

## **WS.14 Guidance Note on The Borderline Between Taxes, Sales of Service, and Other Government Revenue Boundary Issues**



**WS.14 Guidance Note on  
The Borderline Between Taxes and Sales of Service, and other Government  
Revenue Boundary Issues<sup>1</sup>**

**INTRODUCTION**

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1. **Government can act as: sovereign, regulator, supervisor, producer/provider of public goods and services, owner of public nonfinancial assets, shareholder in a corporation, or as a contractual party under domestic law.** Sometimes government act in more than one of these roles to implement a particular government policy. This could pose a challenge for statistical compilers when classifying and reflecting transactions and other economic flows generated by government policy, in a consistent way while capturing the economic substance in accordance with the standard definitions and classifications of macroeconomic statistics. As a result, policies which have similar economic impacts (on producers and consumers) could be recorded differently in macroeconomic statistics due to the way the government policies have been designed and implemented.
2. **The challenge for statistical compilers is particularly acute when dealing with transactions that are mandated by government, given the unique ability of the government to compel other economic actors.** These could be compulsory payments to government for permission to engage in an activity or to use a resource (including natural resources), or compulsory payments required by government as part of a legal or regulatory framework. Additionally, these include payments mandated by government to take place between two or more other economic actors within the economy.
3. **The aim of this guidance note is to highlight existing difficulties in the statistical recording of payments that are mandated by government, and to propose how these difficulties might be overcome or alleviated.** Of particular focus are those related to licenses and permits - including for the use of natural resources - and other payments to government, required under regulatory frameworks.
4. **This note reviews the existing guidance and suggests possible clarifications and improvements.** Section I discusses payments to perform activities or to own or use goods/assets; Section II discusses payments related to the use or extraction of natural resources; Section III and Appendix I present a possible decision tree to assist compilers and users in the recording of payments to government, and uses this to reflect the changes proposed in Sections I and II; Section IV discusses when to rearrange transactions through government accounts; and finally, Appendix II and III provide, for reference, the relevant excerpts from the manuals as well as some possible and selective redrafting to improve clarity.

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<sup>1</sup> The guidance note has been prepared by Foyzunnesa Khatun, David Bailey, Phil Stokoe from the IMF Statistics Department (Government Finance Division) and Jorrit Zwijnenburg (OECD). The authors are grateful for discussion and input from Philippe de Rougemont, Laura Wahrig, and Floris Jansen (all Eurostat).

## SECTION I: PAYMENTS TO OBTAIN PERMISSION TO PERFORM ACTIVITIES OR TO OWN OR USE GOODS/ASSETS

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### BACKGROUND AND ISSUES

5. **One of the functions of government is to grant licenses/permits/certificates which provide the recipient with the permission to use or own goods/assets or engage in certain activities.** This section concerns only goods and assets not owned by government, as permission to use goods and assets owned by government would be a contractual arrangement recorded as an operating lease, financial lease or resource lease depending on the nature of the contract and the underlying good/asset, an issue tackled in Section II. Examples of permissions to use goods/assets include government permits to own or use firearms, vehicles, boats, or aircraft. A parallel and consistent discussion on the specific case of nonrefundable payments to government under Citizenship-by-Investment (CBI) programs is provided in GN B.8 (see also footnote 5).

6. **The payment for these licenses, permits, or certificates may in some instances be considered as a tax and in other instances as a payment for a service - an administrative fee in *Government Finance Statistics Manual 2014 (GFSM 2014)*.** The *System of National Accounts 2008 (2008 SNA)*, *Balance of Payments and International Investment Position Manual, sixth edition (BPM6)* and the *GFSM 2014* provide well established, and broadly equivalent, guidance on how to differentiate between taxes and administrative fees. The core guidance explains that the payment should be recorded as a tax if the permit/ license/ certificate (hereafter referred to as license) is automatically granted, with little or no work on the part of the government. However, it should be recorded as a sale of service (also referred to as administrative fee in *GFSM 2014*, or payment for non-market output in the *2008 SNA*) if the government uses the license to **both** exercise a proper regulatory function (with competence checks and similar) **and** if the payments are not out of all proportion to the costs of providing the service.

7. **The practical application of identifying whether a service of equivalent value has been provided in return for a compulsory payment is challenging and may be inconsistent across countries.** There is currently considerable variety in how countries assess whether a payment made to government as part of a mandatory process is a tax or payment for a service. Countries (particularly those with limited statistical resources) may treat the majority of such payments as payments for services, often on the basis that it is often not the government's tax collection agency which is responsible for levying these fees (thereby not following the *2008 SNA* principle of substance over form). However, even in those countries with more developed statistical infrastructures there can be differences, for example, payments such as those for visas, passports, and public broadcasting television/radio licenses may be treated differently between countries. While these differences may sometimes be due to genuine differences in how the schemes operate, it might also be due to different interpretations of the current statistical guidance, particularly that related to whether a payment is "out of all proportion".

8. **Different treatments may also emerge as a result of the guidance in the statistical manuals suggesting which type of payments (related to mandatory and regulatory processes) should be considered a tax.** The *2008 SNA* (paras. 8.64c and 9.70) states that payments for licenses to own or use vehicles, boats, or aircraft, and to engage in recreational hunting, shooting, or fishing should all be considered taxes, whereas payments for driving or pilot's licenses, television or radio licenses, firearm licenses, passports, airport fees and court fees should all be considered payments for services. This same list is presented in the *BPM6* (para. 10.181) for recording taxes; the text also states payments for

any other licenses should be recorded as payments for services. While *GFSM 2014* does not have this exact text, it does provide a breakdown of taxes on use of goods and on permission to use goods or perform activities which includes motor vehicle taxes, business and professional licenses, pollution taxes, radio and television licenses when public authorities do not provide general broadcasting services, and licenses and permits for households (see *GFSM 2014* Table 5.4).<sup>2</sup> Under administrative fees the *GFSM 2014* (para. 5.138) specifically list as examples: drivers' licenses, passports, visas, court fees, and radio and television licenses when public authorities provide general broadcasting services.<sup>3</sup> The *GFSM 2014* (paras. 5.74 and 5.138) also mentions that payments for compulsory deposit guarantee/insurance schemes should be recorded as taxes and payments for voluntary deposit guarantee/insurance schemes should be recorded as administrative fees.<sup>4</sup>

9. **The differences in the examples across the three manuals is unhelpful, particularly given that the manuals are consistent in their description of the conceptual delineation between taxes and payments for services.** As noted in *2008 SNA* paras. 8.64c and 9.70, these examples were based on the practices followed in the majority of countries in their own accounts. Presumably, the examples were added alongside the conceptual guidance in the manuals due to the perceived difficulty in applying the assessment of whether a payment was for a "proper regulatory function" and whether or not it was "out of all proportion" to the service provided. However, it is debatable whether all the examples given of payments for services (or administrative fees) could be described as related to a proper regulatory function. Similarly, some of the examples given as taxes might be considered to be payments related to proper regulatory functions and as such should be subject to the "out of proportion" test to decide whether they are taxes or sales of service. For example, a license to use or own a motor vehicle may involve safety checks or tests to ensure the safety of the vehicle, prior to a license being issued, and as such could under the current conceptual guidance be considered a sale of service (if the payment was deemed to be in proportion to the service provided). The current inclusion of examples in the manuals is likely to result in compilers classifying payments differently depending on whether they are following the conceptual guidance or the named examples.

10. **Taxes are compulsory, unrequited payments, in cash or in kind, made by institutional units to government units.** This is according to the *2008 SNA* (paras. 7.71 and 22.88), *GFSM 2014* (para. 5.23), and *European System of Accounts 2010 (ESA 2010)* (paras. 4.14, 4.77 and 20.165). While the manuals explain that taxes are unrequited because the government provides nothing directly in return to the individual unit making the payment (although the individual units may benefit indirectly when the

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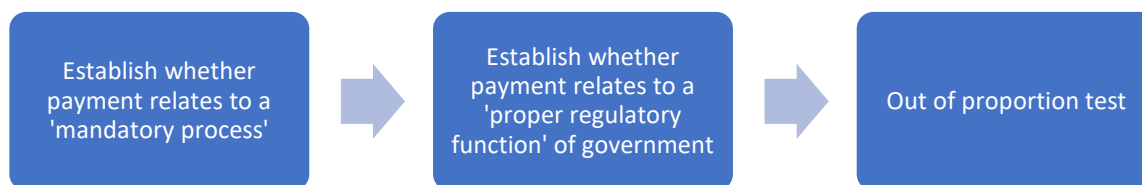
<sup>2</sup> While the *2008 SNA*, *BPM6* and *GFSM 2014* all allocate some specific licenses as either taxes or sales of service, *ESA 2010* merely refers to the classification criteria of "proper regulatory function" and "out of all proportion". *ESA 2010* deliberately omitted some examples recorded as sales of service included in the previous *ESA95*, notably TV and radio licenses.

<sup>3</sup> In contrast, Eurostat's *Manual on Government Deficit and Debt 2019 (MGDD 2019)*, section 1.2.4.7, elaborates on the circumstances when radio and television public broadcasting licenses should be recorded as taxes or sales of service based on whether those paying for the licenses are consuming the broadcasts and have the choice to do so. Under the *MGDD 2019* guidance the inability to opt-out of the payments if the public broadcasting is not being consumed implies that the "sale of service test" fails and that the payments should be recorded as taxes. Many such licenses are based on the ownership of a device which can receive public broadcasting and not on consumption of those broadcasts, which implies that the payments are to be recorded under *ESA 2010* as taxes.

<sup>4</sup> *MGDD 2019*, section 1.5, additionally considers whether payments to the schemes are refundable or not, noting that refundable contributions are not government revenue but should be recorded as transactions in financial assets.

government provides goods or services collectively or to the community), none of the manuals define exactly what is meant by the term compulsory. It can be understood that for a transaction to be considered compulsory it must be a required payment under the legal framework of the country. However, identifying whether a payment is compulsory can present challenges. It would therefore seem helpful to clarify in the manuals that the compulsory nature of a transaction arises out of either a specific event happening (e.g., earning income or selling property) or an entity's wish to engage in a specific activity, purchase a specific good or service, or own/use a specific good/asset. In the case of the latter, if a business or household wishes to perform an activity (or use a good / asset not owned by government), yet they must first legally pay for a permission to do so, then that payment is compulsory. Following this definition, licenses, such as those to travel between countries (e.g., passport fees and visa fees), drive a motor vehicle, or own a gun are all compulsory as long as those activities cannot be legally undertaken without the license.<sup>5</sup>

11. **Are payments for licenses always unrequited or can they be required?** It would seem that the current guidance in the statistical manuals view the provision of licenses as compulsory, at least in those cases where only government can provide the necessary license, and an activity cannot be undertaken (or a good/asset used or owned) without that license. However, under the current guidance payments for licenses are not necessarily always unrequited. Payments for licenses which are not part of a “proper” regulatory function are always taxes (see *2008 SNA*, paras. 22.88–22.89), hence unrequited, presumably based on the idea that if the license is not regulating an activity or use/ownership of a good then it is simply a mechanism for government to raise revenue (i.e., a tax) and/or to influence the economic behavior of the prospective taxpayers. However, the guidance explains that licenses which are issued as part of a proper regulatory function may be either taxes or sales of service. This guidance implies that where a license is to regulate an activity or good/asset then this transaction might have some features of an exchange (*2008 SNA*, para. 3.57) that can be seen to be a direct benefit to those applying and paying. For licenses which are regulating an activity or good/asset, the question of whether the payment is unrequited (a tax) or required (a sale of service) comes down in the manuals to whether the price paid is commensurate (in proportion) to the government costs in providing the service. If the



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<sup>5</sup> An example borderline case as to whether a payment is compulsory is the case of nonrefundable payments to government under Citizenship by Investment (CBI) programs. This is discussed in detail in [GN B.8](#). The GN recommends that the nonrefundable payments under CBI programs are treated as miscellaneous current transfers (D.75) concluding that: “This treatment would recognize the non-compulsory nature of the transaction (as households can gain citizenship in other ways—such as living in the country for a required number of years)...”. In the context of this GN this is to say that the CBI payments are not compulsory. Contrastingly, the underlying activity of travel visas is to travel to a country (such as for leisure, business or residency) and in this case this cannot be legally achieved without securing the necessary travel visas, making these payments compulsory.

payment is not in proportion to the costs of providing the service then it is not required. *GFSM 2014* (para. 5.73) and *2008 SNA* (para. 22.89) note that where “*little or no work other than a minimum control of the legal capacity of the acquirer to receive the permit...*” is performed then a payment in this case is considered a tax. This includes instances where licenses are provided automatically upon application. These paragraphs continue on to explain that when the government is performing a regulatory function and the price charged is “in proportion” to the cost, the payment is a sale of a service (hence required), although it is still a tax when the payment is “out of proportion”.

12. **The manuals suggest an order of applying the guidance.** From *2008 SNA* paras. 22.88 and 22.89, and *GFSM 2014* paras. 5.72 and 5.73, it can be inferred that before applying the proportionality test, compilers must first establish that the payment is both part of a “mandatory process” (i.e., compulsory) and part of the government performing a “proper regulatory function”. If the payment is part of a mandatory process but not relating to a proper regulatory function then it is always treated as a tax.

13. **There are some important questions to consider with respect to the existing 2008 SNA guidance on the classification of licenses to perform activities or to use/own goods/assets.** Is there sufficient guidance on when and how to assess whether a payment for a license could be a sale of service? Might all payments for licenses issued as part of a mandatory processes be considered unrequited (i.e., taxes)? Conversely, should all such license payments be considered as partially required and an assessment of whether the payment is out of proportion used to identify whether the payments are to be treated as taxes or sales of service? How should an assessment be made as to whether a payment is out of proportion to the cost of providing the service? These questions are further discussed in the rest of this section.

14. **The proportionality test (i.e., whether or not a payment is out of proportion to the administrative costs associated with that payment) should only be applied to payments to government that are compulsory and part of a regulatory process.** The *2008 SNA* para. 22.88 states that “*the payment is part of a mandatory process that ensures proper recognition of ownership or that activities are performed under the strict authorization of the law*” [*underlining added*] and very similar language is used in *GFSM 2014* para 5.72. The language in these paragraphs can be interpreted to mean the authorization required, and hence payment, is part of enforcing the law (with respect to regulation, supervision, and safety). Therefore, the guidance on proportionality is applicable only to payments to government that are compulsory and related to a proper regulatory function. At times, compilers may overlook this part of the guidance and apply the guidance on whether a payment is commensurate (in or out of proportion) to a wider range of payments to government. As such, there is perhaps a question of whether this guidance should (i) continue to be applied to only compulsory payments related to a regulatory function, or (ii) be extended to all compulsory payments.

15. **The compulsory nature of needing authorization or permission to engage in an activity (or use/own a good) could point towards the payment for the license being considered unrequited with no need for the proportionality test.** Certain activities can typically only be legally engaged in with the “permission” of government, such as international travel, driving a car, or fishing. Similarly, certain goods/assets, such as guns or explosives, may only be bought and/or used by a person with the appropriate government permission to own/use that good or asset. As noted above the license payment is compulsory as the individual simply wants only to engage in the activity or own/use the good/asset and is only applying for the license as they are obliged to do so by law. While there is an element of requitedness in these situations, as the individual receives the required authorization, a choice to pay for

the license does not exist for the individual once they have decided to take part in the activity or to seek permission to own the good/asset. Therefore, as individuals have no choice but to apply for the license, and as the application typically does not guarantee authorization (or a refund), the license payment could always be considered as unrequited as well as compulsory—hence an argument for all licenses, whatever the cost, to be recorded as taxes.

16. **The existing guidance on licenses implicitly assumes that if the payment for the regulatory function is “in proportion” to the cost of the regulatory function then the government is providing a service to those applying for the license rather than one to benefit wider society.** However, regulatory functions are typically considered to be mainly for the benefit of society by protecting citizens and ensuring delivery of goods and services. Although businesses do benefit to some extent (e.g., competitive market, employee rights, and safety, etc.), it could be argued that businesses and households applying for licenses are not the main beneficiaries of regulation – consumers and the general public are – and any benefits received by those applying for the licenses are indirect. However, the guidance for classifying these compulsory payments (specifically *2008 SNA para. 22.89* and *GFSM 2014 para. 5.73*) is that a service to the business or household is assumed if the licenses are issued as part of government performing a “proper regulatory function”.<sup>6</sup> However, neither this term of the link with an individual (rather than collective) service is fully explained in the manuals and would at minimum benefit from further explanation.

17. **What is considered “out of proportion” in the statistical guidance is undefined.** The guidance requires an assessment as to whether the payment is in or out of proportion to the cost of the service provided. However, it does not provide guidance on how this assessment should be made. Should this assessment be based on administrative costs or should it also include wider costs related to the regulatory function itself? For instance, the issuance of certain licences (e.g. driving licences, passports) provide to the respective holders the exclusive right to use public goods or services (e.g, driving on maintained roads, expatriation or consular services) which have a public cost beyond the administrative issuance of licences. For pragmatic reasons most compilers will focus only on immediate administrative costs when assessing whether the fees are out of proportion to the costs, but even here there are challenges. Passport fees vary widely in price across the world and these prices may or may not be in proportion to the cost to produce them. Similarly, visa fees for some countries may be large even though little work is done when granting the visa (even when visa fees are low, it still may be the case that the cost of the work done by the government in issuing the visas is significantly below the visa payments received). In both cases, there may also be cross-subsidization so that some visas or passports are provided at lower prices than others, with no correlation between the prices charged and the amount of checks and work undertaken by the government. How should the assessment of whether a payment is out of proportion be made? Should it compare the payment to the specific administrative work connected to issuing that license? This can be challenging to do, particularly if a license doesn't have a single flat price but instead a range of prices depending on different factors. Should then the aggregate

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<sup>6</sup> Proper regulatory function could be inferred from the manuals as government checking: “*the competence, or qualifications, of the person concerned, checking the efficient and safe functioning of the equipment in question, or carrying out some other form of control that it would otherwise not be obliged to do*” (2008 SNA, para. 8.54) or “*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*” (2008 SNA, para. 7.97c).



payments for license be compared with the total administrative costs of the government unit providing the license? This might be a more practical calculation to do, but it will likely include a range of administrative costs which are completely unrelated to providing the license. The result may also depend on the government structure and how it is subdivided into departments. Given these difficulties, this area of guidance would at least benefit from further clarity, which could range from improving the language to introducing a formulaic approach for testing whether a charge is “in” or “out” of proportion.

18. **As discussed earlier, those applying for the licenses are perhaps not the main or direct beneficiaries of regulation and it could be said that the beneficiary of regulation is society as a whole.** Hence, under this logic, all such payments are unrequited and are compulsory transfers, imposed through the force of law, and as such are taxes (as they are clearly not fines or penalties). It could be further argued that all such payments are tools to raise government revenue whether they are only to cover the costs of the units providing the permits or to fund government operations more widely. For instance, in the specific examples of passports and visas, once an individual has decided to take part in an activity (travel internationally or reside/work in a country), they no longer have a choice but to pay government in order to do so. They cannot obtain a passport or a visa from anyone else other than government, nor importantly can they engage in the desired activity without the necessary license (i.e., passport or visa). Therefore, a passport or visa alone provides no direct benefits but are simply authorizations needed to perform other activities.

19. **A further issue to explore here is the impact on government final consumption expenditure.** As regulation provides benefits to all members of the community, it could be questioned whether a recording of non-market output in the *2008 SNA* is appropriate for the payments received by government. In the government accounts the cost of providing regulatory services could be recorded as either collective or individual consumption and this split is informed by the manual on Classifications of Functions of Government (COFOG).<sup>7</sup> It is likely that most expenditure on regulatory services will fall into collective consumption expenditure based on the COFOG division it is recorded under. This is an anomaly with the current guidance which treats some license payments as sales of service, with consequently the actual household payment being recorded as individual consumption. Treatment of all license payments by households as taxes (rather than sales of service) would avoid an inconsistency in the guidance between government collective consumption expenditure and the recording in the household accounts. In the minority of cases where the government expenditure is recorded as individual consumption expenditure, an anomaly would still persist/be created. As such, there could be benefits to reforming the current guidance to align the recording as either government individual or collective consumption with the treatment in the household accounts.

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<sup>7</sup> COFOG classification concerns not only government consumption (where the problem raised would create an anomaly but not a contradiction) but also government expenditure as well as selected government revenue forming part of the calculation of government consumption, including payment for nonmarket output. Expenditure on regulatory services can be recorded under most COFOG divisions (01, 04, 05, 06, 07, 08, and 09) that is, guidance in the manual is to record this expenditure under the function being regulated. For example, regulation of health services should be recorded under the health division (07) and regulation of freshwater fishing should be recorded under the subdivision fishing and hunting (04.23). Furthermore, government expenditure in most or parts of the divisions 07, 08, 09, and 10 are treated as individual consumption expenditure, whereas the remaining divisions are treated as collective consumption expenditure.

20. **If the manuals are to maintain the distinction between those license payments which are taxes and those which are sales of service, should license payments perhaps be partitioned into an element which is commensurate with the work of government (required) and a tax element (unrequired)?** As discussed above, the guidance in the statistical manuals is that if the government uses a license to exercise “a proper regulatory function” the payment should be recorded as a tax if it is out of proportion to the work undertaken by the government in issuing the license, or as payment for a service (administrative fee) if the payment is not out of proportion. This dichotomy might at first glance be seen as questionable. Perhaps a better representation of the economic substance is that those payments considered out of proportion to the cost of providing the service could be partitioned into a payment for a service element, equal to the cost of providing the service, and a tax element equal to the rest of the payment. Such an approach would be supported by the guidance in *GFSM 2014* para. 3.11, which states that, “*Some transactions appear to be exchanges but are actually combinations of an exchange and a transfer. In such cases, the actual transaction should be partitioned and recorded as two transactions, one that is only an exchange and one that is only a transfer.*” It could also be seen as analogous the treatment in *SNA 2008* of separating out a FISIM component from an interest payment; a sale of service component from a nonlife insurance premium; and separating out from unitary charge payments related to public private partnerships (PPPs) the elements of fees, interest, and payments of principal (in those cases where the government is the economic owner of the asset). It should be noted that this partitioning is only being proposed for the case of compulsory payments to government in relation to proper regulatory services (i.e., those cases where the current guidance identifies that governments perform significant checks before issuing the licenses). Partitioning is not proposed for other compulsory payments to government such as the broader categories of taxes, or compulsory social contributions.<sup>8</sup>

#### OPTIONS

21. **Option 1: No change to current guidance.** Without changing the guidance the inconsistency between and within the statistical manuals will continue.

22. **Option 2: Clarification of the existing guidance in the manuals with respect to (a) what is a “mandatory process”; (b) what is a “proper regulatory function”; (c) the assessment of “out of proportion”; (d) how to interpret the named examples of taxes/sales of services and (e) how to assess whether a payment is required and a service consumed.** Removing, standardizing and/or caveating the named examples might reinforce the conceptual guidance and Appendix II provides an example of how text in the *2008 SNA* could be relatively easily changed in this regard. However, without additional clarification on aspects of the guidance, such as how to identify what is a “proper regulatory function” and assess “out of proportion”, this might not necessarily lead to more consistency.

23. **Option 3: Consider all payments for licenses required under a mandatory process to be unrequired and so taxes.**<sup>9</sup> The rationale for this option is that all licenses issued as part of a mandatory

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<sup>8</sup> Broadening the partitioning to other compulsory payments would lead to the entire production of tax authorities and social security schemes to be seen as a sale of service (P.131), leading to a government consumption expenditure (P.3) of zero and a distorted COFOG group 01.1 (Executive legislative organs, financial and fiscal affairs, external affairs).

<sup>9</sup> This change will impact countries differently, but based on data in the IMF annual GFS database, this could result in an average 0.7% of GDP of administrative fees being reclassified to taxes.

process are compulsory and unrequited and so taxes. Where the mandatory licenses are part of a regulatory process, the licenses are seen to primarily benefit the wider community and not the applicant for the license.

24. **Option 4: Partition the payments for licenses, required under a mandatory process and providing a proper regulatory function, into a fee (payment for service) component and tax component.** The current guidance only recognizes a sale of a service element where the government is conducting a proper regulatory function and the payment is in proportion to the costs of providing the service. Where the costs are out of proportion, the entire payment is considered a tax. In contrast, this option proposes to recognize that there is still a service element being provided by the government and reflect this by partitioning the payment. All other compulsory payments, including payments for licenses which are not part of a proper regulatory function, would continue to be recorded in their entirety in their appropriate economic category, as it is assumed that in these cases no meaningful service is being provided beyond the administrative costs involved in running the scheme (or similar).

25. **What are the implications for key National Accounts and GFS aggregates from the four options?** In the *2008 SNA*, government output (P.1) is calculated as sum of costs<sup>10</sup>, so this will be the same under all options. However, if all payments for compulsory licenses are treated as taxes (Option 3) then there will be a fall in payments for non-market output (P.131) matched by an increase in taxes and an increase in non-market output, other (P.132). If payments are instead partitioned (Option 4) then there will be similar movements in taxes, P.131 and P.132 but the direction of the movement will depend on whether the partitioning leads to more or less taxes being recorded. In *GFSM 2014*, fees for compulsory licenses are recorded under the category of 'administrative fees' which also includes other payments to government that are sales of services (including fees payable for voluntary participation in deposit insurance or other guarantee schemes that are not standardized guarantee schemes). As such, recording fees for compulsory licenses as taxes (Option 3) would not eliminate this category but would reduce significantly the amount recorded in this category; total government revenue would be unaffected. The impact of partitioning (Option 4) will again depend on whether taxes are increased or lowered, but as with government output, government total revenue is unaffected.

## RECOMMENDATIONS

26. **The majority of the GN drafting team favor Option 3.** The arguments cited in favor of this option are that it recognizes the compulsory and unrequited nature of non-transferable licenses imposed by government as part of a mandatory process. It is also relatively easy to implement which should lead to an increased homogeneity of government revenue statistics. At its October 2022 joint meeting the AEG and BOPCOM members similarly expressed a general preference for Option 3 (stressing the need to assure consistency with other manuals), although some members expressed a preference for Option 2 which seems to align better with ESA 2010.

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<sup>10</sup> Technically the government sector may include some market enterprises whose output is calculated based on their sales rather than the sum of costs, but as by definition the government sector is a nonmarket sector, these market enterprises within government are necessarily very small.

## SECTION II: PAYMENTS RELATED TO THE USE OR EXTRACTION OF NATURAL RESOURCES

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### BACKGROUND AND ISSUES

27. **Introductory Note:** *There are a number of guidance notes considering updates to the accounting for natural resources (such as WS.6, WS.7, WS.8 and WS.10), the boundary of natural resources (WS.11) and the treatment of rent (AI.2). The recommendations of those guidance notes along with those in this section of this guidance note will need to be considered together to ensure that the updates to the standards in this area are coherent and consistent.*

28. **In most countries, governments own most of the mineral and energy resources as well as other natural resources (e.g., land, water, and often biological assets).** Governments typically either legally own natural resources or control natural resources on behalf of citizens or society. In both cases they will usually decide how to use these natural resources to meet policy aims. However, in some countries, such as the US, there is also widespread private ownership of land and the natural resources beneath it (such as coal, oil, gas, and minerals). In all countries, the extraction or use of these resources is governed by laws and regulations, where those extracting or using the natural resources need to obtain permission to do so or follow certain rules and regulations. This is the case even when the government is not the owner of the natural resource.<sup>11</sup>

29. **In the 2008 SNA, GFSM 2014, and ESA 2010, not all natural resources are considered economic assets.** 2008 SNA para. 10.167 defines the asset boundary for natural resources as “...only those naturally occurring resources over which ownership rights have been established and are effectively enforced can therefore qualify as economic assets and be recorded in balance sheets. They do not necessarily have to be owned by individual units, and may be owned collectively by groups of units or by governments on behalf of entire communities. Certain naturally occurring resources, however, may be such that it is not feasible to establish ownership over them: for example, air, or the oceans. In addition, there may be others that cannot be treated as economic assets because they do not actually belong to any particular units ...”. As such, in accordance with this principle, the current guidance on payments for the use of natural resources only discusses those where ownership rights exist and can be established over an asset.<sup>12</sup>

30. **Natural resources can provide several sources of revenue for government, both where it is the economic owner of the natural resources and where it is not.** As the owner of natural resources, and through use of its sovereign powers, governments are able to raise revenue from natural resources in a number of ways. Firstly, as an owner a government can lease a natural resource and receive payments in return for putting it at the disposal of another unit. These payments are usually called ‘royalties’ and are linked to the amounts extracted. Governments may also levy resource taxes—taxes on the profits of those corporations that extract natural resources (including windfall taxes). Other payments can include

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<sup>11</sup> [GN WS.6 Accounting for the Economic Ownership and Depletion of Natural Resources](#) discusses options for determining economic ownership of (non-renewable) natural resources and how to account for their depletion. Results of GN WS.6 may impact the guidance in this note.

<sup>12</sup> This definition currently excludes the atmosphere. [GN WS.7 Treatment of Emissions Permits](#) is relevant to note here as its options discuss the treatment of the atmosphere as an implicit asset. Results of GN WS.7 may impact the guidance in this note.

regulatory fees charged in the process of governments regulatory services,<sup>13</sup> and fines or penalties related to natural resource extraction; these examples are not exhaustive. Additionally, a country may have a public corporation involved in the extraction of a natural resource rather than a private corporation, in which case payments to general government include dividends or possibly other transfers. An important question is how all of these payments should be recorded in the national accounts and government finance statistics.

31. **The issue of the delineation between resource taxes and rent has been discussed previously.** Eurostat have published guidance in their March 2022 GFS Interpretation “*Delineation between resource taxes and rent*”.<sup>14</sup> The GFS Interpretation discusses how proceeds of resource leases are currently treated in *ESA 2010* and *2008 SNA*, and proposes broad guidance on how to distinguish between taxes and rent when recording these payments. The key conclusions of this paper are:

*“Taxes on natural resources, including when they are levied on the quantity extracted, exploited or produced, should be recorded as rents (D.45), provided that the conditions of required payments as laid down in ESA 2010 are met. Thus:*

- *If general government owns the natural resource, a rent should be recorded, particularly when the payments are proportional to the quantity extracted;*
- *If general government does not own the natural resource, a tax needs to be recorded.*

*Payments dependent on the value of production can be regarded as a proxy for quantity and should thus be classified as rent (D.45) if government is the owner of the resource and otherwise as a tax on production (D.29).*

*Sur-taxes on the profits of corporations involved in the extraction of natural resources should also be considered as rent (D.45) rather than as taxes on the income or profits of corporations (D.51b), if government is the owner of the natural resource.*

*Any arrangement similar to fiscal monopolies are recorded as rent D.45 rather than taxes D.2122/D.214j, when concerning the exploitation of natural resources.*

*When a lease of natural resources extended to a 100% owned public corporation gives rise to large dividend payments compared to royalties or other surtaxes and seem disproportionate compared to the equity invested, a reclassification of the non-financial flow under rent should be envisaged.”*

32. **Rent is currently defined in the statistical manuals as the revenue receivable by the owners of a natural resource for putting the natural resource at the disposal of another institutional unit.** It is important to note that the definition of rent, and whether it should be widened beyond payments related to natural resources, is being considered as part of separate guidance note specifically dealing with the treatment of rent ([GN AI.2](#)). Clearly, any changes to the definition of rent as a

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<sup>13</sup> For example, in the UK, the *North Sea Transition Authority (formerly Oil and Gas Authority)* charges several regulatory fees.

<sup>14</sup> [Delineation between resource taxes and rent, Eurostat, March 2022](#)

result of GN AI.2 would also need to be reflected within this GN. However, currently, in both the 2008 SNA and GFSM 2014, payments for rent are made under resource leases; agreements whereby the legal owner of a natural resource makes it available to a lessee in return for a regular payment. As there is no change of economic ownership, the natural resource continues to be recorded in the balance sheet of the lessor. 2008 SNA para. 7.160 notes *“the owners of the assets, whether private or government units, may grant leases to other institutional units permitting them to extract such deposits over a specified period of time in return for the payment of rent. These payments are often described as royalties, but they are essentially rent that accrues to owners of the assets in return for putting them at the disposal of other institutional units for specified periods of time and are treated as such in the SNA. The rent may take the form of periodic payments of fixed amounts, irrespective of the rate of extraction or, more commonly, they may be a function of the quantity or volume of asset extracted. Enterprises engaged in exploration may make payments to the owners of surface land in exchange for the right to make test drillings or investigate by other means the existence and location of subsoil resources. Such payments are to be treated as rent even though no extraction is taking place.”*

33. **When government is not the economic owner of a natural resource but is still receiving a payment for its use (as a license or other regulatory payment) then this cannot be considered rent.** This is clear from the definition of rent. For instance, according to 2008 SNA para 7.107 *“property income accrues when the owners of financial assets and natural resources put them at the disposal of other institutional units.”* In the situation where government is not the economic owner of the natural resource it may be necessary to record this payment as a tax, or perhaps to apply the guidance discussed in the previous section on payments for licenses. Care is required here, as in some jurisdictions the land asset and subsoil assets may have different economic owners. In this situation, there may for instance be a payment to a household or private business for access to (or use of) land and a separate payment to government for extraction of the natural resources—both payments may be recorded as rent but to the different economic owners.

34. **The manuals discuss the recording of permits to use natural resources and acknowledge that the government is generally (but not always) the economic owner of natural resources on behalf of the community at large.** 2008 SNA and ESA 2010 both acknowledge that natural resources can be privately owned, and therefore the guidance on how to treat payments for these permits applies in these cases as well, while GFSM 2014 specifically mentions that government may issue licenses when resources are privately owned. As it is only the government that can issue a license or permit to extract or use a natural resource under regulatory rules, the manuals would benefit from clarifying the distinction between extraction payments to government and similar payments based on a contract between two private parties. In the latter case an extractor may have a contract with the private owner of the natural resource and also needs to obtain permission from the government to extract or use the natural resource. As such, these payments may need to be recorded differently.

35. **Should all payments to the government in relation to the extraction of natural resources be recorded as rent when it is the economic owner?** The 2008 SNA para. A3.76 states *“Payments by an extractor to the owner of the mineral resources corresponding to a share of the resource rent should be shown as property income even if they are described as taxes and treated as such in the government’s own accounts”*. As noted in Eurostat’s paper on the delineation between resource rents and taxes (see above), this implies that *“the purpose of resource rents is to capture the economic rent the extractor*

*should be paying and to redirect this to the owner of the resource.*” As such, according to this paragraph the payments to the owner of the resource should be shown as rent even if they are otherwise described.

36. **Statistical manuals used to compile government finance statistics or national accounts assimilate resource rent to rent (2008 SNA, para. 7.154; GFSM 2014, para. 5.125; and ESA 2010 para. 4.72).** It appears clear that resource rent in all these manuals is the income receivable by the owner of the natural resources (the lessor or landlord), from the lessee, for putting the natural resources at the disposal of the lessee. While *BPM6* does not reference resource rent, it does define rent in the same way as the other statistical manuals (para. 5.60b).

37. **In contrast to this, the OECD glossary of statistical terms defines resource rent somewhat differently** as: *“The economic rent of a natural resource equals the value of capital services flows rendered by the natural resources, or their share in the gross operating surplus; its value is given by the value of extraction. Resource rent may be divided between depletion and return to natural capital.”* Thus, economic rent is here defined by reference to the profit of the lessee (rather than to the amounts payable to the lessor), although with reference to “their share” in the gross operating surplus. It is not fully clear whether the lessor’s share in the gross operating surplus, after remuneration of all other factors of production, would equal the amounts payable to the lessor under the terms of the resource lease. The System of Environmental-Economic Account Central Framework (SEEA-CF) goes however further by showing how resource rents can be derived from SNA aggregates. Under the SEEA-CF, resource rents are also known as economic rent: *“the surplus value accruing to the extractor or user of an asset calculated after all costs and normal returns have been taken into account”*. Table 5.5. of the SEEA-CF shows how resource rent can be derived, in particular, it notes that it is necessary to take into account the effects of any specific taxes and subsidies that relate to the extraction activity.<sup>15</sup> Given that government engages with natural resource extractors (or users) in a number of different capacities, and not just as the economic owner of the natural resource being extracted (or used) it can be challenging for national accounts and GFS compilers to identify which payments should be treated as rent. For this reason, 2008 SNA para. A3.76 emphasizes that statistical compilers should not just look at the labelling of the payment.

38. **At one extreme, any kind of payment to government—whether for permits to use the natural resource, additional taxes on profits, fees or fines specific to natural resource extraction etc.—could be recorded as rent** on the basis that an extractor might factor in all costs to government when considering its economic rent. However, *SNA 2008* para. 7.160 and *GFSM 2014* para. 5.130 point out that rent payments are normally linked to the quantity or volume of natural resources extracted. As such, it may be reasonable to consider that payments linked to the value or volume of extraction should be recorded as rent; otherwise they should be recorded as a tax or other transfer. This definition of rent could further be expanded to encompass surtaxes as these are specifically applied to users/extractors of natural resources and represent an extra amount earned by the natural resource which is to be shared with the economic owner of the natural resources, and thus part of economic rent.

39. **A government may also use a public corporation to extract natural resources, which may result in further payments to government.** Although related to the extraction of natural resources,

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<sup>15</sup> In Table 5.5 of the SEEA-CF, resource rent is derived as: output *less* (operating costs, intermediate consumption, compensation of employees, and other taxes on production plus other subsidies on production) *equals* (gross operating surplus – SNA basis) *less* (specific subsidies on extraction) *plus* (specific taxes on extraction) *equals* (gross operating surplus – for derivation of resource rent) *less* (user costs of produced assets) *equals* **resource rent**.

these payments, in the view of the authors of this note, should not be treated differently than if they were from another public corporation. For example, where the government owns shares and it is clear payments being received are dividends, these should be recorded as such. This is appropriate when the extraction permit has been auctioned or when the public corporation is not 100 percent public. On the other hand, governments may well lease subsoil assets to a 100 percent owned corporation for little or even no royalties, and with no surtaxes, being merely satisfied to receive exceptionally large dividends out of proportion to the equity invested. In such a case, an adjustment to push the royalty rate to a commercial level could be commendable.

40. **A special case are the profits of fiscal monopolies involved in the extraction of oil or other mineral resources.** If a public corporation extracting natural resources is considered a fiscal monopoly then *2008 SNA* para. 7.96e and *GFSM 2014* para. 5.63 guide that the profits of the corporation passed to government should be recorded as taxes on products.<sup>16</sup> However, contrary to this, *2008 SNA* para. A3.76 guides to record any payments corresponding to a share of the resource rent as property income and not taxes. Although what type of property income is not discussed, leaving the option of either rent or dividends. In line with the above discussion, it can be argued that there is a need to recognize the implicit resource lease between government (as owner of the mineral resources) and the public corporation and so a rent recording advocated. Another way to see this is that while a fiscal monopoly is one way for government to raise revenue, in the absence of a monopoly the government still has the choice to introduce resource taxes to raise additional revenue and these resource taxes would likely meet the definition of rent.

41. **Should a resource lease, hence rent, also be recorded when a permit asset is created for the right to use a natural resource?** All the statistical manuals recognize three different sets of conditions that apply to the use of a natural resource: (i) the resource can be used to extinction; (ii) the owner can extend or withhold permission to continued use of the asset from one year to the next; and (iii) the owner may allow the resource to be used for an extended period of time in such a way that in effect the user controls the use of the resource during this time with little if any intervention from the legal owner, and the permit value is realizable (e.g., transferable). According to each manual, the first case results in the sale of the natural resource and is recorded as a disposal of a nonproduced asset in the form of a natural resource. In the second case, a resource lease is recorded, with payments received recorded as rent.

42. **However, under the third case, where the owner allows the resource to be used for an extended period of time (with the user effectively controlling the resource during this time), the appropriate statistical treatment is not fully clear in the manuals.** *2008 SNA* para. 17.315 and *GFSM 2014* para. A4.19 both state that this "...option leads to the creation of an asset for the user, distinct from the resource itself but where the value of the resource and the asset allowing use of it are linked". Similarly, *ESA 2010* para. 15.27 states that provided the license is finite and transferable, a new asset is recorded for the user, which is distinct from the resource itself. *BPM6* para. 13.9 simply states that "the

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<sup>16</sup> It should be noted that the equivalent definition in *ESA 2010* para 4.20j does not mention petroleum products, does not provide any examples of fiscal monopolies, and states that public utilities with monopoly powers are not considered as fiscal monopolies. The very broad definition in the *2008 SNA*, in contrast, provides for room for interpretation on whether to record a payment from profits of fiscal monopolies as taxes, dividends or rent. A narrowing of the definition of profits of fiscal monopolies in *2008 SNA* might be considered.



*right to use a natural resource on a temporary basis is classified as rent...or a contract, lease, or license, if it amounts to an economic asset in its own right". In all cases the asset being recognized is the creation of an intangible nonproduced asset classified as contracts, leases, and licenses. It should be noted that while all four paragraphs are very similar, only ESA 2010 makes an explicit mention of rent being recorded, alongside the contracts, leases, and licenses asset. Regarding this option, ESA 2010 para. 15.27 states that this "...option may not only lead to a recording of rent but also the creation of an asset for the user, distinct from the resource itself but where the value of the resource asset and asset allowing use of it are linked."*

43. **It is clear from this text in ESA 2010 and the subsequent Table 15.3 (as well as from ESA 2010 paras. 7.55 and 7.57) that ESA 2010 envisages that under this third case rent will be recorded as being paid to the economic owner** but an additional asset distinct from the resource will be created (the transferable permit) whose value can be realized if sold by the extractor (i.e., the permit is transferred). This asset comes into existence through an other economic flow and enters the balance sheet of the initial owner at zero value, but this price is later subject to revaluation based on the market price of the underlying asset and the associated rents.

44. **The ESA 2010 treatment is further discussed and explained in Eurostat's 2017 Guidance Note on mobile phone licenses, exploration rights, and other licenses (and subsequently in the MGDD 2019 Chapter 6.1).** This Eurostat Guidance Note<sup>17</sup> notably explains that *"any proceeds on a licence to lease a non-produced asset are recorded as rent – unless the underlying asset itself is deemed to be economically sold off (disposal of nonproduced asset: NP.1). Proceeds collected by government, at inception, on such sales of licences or permits are thus recorded as pre-payments, i.e. as a flow of payable for government (F.8) and of receivable for the buyer/user, and cannot be recorded as a disposal of a non-produced asset of the NP.2 type by government"*. The Eurostat Guidance Note emphasizes that any alternative recording for transferrable leases (AN.221) or contract of sales agreed in advance (AN.224) cannot be applied without distorting GDP, e.g. a payment in advance of (some) installments on a transferable operational lease of fixed assets is a prepayment of services flows (and lessor output) and not the purchase of a nonproduced asset (with no lessor output).

45. **Other guidance notes have challenged the current recording of resource leases issued for extended periods of time (with the user controlling the resource for that period) and proposed the so-called "split-asset approach".** Under this approach the underlying natural resource asset is partitioned between the lessor and lessee, which it is argued would better reflect the sharing of risks and rewards with respect to the economic use of the natural resource. This guidance note does not discuss the details of this proposed split-asset approach, which can be read in [GN WS.6 \(Accounting for the Economic Ownership and Depletion of Natural Resources\)](#) and [GN WS.8 \(Accounting for Biological Resources\)](#). The important point to note for the purposes of this guidance note is that where payments are being made by the user of a natural resource to the economic owner of that resource, related to the use of that natural resource, there needs to be clear guidance on how to treat those payments. This is relevant to both the current guidance and the recently proposed split-asset approach.

46. **The ESA 2010 guidance is more explicit than that in the 2008 SNA (or the BPM6) in stating that all payments to the economic owner of a natural resource related to the use of that resource**

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<sup>17</sup> [Eurostat's 2017 Guidance Note on mobile phone licences, exploration rights and other licences.](#)

**are recorded as rent.** While this treatment is understood to be in accordance with the 2008 SNA and BPM6 guidance, the new SNA and BPM may benefit from further clarification in line with those already in the ESA 2010.

47. **Importantly, the next update to the GFSM 2014 will also likely require further clarification in this regard.** *GFSM 2014* para. 5.124 states that “Also excluded from rent are amounts receivable by owners of natural resources when they allow the resource to be used for an extended period of time in such a way that, in effect, the user controls the use of the resource during this time with little, if any, intervention from the legal owner. This option leads to recording a transaction in an asset, classified as contracts, leases, and licenses (31441), for the user, distinct from the resource itself...” This statement in the *GFSM 2014* appears to differ from the text in both *ESA 2010* and *2008 SNA*, and is further expounded on in the flow chart in *GFSM 2014* Figure A4.1 which shows such payments as resulting in the recording of only the sale of a new asset, via a transaction, and not rent. Such an approach would require that the new contracts, leases, and licenses asset appears, prior to the sale, in the balance sheet of the lessor by an other change in volume, for the value of the sale – although this is not explicitly stated in the manual. Based on the above it would seem that the guidance in *GFSM 2014* may be inconsistent with the other manuals. While over the lifetime of the contract, net borrowing of both the extractor and economic owner is unaffected, the initial recording is different as the sale of the lease will be recorded at the point of sale whereas rent is accrued over the life of the contract (i.e., period of extraction/use).

## OPTIONS

48. **Option 1: No change to current guidance.** The current guidance may be considered broadly adequate. Although it should be noted that if current proposals to introduce depletion accounting and allow the splitting of natural resource assets are agreed then there may be additional focus on what should be reported under rent.

49. **Option 2: Clarification of the guidance under the following proposals:**

**Proposal A: clarify the current guidance on the definition of rent.** Under this proposal the current guidance on rent would be improved by reinforcing the fact that rent can only be received by the economic owner of a natural resource and clarifying which payments should be included in rent. This guidance might mention that any payments to the economic owner of a natural resource from a user/extractor of that resource which are linked to the use/extraction of that resource, in particular to the quantity and/or value of that resource, should be recorded as rent (including royalties, sur-taxes, and permits). However, payments that are paid by the user/extractor on the same basis as other corporations who are not users/extractors of natural resources (e.g., standard rate corporation taxes, dividends, payments for services) should not be recorded as rent but under the relevant economic category.

**Proposal B: clarify the current 2008 SNA, BPM6 (and GFSM 2014) guidance on the treatment of permits to use natural resources.** Under this proposal the guidance in *2008 SNA*, *BPM6* (and *GFSM 2014*) would be clarified on the treatment of permits to use a natural resource for an extended period of time (during which the user controls the natural resource). *ESA 2010* guidance explicitly recognizes both a resource lease and a permit to use natural resources (as a nonproduced intangible asset) and this guidance could be used as a model for the updated SNA guidance. The approach recognizes that the economic ownership of the underlying natural resource does not change on issuance of the right to use a natural resource license, and so rent payments to the economic owner are still required. It envisages that

the permit to use natural resources is created through an other economic flow (other change in volume) in the accounts of the lessee, with the initial value generally being zero prior to any subsequent revaluations based on the market price of the underlying asset and the associated rent.

## RECOMMENDATIONS

50. **The majority of the GN drafting team favor implementation of Option 2 – Proposal A and Proposal B.** In the view of the GN authors both clarifications are of value, although it was noted that there was a close relationship between the proposals in this section and the discussion in other GNs still under discussion, most notably GN AI.2 (treatment of rent) and GN WS.6 (accounting for the economic ownership and depletion of natural resources). At its October 2022 joint meeting the AEG and BOPCOM members agreed to consider the treatment of these transactions (i.e. rent and permits to use natural resources), both in national accounts and in balance of payments, after the discussions on other GNs related to rent and natural resources are concluded.

## SECTION III: A DECISION TREE TO GUIDE CLASSIFICATION OF PAYMENTS TO GOVERNMENT

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51. **Given the complexities involved in classifying different payments to government it may be helpful to include in the manuals a decision tree to guide compilers and users.** Appendix I includes a provisional decision tree based on the current guidance. Alternative versions of the decision tree are included to show how the different options described in Section I and II of this note would lead to changes in the decision tree. As with any decision tree it provides a guide, but for some transactions compilers will still need to carefully examine the features of the transaction in order to correctly classify it.

52. **The decision tree highlights the importance of first identifying whether or not a payment is compulsory.** A definition of compulsory is offered as a payment which is required by law or as a result of the government's sovereign rights and which relates to an underlying activity (not involving the government) or a good or asset (not owned by the government).

## SECTION IV: REARRANGEMENT OF TRANSACTIONS THROUGH GOVERNMENT ACCOUNTS

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### BACKGROUND AND ISSUES

53. **Rearrangement of transactions involves either rerouting, partitioning, or reassignment.** All the statistical manuals contain similar descriptions of the three types of rearrangement although "reassignment", which is the term used in the *GFSM 2014*, is described in the *2008 SNA* as "units facilitating a transaction on behalf of other parties" and in the *ESA 2010* as "recognizing the principal party to a transaction".

54. **Where transactions are rearranged through government, it is done to reflect both the economic substance and role of government in the transaction.** Examples include the rerouting of social contributions through the households who are the parties who are contributing and who will receive the associated social benefits, and the recognition of government as the "principal party" in imposing a tax when a public corporation or another level of government collects the tax. Similarly, some countries may rearrange the specific fiscal operations of development banks, where government has mandated them, to reflect them in the government accounts. It also should be mentioned that sometimes imputation is used

to reflect the economic substance of a transaction, this for instance is done to reflect the borrowing of nonresident special purpose entities (SPEs) engaged in fiscal operations in the domestic government's accounts. Similarly, imputation is used under some circumstances to reflect government as the economic owner of assets in certain public private partnership arrangements.

55. **The existing guidance is relatively clear on when to partition a transaction or to reassign a transaction.** The *2008 SNA* (paras. 3.61–3.74), *GFSM 2014* (paras. 3.27-3.30), and *ESA 2010* (paras. 1.72–1.78 and 20.204) all have consistent guidance on rearrangement of these types of transactions. However, what is less clear in the current guidance is when to reroute or impute a transaction.

56. **The focus of this section is specifically on where government may mandate transactions between institutional units in the economy, which otherwise would not take place or would not take place at that price or volume.** To highlight the challenges that can be encountered and some reasons why we may want to rearrange transactions let us consider three different scenarios for how government might choose to support one group of corporations (Sector A) by raising funds from another group of corporations (Sector B).

57. **Scenario 1: Government may impose a tax on corporations in Sector B and use these funds to support corporations in Sector A (perhaps through subsidies).** The treatment of these transactions is straightforward with a tax payment from corporations in Sector B to government and subsidy payments from government to corporations in Sector A.

58. **Scenario 2: Government may direct an agency (which is not a government unit, but may be a public corporation or a non-profit institution outside of government) to collect a tax from corporations in Sector B and use the funds directly to support corporations in Sector A.** In this scenario no cash is passing through the government accounts (unlike Scenario 1) but it seems clear that government is the “principal party” to the transaction as it is the one directing the agency to raise the levy from Sector B and use it to support Sector A. Further, only government units can levy and receive taxes and so any taxes must be rearranged through government. So in this scenario, current statistical guidance would encourage to either reclassify the unit in question (when it is a dedicated agency created for this purpose, its activity being nonmarket) or reassign/rearrange the transactions through government when the unit is a market entity (that would not be reclassified inside government). This treatment ensures that, from the government accounts perspective, the accounting looks to be the same as in Scenario 1.

59. **Scenario 3: Government may use its legislative or regulatory powers to mandate that corporations in Sector B should make direct payments to corporations in Sector A, sometimes letting them recoup their costs explicitly or implicitly through surcharges to their users.** In this way government could deliver the same overall result of redistributing between Sector B and Sector A, as in Scenario 1 and 2, but with no government or agency involved. To deliver the same accounting treatment as in Scenario 1 and 2, we have to rearrange the payments from corporations in Sector B to corporations in Sector A through government as first a tax and then a subsidy. This is not an obvious recording to implement, but if the payments are not rearranged through government then there is clearly potential for lack of comparability with other governments or policies which may be delivering similar regulation/redistribution through the mechanisms described in Scenario 1 or 2.

60. **While this is a very simple example, there are many real world examples (particularly in the energy sector) where government operates these kind of policies which mandate payments (or the terms of exchange) between institutional units in a market or industry that the government is regulating, and/or their consumers.** Examples of this are where government obliges a corporation to buy something from another corporation at a price above the market price (e.g., renewable energy) or to sell a product to some or all consumers at a price below the market price (e.g. staple foods). This is a type of cross subsidization within and/or across industries.

61. **Governments intervene in a wide range of activities with the intention of influencing the behavior of other institutional units.** For example, companies in many countries are required to pay a minimum wage, or offer minimum levels of social benefits, price caps are imposed in many industries (transport, utilities), and new regulation is often introduced after economic crises. In many cases, the direct impacts of regulation are difficult to quantify, making rearrangement difficult and sometimes impractical.

62. **Regulation is used by some governments as a policy tool to drive behavioral and economic changes.** For example, a government which previously chose to reduce dependency on fossil fuels by taxing those electricity suppliers that use fossil fuels and redistributing the revenue received as a subsidy to renewable energy generators, may decide to deliver the same policy outcomes by requiring electricity suppliers to subsidize renewable energy generators directly by either (i) purchasing some of their electricity at above market prices (commonly referred to as “feed-in tariffs”) or through (ii) purchasing a required number of permits/certificates held by renewable energy generators. If there is no rerouting (as a tax on the electricity suppliers and a subsidy to the renewable energy generators) then the government tax revenues and subsidy expenses will have reduced, but with no change to the impact of government policy on the economy. These types of redistributive regulations which effectively indirectly tax one set of actors in the economy to subsidize another set of actors are commonly found in environmental regulations aimed at reducing pollution or carbon emissions, but similar regulations could be envisaged within the transport and housing sectors.

63. **In cases like this, government effectively uses its legislative and regulatory powers to influence the behavior of market actors, mandating that certain transactions will take place— transactions which can thus be seen as compulsory and unrequited, as well as redistributive.** The purpose of government in these transactions is to benefit society, usually either by encouraging the use of goods and services which government views as beneficial (e.g., renewable energy and installation of energy saving goods), or by protecting households and small businesses from high prices (or low salaries) that the market may demand if left unregulated.

64. **A key challenge is in defining where the boundary should be for the rearrangement of transactions between non-government units mandated by government regulation.** There is a risk that whenever government dictates a minimum or maximum price for a good or service (such as a minimum wage, price cap on staple goods, or limit on the rent that can be charged for social housing) that this is seen as government regulation which requires a tax and subsidy to be recognized and rerouted through the government accounts. Imputations that would be complex and challenging to introduce, with likely uncertainties as to the size of the imputed government subsidy/tax resulting in questions about the analytical usefulness of such imputation and whether the concomitant accounts continued to reflect well the underlying real world events. Therefore, care needs to be taken when articulating when to rearrange transactions between non-government bodies mandated by government regulation. The only existing

guidance in this area within the statistical manuals is in Eurostat's *Manual on Government Deficit and Debt (MGDD 2019)* which addresses the issue in Section 1.2.4.5.4 noting that "if a non-government unit carries out transactions that result de facto in the redistribution of income and wealth it is sufficient for rearrangement since this is a task of government". However, the section goes on to note that goods and services provided at below-market terms are commonly observed in the private sector in the context of cross-subsidizing products and activities. Underlining the need to be careful in identifying which transactions should be considered to be redistributive within the wider economy, and so rearranged.

65. **Notwithstanding the practical challenges involved in identifying which transactions to rearrange through government and the dangers in rearranging transactions too widely across the economy there would seem to be significant benefit in providing more guidance on when transactions should be rearranged through government.** Some possible examples of scenarios where guidance could be given for transactions between two (or more) non-government actors to be rearranged through the government accounts are the following:

- a) Where government replaces a pre-existing scheme involving payments to and from government with a new scheme under which the payments, which provide a similar economic outcome, are made directly and not through government;
- b) Where government mandates cash payments between economic actors that would not take place without the government intervention;
- c) Where government instigates a price cap, or price fix, but has a mechanism to fund the difference between the price cap and the market price (or another price)—perhaps at a future date.

#### OPTIONS

66. **Option 1: No changes to existing guidance.** Some countries have more government regulation than others, and therefore the need for new guidance varies across countries. Some countries (such as the UK) already record certain energy schemes as taxes and subsidies, under the existing statistical guidance. Leaving the guidance unchanged means that countries can continue to rearrange transactions on an ad-hoc basis.

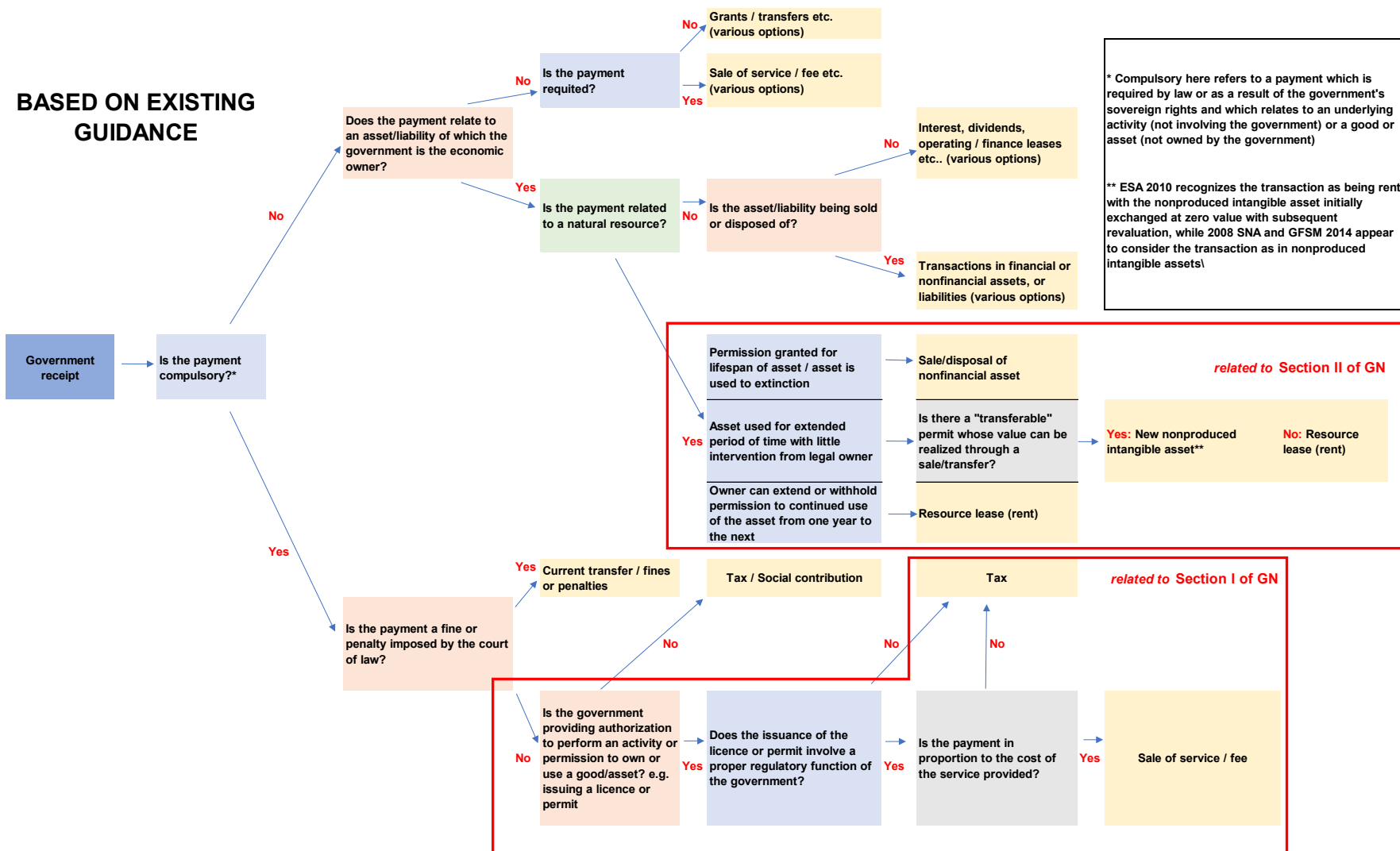
67. **Option 2: Develop guidelines on a limited number of scenarios where payments should be rearranged through the government accounts and explain where this shouldn't be done.** The proposed guidance is limited in scope as government is involved throughout the economy and it would not be either useful or meaningful to rearrange all transactions where government has had an involvement. However, when government mandates transactions between non-government units, at prices, which are fundamentally loss-making and/or considerably below the usual terms of the unit then rerouting as taxes and subsidies/social benefits/other transfers would seem to be appropriate. Guidance could be developed which seeks to define when it is appropriate to reroute such government mandated transactions. Paragraph 65 provides three scenarios under which it is proposed that a rearrangement of the cash flows through the government sector would be appropriate.

#### RECOMMENDATIONS

68. **The majority of the GN drafting team favor Option 2.** At its October 2022 joint meeting the AEG and BOPCOM members agreed that Option 2 will put forward a set of scenarios that would be

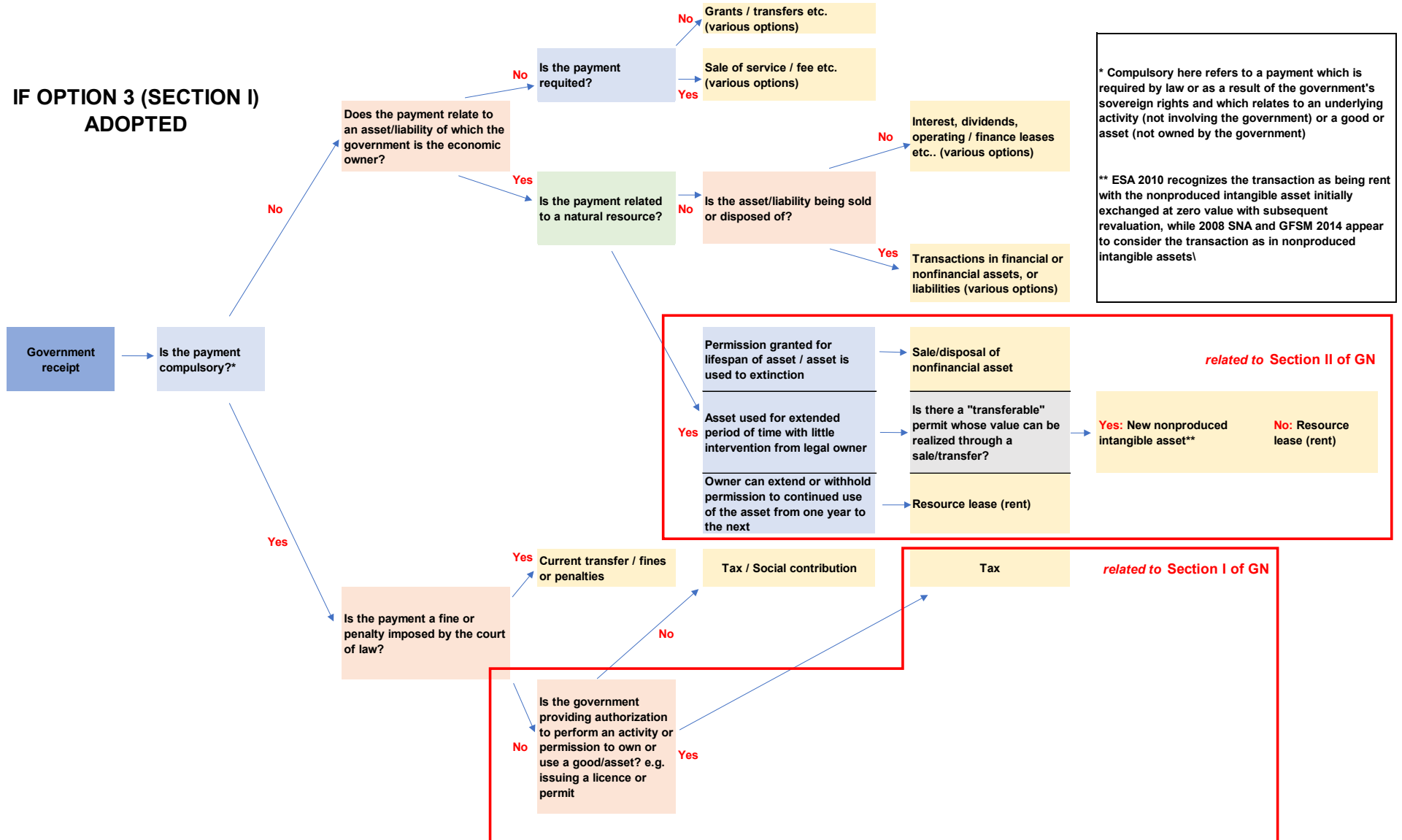
subject to rearrangement (those that are presented in the note as examples) and that the questionnaire of the global consultation would ask for additional suggested scenarios.

## Appendix I. Possible Decision Tree for Classifying Payments to Government





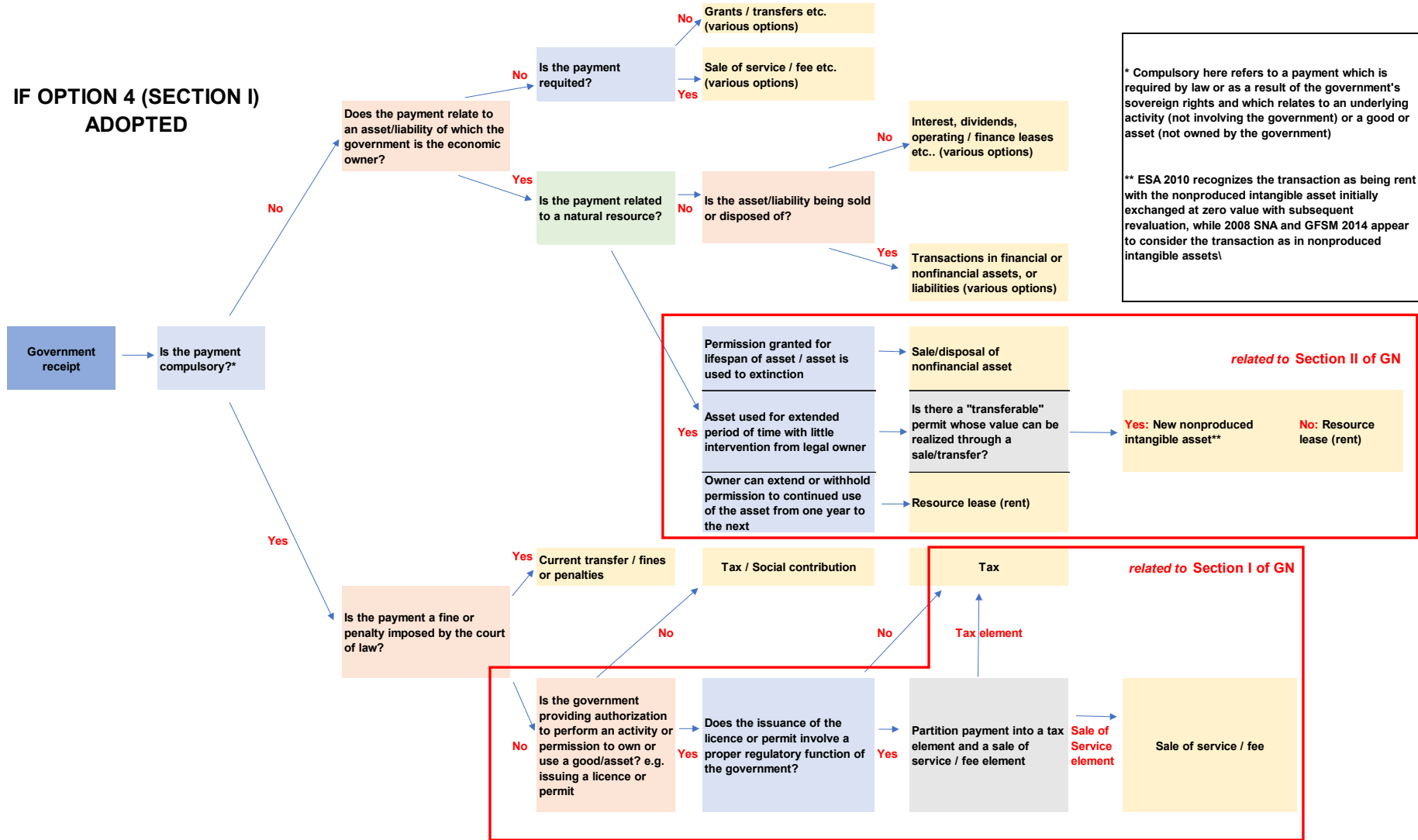
**IF OPTION 3 (SECTION I)  
ADOPTED**



\* Compulsory here refers to a payment which is required by law or as a result of the government's sovereign rights and which relates to an underlying activity (not involving the government) or a good or asset (not owned by the government)

\*\* ESA 2010 recognizes the transaction as being rent with the nonproduced intangible asset initially exchanged at zero value with subsequent revaluation, while 2008 SNA and GFSM 2014 appear to consider the transaction as in nonproduced intangible assets\

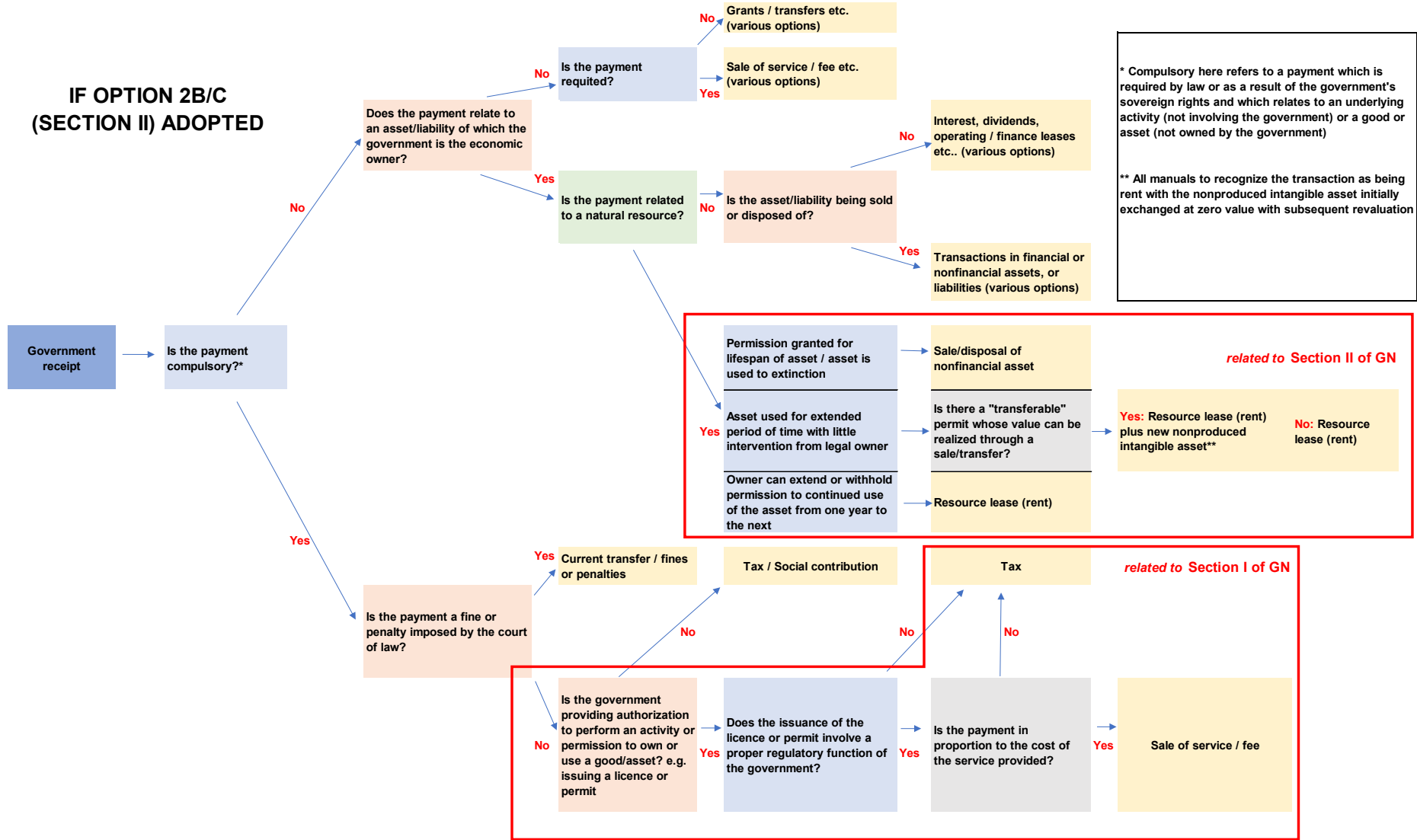
**IF OPTION 4 (SECTION I)  
ADOPTED**



\* Compulsory here refers to a payment which is required by law or as a result of the government's sovereign rights and which relates to an underlying activity (not involving the government) or a good or asset (not owned by the government)

\*\* ESA 2010 recognizes the transaction as being rent with the nonproduced intangible asset initially exchanged at zero value with subsequent revaluation, while 2008 SNA and GFSM 2014 appear to consider the transaction as in nonproduced intangible assets\

**IF OPTION 2B/C  
(SECTION II) ADOPTED**



\* Compulsory here refers to a payment which is required by law or as a result of the government's sovereign rights and which relates to an underlying activity (not involving the government) or a good or asset (not owned by the government)

\*\* All manuals to recognize the transaction as being rent with the nonproduced intangible asset initially exchanged at zero value with subsequent revaluation

## Appendix II. Examples of Possible Clarifications to Guidance in 2008 SNA on the Recording of Payments to Perform Activities or to Own or Use Goods/Assets

### Clarifying Intent of License Examples

Minimal changes are needed to the current SNA guidance to emphasize the conceptual guidance and remove references to recording payments by convention. The red text below shows one possible way that the clarification can be provided based on existing text.

#### **2008 SNA**

**8.54** One of the regulatory functions of governments is to forbid the ownership or use of certain goods or the pursuit of certain activities, unless specific permission is granted by issuing a licence or other certificate for which a fee is demanded. If the issue of such licences involves little or no work on the part of government, the licences being granted automatically on payment of the amounts due, it is likely that they are simply a device to raise revenue, even though the government may provide some kind of certificate, or authorization, in return. However, if the government uses the issue of licences to exercise some proper regulatory function, for example, checking the competence, or qualifications, of the person concerned, checking the efficient and safe functioning of the equipment in question, or carrying out some other form of control that it would otherwise not be obliged to do, the payments made should be treated as purchases of services from government rather than payments of taxes, unless the payments are clearly out of all proportion to the costs of providing the services. The borderline between taxes and payments of fees for services rendered is not always clear-cut in practice (see paragraph 8.64 (c) for a further explanation of this matter in the case of households).

**8.64c. *Payments by households to obtain certain licences:*** ~~As explained in paragraph 8.54, payments by persons or households for licenses should be carefully assessed to decide whether they are to be recorded as taxes or payments for services. Payments by persons or households for~~ Examples of licences obtained by households are licenses to own or use vehicles, boats or aircraft and for licences for recreational hunting, shooting or fishing ~~are treated as current taxes. Payments for all other kinds of licences (for example, driving or pilot's licences, television or radio licences, firearm licences, etc.). Similarly, certain or~~ fees to government (for example, payments for passports, airport fees, court fees, etc.) ~~should also be assessed as to whether they are taxes or payments for services. are treated as purchases of services rendered by governments. The boundary between taxes and purchases of services is based on the practices actually followed in the majority of countries in their own accounts (GFSM2001, 11451 and 11452; OECD, 5200);~~

**9.70** Households make payments to government units to obtain various kinds of licences, permits, certificates, passports, etc., and in some cases it is not clear whether the government units actually provide services in return, such as testing or inspection, or whether the payments are de facto taxes. ~~As explained in paragraph 8.64 (c), the treatment of certain borderline cases has been decided by the following convention, based on the practices followed in the majority of countries: payments by households for licences to own or use vehicles, boats or aircraft and also licences for recreational hunting, shooting or fishing are treated as taxes. Payments for licences to undertake a specific activity, for example a taxi licence, are treated as a tax on production. Payments for all other kinds of licences, permits, certificates, passports, etc., are treated as purchases of services and included in household consumption expenditure.~~

**22.88** Taxes are compulsory unrequited payments, in cash or in kind, made by institutional units to the general government exercising its sovereign powers or to a supranational authority. They usually constitute the major part

of government revenue, up to 90 per cent in some countries. Taxes are described as unrequited because, in most cases, the government provides nothing commensurate in exchange to the individual unit making the payment. However, there are cases where the government does provide something to the individual unit in return for a payment in the form of the direct granting of a permit or authorization. In this case, the payment is part of a mandatory process that ensures proper recognition of ownership or that activities are performed under the strict authorization by the law. The borderline between when such payments are to be treated as a tax and when as the sale of a service or as the sale of an asset by the government requires additional guidance.

**22.89** As noted in chapters 7 and 8 when discussing the difference between a tax and a fee for a service, the borderline is not always clear-cut in practice. The following recommendations apply.

- a. The payment is recorded as a tax when a licence or a permit is automatically granted by the government as a mandatory condition to perform an activity or acquire an asset and when the government unit performs little or no work other than a minimum control of the legal capacity of the acquirer to receive the permit (for instance, to confirm the applicant has not been convicted of a crime). The payment of the fee in such a case is not commensurate with the control function that the government exercises.
- b. The payment is recorded as the purchase of a service when, for instance, issuing the licence or permit implies a proper regulatory function of the government by exercising control on the activity, checking the competence or qualifications of the persons concerned, etc. In such a case, the payment is taken to be proportion to the costs of producing the service for all or any of the entities benefiting from the services and is borne by those benefiting. Only if the payment is out of proportion to the costs of producing the services, is it treated as a tax.

### **Clarifying Terms Used in the Conceptual Guidance**

Additional text could be added to the *SNA 2008* (and other manuals) to explain further what is meant by:

- a compulsory payment and mandatory process
- a proper regulatory function

The text of this guidance note provides more detail on what these terms mean which could be used within the *SNA 2008*.

An additional term which could be usefully clarified, is how to assess whether or not a payment is “out of proportion” to the cost of the service being provided. Here it would be useful to propose a metric to assess whether a payment is in or out of proportion. However, paragraph 18 of the guidance note makes reference to a number of challenges in deriving such a metric.

## Appendix III. Relevant Existing Guidance in 2008 SNA, GFSM 2014, BPM6, and ESA 2010

### Section I: Payments to Perform Activities or to Own or Use Goods/Assets

#### **2008 SNA**

**7.97c. Business and professional licences:** these consist of taxes paid by enterprises in order to obtain a licence to carry on a particular kind of business or profession. Licences such as taxi and casino licences are included. In certain circumstances, licences to use a natural resource, however, are treated not as a tax but as the sale of an asset. These circumstances are described in part 5 of chapter 17. However, if 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 not unrequited and should be treated as payments for services rendered, unless the amounts charged for the licences are out of all proportion to the costs of the checks carried out by governments (*GFSM2001*, 11452; OECD, 5210). (See also paragraph 8.64 (c) for the treatment of licences obtained by households for their own personal use.);

**8.54** One of the regulatory functions of governments is to forbid the ownership or use of certain goods or the pursuit of certain activities, unless specific permission is granted by issuing a licence or other certificate for which a fee is demanded. If the issue of such licences involves little or no work on the part of government, the licences being granted automatically on payment of the amounts due, it is likely that they are simply a device to raise revenue, even though the government may provide some kind of certificate, or authorization, in return. However, if the government uses the issue of licences to exercise some proper regulatory function, for example, checking the competence, or qualifications, of the person concerned, checking the efficient and safe functioning of the equipment in question, or carrying out some other form of control that it would otherwise not be obliged to do, the payments made should be treated as purchases of services from government rather than payments of taxes, unless the payments are clearly out of all proportion to the costs of providing the services. The borderline between taxes and payments of fees for services rendered is not always clear-cut in practice (see paragraph 8.64 (c) for a further explanation of this matter in the case of households).

**8.64c. Payments by households to obtain certain licences:** Payments by persons or households for licences to own or use vehicles, boats or aircraft and for licences for recreational hunting, shooting or fishing are treated as current taxes. Payments for all other kinds of licences (for example, driving or pilot's licences, television or radio licences, firearm licences, etc.) or fees to government (for example, payments for passports, airport fees, court fees, etc.) are treated as purchases of services rendered by governments. The boundary between taxes and purchases of services is based on the practices actually followed in the majority of countries in their own accounts (*GFSM2001*, 11451 and 11452; OECD, 5200);

**9.70** Households make payments to government units to obtain various kinds of licences, permits, certificates, passports, etc., and in some cases it is not clear whether the government units actually provide services in return, such as testing or inspection, or whether the payments are de facto taxes. As explained in paragraph 8.64 (c), the treatment of certain borderline cases has been decided by the following convention, based on the practices followed in the majority of countries: payments by households for licences to own or use vehicles, boats or aircraft and also licences for recreational hunting, shooting or fishing are treated as taxes. Payments for licences to undertake a specific activity, for example a taxi licence, are treated as a tax on production. Payments for all other kinds of licences, permits, certificates, passports, etc., are treated as purchases of services and included in household consumption expenditure.

**22.88** Taxes are compulsory unrequited payments, in cash or in kind, made by institutional units to the general government exercising its sovereign powers or to a supranational authority. They usually constitute the major part of government revenue, up to 90 per cent in some countries. Taxes are described as unrequited because, in most cases, the government provides nothing commensurate in exchange to the individual unit making the payment. However, there are cases where the government does provide something to the individual unit in return for a payment in the form of the direct granting of a permit or authorization. In this case, the payment is part of a mandatory process that ensures proper recognition of ownership or that activities are performed under the strict authorization by the law. The borderline between when such payments are to be treated as a tax and when as the sale of a service or as the sale of an asset by the government requires additional guidance.

**22.89** As noted in chapters 7 and 8 when discussing the difference between a tax and a fee for a service, the borderline is not always clear-cut in practice. The following recommendations apply.

- a. The payment is recorded as a tax when a licence or a permit is automatically granted by the government as a mandatory condition to perform an activity or acquire an asset and when the government unit performs little or no work other than a minimum control of the legal capacity of the acquirer to receive the permit (for instance, to confirm the applicant has not been convicted of a crime). The payment of the fee in such a case is not commensurate with the control function that the government exercises.
- b. The payment is recorded as the purchase of a service when, for instance, issuing the licence or permit implies a proper regulatory function of the government by exercising control on the activity, checking the competence or qualifications of the persons concerned, etc. In such a case, the payment is taken to be proportion to the costs of producing the service for all or any of the entities benefiting from the services and is borne by those benefiting. Only if the payment is out of proportion to the costs of producing the services, is it treated as a tax.

#### **GFSM 2014**

**5.72** *Taxes on use of goods and on permission to use goods or perform activities (1145)* are fees levied for the issuance of a license or permit that are not commensurate with the cost of the control function of government. There are cases where the government provides something to the individual unit directly in return for a payment in the form of the granting of a permit or authorization. In such instances, the payment is part of a mandatory process that ensures proper recognition of ownership or ensures that activities are performed under the authorization of the law. The boundary between when such payments are to be recorded as a tax and when they are to be recorded as the sale of a service or as the sale of an asset by the government requires additional guidance.

**5.73** One of the regulatory functions of governments is to prohibit the ownership or use of certain goods or the pursuit of certain activities, unless specific permission is granted by issuing a license or other certificate for which a fee is demanded. To decide whether such a fee constitutes this tax category or *administrative fees (1422)*, the following recommendations apply:

- The payment is recorded as a tax when a license or a permit is automatically granted by the government as a mandatory condition to perform an activity or acquire an asset. The government unit performs little or no work other than a minimum control of the legal capacity of the acquirer to receive the permit (e.g., to confirm the applicant has not been convicted of a crime). The payment of the fee in such a case is not commensurate with the control function that the government exercises.
- The payment is recorded as the sale of a service when, for instance, issuing the license or permit involves a proper regulatory function of the government by exercising control on the activity, checking the competence or

qualifications of the persons concerned, etc. In such a case, the payment is taken to be proportional to the costs of producing the service for all or any of the entities benefiting from the services and is borne by those benefiting. The payment is recorded as a tax only if it is out of proportion to the costs of producing the services.

**5.74** More specifically, the following types of fees are considered taxes:

- Fees where the payer of the levy is not the receiver of the benefit, such as a fee collected from slaughterhouses to finance a service provided to farmers
- Fees where government is not providing a specific service commensurate with the levy even though a license may be issued to the payer, such as a hunting, fishing, or shooting license that is not accompanied by the right to use specific government-owned natural resources
- Fees where benefits are received only by those paying the fee but the benefits received by each individual are not necessarily in proportion to the payments, such as a milk marketing levy paid by dairy farmers and used to promote the consumption of milk
- Fees paid to government for deposit insurance and other guarantee schemes if they are compulsory—that is, if beneficiaries cannot opt out of the scheme, if the payment is clearly out of proportion to the service provided, if the payment is not set aside in a fund, or if it can be used for other purposes.<sup>24</sup>

**5.136** *Sales of goods and services* (142) consist of the sales by market establishments, administrative fees charged for services, incidental sales by nonmarket establishments, and imputed sales of goods and services. Sales of goods and services are recorded as revenue without deduction of the expenses incurred in generating that revenue...

**5.138** *Administrative fees* (1422) include fees for compulsory licenses and other administrative fees that are sales of services. Examples are drivers' licenses, passports, visas, court fees, and radio and television licenses when public authorities provide general broadcasting services. Also included are fees payable for voluntary participation in deposit insurance or other guarantee schemes that do not qualify to be a standardized guarantee scheme. These fees are considered a sale of a service when, for instance, issuing the license or permit implies a proper regulatory function of the government. In this case, the payment is taken to be proportional to the cost of producing the service. For a detailed description on the boundary between taxes and the purchases of services, see paragraph 5.74. If a payment is clearly out of all proportion to such cost, then the fee is classified as *taxes on use of goods and on permission to use goods or perform activities* (1145).

## **BPM6**

**10.180** One of the regulatory functions of governments is to forbid the ownership or use of certain goods or the pursuit of certain activities, unless specific permission is granted by issuing a license or other certificate for a fee. If the issue of such licenses involves little or no work on the part of government, the licenses being granted automatically on payment, it is likely that they are simply a device to raise taxes, even though the government may provide some kind of certificate, or authorization, in return. However, if the government uses the issue of licenses to exercise some proper regulatory function, such as checking the competence or qualifications of the person concerned, checking the efficient and safe functioning of equipment, or carrying out some other form of control that it would otherwise not be obliged to do, the payments made should be treated as purchases of services from government rather than payments of taxes, unless the payments are clearly out of all proportion to the costs of providing the services.

**10.181** The borderline between taxes and payments of charges for services rendered is not always clear cut in practice. By convention, amounts payable by households for licenses to own or use vehicles, boats, or aircraft and



also licenses for recreational hunting, shooting, or fishing are treated as taxes, whereas amounts payable by households for all other kinds of licenses, permits, certificates, passports, and so forth, are treated as purchases of services. (For more details on taxes, see paragraph 12.30.)

**12.30** Specific permission is granted by governments through issuing a license or other certificate for which a fee is demanded. A “fee” that is a tax should be distinguished from a “fee” that is a payment in return for services provided by governments (see also paragraphs 10.180–10.181 for distinction between taxes and services). If the issue of such licenses involves little or no work on the part of government or the fee charged is clearly out of all proportion to the costs associated with the issuance of licenses, it is likely that the licenses being granted automatically on payment of the amounts due are simply a device to raise taxes, even though the government may provide some kind of certificate, or authorization, in return. However, if the government uses the issue of licenses to exercise some proper regulatory function—for example, checking the competence, or qualifications, of the person concerned, checking the efficient and safe functioning of the equipment in question, or carrying out some other form of control that it would otherwise not be obliged to do—the payments made should be treated as purchases of services from government rather than payments of taxes, unless the payments are not broadly proportional to the costs of providing the services.

### **ESA 2010**

**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. Such taxes are payable irrespective of profits made.

**4.23 (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;

**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 that income nor that wealth.

**4.79 (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 namely, 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 such cases their payment is treated as taxes. If, however, 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;

**20.165** Taxes are compulsory unrequited payments, in cash or in kind, made by institutional units to general government or supranational bodies exercising their sovereign or other powers. They usually constitute the major part of government revenue. Taxes are viewed in the system as transactions, as they are deemed to be interactions between units carried out by mutual agreement. Taxes are described as unrequited because the government provides nothing commensurate with the payment in exchange to the individual unit making the payment.

**20.166** However, there are cases where the government provides something to the individual unit against the payment, in the form of the direct granting of a permit or authorisation. In this case, the payment is part of a mandatory process that ensures proper ownership recognition and performance of activities by law. The categorisation of such payments as a tax, or as the sale of a service, or the sale of an asset by the government, requires additional rules. Those rules are set out in Chapter 4.

## **Section II: Payments Related to the Use or Extraction of Natural Resources**

### **2008 SNA**

**7.107** Property income 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.**

**7.159** The ownership of subsoil assets in the form of deposits of minerals or fossil fuels (coal, oil or natural gas) depends upon the way in which property rights are defined by law and also on international agreements in the case of deposits below international waters. In some cases the assets may belong to the owner of the ground below which the deposits are located but in other cases they may belong to a local or central government unit.

**7.160** The owners of the assets, whether private or government units, may grant leases to other institutional units permitting them to extract such deposits over a specified period of time in return for the payment of rent. These payments are often described as royalties, but they are essentially rent that accrues to owners of the assets in return for putting them at the disposal of other institutional units for specified periods of time and are treated as such in the SNA. The rent may take the form of periodic payments of fixed amounts, irrespective of the rate of extraction or, more commonly, they may be a function of the quantity or volume of the asset extracted. Enterprises engaged in exploration may make payments to the owners of surface land in exchange for the right to make test drillings or investigate by other means the existence and location of subsoil resources. Such payments are also to be treated as rent even though no extraction is taking place.

**10.167** ...Only those naturally occurring resources over which ownership rights have been established and are effectively enforced can therefore qualify as economic assets and be recorded in balance sheets. They do not necessarily have to be owned by individual units, and may be owned collectively by groups of units or by governments on behalf of entire communities...

**17.313** As noted above, in many countries permits to use natural resources are generally issued by government since government claims ownership of the resources on behalf of the community at large. However, the same treatments apply if the resources are privately owned.

**17.314** There are basically three different sets of conditions that may apply to the use of a natural resource. The owner may permit the resource to be used to extinction. The owner may allow the resource to be used for an extended period of time in such a way that in effect the user controls the use of the resource during this time with

little if any intervention from the legal owner. The third option is that the owner can extend or withhold permission to continued use of the asset from one year to the next.

**17.315** The first option results in the sale (or possibly an expropriation) of the asset. The second option leads to the creation of an asset for the user, distinct from the resource itself but where the value of the resource and the asset allowing use of it are linked. The third option comes back to the treatment of the use as a resource lease....

**17.322** Payment for a mobile phone licence constitutes the sale of an asset, not payment for rent, when the licensee acquires effective economic ownership rights over the use of the spectrum. To decide whether ownership is effectively transferred or not, the six criteria quoted above are to be considered.

**17.323** When sale of an asset applies and when the life span of the licence and of the spectrum coincide, the payment for a licence is treated as the sale of the spectrum itself. The latter situation applies always when licences are granted indefinitely.

**17.324** When sale of an asset applies, and when the life span of the licence is different from the life span of the spectrum, the payment for a licence is treated as the sale of a permit to use a natural resource by the legal owner (licensor) to the economic owner (licensee).

**17.325** When the licence agreement is treated as the sale of an asset in its own right, its value is established at the time of its sale. It declines with the expiration of the period of validity to fall to a value of zero at the point of the expiry of the licence. Symmetrically, the value of the spectrum to the lessor falls when the licence acquires a value and is progressively re-established as the licence expires. This is consistent with a potential further sale of the right to use the spectrum for another period. This procedure also ensures a neutral effect on the net worth of the overall economy during the life of the licence.

**A3.76** Payments by an extractor to the owner of the mineral resources corresponding to a share of the resource rent should be shown as property income even if they are described as taxes and treated as such in a government's own accounts.

#### ***GFSM 2014***

**5.124** Rent excludes payments receivable by the owners of natural resources if such payments permit the resource to be used to extinction—such activity is regarded as a sale (see paragraphs 8.54 and A4.19) and possibly depletion (see paragraph 10.52) of the nonproduced asset. Also excluded from rent are amounts receivable by owners of natural resources when they allow the resource to be used for an extended period of time in such a way that, in effect, the user controls the use of the resource during this time with little, if any, intervention from the legal owner. This option leads to recording a transaction in an asset, classified as contracts, leases, and licenses (31441), for the user, distinct from the resource itself (see paragraphs 8.56 and A4.19).

**5.130** General government units may grant leases to other institutional units that permit them to extract these deposits over a specified period of time in return for a payment or series of payments. These payments are often described as “royalties,” but they are essentially rent that accrues to owners of natural resources in return for putting these assets at the disposal of other units for specified periods of time. The rent may take the form of periodic payments of fixed amounts, irrespective of the rate of extraction, or, more commonly, they may be a function of the quantity, volume, or value of the asset extracted. Enterprises engaged in exploration on government land may make payments to general government units in exchange for the right to undertake test drilling or otherwise investigate the existence and location of subsoil assets. Such payments are also recorded as rents even though no extraction may take place.

**A4.18** In many countries, licenses and permits to use natural resources are issued by government because government claims ownership of the resources on behalf of the community. However, government could also issue these licenses and permits if the resources are privately owned.

**A4.19** As illustrated in Figure A4.1, there are three different sets of conditions that may apply to the use of a natural resource:

- The owner may permit the resource to be used to extinction. This option results in the sale (or possibly an expropriation) of the nonproduced resource asset itself.
- The owner may permit the resource to be used for an extended period of time in such a way that, in effect, the user controls the use of the resource during this time with little if any intervention from the legal owner. This permit leads to the creation of an intangible nonproduced asset classified as contracts, leases, and licenses (31441) for the user, distinct from the resource itself; however, the value of the resource and the value of the nonproduced asset in the form of contracts, leases, and licenses are linked. An inverse relationship will exist between the value of the resource itself and the value of the intangible asset.
- The owner can extend or withhold permission to continued use of the asset from one year to the next. This option corresponds to a resource lease on which rent is payable/receivable.

## **ESA 2010**

**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.

**4.74** This heading [rents on subsoil assets] 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.

**15.27** When permits are issued for using a natural resource, three recording options can be distinguished (see Table 15.3):

- (a) the owner can extend or withhold permission to continued use of the asset from one lease period to the next;
- (b) the owner may allow the resource asset to be used for an extended period of time in such a way that in effect the user controls the use of the resource during this time with little, if any, intervention from the owner;
- (c) the owner permits the resource asset to be used to extinction.

The first option is recorded as a resource lease; this should be recorded as rent.

The second option may not only lead to a recording of rent but also to the creation of an asset for the user, distinct from the resource itself but where the value of the resource asset and the asset allowing use of it are linked. This asset (category AN.222) is only recognised if its value, the benefits to the holder in excess of the value accruing to the issuer, is realisable through transferring the asset. Such permits are first observed through economic appearance of assets (category K.1, see point (g) of paragraph 6.06). If the value of the asset is not realised it will tend towards zero as the lease period ends.

The third option results in the sale (or possibly an expropriation) of the natural resource itself.

## **Section III: Rearrangement of Transactions Related to Regulatory Policies**

### **2008 SNA**

**3.62** Rerouting records a transaction as taking place through channels that differ from the actual ones or as taking place in an economic sense when it does not take place in fact. In the first kind of rerouting, a direct transaction between unit A and unit C is recorded as taking place indirectly through a third unit B, usually, however, with some change in the transaction category. In the second kind of rerouting, a transaction of one kind from unit A to unit B is recorded with a matching transaction of a different kind from unit B to unit A.

**3.66** Partitioning records a transaction that is a single transaction from the perspective of the parties involved as two or more differently classified transactions. For example, the rental actually paid by the lessee under a financial lease is not recorded as a payment for a service; instead, it is partitioned into two transactions, a repayment of principal and a payment of interest. This partitioning of the rental payment is part of a treatment that implements an economic view of financial leasing in the SNA. Financial leasing is viewed as a method of financing the purchase of a fixed asset and a financial lease is shown in the SNA as a loan from the lessor to the lessee.

**3.69** Many service activities consist of one unit arranging for a transaction to be carried out between two other units in return for a fee from one or both parties to the transaction. In such a case, the transaction is recorded exclusively in the accounts of the two parties engaging in the transaction and not in the accounts of the third party facilitating the transaction. Some service output may be recognized with the facilitator. For example, purchases a commercial agent makes under the orders of, and at the expense of, another party are directly attributed to the latter. The accounts of the agent only show the fee charged to the principal for the facilitation services rendered.

### ***GFSM 2014***

**3.27** Some transactions are not recorded in the form in which they appear to take place. Instead, they are modified in macroeconomic statistics to bring out their underlying economic relationships more clearly. There are three kinds of rearrangements employed in GFS: rerouting, partitioning, and reassignment.

**3.28** Rerouting records a transaction as taking place through channels that differ from the actual ones, or as taking place in an economic sense when no actual transactions take place. Rerouting is often required when a unit that is a party to a transaction does not appear in the actual accounting records because of administrative arrangements.....

**3.29** Partitioning records a transaction that is a single transaction from the perspective of the parties involved as two or more differently classified transactions. For example, when a general government unit acquires an asset below or above its current market price, the division of the actual transaction into an exchange and a transfer is an example of partitioning...

**3.30** Reassignment records a transaction arranged by a third party on behalf of others as taking place directly by the two principal parties involved. Reassignment is required when one unit arranges for a transaction to be carried out between two other units, generally in return for a fee from one or both parties to the transaction. In this case, one unit acts as an agent for another unit. In such a case, the transaction is recorded exclusively in the accounts of the two parties engaging in the transaction and not in the accounts of the third party facilitating the transaction. The accounts of the agent show only the fee charged for the facilitation services rendered. For example, reassignment may occur when one government unit collects taxes and then transfers some or all of the taxes to another government unit. In some arrangements of this nature, the collecting unit retains a small portion of the tax collected in return for its collection efforts. The amount retained is treated as the sale of a service by the collecting unit, while the total amount of taxes collected is shown as revenue for the beneficiary government unit...