external account of primary incomes and current transfers.

CURRENT TAXES ON INCOME, WEALTH, ETC. (D.5)

4.77 Definition:	Current taxes on income, wealth, etc. (D.5) cover all compulsory, unrequited payments, in cash or in kind, levied periodically by general government and by the rest of the world on the income and wealth of institutional units, and some periodic taxes which are assessed neither on the income nor the wealth.

Current taxes on income, wealth, etc. are divided into:

a) taxes on income (D.51);

b) other current taxes (D.59).

TAXES ON INCOME (D.51)

4.78 Definition:	Taxes on income (D.51) consist of taxes on incomes, profits and capital gains. They are assessed on the actual or presumed incomes of individuals, households, corporations or NPIs. 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.

Taxes on income include:

a) taxes on individual or household income, examples of which are income from employment, property, entrepreneurship, pensions, etc., and including taxes deducted by employers, for example pay-as-you-earn taxes. Taxes on the income of owners of unincorporated enterprises are included here;

b) taxes on the income or profits of corporations;

c) taxes on holding gains;

d) taxes on winnings from lotteries or gambling, payable on the amounts received by winners as distinct from taxes on the turnover of producers that organise gambling or lotteries which are treated as taxes on products.

OTHER CURRENT TAXES (D.59)

4.79 Other current taxes (D.59) include:

a) current taxes on capital which consist of taxes payable on the ownership or use of land or buildings by owners, and current taxes on net wealth and on other assets, for example jewellery — except taxes mentioned in D.29 (which are paid by enterprises as a result of engaging in production) and those in D.51 (taxes on income);

b) poll taxes, levied per adult or per household, independently of income or wealth;

c) expenditure taxes, payable on the total expenditures of persons or households;

d) payments by households for licences to own or use for non-business purposes vehicles, boats or aircraft, or for licences for recreational hunting, shooting or fishing, etc. The distinction between taxes and purchases of services from government is defined according to the same criteria as those used in the case of payments made by enterprises: if the issue of licenses 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 authorisation, in return; in these cases their payment is treated as taxes. But if the government uses the issue of licences to organise some proper regulatory function (such as checking the competence, or qualifications, of the person concerned), the payments made are treated as purchases of services from government rather than payments of taxes, unless the payments are clearly out of all proportion to the cost of providing the services;

e) taxes on international transactions, for example travel abroad, foreign remittances, foreign investments, etc., except those payable by producers and import duties paid by households.

4.80 Current taxes on income, wealth, etc. do not include:

a) inheritance taxes, death duties or taxes on gifts between living persons, which are deemed to be levied on the capital of the beneficiaries and are shown under the heading capital taxes (D.91);

b) occasional or exceptional levies on capital or wealth, which are recorded as capital taxes (D.91);

c) taxes on land, buildings or other assets owned or rented by enterprises and used by them for production, such taxes being treated as other taxes on production (D.29);

d) payments by households for licences other than licences for the use of vehicles, boats or aircraft, or licences for recreational hunting, shooting or fishing: driving or pilot's licences, firearm licences, and fees to government such as museum or library admissions, garbage disposal fees, payments for passports, airport fees, court fees etc. which are treated in most cases as purchases of services rendered by government, if they satisfy the criteria set out in paragraph 4.79 (d) to be recorded as services.

4.81 The total value of the taxes includes interest charged on arrears of taxes due and fines imposed by taxation authorities if there is no data to estimate such interest and fines separately; it includes charges imposed in connection with the recovery and assessment of taxes outstanding., less the amount of any rebates made by general government as a matter of economic policy and any refunds made as a result of over-payments.

Subsidies and social benefits made available via the tax system in the form of tax credits and the incidence of linking payment systems with the tax collection system is increasing. Tax credits represent tax relief and so reduce the tax liability of the beneficiary.

If the tax credit system results in the beneficiary receiving the excess when the relief is greater than the liability, the tax credits system is a payable tax credit system. Under a payable tax credits system, payments can be awarded to non-taxpayers as well as taxpayers. Under a payable tax credits system, the whole amount of tax credits is recorded as government expenditure, and not as a reduction of tax revenue.

In contrast, some tax credit systems are non-payable tax credits systems, where the tax credits are limited to the size of the tax liability. Under a non-payable tax credits system, all the tax credits are embedded in the tax system and reduce the government tax revenue.

4.82 Current taxes on income, wealth, etc. are recorded at the time when activities, transactions or other events occur which create the liabilities to pay.

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 or receivables. The amounts to be recorded are determined by the amounts due for payment only when evidenced by tax assessments, declarations or other instruments which create liabilities in the form of clear obligations to pay on the part of taxpayers. Missing taxes are not imputed if not evidenced by tax assessments.

Taxes recorded in the accounts are derived from two sources: amounts evidenced by assessments and declarations, and cash receipts.

a) If assessments and declarations are used, the amounts shall be adjusted by a coefficient reflecting assessed and declared amounts never collected. As an alternative treatment, a capital transfer to the relevant sectors is recorded equal to the same adjustment. The coefficients shall be estimated on the basis of past experience and current expectations in respect of assessed and declared amounts never collected. They shall be specific to different types of taxes;

b) If cash receipts are used, they shall be time-adjusted so that the cash is attributed when the activities, transactions or other events took place to generate the tax liability (or when the amount of tax was determined, in the case of some income taxes). This adjustment is based on the average time difference between the activities, transactions or other events (or the determination of the amount of tax) and cash tax receipt.

When retained at source by the employer, current taxes on income, wealth, etc. are included in wages and salaries even if the employer did not pass them on to the general government. The households sector is shown as paying the full amount to the general government sector. The amounts actually unpaid are neutralised under D.995 as a capital transfer from general government to the employers' sectors.

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 PAYE 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.

Current taxes on income, wealth, etc. are recorded as:

a) uses in the secondary distribution of income account of the sectors in which the taxpayers are classified;

b) resources in the secondary distribution of income account of general government;

c) uses and resources in the external account of primary incomes and current transfers.

SOCIAL CONTRIBUTIONS AND BENEFITS (D.6)

4.83 Definition:	Social benefits are transfers to households, in cash or in kind, intended to relieve them from the financial burden of a number of risks or needs, made through collectively organised schemes, or outside such schemes by government units and NPISHs; they include payments from general government to producers which individually benefit households and which are made in the context of social risks or needs.

4.84 The list of risks or needs which may give rise to social benefits is as follows:

a) sickness;

b) invalidity, disability;

c) occupational accident or disease;

d) old age;

e) survivors;

f) maternity;

g) family;

h) promotion of employment;

i) unemployment;

j) housing;

k) education;

l) general neediness.

In the case of housing, payments made by public authorities to tenants in order to reduce their rents are social benefits, with the exception of special benefits paid by public authorities in their capacity as employers.

4.85 Social benefits include:

a) current and lump-sum transfers from schemes which receive contributions, cover the entire community or large sections of the community and are imposed and controlled by government units (social security schemes);

b) current and lump sum transfers from schemes organised by employers on behalf of their employees, ex-employees or dependants (other employment related social insurance schemes). Contributions may be made by employees and/or employers; they may also be made by self-employed persons;

c) current transfers from government units and NPISHs which are not conditional on previous payment of contributions and which are generally linked to an assessment of available income. These transfers are commonly known as social assistance.

4.86 Social benefits exclude:

a) insurance claims based on policies taken out solely on the own initiative of the insured, independently of his employer or government;

b) insurance claims on policies taken out with the sole purpose of obtaining a discount, even if those policies follow from a collective agreement.

4.87 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 shall correspond to the risks or needs listed in paragraph 4.84 above, and in addition, one or more of the following conditions shall be satisfied:

a) participation in the scheme is obligatory either by law or under the terms and conditions of employment of an employee, or group of employees;

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

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

4.88 *Definition:* Social insurance schemes are schemes in which participants 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. In these schemes 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.

Social insurance schemes are organised for groups of workers or are available by law to all workers or designated categories of workers, including non-employed persons as well as employees. They 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 organised by individual employers may be required by the terms and conditions of employment collectively agreed between employers and their employees.

4.89 Two 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.

4.90 Social insurance schemes organised by government units for their own employees as opposed to the working population at large, are classified as other employment related schemes and not as social security schemes.

NET SOCIAL CONTRIBUTIONS (D.61)

4.91 *Definition*: Net social contributions are the actual or imputed contributions made by households to social insurance schemes to make provision for social benefits to be paid. Net social contributions (D.61) consist of :

Employers' actual social contributions (D.611)

plus Employers' imputed social contributions (D.612)

plus Households' actual social contributions (D.613)

plus Households' social contribution supplements (D.614)

less Social insurance scheme service charges (D.61SC),

The social insurance scheme service charges are the service fees charged by the units administering the schemes. They appear here as part of the calculation for net social contributions (D.61); they are not redistributive transactions but part of output and consumption expenditure.

Employers' actual social contributions (D.611)

4.92 Employers' actual social contributions (D.611) correspond to flow D.121.

Employers' actual social contributions are paid by employers to social security schemes and other employment related social insurance schemes to secure social benefits for their employees.

As employers' actual social contributions are made for the benefit of their employees, their value is recorded as one of the components of compensation of employees together with wages and salaries in cash and in kind. The social contributions are then recorded as being paid by the employees as current transfers to the social security schemes, and other employment related social insurance schemes;

This heading is split in two categories:

a) Employers' actual pension contributions (D.6111) correspond to flow D.1211;

b) Employers' actual non-pension contributions (D.6112) correspond to flow D.1212.

4.93 Payments of actual social contributions may be compulsory by virtue of a statute or regulation, or they may be paid as a result of collective agreements in a particular industry or agreements between employer and employees in a particular enterprise, or because they are written into the contract of employment itself. In certain cases, the contributions may be voluntary.

These voluntary contributions cover:

a) social contributions which persons who are not legally obliged to contribute to a social security fund;

b) social contributions paid to insurance enterprises (or pension funds classified in the same sector) as part of supplementary insurance schemes organised by enterprises for the benefit of their employees and which the latter join voluntarily;

c) contributions to provident insurance schemes with membership open to employees or self-employed workers.

4.94 Time of recording: employers' actual social contributions (D.611) are recorded at the time when the work that gives rise to the liability to pay the contributions is carried out.

4.95 Social contributions payable to the general government sector recorded in the accounts are derived from two sources: amounts evidenced by assessments and declarations or cash receipts.

a) If assessments and declarations are used, the amounts shall be adjusted by a coefficient reflecting assessed and declared amounts never collected. As an alternative treatment, a capital transfer to the relevant sectors could be recorded equal to the same adjustment. The coefficients shall be estimated on the basis of past experience and current expectations in respect of assessed and declared amounts never collected. They shall be specific to different types of social contributions;

b) If cash receipts are used, they shall be time-adjusted so that the cash is attributed when the activity took place to generate the social contribution liability (or when the liability is created). This adjustment may be based on the average time difference between the activity (or the creation of the liability) and cash receipt.

When retained at source by the employer, social contributions payable to the general government sector are included in wages and salaries irrespective of whether the employer passed them to the general government. The households sector is then shown as paying the full amount on to the general government sector. The amounts actually unpaid are neutralised under D.995 as a capital transfer from general government to the employers' sectors.

4.96 Employers' actual social contributions are recorded as:

a) uses in the secondary distribution of income account of households;

b) uses in the external account of primary incomes and current transfers (in the case of non-resident households);

c) resources in the secondary distribution of income account of resident insurers or employers;

d) resources in the external account of primary incomes and current transfers (in the case of non-resident insurers or employers).

4.97 Employers' imputed social contributions (D.612)

Definition:	Employers’ imputed social contributions (D.612) represent the counterpart to social benefits (less eventual employees' social contributions) paid directly by employers (i.e. not linked to employers' actual contributions) to their employees or former employees and other eligible persons.

They correspond to flow D.122 as described under compensation of employees. Their value must be based on actuarial considerations, or on the basis of reasonable percentage of wages and salaries paid current employees or as equal to unfunded non-pension benefits payable by the enterprise during the same accounting period.

Employers’ imputed social contributions D.612) is split in two categories:

a) Employers' imputed pension contributions (D.6121). They correspond to flow D.1221;

b) Employers' imputed non-pension contributions (D.6122). They correspond to flow D.1222.

4.98 Time of recording: employers' imputed social contributions which represent the counterpart of compulsory direct social benefits are recorded in the period during which the work is done. Employers’ imputed social contributions which represent the counterpart of voluntary direct social benefits are recorded at the time the benefits are provided.

4.99 Employers’ imputed social contributions are recorded as:

a) uses in the secondary distribution of income account of households and in the external account of primary incomes and current transfers;

b) resources in the secondary distribution of income account of the sectors to which the employers or resident insurers belong and in the external account of primary incomes and current transfers.

4.100 Households' actual social contributions (D.613)

Definition:	Households' actual social contributions are social contributions payable on their own behalf by employees, self-employed or non-employed persons to social insurance schemes

Households' actual social contributions (D.613) is split in two categories:

a) households' actual pension contributions (D.6131);

b) households' actual non-pension contributions (D.6132).

Time of recording: Households' actual social contributions are recorded on an accrual basis. For those in work, this is at the time when the work that gives rise to the liability to pay the contributions is carried out. For non-employed, this is at the time where the contributions are to be made.

In the system of accounts, households' actual social contributions are recorded:

a) among uses in the secondary distribution of income account of households and in the external account of primary incomes and current transfers;

b) among resources in the secondary distribution of income account of the sectors to which the employers belong and in the external account of primary incomes and current transfers.

4.101 Households' social contribution supplements (D.614)

Definition: Households' social contribution supplements consist of the property income earned during the accounting period on the stock of pension and non-pension entitlements.

This heading is split in two categories:

a) households' pension contributions supplements (D.6141);

b) households' non-pension contributions supplements (D.6142). The heading D.6142 corresponds to households' contributions supplements related to social risks and needs other than pensions, such as sickness, maternity, industrial injury, disability, redundancy, etc.

Households' social contribution supplements are included in property income payable by the administrators of pension funds to households in the allocation of primary income account (Investment income payable on pension entitlements D.442).

As this income is retained by the administrators of pension funds in practice, it is therefore treated in the secondary distribution of income account as being paid back by households to pension funds in the form of households' social contributions supplements.

Time of recording: Households' social contribution supplements are recorded when they accrue.

SOCIAL BENEFITS OTHER THAN SOCIAL TRANSFERS IN KIND (D.62)

4.102 The heading D.62 is made up of three sub-headings:

Social security benefits in cash (D.621);
Other social insurance benefits (D.622);
Social assistance benefits in cash (D.623).

Social security benefits in cash (D.621)

4.103 *Definition:* Social security benefits in cash are social insurance benefits payable in cash to households by social security funds. Reimbursements are excluded and treated as social transfers in kind (D.632).

Those benefits are provided under social security schemes.

They may be split between:

– social security pension benefits in cash (D.6211);

– social security non-pension benefits in cash (D.6212).

Other social insurance benefits (D.622)

4.104 *Definition:* Other social insurance benefits correspond to benefits payable by employers in the context of other employment related social insurance schemes. Other employment-related social insurance benefits are social benefits (in cash or in kind) payable by social insurance schemes other than social security to contributors to the schemes, their dependants or survivors.

They typically include:

a) the continued payment of normal, or reduced, wages during periods of absence from work as a result of ill health, accident, maternity, etc.;

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

c) the payment of retirement or survivors' pensions to ex-employees or their survivors, and the payment of severance allowances to workers or their survivors in the event of redundancy, incapacity, accidental death, etc. (if linked to collective agreements);

d) general medical services not related to the employee's work;

e) convalescent and retirement homes.

Other social insurance benefits (D.622) may be split between:

– other social insurance pension benefits (D.6221);

– other social insurance non-pension benefits (D.6222).

Social assistance benefits in cash (D.623)

4.105 *Definition:* 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. Social assistance benefits may be payable in the following circumstances:

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

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

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

d) As a matter of general social policy.

Such benefits do not include current transfers paid in response to events or circumstances that are not normally covered by social insurance schemes (i.e. transfers made in response to natural disasters, recorded under other current transfers or under other capital transfers).

4.106 Time of recording of social benefits other than social transfers in kind (D.62):

a) in cash, they are recorded when the claims on the benefits are established;

b) in kind, they are recorded at the time the services are provided, or at the time the changes of ownership of goods provided directly to households by non-market producers take place.

4.107 Social benefits other than social transfers in kind (D.62) are recorded as:

a) uses in the secondary distribution of income account of the sectors granting the benefits;

b) uses in the external account of primary incomes and current transfers (in the case of benefits granted by the rest of the world);

c) resources in the secondary distribution of income account of households;

d) resources in the external account of primary incomes and current transfers (in the case of benefits granted to non-resident households).

SOCIAL TRANSFERS IN KIND (D.63)

4.108 Definition:	Social transfers in kind (D.63) consist of individual goods and services provided free or at prices that are not economically significant to individual households by government units and NPISHs, whether purchased on the market or produced as non-market output by government units or NPISHs. They are financed out of taxation, other government

	income or social security contributions, or out of donations and property income in the case of NPISHs.

Services provided free, or at prices that are not economically significant, to households are described as individual services to distinguish them from collective services provided to the community as a whole, or large sections of the community, such as defence and street lighting. Individual services consist mainly of education and health services, although other kinds of services such as housing services, cultural and recreational services are also frequently provided.

4.109 Social transfers in kind (D.63) are subdivided into:

Social transfers in kind – general government and NPISHs non-market production (D.631)

-Definition: Social transfers in kind – general government and NPISHs non-market production (D.631) are provided directly to the beneficiaries by non-market producers. Any payments made by the households themselves should be deducted.

Social transfers in kind – market production purchased by general government and NPISHs (D.632)

-Definition: Social transfers in kind – market production purchased by general government and NPISHs (D.632) are: (a) in the form of reimbursements by social security funds of approved expenditures made by households on specific goods and services, or (b) provided directly to the beneficiaries by market producers from which general government purchases the corresponding goods and services Any payments made by the households themselves are to be deducted.

When a household purchases a good or service for which it is subsequently reimbursed, in part or in whole, by a social security fund, the household can be regarded as if it were acting on behalf of the social security fund. In effect, the household provides a short-term credit to the social security fund that is liquidated as soon as the household is reimbursed.

The amount of the expenditure reimbursed is recorded as being incurred directly by the social security fund at the time the household makes the purchase, while the only expenditure recorded for the household is the difference, if any, between the purchaser's price paid and the amount reimbursed. Thus, the amount of the expenditure reimbursed is not treated as a current transfer in cash from the social security funds to households.

4.110 Examples of social transfers in kind (D.63) are medical or dental treatments, surgery, hospital accommodation, spectacles or contact lenses, medical appliances or equipment, and similar goods or services meeting social risks or needs.

Other examples not covered by a social insurance scheme, are social housing, dwelling allowance, day nurseries, professional training, reductions on transport prices (provided that there is a social purpose), and similar goods and services in the context of social risks or needs. Outside the scope of social risks or needs, when government provides individual households with goods and services such as recreational, cultural or sport services free or at prices which are not economically significant, these are treated as social transfers in kind-government and NPISHs non-market production (D631).

4.111 Time of recording: Social transfers in kind (D.63) are recorded at the time the services are provided, or at the time the changes of ownership of goods provided directly to households by producers take place.

Social transfers in kind (D.63) are recorded:

a) among uses in the redistribution of income in kind account of the sectors granting the benefits;

b) among resources in the redistribution of income in kind account of households.

The consumption of the goods and services transferred is recorded in the use of adjusted disposable income account.

There are no social transfers in kind with the rest of the world (they are registered in D.62 social benefits other than social transfers in kind)

OTHER CURRENT TRANSFERS (D.7)

NET NON-LIFE INSURANCE PREMIUMS (D.71)

4.112 Definition:	Net non-life insurance premiums (D.71) are premiums payable under policies taken out by institutional units. 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 policy holders to obtain insurance cover during the accounting period (premiums earned) and the premium supplements payable out of the property income attributed to insurance policy holders, after deducting the service charges of insurance enterprises arranging the insurance.

Net non-life insurance premiums are the amounts available to 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, examples being fires, floods, crashes, collisions, theft, violence, accidents, sickness, etc., or against financial losses resulting from events such as sickness, unemployment, accidents, etc.

Net non-life insurance premiums are split in two categories:

a) net non-life direct insurance premiums (D.711)

b) net non-life reinsurance premiums (D.712)

4.113 Time of recording: net non-life insurance premiums are recorded when they are earned.

The insurance premiums from which the service charges are deducted are those parts of the total premiums paid in the current period, or previous periods, that cover risks outstanding in the current period.

Premiums earned in the current period must be distinguished from the premiums due for payment during the current period, which are likely to cover risks in future periods as well as the current period.

Net non-life insurance premiums are recorded as:

a) uses in the secondary distribution of income account of resident policy holders;

b) uses in the external account of primary incomes and current transfers (in the case of non-resident policy holders);

c) resources in the secondary distribution of income account of resident insurance enterprises;

d) resources in the external account of primary incomes and current transfers (in the case of non-resident insurance enterprises).

NON-LIFE INSURANCE CLAIMS (D.72)

4.114 Definition:	Non-life insurance claims (D.72) are the claims due under contracts in respect of non-life insurance; that is, the amounts which insurance enterprises are obliged to pay in settlement of injuries or damage suffered by persons or goods (including fixed capital goods).

This heading is split in two categories:

a) non-life direct insurance claims (D.721);

b) non-life reinsurance claims (D.722).

4.115 Non-life insurance claims do not include payments which constitute social benefits.

The settlement of a non-life insurance claim is treated as a transfer to the claimant. Such payments are 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.

Exceptionally large claims, e.g. in the wake of a disaster, may be treated not as current transfers but as capital transfers. (see paragraph 4.164k).

The amounts received by claimants are usually not committed for any particular purpose, and goods or assets which have been damaged or destroyed need not necessarily be repaired or replaced.

Claims arise because of damage or injuries that the policy holders cause to the property or persons of third parties. In these cases, valid claims are recorded as being payable directly by the insurance enterprise to the injured parties and not indirectly via the policy holder.

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

Some units, especially government units, may provide a guarantee against a debtor defaulting in conditions that have 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 overall level of defaults. In this case, the fees paid (and the property income earned on them) are treated in the same way as non-life insurance premiums and the calls under the standardised loans guarantees are treated in the same way as non-life insurance claims.

4.117 Time of recording: non-life insurance claims are recorded at the time the accident or other event insured against occurs.

They are recorded as:

a) uses in the secondary distribution of income account of resident insurance enterprises;

b) uses in the external account of primary incomes and current transfers (in the case of non-resident insurance enterprises);

c) resources in the secondary distribution of income account of the beneficiary sectors;

d) resources in the external account of primary incomes and current transfers (in the case of non-resident beneficiaries).

CURRENT TRANSFERS WITHIN GENERAL GOVERNMENT (D.73)

4.118 Definition:	Current transfers within general government (D.73) include transfers between the different subsectors of general government (central government, state government, local government, social security funds) with the exception of taxes, subsidies, investment grants and other capital transfers.

Current transfers within general government do not include transactions on behalf of another unit; these are recorded only once in the accounts, in the resources of the beneficiary unit on whose behalf the transaction is made (see paragraph 1.41). This situation arises particularly when a government agency (e.g. a central government department) collects taxes which are automatically transferred, in total or in part, to another government agency (e.g. a local authority). In this case, the tax receipts destined for the other government agency are shown as if they were collected directly by that agency and not as a current transfer within general government. This solution applies especially in the case of taxes destined for another government agency which take the form of additional rates superimposed on taxes levied by central government. 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.

Transfers of tax receipts which form part of a block transfer from central government to another government agency are included in current transfers within general government. These transfers do not correspond to any specific category of taxes and they are not made automatically but mainly through certain funds (county and local authority funds) in accordance with scales of apportionment laid down by central government.

4.119 Time of recording: Current transfers within general government are recorded at the time the regulations in force stipulate they are to be made.

4.120 Current transfers within general government are recorded as uses and resources in the secondary distribution of income account of the subsectors of general government. Current transfers within general government are flows internal to the general government sector, and do not appear in a consolidated account for the sector as a whole.

CURRENT INTERNATIONAL COOPERATION (D.74)

4.121 Definition:	Current international cooperation (D.74) includes all transfers in cash or in kind between general government and governments or international organisations in the rest of the world, except investment grants and other capital transfers.

4.122 Heading D.74 covers:

a) the contributions of the government to international organisations (excluding taxes payable by member governments to supranational organisations);

b) current transfers which general government receive from the institutions or organisations referred to under (a). The current transfers which the institutions of the European Union make directly to resident market producers are recorded as subsidies paid by the rest of the world.

c) current transfers between governments, either in cash e.g. payments intended to finance the budget deficits of foreign countries or overseas territories) or in kind (e.g. counterpart of gifts of food, military equipment, emergency aid after natural disasters in the form of food, clothing, medicines, etc.);

d) wages and salaries paid by a government, an institution of the European Union or an international organisation, to advisers or technical assistance experts made available to developing countries.

Current international cooperation includes transfers between general government and international organisations located in the country, as international organisations are not treated as resident institutional units of the countries in which they are located.

4.123 Time of recording: the time the regulations in force stipulate the transfers are to be made in the case of obligatory transfers, or the time the transfers are made in the case of voluntary transfers.

4.124 Current international cooperation is recorded as:

a) uses and resources in the secondary distribution of income account of the general government sector;

b) uses and resources in the external account of primary incomes and current transfers.

MISCELLANEOUS CURRENT TRANSFERS (D.75)

Current transfers to NPISHs (D.751)

4.125 Definition:	Current transfers to NPISHs include all voluntary contributions (other than legacies), membership subscriptions and financial assistance which NPISHs receive from households (including non-resident households) and, to a lesser extent, from other units.

4.126 Current transfers to NPISHs include the following:

a) regular subscriptions paid by households to trade unions and political, sporting, cultural, religious and similar organisations classified in the sector NPISHs;

b) voluntary contributions (other than legacies) from households, corporate enterprises and the rest of the world to NPISHs, including transfers in kind in the form of gifts of food, clothing, blankets, medicines, etc. to charities for distribution to resident or non-resident households. This treatment applies to consumption goods, as transfers of large gifts (valuables treated as non-financial assets) are recorded in other capital transfers (D.99) (see paragraph 4.165e).

Gifts of unwanted or used articles from households are not recorded as transfers;

c) assistance and grants from general government, other than transfers made for the specific purpose of financing capital expenditure, which are shown under investment grants.

Excluded from current transfers to NPISHs are payments of membership dues or subscriptions to market NPIs serving businesses, such as chambers of commerce or trade associations, which are treated as payments for services provided.

4.127 Time of recording: current transfers to NPISHs are recorded at the time they are made.

4.128 Current transfers to NPISHs are recorded as:

a) uses in the secondary distribution of income account of the contributing sectors;

b) uses in the external account of primary incomes and current transfers;

c) resources in the secondary distribution of income account of the NPISHs sector.

Current transfers between households (D.752)

4.129 Definition:	Current transfers between households consists of all current transfers in cash or in kind made, or received, by resident households to, or from, other resident or non-resident households. In particular, these comprise remittances by emigrants or workers permanently settled abroad (or working abroad for a period of a year or longer) to members of their family living in their country of origin, or by parents to children in another location.

4.130 Time of recording of current transfers between households: recorded at the time the transfers occur.

4.131 Current transfers between households are recorded as:

a) uses and resources in the secondary distribution of income account of households;

b) uses and resources in the external account of primary incomes and current transfers.

Other miscellaneous current transfers (D.759)

Fines and penalties

4.132 Definition:	Fines and penalties imposed on institutional units by courts of law or quasi-judicial bodies are treated as compulsory current transfers.

4.133 The following are not included in other miscellaneous current transfers (D.759):

a) fines and penalties imposed by tax authorities for the evasion or late payment of taxes, which cannot be distinguished from the taxes themselves and remain classified as taxes ;

b) payments of fees to obtain licences, such payments being either taxes or payments for services provided by government units.

4.134 Time of recording: fines and penalties are recorded at the time the liabilities arise.

Lotteries and gambling

4.135 Definition:	The amounts paid for lottery tickets or placed in bets consist of two elements: the payment of a service charge to the unit organising the lottery or gambling and a residual current transfer that is paid out to the winners.

The service charge may be substantial and cover taxes on the production of gambling services. The transfers are regarded in the system as taking place directly between those participating in the lottery or gambling, that is, between households. When non-resident households take part there can be significant net transfers between the household sector and the rest of the world.

Time of recording: the current transfers are recorded at the time they are made.

Payments of compensation

4.136 Definition:	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, excluding payments of non-life insurance claims. Payments of compensation are compulsory payments awarded by a court of law, or voluntary payments agreed out of court. This heading covers voluntary payments made by government units or NPISHs in compensation for injuries or damage caused by natural disasters other than those classified as capital transfers.

4.137 Time of recording: payments of compensation are recorded when they are made (voluntary payments) or when they are due (compulsory payments).

4.138 Other forms of current transfers

a) Current transfers from NPISHs to general government which are not taxes;

b) Payments by general government to public enterprises classified in the sector non-financial corporate and quasi-corporate enterprises intended to cover abnormal pension charges;

c) Travelling fellowships and awards paid to resident or non-resident households by general government or NPISHs;

d) Bonus payments on savings granted at intervals by general government to households in order to reward them for their saving during the period;

e) The refunds by households of expenditure incurred on their behalf by social welfare organisations;

f) Current transfers from NPISHs to the rest of the world;

g) Sponsoring by corporations if those payments cannot be regarded as purchases of advertising or other services (for instance, transfers for a good cause, or scholarships);

h) Current transfers from general government to households in their capacity as consumers, if not recorded as social benefits;

i) The counterpart transfer from the Central Bank to the MFIs (S.122 and S.125) to cover the intermediate consumption of the non-directly allocated part of the output of the Central Bank (see chapter 14: FISIM).

4.139 Time of recording: these other transfers listed in 4.138 are recorded when they are made, except those from or to general government, which are recorded when they are due.

Miscellaneous current transfers appear as:

a) resources and uses in the secondary distribution of income account of all sectors;

b) resources and uses in the external account of primary incomes and current transfers.

VAT AND GNI – BASED EU OWN RESOURCES (D.76)

4.140 Definition:	The VAT and GNI-based third and fourth EU own resources are current transfers paid by the general government of each Member State to the Institutions of the European Union.

The VAT - based third EU own resource (D.761) and the GNI - based fourth EU own resource (D.762) are contributions to the budget of the European Institutions. The level of the contribution of each Member State is based on the levels of their VAT base and their GNI.

The heading D.76 also includes miscellaneous non-tax contributions of the government to the Institutions of the European Union (D.763).

Time of recording: VAT and GNI-based third and fourth own resources are recorded when they are due to be paid.

VAT and GNI-based third and fourth own resources are recorded as:

a) uses in the secondary distribution of income account of general government;

b) resources in the external account of primary incomes and current transfers.

ADJUSTMENT FOR THE CHANGE IN PENSION ENTITLEMENTS (D.8)

4.141 Definition:	The adjustment for the change in pension entitlements (D.8) represents the adjustment needed to make appear in the saving of households the change in the pension entitlements on which households have a definite claim. The pension entitlement change comes from premiums and contributions recorded in the secondary distribution of income account as social contributions.

4.142 Since households are treated in the financial accounts and balance sheets of the system as owning the pension entitlements, an adjustment item is necessary to ensure that any excess of pension contributions over pension receipts does not affect household saving.

In order to neutralise this effect, an adjustment equal to:

	The total value of the actual and imputed social contributions in respect of pensions payable into pension schemes
Plus	The total value of contribution supplements payable out of the property income attributed to pension schemes beneficiaries
Minus	The value of the associated service charges
Minus	The total value of the pensions paid out as social insurance benefits by pension schemes
is added to the disposable income, or adjusted disposable income, of households in the use of income accounts before arriving at saving.	

In this way, the saving of households is the same as what it would be if pension contributions and pension receipts had not been recorded as current transfers in the secondary distribution of income account. This adjustment item is necessary in order to reconcile the saving of households with the change in their pension entitlements recorded in the financial account of the system. Opposite adjustments are, of course, needed in the use of income accounts of the units responsible for paying pensions.

4.143 Time of recording: the adjustment is recorded according to the timing of the flows which compose it.

4.144 The adjustment for the change in pension entitlements is recorded as:

a) uses in the use of income accounts of the sectors in which are classified the units responsible for paying pensions;

b) uses in the external account of primary incomes and current transfers (in the case of non-resident institutions);

c) resources in the use of income accounts of the households sector;

d) resources in the external account of primary incomes and current transfers (in the case of non-resident households).

CAPITAL TRANSFERS (D.9)

4.145 Definition:	Capital transfers require the acquisition or disposal of an asset, or assets, by at least one of the parties to the transaction. Whether made in cash or in kind, they result in a commensurate change in the financial, or non-financial, assets shown in the balance sheets of one or both parties to the transaction.

4.146 A capital transfer in kind consists of the transfer of ownership of an asset (other than inventories and cash), or the cancellation of a liability by a creditor, without any counterpart being received in return.

A capital transfer in cash consists of the transfer of cash that the first party has raised by disposing of an asset, or assets (other than inventories), or that the second party is expected, or required, to use for the acquisition of an asset, or assets (other than inventories). The second party, the recipient, is obliged to use the cash to acquire an asset, or assets, as a condition on which the transfer is made.

The transfer value of a non-financial asset is valued by the estimated price at which the asset, whether new or used, could be sold on the market plus any transport, installation or other costs of ownership transfer incurred by the donor but excluding any such charges incurred by the recipient. Transfers of financial assets are valued in the same way as other acquisitions or disposals of financial assets or liabilities.

4.147 Capital transfers include capital taxes (D.91), investment grants (D.92) and other capital transfers (D.99).

CAPITAL TAXES (D.91)

4.148 Definition:	Capital taxes (D.91) consist of taxes levied at irregular and very infrequent intervals on the values of the assets or net worth owned by institutional units or on the values of assets transferred between institutional units as a result of legacies, gifts between persons, or other transfers.

4.149 Capital taxes include:

a) taxes on capital transfers: inheritance taxes, death duties and taxes on gifts between persons, which are levied on the capital of the beneficiaries. Taxes on sales of assets are not included;

b) capital levies: occasional and exceptional levies on assets or net worth owned by institutional units These include betterment levies, that is taxes on the increase in the value of agricultural land due to planning permission to develop the land for commercial or residential purposes.

Taxes on capital gains are not recorded as capital taxes, but as current taxes on income, wealth, etc.

4.150 Taxes recorded in the accounts come from two sources: amounts evidenced by assessments and declarations, or cash receipts.

a) If assessments and declarations are used, the amounts are adjusted by a coefficient reflecting assessed and declared amounts never collected. As an alternative treatment, a capital transfer to the relevant sectors is recorded equal to the same adjustment. The coefficients are estimated on the basis of past experience and current expectations in respect of assessed and declared amounts never collected. They are specific to different types of taxes;

b) If cash receipts are used, they are time-adjusted so that the cash is attributed to when the activity took place to generate the tax liability, or if this is not known, when the amount of tax was determined. This adjustment is based on the average time difference between the activity (or the determination of the amount of tax) and cash tax receipt.

4.151 Capital taxes are recorded as:

a) changes in liabilities and net worth (−) in the capital account of the sectors in which the taxpayers are classified;

b) changes in liabilities and net worth (+) in the capital account of general government;

c) changes in liabilities and net worth in the capital account of the rest of the world.

INVESTMENT GRANTS (D.92)

4.152 Definition:	Investment grants (D.92) consist of capital transfers in cash or in kind made by governments or by the rest of the world to other resident or non-resident institutional units to finance all or part of the costs of their acquiring fixed assets.

Investment grants made by the rest of the world include those paid directly by the institutions of the European Union (e.g. transfers made by the European Agriculture Guarantee Fund (EAGF) and the European Agricultural Fund for Rural Development (EAFRD).

4.153 Investment grants in kind consist of transfers of transport equipment, machinery and other equipment by governments to other resident or non-resident units and also the direct provision of buildings or other structures for resident or non-resident units.

4.154 The value of capital formation carried out by general government for the benefit of other sectors of the economy is recorded as investment grants whenever the beneficiary is identifiable and becomes the owner of the capital. In such cases, the capital formation is recorded as changes in assets in the capital account of the beneficiary and is financed by an investment grant which is recorded as changes in liabilities and net worth in the same account.

4.155 Investment grants (D.92) includes both lump sum payments designed to finance capital formation during the same period, and instalment payments in respect of capital formation carried out during an earlier period. Those parts of the annual payments by general government to enterprises which represent the amortisation of debts of enterprises undertaken for the purpose of government capital formation projects, are treated as investment grants.

4.156 Grants for interest relief made by general government are excluded from investment grants. The assumption by public authorities of part of the interest charges is a current distributive transaction. Nevertheless, when a grant serves the dual purpose of financing the amortisation of the debt contracted and the payment of the interest on the capital borrowed, and when it is not possible to separate these two elements, the whole of the grant is treated in the accounts as an investment grant.

4.157 Investment grants to the sector non-financial corporate and quasi-corporate enterprises include, in addition to grants to private enterprises, capital grants to public enterprises recognised as institutional units, provided that the government department which makes the grant does not retain a claim against the public enterprise.

4.158 Investment grants to the households sector include equipment and modernisation grants to businesses other than corporate or quasi-corporate enterprises and grants to households for the construction, purchase and improvement of dwellings.

4.159 Investment grants to general government include payments (except grants for interest relief) made to subsectors of general government for the purpose of financing capital formation. Investment grants within general government are flows internal to the general government sector and do not appear in a consolidated account for the sector as whole. Examples of investment grants within general government are transfers from central government to local government for the specific purpose of financing their gross fixed capital formation. Transfers intended for various indeterminate purposes are recorded as current transfers within general government, even if they are used to cover expenditure on capital formation.

4.160 Investment grants to non-profit institutions from general government and from the rest of the world are distinguished from current transfers to non-profit institutions by using the criteria set out in paragraph 4.159.

4.161 Investment grants to the rest of the world are restricted to transfers with the specific objective of financing capital formation by non-resident units. They include, for example, unrequited transfers for the construction of bridges, roads, factories, hospitals or schools in developing countries, or for constructing buildings for international organisations. They may comprise instalment payments over a period of time as well as single payments. This heading also covers the supply of fixed capital goods free of charge or at reduced value.

4.162 Time of recording: investment grants in cash are recorded when the payment is due to be made. Investment grants in kind are recorded when the ownership of the asset is transferred.

4.163 Investment grants are recorded as:

a) changes in liabilities and net worth (−) in the capital account of general government;

b) changes in liabilities and net worth (+) in the capital account of the sectors receiving the grants;

c) changes in liabilities and net worth in the capital account of the rest of the world.

OTHER CAPITAL TRANSFERS (D.99)

4.164 Definition:	Other capital transfers (D.99) cover transfers other than investment grants and capital taxes which do not themselves redistribute income but redistribute saving or wealth among the different sectors or subsectors of the economy or the rest of the world. They can be made in cash or kind (cases of debt assumption or debt cancellation) and correspond to voluntary transfers of wealth.

4.165 Other capital transfers include the following transactions:

a) payments by general government or by the rest of the world to the owners of capital goods destroyed or damaged by acts of war, other political events or natural disasters (floods etc.);

b) transfers from general government to non-financial corporate and quasi-corporate enterprises to cover losses accumulated over several financial years or exceptional losses from causes beyond the control of the enterprise (even in the case of a capital injection);

c) transfers between subsectors of general government designed to cover unexpected expenditure or accumulated deficits These transfers between subsectors of general government are flows within the general government sector and do not appear in a consolidated account for the sector as a whole;

d) non-recurrent bonus payments on savings granted by general government to households to reward them for their savings carried out over a period of several years;

e) legacies, large gifts between persons, and donations between units belonging to different sectors, including legacies or large gifts to non-profit institutions (NPIs). Examples of gifts to NPIs are gifts to universities to cover the costs of building new residential colleges, libraries, laboratories, etc.;

f) the counterpart transaction of cancellation of debts by agreement between institutional units belonging to different sectors or subsectors (for example, the cancellation by the government of a debt owed to it by a foreign country; payments in fulfilment of guarantees which free defaulting debtors from their obligations) — except the particular case of taxes and social contributions payable to the general government sector (see 4.165 (j)). Such cancellations by mutual agreement are treated as a capital transfer from the creditor to the debtor equal to the value of the outstanding debt at the time of cancellation. Likewise the counterpart transaction of debt assumption, and of other similar transactions (activation of guarantees related to non standardised guarantee schemes, debt rescheduling where part of debt is extinguished or transferred), is another capital transfer. However, the following are excluded:

(1) cancellation of financial claims against and assumption of liabilities from quasi-corporations by the owner of the quasi-corporation. This case is treated as a transaction in equity and investment fund shares (F.5) ;

(2) debt cancellation against and debt assumption from a public corporation by government which disappears as an institutional unit in the system. This case is recorded in the other changes in the volume of assets account (K.5);

(3) debt cancellation against and debt assumption from a public corporation by government as a part of an ongoing process of privatisation to be achieved in a short term perspective. This case is treated as a transaction in equity and investment fund shares (F.5)

The writing-off of debt is not a transaction between institutional units and therefore is not recorded in either the capital account or the financial account. If the creditor decides such a write-off, it is recorded in the other changes in the volume of assets accounts of the creditor and the debtor Provisions for bad debt are treated as book-keeping entries that are internal to the institutional producer unit and are not recorded except in the case of expected losses on non-performing loans, which are recorded as memorandum items in the balance sheets. The unilateral repudiation of debt by a debtor is also not a transaction and is not recorded;

g) that part of realised capital gains (or losses) which is redistributed to another sector, as, for example, capital gains redistributed by insurance companies to households. However, the counterpart transactions of transfers to general government of the proceeds of privatisation made indirectly (through a holding company for example) are recorded as financial transactions in equity and investment fund shares (F.5) and have no impact on the level of net lending/net borrowing of the general government;

h) major payments in compensation for damage or injuries not covered by insurance policies (except payments by general government or by the rest of the world described in (a)). The payments are awarded by courts of law or settled out of court. Examples are payments of compensation for damage caused by major explosions, oil spillages, the side-effects of drugs, etc.;

i) extraordinary payments into social insurance funds made by employers (including government) or by government (as part of its social function), in so far as these payments are designed to increase the actuarial reserves of these funds. The accompanying adjustment from social insurance funds to households is also recorded as other capital transfers (D.99);

j) when taxes and social contributions payable to the general government sector are recorded on the basis of assessments and declarations, the part unlikely to be collected is neutralised in the same accounting period. This is done by recording an ‘Other capital transfer’ (D.99), as an entry under D.995, between general government and the relevant sectors. This D.995 flow is subdivided according to the coding of the different taxes and social contributions concerned;

k) insurance settlements in the wake of a catastrophe: following a catastrophe, the total value of the claims related to the catastrophe , as obtained from insurance industry information, is recorded as a capital transfer from the insurance corporations to the policy holders. When information on claims related to the catastrophe cannot be provided by the insurance industry, the catastrophe-related claims are estimated as the difference between the actual claims and the adjusted claims in the period of the catastrophe.

l) community built assets where responsibility for maintenance is then assumed by government.

4.166 Time of recording is determined as follows:

a) other capital transfers in cash are recorded when the payment is due to be made;

b) other capital transfers in kind are recorded when the ownership of the asset is transferred or the liability cancelled by the creditor.

4.167 Other capital transfers are shown among changes in liabilities and net worth in the capital account of sectors and of the rest of the world.

ANNEX: Employee stock options

4.168 A particular form of income in kind is the practice of an employer giving an employee the option to buy stocks (shares) at a specified price at some future date. The ESO is similar to a financial derivative and the employee may choose not to exercise the option, either because the share price is now lower than the price at which he can exercise the option or because he has left the employ of that employer and so forfeits his option.

4.169 Typically an employer informs his employees of the decision to make a stock option available at a given price (the strike price or exercise price) after a certain time under certain conditions (for example, that the employee is still in the enterprise's employ, or conditional on the performance of the enterprise). The time of recording of the employee stock option in the national accounts has to be carefully specified. The "grant date" is when the option is provided to the employee, the "vesting date" is the earliest date when the option can be exercised, the "exercise date" is when the option is actually exercised (or lapses).

4.170 IASB accounting recommendations are that the enterprise derives a fair value for the options at grant date by taking the strike price of the shares at that time multiplied by the number of options expected to be exercisable at vesting date divided by the number of service years expected to be provided until the vesting date.

4.171 In the ESA, if there is neither an observable market price nor an estimate made by the corporation in line with the recommendations just given, the valuation of the options may be estimated using a stock options pricing model. These models aim to capture two effects in the value of the option. The first effect is a projection of the amount by which the market price of the shares in question will exceed the strike price at the vesting date. The second effect allows for the expectation that the price will rise further between the vesting date and exercise date.

4.172 Before the option is exercised, the arrangement between the employer and employee has the nature of a financial derivative and is shown as such in the financial accounts of both parties.

4.173 An estimate of the value of the ESO is to be made at grant date. This amount must be included as part of compensation of employees spread over the period between the grant date and vesting date, if possible. If this is not possible, the value of the option has to be recorded at vesting date.

4.174 The costs of administering ESOs are borne by the employer and are treated as part of intermediate consumption just as any other administrative functions associated with compensation of employees.

4.175 Although the value of the stock option is treated as income, there is no investment income associated with ESOs.

4.176 In the financial account, the acquisition of ESOs by households matches the corresponding part of compensation of employees with a matching liability of the employer.

4.177 In principle, any change in value between the grant date and vesting date is to be treated as part of compensation of employees while any change in value between vesting date and exercise date is not treated as compensation of employees but as a holding gain or loss. In practice, it is most unlikely that estimates of the costs of ESOs to the employers are revised between grant date and exercise date. For pragmatic reasons, therefore, the whole of the increase between grant date and exercise date is treated as a holding gain or loss. An increase in value of the share price above the strike price is a holding gain for the employee and a holding loss for the employer and vice versa.

4.178 When an ESO is exercised, the entry in the balance sheet disappears to be replaced by the value of the stocks (shares) acquired. This change in classification takes place via transactions in the financial account and not via the other changes in the volume of assets account.