SNA/M1.06/08

Fourth meeting of the Advisory Expert Group on National Accounts
30 January – 8 February 2006, Frankfurt

Issue 21
Contracts and leases of assets

CONTRACTS AND LEASES: GOVERNMENT PERMITS

by John Pitzer

UPDATE OF THE 1993 SNA - ISSUE No. 21
ISSUES PAPER FOR THE JANUARY 2006 AEG MEETING

CONTRACTS AND LEASES: GOVERNMENT PERMITS

John Pitzer[1]

EXECUTIVE SUMMARY

1. Governments exercise their sovereign powers to require non-government units to purchase permits to engage in specified activities. Some of these permits that can be sold only by a government are also sold on a restricted basis, where restricted means the number of permits is limited and the permit holder enjoys some degree of exclusivity in undertaking the permitted activity. Not only is the purchaser of the permit entitled to engage in the specified activity, but other units are forbidden from engaging in that activity. This restricted access normally will produce above-market profits. Depending on the degree of exclusivity and the demand for the goods and services produced by the activity, these permits can be sold for large amounts.

2. The SNA currently stipulates that unrestricted[2] government permits issued on the basis of the exercise of sovereign power are either taxes or sales of government-produced services. There is no guidance, however, about restricted permits. The large amounts paid for some permits and the fact that the prices of some permits are determined by auction have raised the possibility that this type of permit could be treated as an intangible non-produced asset, specifically leases and other transferable contracts, rather than as taxes or sales of services in the same way as unrestricted permits.

3. The Canberra II group discussed this subject at its April 2005 meeting on the basis of two papers, one advocating treatment of restricted permits as taxes, and the other advocating treatment as intangible non-produced assets. The result was an agreement that the restricted permits should be treated as taxes and that the method of setting the price of restricted permits did not affect this choice. Treatment as taxes does not conflict with the treatment in business accounting. If a permit is valid for more than one year, then the current portion of the cost of the permit is an expense, classified as taxes payable for the owner of the permit, and the unexpired portion is a financial asset, just as in business accounting. The issuing government will have a corresponding liability for the taxes collected in advance.

4. Some related topics were not discussed. An amendment to the current dividing line between the treatment of an unrestricted government permit as a tax or as the sale of a service is the subject of SNA update issue 35—Tax revenues, uncollectible taxes and tax credits—which is being investigated by the Task Force on the Harmonization of Public Sector Accounts. For restricted permits, it is generally the case that the price of the permit is out of all proportion to the costs of producing any services that may accompany the permit. As a result, the sales of almost all restricted permits will be treated as taxes. The treatment of government permits which involve the use of an underlying asset, such as leases of fixed assets, land, and sub-soil assets, are not covered in this issues paper because it is covered by the more general issue of contracts and leases.

---

[1] Brent Moulton reviewed this paper and suggested several improvements.
[2] In this paper an "unrestricted permit" indicates that permits are issued without a limit on the number of such permits which may be issued. A "restricted permit" is one of a limited number of permits issued.

Recommendations of the Canberra II group:

(i) All government permits that rely on the exercise of a government's sovereign powers and are issued on a restricted basis should be treated as taxes because they are compulsory, unrequited payments to a government unit, the definition of a tax. The permits are compulsory because they are required before any unit can engage in the specified activity. They are unrequited because the permits are merely a means for the government to receive the above-market profits created by its exercise of sovereign powers, which is just one aspect of the government's power to tax. An example might be a permit to operate one of a small number of casinos. Permits issued on an unrestricted basis are either taxes or sales of services, as described in SNA paragraphs 7.55, 7.70(c), and 8.54(c). No change to the SNA is recommended for these permits. (See section 3 of the main paper)

(ii) The method of setting the price of a restricted government permit is not relevant for its treatment as a tax or an asset. Auctions can be efficient methods of establishing a price when there is a limited number of an item for sale. The question with an auction is the character of the item being sold, not the auction itself. In this case, the character of a restricted government permit is not changed when it is sold by auction. It is rational for unit to bid at an auction to pay a tax, as happens when permits are sold by auction. (See section 4 of the main paper)

(iii) If permits are valid for several years, only the portion representing the current year is a tax. The remainder is a financial asset for the purchaser and a liability for the government. The value of this asset and liability decreases in value as each succeeding year passes. This treatment accords with the business accounting treatment of permits. As appropriate, the amounts attributed to taxes payable and receivable in future periods can be discounted so that the value of the financial asset and liability equal the present value of the future taxes payable and receivable. (See section 5 of the main paper)

(iv) Some permits are transferable and some can be returned to the issuing government for a refund of the unexpired portion. Such transactions are treated in the same way as transactions in other financial assets and liabilities. In addition, if a multi-year permit is transferable, a non-produced, non-financial asset (specifically an item under contracts, leases and licences) is deemed to be created with a zero value when the permit is issued. Thereafter, the value of this asset may vary according to market conditions. (See section 6 of the main paper)

5. Does the AEG agree with these recommendations?

CONTRACTS AND LEASES: GOVERNMENT PERMITS

1. Current SNA treatment and reasons to clarify it

1. Governments exercise their sovereign powers to require non-government units to purchase permits to engage in specified activities.[3] It is recognized in the SNA that some of these payments are taxes and some are sales of services produced by the government. In paragraph 7.48 (repeated in paragraph 8.43) taxes are defined as "compulsory, unrequited payments, in cash or in kind, made by institutional units to government units. They are described as unrequited because the government provides nothing in return to the individual unit making the payment, although governments may use the funds raised in taxes to provide goods or services to other units, either individually or collectively, or to the community as a whole." In paragraph 7.55 (repeated in paragraph 8.45), the conceptual distinction between permits treated as taxes and sales of services is addressed: "One of the regulatory functions of governments is to forbid the ownership or use of certain goods or the pursuit of certain activities, unless specific permission is granted by issuing a licence or other certificate for which a fee is demanded. If the issue of such licences involves little or no work on the part of government, the licences being granted automatically on payment of the amounts due, it is likely that they are simply a device to raise taxes, even though the government may provide some kind of certificate, or authorization, in return. However, if the government uses the issue of licences to exercise some proper regulatory function -- for example, checking the competence, or qualifications, of the person concerned, checking the efficient and safe functioning of the equipment in question, or carrying out some other form of control which it would otherwise not be obliged to do -- the payments made should be treated as purchases of services from government rather than payments of taxes, unless the payments are clearly out of all proportion to the costs of providing the services. The borderline between taxes and payments of fees for services rendered is not always clear cut in practice, however."

2. The borderline between taxes and sales of services for permits purchased by enterprises is addressed in paragraph 7.70(c) in similar conceptual terms: "Business and professional licences [classified as other taxes on production] consist of taxes paid by enterprises in order to obtain a licence to carry on a particular kind of business or profession. 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…" The treatment of licences obtained by households for personal use is addressed in paragraph 8.54(c) more pragmatically: "payments by persons or households for licences to own or use vehicles, boats or aircraft and for licences to hunt, shoot or fish are treated as current taxes. Payments for all other kinds of licences (e.g., driving or pilot's licences, television or radio licences, firearm licences, etc.) or fees to government (e.g., payments for passports, airport fees, court fees, etc.) are treated as purchases of services rendered by governments."

---

[3] The term sovereign power is used here to represent the power to tax. Strictly speaking, a sub-national government may have the power to tax but not be considered sovereign. Permits and licenses are considered equivalent terms.

3. Since the publication of the 1993 SNA, it has been noted that some government permits might qualify as leases and other transferable contracts, which form one category in the classification of economic assets. The definition of an economic asset is given in paragraph 10.2, "The assets recorded in the balance sheets of the System are economic assets. These are defined as entities: (a) over which ownership rights are enforced by institutional units, individually or collectively; and (b) from which economic benefits may be derived by their owners by holding them, or using them, over a period of time." Among the types of assets recognized in the classification of assets are intangible non-produced assets, defined in the annex to chapter XIII as "constructs of society. They are evidenced by legal or accounting actions, such as the granting of a patent or the conveyance of some economic benefit to a third party. Some entitle their owners to engage in certain specific activities and to exclude other institutional units from doing so except with the permission of the owner. Intangible non-produced assets consist of patented entities, leases and other transferable contracts, purchased goodwill and other intangible non-produced assets." The nature of the category leases and other transferable contracts is elaborated in several parts of the SNA (underlining added):

- Non-financial intangible non-produced assets are constructs devised by society evidenced by legal or accounting actions. They make their appearance in the System when entities are patented, <u>transferable contracts are written</u>, or enterprises are sold at prices that exceed the net worth of the enterprise in question, etc…<u>The writing of transferable contracts consists of the coming into force of a binding agreement that provides some economic benefit that can be passed on to a third party independently of the provider of that benefit</u>. (Paragraph 12.21)

- Intangible non-produced assets include patented entities, transferable contracts, purchased goodwill, etc. Entities not evidenced by legal or accounting actions -- i.e., such actions as the granting of a patent or <u>the conveyance of some economic benefit to a third party</u> -- are excluded. (paragraph 13.19)

- <u>Intangible non-produced assets entitle their owners to engage in certain specific activities or to produce certain specific goods or service and to exclude other institutional units from doing so except with the permission of the owner</u>. The owners of the assets may be able to earn monopoly profits by restricting the use of the assets to themselves. Included are patented entities, leases and other transferable contracts, and purchased goodwill. (paragraph 13.62)

- [Lease and other transferable contracts are] <u>leases or contracts where the lessee has the right to convey the lease to a third party independently of the lessor</u>. Examples include leases of land and buildings and other structures, concessions or exclusive rights to exploit mineral deposits or fishing grounds, transferable contracts with athletes and authors and options to buy tangible assets not yet produced. Leases on the rental of machinery are excluded from non-financial intangible assets. (annex to chapter XIII)

4. Paragraph 7.55 speaks only of permits being taxes if they are granted automatically on payment of the amounts due, which suggests that the number of permits available is unlimited. The paragraph says nothing about permits issued in limited numbers. Like the intangible non-produced assets listed in paragraph 13.62 (above), government permits allow their owners to engage in certain specific activities or to produce certain specific goods or services. In addition, if the number of permits is limited, then implicitly other units are excluded from engaging in those activities, although it is the government that is excluding other units, not the permit owners. Thus, it is possible that permits issued in limited numbers could be interpreted as satisfying the criteria of paragraph 13.62. There is no language in the SNA directly addressing this possibility, either by suggesting that permits issued in limited numbers could be treated as assets or by stating that they should be treated as taxes, sales of services, or anything else. An additional area of uncertainty is whether a permit needs to be transferable to be an asset, as implied by the citations above.

2. Recommendations

5. The Canberra II group discussed this issue at its April 2005 meeting. There were two papers arguing opposing positions. The paper by John Pitzer, *The Definition of a Tax and the Treatment of Government Permits and Licenses* argued that "all permits that only grant permission to engage in an activity should be treated as taxes, even if the number of permits is restricted to create a monopolistic market." In effect, if a government is the only unit that can issue a particular permit, then it is either a tax or a sale of a service. The paper by Peter Harper, *Treatment of Permits in the National Accounts*, proposes that "permits issued by governments that enable their owners to engage in certain specific activities or to produce certain specific goods and services and which are issued on a restricted[4] basis should be treated as…intangible non-produced assets. Examples of such permits include permits (licences) to operate taxis and casinos." Thus, the identifying characteristic of a government permit that should be treated as an asset is that it is issued on a restricted basis.

6. The only government permits that were considered for possible treatment as an asset are permits that are issued on a restricted basis and grant permission that only a government can grant using its sovereign powers. Permits issued on an unrestricted basis are covered by paragraphs 7.55, 7.70(c), and 8.54(c), cited above. The borderline between taxes and sales of services discussed in those paragraphs was not dealt with by the Canberra II group. It is covered by issue # 35—Tax revenues, uncollectible taxes and tax credits (recording of taxes)—which is being investigated by the Task Force on the Harmonization of Public Sector Accounts. Permits that grant permission to use an underlying asset, such as government-owned land, sub-soil assets, R&D assets, machines, equipment, or structures, are treated in accordance with the general guidelines established for those assets, including leases and property income. At question here are only permits for which there is no underlying asset and which are issued in restricted numbers.

7. A strong majority expressed a preference for the position that all restricted permits that can be issued only by a government exercising its sovereign powers should be treated as taxes. Although the issuing government may provide a service to the purchaser of the permit, it is generally the case that the price of restricted permits will be out of all proportion to the cost of providing any services that may accompany the permits so that almost all restricted permits would be classified as taxes rather than sales of services in accordance with the criteria of paragraph 7.55. However, this issues paper does not recommend any change to the SNA's boundary between taxes and services described in paragraph 7.55.

3. Do restricted permits have the characteristics of taxes or non-financial assets?

8. Permits are compulsory payments to government units. Most explicit taxes[5] become compulsory only after a taxable event occurs or simultaneous with the event. In many cases, taxpayers have some control over whether and when such an event occurs. For example, a sales tax is compulsory only after the sale of a taxable item, an income tax is compulsory only after income is earned, and a property tax is compulsory only when property is owned. Permits differ from explicit taxes in that they require a payment before the event occurs. In other respects, however, payments for permits have the same degree of compulsion as explicit taxes. That is, a unit may have the option to engage or not engage in a certain activity, but if it decides to engage in the activity it must purchase a permit. Similarly, a consumer has the option to purchase or not purchase a good, but if the consumer decides to purchase the good, a sales tax becomes compulsory.

---

[4] Where restricted means the holder enjoys some degree of exclusivity in undertaking the permitted activity.

[5] The term explicit tax is used to refer to items explicitly labeled as taxes, such as income taxes, value-added taxes, excise taxes, and so forth. The term is used so that permits treated as taxes can be referred to as a different category of transactions.

Payment before the event makes the purchase appear to be more voluntary than explicit taxes, but in fact the degree of compulsion is the same and purchases of permits should be considered compulsory payments to government units. The difference between explicit taxes and permits in this regard is administrative; if payment before the event were not required, then either the number of permits would effectively be unlimited or it might be difficult to collect the payments after the fact.

9. Payments for permits are also unrequited payments. Given that the decision to purchase a permit is voluntary, the purchaser must expect to be better off with the permit than without it and, therefore, appears to receive something of value. It does not follow, however, that the purchase is requited. If the number of permits were unlimited and there were no other restrictions on competition, then one can assume perfect competition prevails. In that case, it is easy to see that the required purchase of a permit is simply a tax that raises the price of the output. No producer would willingly purchase such a permit without a legal requirement to do so. If the number of permits is limited, then monopoly (above-market)[6] profits may exist and units will be willing to pay to receive those profits.[7] The exchange of money for a legal claim to those monopoly profits (the permit) appears to be a requited transaction. Consider, however, the source of the monopoly profits. Only governments have the sovereign power necessary to create the monopoly profits by forbidding competitors to engage in economic activity without the permit. Exercise of those sovereign powers to raise prices, create monopoly profits, and then claim those profits by selling compulsory permits is equivalent to imposing a tax on the goods and services authorized to be produced by the permit. Instead of collecting the tax directly from purchasers of the goods and services when they are produced and sold, the government collects the tax when the permit is sold and the owner of the permit serves as a middleman by implicitly collecting the tax later from the purchasers through prices higher than would otherwise result. The power to tax is not recognized as an asset by the SNA.

10. To recognize permits as assets would be an indirect way to treat the power to tax as an economic asset. The truth of this statement can also be seen by considering what asset the government is selling if permits were assets. That is, if permits were assets, then the government selling the permits must have the same asset on its balance sheet before the sale, but what is that asset and what is it value? It can only be the power to require the purchase of restricted permits, a power that exists only because of the government’s sovereign powers. Moreover, it is a power that the government can change at will increasing or decreasing the scope of the restricted permits that other units are compelled to purchase. Thus, the government’s asset is the present value of all future restricted permits, something that is created at will by the government, can be changed at any time, and exists only because of the government’s sovereign powers. It is just one aspect of the power to tax.

11. It has been argued that creating the monopoly profits will misallocate capital and reduce the value of other assets. Recording the permits as an asset would to some extent serve as a proxy for the decreased value of other assets. Governments, however, interfere in markets for many reasons and there is no attempt in the SNA to correct for other misallocations. Indeed, if capital is actually misallocated, the reduced prices of capital will reflect a genuine decrease in productive capacity, so that no compensation is desirable.

---

[6] Assuming more than one permit is issued, the resulting profits cannot be pure monopoly profits. Nevertheless, it is convenient to refer to the above-market profits hereafter as monopoly profits.

[7] It also has to be assumed that the volume of production permitted, the area in which sales are permitted, or some other restrictions are attached to the permits. Just limiting the number of permits may not be sufficient to produce monopoly profits. If monopoly profits do not exist, no unit will bid for the permits.

12. The language used to this point assumes that restricted permits are purchased by enterprises. Some restricted permits, such as recreational hunting and fishing permits and permits to purchase an automobile, are sold to final consumers. The analysis of permits sold to final consumers is the same, but needs to be expressed in terms of utility. That is, a permit that only conveys the right to engage in an activity merely increases the cost of engaging in the activity and will be purchased only if the consumer gains sufficient utility from the activity.

13. ***Conclusion: The sale of a restricted permit that grants permission to engage in an activity and can be sold only by a government exercising its sovereign powers meets the definition of a tax because it is a compulsory, unrequited payment to the government unit. Neither the permit nor the government's power to force other units to purchase the permit is a non-financial asset.***

4. The method of setting the price of a permit does not affect its treatment as a tax

14. If the supply of permits is unlimited, the government will set the price of the permit on some basis, and any unit willing to pay the required amount can purchase the permit. Units will purchase permits until the net benefits expected from the activity after purchasing the permit equals the best alternative investment or activity. The criteria used to set the prices of permits can be quite diverse. A prime consideration will be the policy reason for requiring a permit. It might be non-financial, such as compiling a business register, in which case the price might be quite low. On the other hand, the government might require the permits as a means of limiting an activity, such the number of liquor stores or casinos, in which case the price might be quite high. Another possibility is that the permit's only purpose is to raise revenue, in which case profit maximizing principles will be applied.

15. If the number of permits is limited, demand will exceed supply if the price is set too low and vice-versa. In this situation, the government must raise or lower the price if it wishes to clear the market. If the price is too low and the government does not wish to raise the price, then it must employ non-monetary criteria to select the units allowed to purchase the permits, and those units will receive a windfall gain. Whether the intention is to raise revenue or achieve policy goals by setting a high price or limiting the number of permits, the government might determine the correct price by trial and error, especially if permits are issued frequently and/or are valid for short periods. If the permits are issued rarely and/or are valid for long periods, the market-clearing price should be determined in advance. In this case, an auction is an alternative, effective method of price setting. Even though the prospective purchasers of the permits will not receive anything of intrinsic value, they will bid for the right to purchase a permit because the net benefits expected from the permitted activity will provide at least the market rate of return. The price will be bid up until the marginal bidder expects to earn exactly the market rate of return, as determined after the purchase of the permit is taken into account. Thus, despite the common-sense notion that no unit would bid for the right to pay a tax because nothing of value is received in return, such bids are logical.

16. The validity of this counter-intuitive result can also be demonstrated by considering alternative methods of setting the price of a permit. A government could offer to sell an unlimited number of permits but set the price so high that only a few enterprises would purchase them, or it could limit the number of permits to be sold and set the same high price, or it could sell the permits by auction. All three methods will produce essentially the same result, depending on how accurately the government can judge demand for the permits.[8] An auction is simply a way to let the market set the price and avoid having to set the price administratively. There is a parallel with sales, excise, VAT, and other explicit taxes. Normally an unlimited quantity of the taxed goods is available for sale and

[8] This point also shows that there is no real difference between restricted and unrestricted permits because a government could offer to sell an unlimited number of permits but set the price so high that only a few permits will be sold.

the amount of tax revenue raised depends on the tax rate and the price elasticity of demand. It is possible, however, to limit the quantity of goods available for sale and to sell the rights to purchase the good. During the discussion at the Canberra II meeting, it was noted that at least one country limits the number of personal automobiles sold each year and sells permits to purchase the automobiles by auction, treating the sales of the permits as taxes.

17. ***Conclusion: Establishing a tax rate or the price of a restricted permit on the basis of how much units are willing to pay does not prevent the payments from being taxes. It is quite sensible for a government to set the price of a permit to maximize the revenue it expects to receive. When setting the cost of a permit to maximize revenue and the number of permits is limited, the government can use a market device, such as an auction, without preventing the permit from being treated as a tax.***

5. Multi-year permits and parallels with business accounting

18. Consistency with business accounting is one factor considered when selecting the treatment of a transaction in the SNA. In this case, it was noted that businesses purchasing permits valid for multi-year periods record them as acquisitions of assets. This practice is not, however, a reason to treat permits as non-financial assets. Instead, the purchase of a permit that is valid for several years should be seen as the advance payment of a tax. The portion representing a tax in future years should be treated as a financial asset of the purchaser of the permit, classified as other accounts receivable, and a liability of the issuing government, classified as other accounts payable. Thus, if a permit is valid for five years, one-fifth of the total amount paid should be treated as a tax in the year the permit is purchased and the remaining amount should be treated as a financial asset or liability.[9] In each succeeding year, the financial asset and liability would be reduced and a tax payable or receivable would be the counter entry. With this treatment, the parallel with business accounting is maintained. Actual implementation should, however, be practical. If the permits are sold on a regular basis for amounts that do not change greatly, then recording the entire purchase as a tax in the year purchased would achieve a similar result at less cost.

6. Other implementation issues

19. In some cases, the permit holder might be able to return the unexpired portion to the issuing government. If a permit is returned to the government, the payment of the government to the permit owner would be the liquidation of the financial asset and its corresponding liability. If, however, the purchase of a multi-year permit had been treated in its entirety as a tax as a practical way to simplify the accounting, then if the permit is returned to the government, the government would record a negative tax receivable.

20. Some permits might be tradable. If the price of the secondary sale of a permit is the same as the recorded unexpired value, then the secondary sale from one non-government unit to another could be recorded simply as the sale and purchase of a financial asset. In general, however, permits may be traded for higher or lower prices than their recorded values. Therefore, it is necessary to assume that a non-produced, non-financial asset (specifically an item under the heading contracts, leases and licences) is deemed to have been created with a zero value when a multi-year, transferable permit is issued. Thereafter, the value of this asset may vary according to market conditions. Thus, if the owner of the permit later sells the permit in a secondary market for a price higher than the original price paid to the government, the gain on the sale would be treated as the sale of this non-produced, non-financial asset.

[9] Distributing the total amount paid equally over the period for which the permit is valid assumes a zero interest rate. If the amount paid is large, the period of validity is long, or the current interest rate is high, it would be appropriate to discount the amounts attributable to future periods.

Some restricted permits might be valid in perpetuity. For example, a license to operate a taxi may never expire. Permits of this nature should be extremely rare as the government is giving up any opportunity to change the tax rate in the future. In effect, the government and the permit owner have entered into a permanent contract for the permit holder to pay taxes as long as there is any demand for the goods and services authorized to be produced by the permit. The financial asset thus created is like a perpetual bond and conceptually should be treated in the same manner. The effort to compile statistics on this basis, however, may cost much more than the benefits obtained. Simpler methods would be to amortize the price of the permit over some suitably long but arbitrary period or to treat it as a capital tax in the year the permit is sold.

EXAMPLES TO ILLUSTRATE THE TREATMENT OF GOVERNMENT PERMITS

EXAMPLE 1: A ONE YEAR PERMIT

An enterprise purchases a permit on 1 January 2006 for 100 and the permit is valid for one year. The purchase is an other tax on production. The transaction would be recorded as follows for the purchaser and the government:

Permit Owner			Government		
Uses:	Other taxes on production	100	Change in assets:	Currency and deposits	100
Change in assets:	Currency and deposits	-100	Resources:	Other taxes on production	100

Using the style of the tables in the SNA, the transaction would be:

Uses/change in assets Resources/chg in liabilities

Permit owner	Government	Transactions , Other Flows, Stocks, and Balancing Items	Government	Permit owner
		Generation of Income Account		
100		D.29 Other taxes on production		
		Allocation of Primary Income Account		
		D.29 Other taxes on production	100	
		Financial Account		
-100	100	F.2 Currency and deposits		

EXAMPLE 2: A MULTI-YEAR PERMIT

An enterprise purchases a permit on 1 January 2006 for 500 and the permit is valid for five years. The total amount is an other tax on production, but it is allocated over the five year period. It is assumed either that the interest rate is zero or that the amount is too small to warrant discounting future transactions. The transactions are:

2006

Permit Owner			Government		
Uses:	Other taxes on production	100	Change in assets:	Currency and deposits	500
Change in assets:	Other accounts receivable	400	Resources:	Other taxes on production	100
Change in assets:	Currency and deposits	-500	Chg in liabilities:	Other accounts payable	400

2007, 2008, 2009, and 2010

Permit Owner			Government		
Uses:	Other taxes on production	100	Chg in liabilities:	Other accounts payable	-100
Change in assets:	Other accounts receivable	-100	Resources:	Other taxes on production	100

The SNA tables for 2006 and 2007 are:

Uses/change in assets — Resources/chg in liabilities

Permit owner	Government	Transactions , Other Flows, Stocks, and Balancing Items	Government	Permit owner
		2006		
		Generation of Income Account		
100		D.29 Other taxes on production		
		Allocation of Primary Income Account		
		D.29 Other taxes on production	100	
		Financial Account		
-500	500	F.2 Currency and deposits		
400		F.7 Other accounts receivable/payable	400	
		End of Year Balance Sheet		
400		AF.7 Other accounts receivable/payable	400	
		2007		
		Generation of Income Account		
100		D.29 Other taxes on production		
		Allocation of Primary Income Account		
		D.29 Other taxes on production	100	
		Financial Account		
-100		F. 7 Other accounts receivable/payable	-100	
		End of Year Balance Sheet		
300		AF.7 Other accounts receivable/payable	300	

EXAMPLE 3: A MULTI-YEAR PERMIT SOLD ON A SECONDARY MARKET

An enterprise purchases a permit on 1 January 2006 for 500 and the permit is valid for five years. After one year, the original purchaser sells the permit to another unit on a secondary market for 400. Because there is no difference from the value shown on the accounts, no non-financial asset exists. It is assumed either that the interest rate is zero or that the amount is too small to warrant discounting future transactions.

2006

Original Permit Owner
Uses: Other taxes on production 100
Change in assets: Other accounts receivable 400
production 100
Change in assets: Currency and deposits -500

Government
Change in assets: Currency and deposits 500
Resources: Other taxes on
Chg in liabilities: Other accounts payable 400

2007

Original Permit Owner
Change in assets: Currency and deposits 400
receivable 400
Change in assets: Other accounts receivable -400

Second Permit Owner
Change in assets: Other accounts
Change in assets: Currency and deposits -400

Second Permit Owner
Uses: Other taxes on production 100
Change in assets: Other accounts receivable -100
production 100

Government
Chg in liabilities: Other accounts payable -100
Resources: Other taxes on

The SNA tables for 2006 and 2007 are:

Uses/change in assets Resources/chg in liabilities

First Permit owner	Second Permit Owner	Government	Transactions , Other Flows, Stocks, and Balancing Items	Government	Second Permit Owner	First Permit owner
			2006			
			Generation of Income Account			
100			D.29 Other taxes on production			
			Allocation of Primary Income Account			
			D.29 Other taxes on production	100		
			Financial Account			
-500		500	F.2 Currency and deposits			
400			F.7 Other accounts receivable/payable	400		
			End of Year Balance Sheet			
400			AF.7 Other accounts receivable/payable	400		

2007						
First Permit owner	Second Permit Owner	Government	Transactions , Other Flows, Stocks, and Balancing Items	Government	Second Permit Owner	First Permit owner
			Generation of Income Account			
	100		D.29 Other taxes on production			
			Allocation of Primary Income Account			
			D.29 Other taxes on production	100		
			Financial Account			
400	-400		F.2 Currency and deposits			
-400	300		F.7 Other accounts receivable/payable	-100		
			End of Year Balance Sheet			
	300		AF.7 Other accounts receivable/payable	300		

EXAMPLE 4: A MULTI-YEAR PERMIT SOLD FOR A PROFIT

An enterprise purchases a permit on 1 January 2006 for 500 and the permit is valid for five years. After one year, the original purchaser sells the permit to another unit on a secondary market for 500. A non-financial asset is recognized when it is sold for a price that differs from the value of the financial asset (accounts receivable). The value of the non-financial asset is 100, representing the difference between the market price and the value of the financial asset; its value is assumed to decline by 25 per year over the remaining 4 years of its life. It is assumed either that the interest rate is zero or that the amount is too small to warrant discounting future transactions.

2006

Original Permit Owner			Government		
Uses:	Other taxes on production	100	Change in assets:	Currency and deposits	500
Change in assets:	Other accounts receivable	400	Resources:	Other taxes on	
production	100				
Change in assets:	Currency and deposits	-500	Chg in liabilities:	Other accounts payable	400

2007

Original Permit Owner		
Change in assets:	Intangible non-prod. assets	100
Chg in net worth:	Net worth	100

Original Permit Owner			Second Permit Owner		
Change in assets:	Currency and deposits	500	Change in assets:	Intangible non-prod.	
assets	100				
Change in assets:	Intangible non-prod. assets	-100	Change in assets:	Other accounts	
receivable	400				
Change in assets:	Other accounts receivable	-400	Change in assets:	Currency and deposits	-500

Second Permit Owner			Government		
Uses:	Other taxes on production	100	Chg in liabilities:	Other accounts payable	-100
Change in assets:	Other accounts receivable	-100	Resources:	Other taxes on	
production	100				

Second Permit Owner		
Chg in net worth:	Net worth	-25
Change in assets:	Intangible non-prod. assets	-25

The SNA tables for 2006 and 2007 are:

Uses/change in assets | Resources/chg in liabilities

First Permit owner	Second Permit Owner	Government	Transactions , Other Flows, Stocks, and Balancing Items	Government	Second Permit Owner	First Permit owner
			2006			
			Generation of Income Account			
100			D.29 Other taxes on production			
			Allocation of Primary Income Account			
			D.29 Other taxes on production	100		
			Financial Account			
-500		500	F.2 Currency and deposits			
400			F.7 Other accounts receivable/payable	400		
			End of Year Balance Sheet			
400			AF.7 Other accounts receivable/payable	400		
			2007			
			Generation of Income Account			
	100		D.29 Other taxes on production			
			Allocation of Primary Income Account			
			D.29 Other taxes on production	100		
			Capital Account			
-100	100		Intangible non-produced assets			
			Financial Account			
500	-500		F.2 Currency and deposits			
-400	300		F.7 Other accounts receivable/payable	-100		
			Other Changes in Volume of Assets Account			
100			K.3 Economic appearance of non-produced assets			
	-25		K.6 Economic disappearance of non-produced assets			
			B.10.2 Changes in net worth due to other changes in volume of assets		-25	100
			End of Year Balance Sheet			
	75		AN.22 Intangible non-produced assets			
	300		AF.7 Other accounts receivable/payable	300		

EXAMPLE 5: A MULTI-YEAR PERMIT RETURNED TO THE GOVERNMENT

An enterprise purchases a permit on 1 January 2006 for 500. The permit is valid for five years, but the purchaser has the right to return the permit to the government at any time and receive a refund for the unexpired validity period. After one year, the purchaser returns the permit to the government

2006

Original Permit Owner			Government		
Uses:	Other taxes on production	100	Change in assets:	Currency and deposits	500
Change in assets:	Other accounts receivable	400	Resources:	Other taxes on	
production	100				
Change in assets:	Currency and deposits	-500	Chg in liabilities:	Other accounts payable	400

2007

Original Permit Owner			Government		
Change in assets:	Currency and deposits	400	Chg in liabilities:	Other accounts payable	-400
Change in assets:	Other accounts receivable	-400	Chg in assets:	Currency and deposits	-400

The SNA tables for 2006 and 2007 are:

Permit owner	Government	Transactions , Other Flows, Stocks, and Balancing Items	Government	Permit owner
		2006		
		Generation of Income Account		
100		D.29 Other taxes on production		
		Allocation of Primary Income Account		
		D.29 Other taxes on production	100	
		Financial Account		
-500	500	F.2 Currency and deposits		
400		F.7 Other accounts receivable/payable	400	
		End of Year Balance Sheet		
400		AF.7 Other accounts receivable/payable	400	
		2007		
		Financial Account		
400	-400	F.2 Currency and deposits		
-400		F. 7Other accounts receivable/payable	-400	