

Chapter 9: Transfer income accounts (revised title)

(OLD Chapter 8: The redistribution of income accounts)

A. Introduction

- 9.1 This chapter describes two accounts that show how income is redistributed between institutional units by means of the payments and receipts of current transfers. This redistribution represents the second stage in the process of income distribution as shown in the accounts of the SNA. The two accounts are the ~~secondary distribution of income~~ transfers other than social transfers in kind account and the ~~redistribution of incomes~~ social transfers in kind account.
- 9.2 The ~~secondary distribution of income~~ transfers other than social transfers in kind account shows how the balance of ~~primary earned~~ incomes of an institutional unit or sector is transformed into its disposable income by the receipt and payment of current transfers excluding social transfers in kind.
- 9.3 The ~~redistribution of incomes~~ social transfers in kind account takes the process of income redistribution one stage further. It shows how the disposable incomes of households, non-profit institutions serving households (NPISHs) and government units are transformed into their ~~adjusted~~ disposable incomes adjusted for social transfers in kind, by the receipt and payment of social transfers in kind. Non-financial and financial corporations are not involved in this process.
- 9.4 Much of this chapter is concerned with the detailed definition, description and classification of the various types of current transfers recorded in the ~~secondary distribution of income~~ transfers other than social transfers in kind account and the redistribution of incomes social transfers in kind accounts. As part of this description, there is discussion of the composition of social insurance schemes and their role as the recipients of social contributions and dispensers of social benefits.
- 9.5 Understanding the difference between four related concepts is crucial to an appreciation of the two accounts described in this chapter. These terms are social insurance, social security, social assistance and social transfers in kind. These are explained very briefly below and in greater detail in later parts of the chapter.
- 9.6 Social insurance schemes are schemes in which social contributions are paid by employees, self-employed or others, or by employers on behalf of their employees, in order to secure entitlement to social insurance benefits, in the current or subsequent periods, for the employees, self-employed or other contributors, their dependants or survivors. The social benefits payable by social insurance schemes are of two kinds, pensions and other benefits such as medical, education, housing or unemployment benefits. Pensions are always paid in cash; non-pension benefits may be payable in cash or in kind.
- 9.7 Two main types of social insurance schemes may be distinguished:
- a. The first consists of social security schemes covering the entire community, or large sections of the community, that are imposed, controlled and financed by government units. Pensions payable under these schemes may or may not be related to levels of salary of the beneficiary or history of employment. Non-pension benefits are less frequently linked to salary levels.
 - b. The second type consists of other ~~employment related~~ social insurance schemes. These schemes mainly derive from an employer-employee relationship in the provision of pension entitlement that is part of the conditions of employment and where responsibility for the provision of benefits does not devolve to general government under social security provisions. Such schemes may also relate to employer-independent schemes, provided to, for example, certain groups of self-employed persons.
- 9.8 Social assistance benefits in cash are current transfers payable to households by government units or NPISHs to meet the same needs as social insurance benefits but which are not made under a social insurance scheme requiring participation usually by means of social contributions.
- 9.9 Social transfers in kind consist of social security benefits payable in kind and social assistance benefits payable in kind.

1. The ~~secondary distribution of income~~ transfers other than social transfers in kind account

- 9.10 Apart from the balance of ~~primary earned~~ incomes, the balancing item carried forward from the ~~primary distribution of earned~~ income accounts, and disposable income, the balancing item on the ~~secondary distribution of income~~ transfers other than social transfers in kind account, all the entries in the ~~secondary distribution of income~~ transfers other than social transfers in kind account consist of current transfers. *A transfer is a transaction in which one institutional unit provides a good, service or asset to another unit without receiving from the latter any good, service or asset in return as a direct counterpart.* Transfers are separated into current transfers and capital transfers. *Capital transfers are unrequited transfers where either the party making the transfer realizes the funds involved by disposing of an asset (other than cash or inventories), relinquishing a financial claim (other than accounts receivable) or the party receiving the transfer is obliged to acquire an asset (other than cash) or both conditions are met.* Capital transfers are often large and irregular but neither of these are necessary conditions for a transfer to be considered a capital rather than a current transfer. Other transfers are described as current. *A current transfer is a transaction in which one institutional unit provides a good or service to another unit without receiving from the latter any good or service directly in return as counterpart and does not oblige one or both parties to acquire, or dispose of, an asset.* The concept of a transfer is explained in more detail in section B below.
- 9.11 Table ~~8.19.1~~ shows the concise form of the ~~secondary distribution of income~~ transfers other than social transfers in kind account identifying the main kinds of transfers. Current transfers may take place between resident and non-resident units as well as between resident institutional units.
- 9.12 The transfers payable by an institutional unit or sector are recorded on the left-hand side of the account under ~~uses expenditures~~. For example, in table ~~8.19.1~~, current taxes on income, wealth etc. payable by the household sector are recorded at the intersection of the row for this item and the ~~uses expenditures~~ column for the household sector. The transfers receivable by an institutional unit or sector are recorded on the right-hand side of the account under ~~resources revenues~~. For example, social benefits other than social transfers in kind receivable by the household sector are recorded at the intersection of the row for this item and the ~~resources revenues~~ column for the household sector.
- 9.13 In accordance with the general accounting rules of the SNA, the entries in the account, apart from the balancing items, refer to amounts payable and receivable. These may not necessarily coincide with the amounts actually paid or received in the same accounting period. Any amounts payable and not paid or receivable and not received are recorded in the financial account, under other accounts receivable or payable.
- 9.14 Three main kinds of current transfers are distinguished in the ~~secondary distribution of income~~ transfers other than social transfers in kind account:
- Current taxes on income, wealth, etc.;
 - Social contributions and benefits;
 - Other current transfers.

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

Current taxes on income, wealth, etc.

- 9.15 *Current taxes on income, wealth, etc. consist mainly of taxes on the incomes of households or profits of corporations and of taxes on wealth that are payable regularly every tax period (as distinct from capital taxes levied infrequently).* In table ~~8.19.1~~, current taxes on income, wealth, etc. receivable appear under ~~resources revenues~~ for the general government sector and possibly the rest of the world, while taxes payable appear under ~~uses expenditures~~ for the household and non-financial and financial corporation sectors, and possibly for the non-profit institutions serving households (NPISHs) sector and the rest of the world.

Social contributions and benefits

- 9.16 *Social contributions are actual or imputed ~~payments~~ contributions payable to social insurance schemes to make provision for social insurance benefits to be paid. Social contributions may be made by employers on behalf of their employees. As such they form part of ~~compensation~~ remuneration of employees and are included in the balance of ~~primary~~ earned income of households. In the ~~secondary distribution of~~ income transfers other than social transfers in kind account, these contributions together with payments made by households themselves in their capacity as employed, self-employed or unemployed persons, are recorded as payable by households and receivable by the units responsible for the social insurance schemes. Social contributions may be receivable by a unit in any sector in their capacity as providing a social insurance scheme to their employees (even exceptionally households if in their capacity as unincorporated enterprises they run a social insurance scheme for their employees) or by a third-party unit designated as the institution responsible for administering the scheme. Most contributions, however, are likely to be recorded under ~~resources~~ revenues for the general government sector, including social security funds, and insurance corporations and pension funds in the financial corporations sector. Social contributions are recorded under ~~uses~~ expenditures only for households, either resident or non-resident.*
- 9.17 *Social benefits are current transfers received by households intended to provide for the needs that arise from certain events or circumstances, for example, sickness, unemployment, retirement, housing, education or family circumstances. Social benefits may be provided under social insurance schemes or by social assistance.*

Table 8.19.1: The ~~secondary distribution of~~ income transfers other than social transfers in kind account - concise form - ~~uses~~ expenditures

Table 8.19.1 (cont): The ~~secondary distribution of~~ income transfers other than social transfers in kind account - concise form - ~~resources~~ revenues

Table 8.29.2: The ~~redistribution of~~ income social transfers in kind account – ~~uses~~ expenditures

Table 8.29.2 (cont): The ~~redistribution of~~ income social transfers in kind account - ~~resources~~ revenues

- 9.18 Social insurance benefits in kind provided by employers are treated as if they were paid in cash and included in the ~~secondary distribution of~~ income transfers other than social transfers in kind account. If this were not so, the purchase of the goods and services concerned would have to be shown as incurred by employers but these products are not intermediate consumption and enterprises cannot have final consumption. However, social insurance benefits in kind provided under general social security schemes and all social assistance benefits in kind constitute social transfers in kind and are therefore included only in the ~~redistribution of~~ income social transfers in kind account. In table 8.19.1, social benefits, except social transfers in kind, are recorded under ~~resources~~ revenues for the household sector, or the rest of the world, if it concerns non-resident households, and may, in principle, be recorded under ~~uses~~ expenditures for any sector operating a social insurance scheme in its capacity as an employer.

Other current transfers

- 9.19 Other current transfers consist of all current transfers between resident institutional units, or between resident and non-resident units, other than current taxes on income, wealth, etc., social contributions and benefits, and

social ~~benefits~~transfers in kind. The group includes ~~net~~ premiums ~~less service charges~~ and claims under non-life insurance policies, current transfers between different kinds of government units, usually at different levels of government, and also between general government and foreign governments, as well as current transfers to and from NPISHs and between resident and non-resident households.

2. Disposable income

9.20 *Disposable income is the balancing item in the ~~secondary distribution of income~~ transfers other than social transfers in kind account. It is derived from the balance of primary earned incomes of an institutional unit or sector by:*

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

9.21 Disposable income, like the balance of primary earned incomes, may be recorded gross or net of ~~consumption of fixed capital~~depreciation and depletion. As elsewhere, the net measure is conceptually preferable but it may be necessary to record the balancing items gross because of the difficulty of measuring ~~consumption of fixed capital~~depreciation and depletion, even though ~~consumption of fixed capital is a~~depreciation and depletion are costs of production and not ~~to be considered as~~ components of income. The following discussion refers to the net concept of disposable income.

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

9.23 Households also receive several kinds of imputed property income flows that are not available to the household to spend as they wish. These include investment income on insurance, annuity and pension entitlements as well as income from investment fund shares or units. Income flows related to investment funds and to life insurance and annuities that are not treated as social insurance do carry through to disposable income even though they automatically go to increase the assets held by households in the financial institutions managing these funds and policies and the household therefore has no discretion about spending these amounts. Income flows that are related to non-life insurance and social insurance schemes are recorded in the ~~secondary distribution of income~~ transfers other than social transfer in kind account as if repaid to the non-life insurance corporation or social insurance schemes and are not included in disposable income except for the part already committed to meet the service charge associated with the insurance policy or social insurance scheme.

9.24 For households, disposable income includes the excess of SNA interest over bank interest on deposits by households and the excess of bank interest over SNA interest on loans to households. These differences are also pre-committed to meeting the ~~indirect implicit~~ service charges levied by financial institutions on loans and deposits (~~FISIM~~). (For other institutional sectors excluding financial intermediaries, ~~FISIM~~these implicit service charges are treated as part of intermediate consumption, ~~and thus so is~~ excluded from income measures.)

Links with economic theoretical concepts of income

9.25 Disposable income as measured in the SNA can be compared with the concept of income as it is generally

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

National disposable income

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

- a. ***Adding all current transfers in cash or in kind receivable by resident institutional units from non-resident units; and***
- b. ***Subtracting all current transfers in cash or in kind payable by resident institutional units to non-resident units.***

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

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

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

3. The ~~redistribution of incomes~~ social transfers in kind account

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

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

9.31 The social transfers in kind payable by government units or NPISHs are recorded on the left-hand side of

their ~~redistribution of income~~ social transfers in kind accounts under ~~uses~~ expenditures. For example, in table 8.29.2, the value of individual non-market goods or services provided free, or at prices that are not economically significant, by government units is recorded at the intersection of the row for this item and the ~~uses~~ expenditures column for the general government sector. Social transfers receivable by the household sector are recorded on the right-hand side of their account under ~~resources~~ revenues. As only the household sector receives social transfers in kind, the ~~resources~~ revenues columns for the other four sectors are empty.

4. ~~Adjusted disposable income~~ adjusted for social transfers in kind

9.32 ~~Adjusted disposable income~~ adjusted for social transfers in kind is the balancing item in the ~~redistribution of income~~ social transfers in kind account. It is derived from the disposable income of an institutional unit or sector by:

- a. Adding the value of the social transfers in kind receivable by that unit or sector; and
- b. Subtracting the value of the social transfers in kind payable by that unit or sector.

~~Adjusted disposable income~~ adjusted for social transfers in kind, like disposable income, may be recorded gross or net of ~~consumption of fixed capital~~ depreciation and depletion. Because social transfers in kind are payable only by government units and NPISHs and only receivable by households, it follows that the ~~adjusted~~ disposable incomes adjusted for social transfers in kind of the general government and NPISHs sectors are lower than their disposable incomes, while the ~~adjusted~~ disposable income adjusted for social transfers in kind of the household sector exceeds its disposable income. In both cases, the value of the difference is equal to the total value of social transfers in kind, so ~~adjusted~~ disposable income adjusted for social transfers in kind for the total economy is the same as its disposable income.

9.33 The ~~adjusted~~ disposable income adjusted for social transfers in kind of a household can be interpreted as measuring the maximum value of the actual final consumption goods or services (see chapter 10) that it can afford to consume in the current period without having to reduce its cash, dispose of other assets or increase its liabilities for the purpose. Its consumption possibilities are determined not only by the maximum amount it can afford to spend on consumption goods and services (its disposable income), but also by the value of the consumption goods and services it receives from government units or NPISHs as social transfers in kind. Conversely, the ~~adjusted~~ disposable income adjusted for social transfers in kind of general government can be interpreted as measuring the maximum value of the collective services that it can afford to provide to the community without having to dispose of assets or increase its liabilities.

B. Current transfers

9.34 As defined above, a transfer is a transaction in which one institutional unit provides a good, service or asset to another unit without receiving from the latter any good, service or asset in return as a direct counterpart. A unit making a transfer receives no specific quantifiable benefit in return that can be recorded as part of the same transaction. Nevertheless, the payment of a social insurance contribution or non-life insurance premium may entitle the unit making the payment to some contingent future benefits. For example, a household may be entitled to receive some social benefits should certain events occur or certain conditions prevail. In addition, all resident households benefit from services provided by government units. However, the fact that a transfer has been made does not automatically mean a benefit will be received by the unit making the transfer nor, if it does, that the amount of the benefit is commensurate with the amount of the transfer. It is for this reason that the SNA holds there is no direct counterpart to the transfer.

9.35 The process of government collecting taxes and using the revenue generated to pay for the provision of government services and the process by which an insurance corporation accepts premiums for non-life insurance in a year from many policyholders and pays claims to a relatively small number of them are essentially distributive in nature. Within a single accounting period, an institutional unit (the government or the insurance corporation) receives and disburses funds according to a given set of procedures but the events giving rise to payments to and disbursements by these units are not directly related.

- 9.36 In contrast, payments of premiums on individual life insurance policies taken out by members of households on their own initiative outside any social insurance scheme, and the corresponding benefits, are not transfers. For life insurance, the insurance corporation manages funds on behalf of named households. There is relatively little redistribution among the various households holding similar policies and each household is able to predict with a reasonable degree of certainty what they will receive and when. Such policies therefore constitute the acquisition and disposal of financial assets and are recorded as such in the financial accounts of the SNA as components of the change in the life insurance and annuities entitlements.
- 9.37 It could be argued that pension schemes function in a manner similar to life insurance schemes and that they should be treated as savings schemes of individual households. There are three reasons in the SNA why the designation of social insurance scheme is used to cover employment-related pensions, a designation that brings with it the recording of contributions and benefits as transfers. The first is that social security is essentially a process of redistribution across a wide section of the population with many individuals contributing so that those in need may benefit. A second reason is that pensions provide a regular and stable source of funding post-retirement. In other economic applications, such as surveys of income and expenditure, pensions are regarded as income rather than dis-saving. The third reason for treating pensions as income rather than dis-saving is that they frequently cease when the pensioner (or survivor) dies. In this respect, pension entitlements are distinct from other financial assets that are unaffected by the death of the owner.

1. The distinction between current and capital transfers

- 9.38 Transfers may be either current or capital. In order to distinguish one from the other, it is preferable to focus on the special characteristics of capital transfers. As noted above, a capital transfer is one that is linked to the acquisition or disposal of an asset, either financial or non-financial. Institutional units must be capable of distinguishing capital from current transfers and must be presumed to treat capital transferred during the course of the accounting period in the same way as capital held throughout the period. For example, a prudent household will not treat a capital transfer that happens to be received during a particular period as being wholly available for final consumption within the same accounting period. Conversely, a household making a capital transfer (for example, the payment of an inheritance tax) will not plan to reduce its final consumption by the whole amount of the transfer. Unless institutional units are capable of distinguishing capital from current transfers and react differently to them, it becomes impossible to measure income, both in theory and in practice.
- 9.39 Current transfers consist of all transfers that are not transfers of capital. They directly affect the level of disposable income and should influence the consumption of goods or services. In practice, capital transfers tend to be large, infrequent and irregular, whereas current transfers tend to be comparatively small and are often made frequently and regularly. However, while size, frequency and regularity help to distinguish current from capital transfers they do not provide satisfactory criteria for defining the two types of transfer. For example, social security benefits in the form of maternity or death benefits are essentially current grants designed to cover the increased consumption expenditures occasioned by births or deaths, even though the events themselves are obviously infrequent.
- 9.40 It is possible that some cash transfers may be regarded as capital by one party to the transaction and as current by the other. For example, the payment of an inheritance tax may be regarded as a capital transfer by the household but as a current transfer by government. Similarly, a large country that regularly makes investment grants to a number of smaller countries may regard the outlays as current, even though they may be specifically intended to finance the acquisition of assets. In an integrated system of accounts such as the SNA, however, it is not feasible to have the same transaction classified differently by the two parties. Accordingly, a transfer should be classified as capital for both parties if it clearly involves a transfer of an asset for one of the parties.

2. The recording of transfers

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

Transfers in cash

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

	Household		Social security fund	
	Uses/Expenditures / Changes in assets	Resources/Revenues / Changes in liabilities and net worth	Uses/Expenditures / Changes in assets	Resources/Revenues / Changes in liabilities and net worth
Secondary Distribution of Income transfers other than social transfers in kind account		Transfer receivable	Transfer Payable	
Financial account	Increase in financial asset	Increase in financial asset	Decrease in financial asset	

Provisions of goods and services by enterprises

- 9.43 The next example is of an enterprise producing medicines that donates some of its output free of charge to a charity (NPISH). As mentioned above, in this case, two transactions should be recorded, each with four entries. In this example, the first is the provision of a transfer by the enterprise to the NPISH, the second is the production of the medicine and the subsequent purchase/consumption of the medicine by the NPISH using the funds made available by the transfer. Both transactions do not involve any ~~imply two~~ entries in the financial account and, if both transactions are completed in the same accounting period, ~~these changes in financial assets will cancel each other for both units involved, leaving only four entries apparent in the accounts.~~ However, if there is a difference in the timing between when the transfer is recorded and when the delivery of the medicine takes place, it will be necessary to include the entries in the financial accounts, specifically under other accounts receivable or payable.

	NPISH		Enterprise	
	Uses/Expenditures / Changes in assets	Resources/Revenues / Changes in liabilities and net worth	Uses/Expenditures / Changes in assets	Resources/Revenues / Changes in liabilities and net worth
Secondary Distribution of Income transfers other than social transfers in kind account		Transfer receivable	Transfer Payable	
Financial account		Increase in financial asset	Decrease in financial asset	
Production account				Output/sale of medicine
Use of disposable income account	Expenditure on medicine			
Financial account	Decrease in financial asset			Increase in financial asset

- 9.44 A more complex variant occurs if enterprise A purchases the medicine from enterprise B and then gives it to an NPISH. Although A actually purchases the goods from B, they do not form part of A's intermediate consumption or capital formation. Nor can they be recorded as final consumption by A, since it is an enterprise. As before, a cash transfer is shown for the purchase of medicine by enterprise A from enterprise B. As this medicine is subsequently provided free to the NPISH, the counterpart entry of the decrease in assets for enterprise A is as a transfer payable imputed from enterprise A to the NPISH and an imputed

purchase by the NPISH. If both transactions occur in the same accounting period, the two entries of the financial account for the NPISH will cancel, leaving only six of the eight entries apparent in the accounts. Again, if there is a difference in the timing between when the transfer is recorded and when the delivery of the medicine takes place, it will be necessary to include the entries in the financial accounts, specifically under other accounts receivable or payable.

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

Social transfers in kind

9.45 In the SNA, final consumption expenditure is incurred only by general government, NPISHs, the central bank and households. All consumption expenditure by households is incurred on their own behalf. Consumption expenditure by general government, on the other hand, is either for the benefit of the community at large (collective consumption) or for the benefit of individual households. Consumption expenditure by the central bank is considered to be produced for the benefit of the community at large, while consumption expenditure by NPISHs is always treated as the provision of services for the benefit of individual households. This distinction between collective and individual consumption expenditure is of considerable importance in the SNA and is discussed in detail in chapter 9.10. Consumption expenditures by general government and NPISHs on behalf of households (their individual consumption expenditures) are undertaken for the purpose of making social transfers in kind. They cover the non-market output of both general government and NPISHs delivered to households free, or at prices that are not economically significant, as well as goods and services bought from market producers and provided to households free or at prices that are not economically significant.

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

9.46 The next example is of an education service provided to a household by a non-market producer owned/controlled by a government unit. The provision of the service is actually recorded twice in the accounts of the SNA. First, it is recorded in the traditional way in national accounting as output by government in the production account and final consumption expenditure of government in the use of disposable income

account. As this transaction is recorded as an internal transaction within government, it leads to only two, not four entries, in the accounts, both being recorded under general government.

9.47 This method of recording does not portray the fact that in reality the education service (an individual consumption expenditure of government) is actually provided to a household as a social transfer in kind paid for by government.

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

9.48 For a social transfer in kind, the consumption of the education service is recorded as actual consumption by households in the use of ~~adjusted~~ disposable income adjusted for social transfers in kind account. The ~~resources/revenues~~ for this are provided via social transfers in kind from government to households in the ~~redistribution of income~~ social transfers in kind account. (The distinction between actual consumption and consumption expenditure for households, general government and NPISHs is further elaborated in chapter 9.10.)

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

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

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

9.51 This example also covers the case in which the household purchases the medicine directly from a pharmacist and is then reimbursed by the social security

fund, other government unit or NPISH that ultimately bears the cost. In this case, the household is not recorded as actually incurring any expenditure, the expenditure being attributed to the social security fund or other unit that ultimately bears the cost. Any difference between the time when the household incurs the expense and the time when it is reimbursed is shown as an other account receivable (by households) and payable (by the unit ultimately bearing the cost).

C. Current taxes on income, wealth, etc.

1. Taxes in general

- 9.52 Taxes are compulsory, unrequited payments, in cash or in kind, made by institutional units to government units. They are transfers because the government provides nothing directly in return to the individual unit paying the tax, although governments do provide goods and services to the community as a whole or to individual units, or groups of units, depending on their general economic and social policy. Current taxes on income, wealth, etc. consist mainly of taxes levied on the incomes of households and corporations. They constitute charges against income and are recorded under ~~uses~~expenditures for the households and corporations sectors in the ~~secondary distribution of income~~ transfers other than social transfers in kind account. The taxes may also be payable by non-residents or possibly by government units or NPISHs. Current taxes on income, wealth, etc. were described as “direct taxes” in the past, but the terms “direct” and “indirect” are no longer used in the SNA, as explained in chapter 7.8. The taxes cannot be described simply as “current taxes on income and wealth” because they include some periodic taxes on households that are assessed neither on the income nor the wealth of the household or its members, for example, poll taxes.
- 9.53 The general nature of taxes and the accounting rules governing their recording in the SNA were described in paragraphs 7.80 to 7.86, 8.1 to 8.90. For convenience, these relevant paragraphs are repeated below.

Taxes versus fees

- 9.54 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. Price levels for these types of mandatory permissions are set by the government, often through some type of executive, legislative, or statutory power. Those seeking the permission or authorization frequently pay with no option to receive a refund should the licence (or similar) not be granted. The permission or authorization granted under these types of schemes is not transferable or tradeable, and so has no direct economic value. Indeed, for many such regulatory schemes the payer of the fee is not to be seen as the primary beneficiary, as the motivation behind the regulation or licencing of an activity or good is to protect society as a whole and ensure that those engaging in an activity or owning a good are able to do so safely in accordance with laws. For example, driving licences are intended to ensure that those using the road networks have the necessary skills and knowledge to do so safely. Although the payer benefits from being able to drive the primary beneficiary is society. For the above reasons, mandatory payments for most regulatory licences, or similar certificates, are to be recorded as taxes, as they are by nature compulsory and unrequited. 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).
- 9.55 Although most payments under mandatory regulatory schemes should be recorded as taxes, there may be cases where recording as a sale of service is appropriate despite the compulsory nature of the payment. For instance, the cost of a mandatory safety inspection may be based on the cost to government of conducting the inspection and could include a service element, such as providing guidance on how identified safety hazards

can be rectified. In this case it might be appropriate to record the payment as a payment of service rather than a tax, but only if the service element of the payment is considered sufficiently material. To recap, the default recording for payments under government-imposed mandatory regulatory schemes should be as taxes, unless a significant service element can be identified leading to recording as a payment of service.

Links with the IMF and OECD tax classifications

9.549.56 The coverage of taxes in the SNA coincides with that of “tax revenue” as defined in the [IMF’s Government Finance Statistics Manual GFSM_20012014](#), and also with “taxes” as defined in [OECD’s Revenue Statistics](#). In contrast to the latter, the SNA includes imputed taxes or subsidies resulting from the operation of official multiple exchange rates, ~~imputed taxes and subsidies resulting from a central bank imposing interest rates above or below the market rate and~~ but does not classify social security contributions under the heading of taxes. Chapter 5 of the [GFSM_20012014](#) contains a detailed listing and classification of taxes according to the nature of the tax. Annex A of [Revenue Statistics](#) contains a closely related classification.

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

- a. The nature of the tax, as specified in the [GFSM_20012014](#)/ OECD classification;
- b. The type of institutional unit paying the tax;
- c. The circumstances in which the tax is payable.

9.569.58 Thus, payments of exactly the same tax may be recorded under two different headings in the SNA. For example, payment of an excise duty may appear under “taxes on imports, except value added taxes (VAT) and duties” or under “taxes on products, except VAT, import and export taxes” depending upon whether the excise duty is paid on an imported or domestically produced good. Similarly, payments of an annual tax on automobiles may be recorded under “other taxes on production” or under “current taxes on income, wealth, etc.” depending upon whether the tax is paid by an enterprise or by a household. For this reason, it is not possible to arrive at the SNA categories simply by regrouping the [GFSM_2001 2014](#)/OECD classifications. However, in order to take advantage of the existence of these detailed classifications, each category of tax listed below contains a cross-reference to the corresponding [GFSM_2001](#) and OECD classifications. It should be noted, though, that the SNA categories are included within the [GFSM_20012014](#) and OECD categories but may not be identical with them.

The accrual basis of recording

9.59 All taxes should be recorded on an accrual basis in the SNA, that is, when the activities, transactions or other events occur that create the liabilities to pay taxes. However, some economic activities, transactions or events, which under tax legislation ought to impose on the units concerned the obligation to pay taxes, permanently escape the attention of the tax authorities. It would be unrealistic to assume that such activities, transactions or events give rise to financial assets or liabilities in the form of payables and receivables. For this reason the amounts of taxes to be recorded in the SNA are determined by the amounts due for payment only when evidenced by tax assessments, declarations or other instruments, such as sales invoices or customs declarations, that create liabilities in the form of clear obligations to pay on the part of taxpayers. (In determining the amount of tax accruing, care must be taken not to include tax unlikely ever to be collected.) Nevertheless, in accordance with the accrual principle, the times at which the taxes should be recorded are the times at which the tax liabilities arise. For example, a tax on the sale, transfer or use of output should be recorded when that sale, transfer or use took place, which is not necessarily the same time as that at which the tax authorities were notified, at which a tax demand was issued, at which the tax was due to be paid or the payment was actually made. Some flexibility is permitted, however, as regards the time of recording of income taxes deducted at source (see [paragraph 8.61-9.63](#)).

9.579.60 Government may establish tax amnesty programmes. Two broad types of such programmes can be distinguished: (i) amnesties to speed up, or encourage, payment of taxes which have been accrued but are

unpaid (i.e., relating to already disclosed transactions, events, and/or assets); and (ii) amnesties to capture revenue from economic activities and/or assets that have previously escaped the attention of the tax authorities (i.e., relating to previously undisclosed transactions, events, and/or assets). The time of recording and measurement of revenue arising from tax amnesties will depend on the exact nature of the amnesty granted and whether the revenue has been previously accrued. However, in accordance with the accrual principle, if a tax amnesty establishes tax obligations for previously undisclosed transactions, events or assets, then the tax revenue should be recorded when the tax obligation is established and not to a period prior to the tax amnesty.

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

Interest, fines or other penalties

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

2. Taxes on income

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

- a. *Taxes on individual or household income:* These consist of personal income taxes, including those deducted by employers (pay-as-you-earn taxes), and surtaxes. Such taxes are usually levied on the total declared or presumed income from all sources of the person concerned: compensation/remuneration of employees, property income, pensions, etc., after deducting certain agreed allowances. Taxes on the income of owners of unincorporated enterprises are included here (GFSM 2007-2014, 1111; OECD, 1110);
- b. *Taxes on the income of corporations:* These consist of corporate income taxes, corporate profits taxes, corporate surtaxes, etc. Such taxes are usually assessed on the total incomes of corporations from all sources and not simply profits generated by production (GFSM 2007-2014, 1112; OECD, 1210);
- c. *Taxes on capital gains:* These consist of taxes on the capital gains (described as holding gains in the SNA) of persons or corporations that become due for payment during the current accounting period, irrespective of the periods over which the gains have accrued. They are usually payable on nominal, rather than real, capital gains and on realized, rather than unrealized, capital gains (GFSM 2007-2014, 1111-1113; OECD, 1120, 1220);
- d. *Taxes on winnings from lotteries or gambling:* These are taxes payable on the amounts received by winners as distinct from taxes on the turnover of producers that organize gambling or lotteries, which are treated as taxes on products (GFSM 2007-2014, 1111-1113; OECD, 1120).

~~9.61~~9.64 The calculation of taxes due on income frequently exempts some part of income from taxes; such exemptions being described as tax allowances. In addition, or as an alternative, a government may determine an amount that is treated as if it is tax already paid; such an amount is called a tax credit. In some cases, if the tax due is less than the tax credit, the balance may be payable to the beneficiary; this is called a payable tax credit. There is more discussion on tax credits in chapter ~~22~~30.

3. Other current taxes

Current taxes on capital

~~9.62~~9.65 *Current taxes on capital consist of taxes that are payable periodically, usually annually, on the property or net wealth of institutional units, excluding taxes on land or other assets owned or rented by enterprises and used by them for production, such taxes being treated as other taxes on production.* They also exclude taxes on property or wealth levied infrequently and at irregular intervals, or in exceptional circumstances (for example, death duties), such taxes being treated as capital taxes. They also exclude income taxes assessed on the basis of the value of the property owned by institutional units when their incomes cannot be estimated satisfactorily, such taxes being recorded under the previous heading, taxes on income. Current taxes on capital include the following:

- a. *Current taxes on land and buildings:* These consist of taxes payable periodically, in most cases annually, on the ownership of land or buildings excluding taxes on land or buildings rented or owned by enterprises and used by them in production including use for owner-occupied dwelling services (~~GFSM 2001~~2014, 1131; OECD, 4100);
- b. *Current taxes on net wealth:* These consist of taxes payable periodically, in most cases annually, on the value of land or fixed assets less any debt incurred on those assets, excluding taxes on assets owned by enterprises and used by them in production (~~GFSM 2001~~2014, 1132; OECD, 4200);
- c. *Current taxes on other assets:* These include taxes payable periodically, usually annually, on assets such as jewellery or other external signs of wealth (~~GFSM 2001~~2014, 1136; OECD, 4600).

Miscellaneous current taxes

~~9.63~~9.66 Miscellaneous current taxes consist of various different kinds of taxes payable periodically, usually annually, of which the most common are the following:

- a. *Poll taxes:* These are taxes levied as specific amounts of money per adult person, or per household, independently of actual or presumed income or wealth. The amounts levied may vary, however, according to the circumstances of the person or household (~~GFSM 2001~~2014, 1162; OECD, 6000);
- b. *Expenditure taxes:* These are taxes payable on the total expenditures of persons or households instead of on their incomes. Expenditure taxes are alternatives to income taxes and may be levied at progressively higher rates in the same way as personal income taxes, depending upon the total level of expenditure. They are uncommon in practice (~~GFSM 2001~~2014, 1143+162; OECD, 6000);
- c. *Payments by households to obtain certain licences:* ~~As explained in paragraphs 9.54 and 9.55, mandatory payments by persons or households in order to obtain licences to own or use certain goods or to engage in the pursuit of certain activities should generally be recorded as taxes. Examples of payments which would normally be treated as current taxes are licences to own or use vehicles, boats or aircraft, driving or pilot's licences, firearm licences, licences for recreational hunting, shooting or fishing, visa fees, airport fees and court fees. 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 (GFSM 20012014, 114511451 and 11452; OECD, 5200);~~

- d. *Taxes on international transactions:* These consist of taxes on travel abroad, foreign remittances, foreign investments, etc. except those payable by producers (GFSM 20012014, 1155 and 11561156; OECD, 5127).

D. Social insurance schemes

9.649.67 A social insurance scheme is an insurance scheme where the following two conditions are satisfied:

- a. the benefits received are conditional on participation in the scheme and constitute social benefits as this term is used in the SNA; and
- b. at least one of the three conditions following is met:
 - Participation in the scheme is obligatory either by law or under the terms and conditions of employment of an employee, or group of employees;
 - The scheme is a collective one operated for the benefit of a designated group of workers, whether employees des or self-employed persons, which may also include persons temporarily without employment or non-employed, participation being restricted to members of that group;
 - An employer makes a contribution (actual or imputed) to the scheme on behalf of an employee, whether or not the employee also makes a contribution.

The second of these conditions implies that employer-independent schemes established specifically to provide social benefits for groups of self-employed persons may qualify as social insurance schemes; see paragraph 9.79 for a further elaboration.

9.659.68 Social insurance schemes may be organized privately or by government units. Social insurance benefits may be provided in cash or in kind. They become payable when certain events occur, or certain circumstances exist, that may adversely affect the welfare material well-being of the households concerned either by imposing additional demands on their resources or reducing their incomes. The contingencies covered are liable to vary from scheme to scheme. However, the identification of certain receivables as social insurance benefits depends not just on the contingencies covered but also the way in which coverage is provided.

1. The extent of social benefits

9.669.69 Social benefits may be payable under social insurance schemes or social assistance but similar circumstances may be covered under both.

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

9.689.71 ~~Six kinds of circumstances illustrate when non-pension social benefits may be payable as follows~~ More generally, as noted before, social benefits become payable when certain events occur, or certain conditions exist, that may adversely affect the material well-being of the households concerned either by imposing additional demands on their resources or reducing their incomes. Social benefits may be provided in cash or in kind. There are a number of circumstances in which social benefits may be payable:

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

health care;

- b. The beneficiaries have to support dependants of various kinds: spouses, children, elderly relatives, invalids, etc. The social insurance benefits are usually paid in cash in the form of regular dependants' or family allowances;
- c. The beneficiaries suffer a reduction in income as a result of not being able to work full-time. The social insurance benefits are usually paid regularly in cash for the duration of the condition. In some instances a lump sum may be provided additionally or instead of the regular payment. People may be prevented from working for various different reasons, including involuntary unemployment, including temporary lay-offs and short-time working, and sickness, accidental injury, the birth of a child, etc. that prevents a person from working, or from working full-time;
- d. The beneficiaries suffer a reduction in income because of the death of the main income earner. The social insurance benefits are usually paid in cash in the form of regular allowances or, in some instances, a lump sum;
- e. The beneficiaries are provided with housing either free or at prices that are not economically significant or by reimbursing expenditure made by households;
- f. The beneficiaries are provided with allowances to cover education expenses incurred on behalf of themselves or their dependants; education services may ~~occasionally~~ also be provided in kind.

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

9.709.73 In cases where no qualifying contribution has to have been paid in order to receive benefits, these are treated as part of social assistance. Typically social assistance is provided by government to all persons who are in need without any formal requirement to participate as evidenced by the payment of contributions, for example. The extent of social assistance varies very considerably from country to country. In many countries, benefits are only payable to people on low incomes. This is often described as saying the benefits are "means-tested", where the term "means" is used in the sense of indicating a maximum qualifying level of income or wealth.

2. The organization of social insurance schemes

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

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

9.739.76 Many social insurance schemes are organized collectively for groups of workers so that those participating do not have to take out individual insurance policies in their own names. In such cases, there is no difficulty about distinguishing social insurance from insurance taken out on a personal basis. However, some social insurance schemes may permit, or even require, participants to take out policies in their own names. In order

for an individual policy to be treated as part of a social insurance scheme the eventualities or circumstances against which the participants are insured must be of the kind listed in paragraphs 9.718.65, and in addition, ~~one or more of the following both~~ conditions listed under a) and b) of paragraph 9.67 must be satisfied.;

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

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

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

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

Table 8.39.3: The ~~secondary distribution of income~~ transfers other than social transfers in kind account - with details for taxes and social contributions – ~~uses~~expenditures

Table 8.39.3 (cont): The ~~secondary distribution of income~~ transfers other than social transfers in kind account - with details for taxes and social contributions - ~~resources~~revenues

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

9.78 In the case of employer-employee relationships, the determinants for the insurance to count as a social insurance policy, and not as an individual insurance policy, are that the benefits must be of the social benefit type (see paragraphs 9.70 and 9.71), and an employer makes an actual or imputed contribution to the scheme on behalf of an employee. If participation to a scheme is not obligatory, but only encouraged, it can become more difficult to differentiate between social insurance type of schemes and individual insurance policies. It is clear, however, that insurance policies solely taken out by individuals would not qualify as social insurance, even if, for example, a discount is arranged for a designated group of people.

9.749.79 Schemes providing social benefits may also be established for groups of self-employed persons. When organized by government, as part of a broader arrangement, such schemes would typically qualify as social insurance. If government is not directly involved, the default option is to not treat such types of schemes as part of social insurance, unless the schemes are collective arrangements which provide policies, for certain industries or professions, with a strong resemblance to similar arrangements organized by employers or government. These schemes may, or may not, be encouraged by government; in the former case, this would

strengthen the case for a classification as social insurance. In addition, to qualify as social insurance, generally separate institutional units should be established, which are subject to regulation or supervision in line with or similar to other social insurance schemes. In the case of pension-related schemes, an additional criterion for the qualification as social insurance is that accumulated contributions are set aside for retirement income.

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

9.769.81 ~~All social insurance schemes are founded on an employment relationship even if the participants are self-employed or currently unemployed.~~ Two main types of social insurance schemes may be distinguished:

- a. The first consists of social security schemes covering the entire community, or large sections of the community, that are imposed, controlled and financed by government units. Pensions payable under these schemes may or may not be related to levels of salary of the beneficiary or history of employment. Non-pension benefits are less frequently linked to salary levels.
- b. The second type consists of other ~~employment-related~~ social insurance schemes. These schemes mainly derive from an employer-employee relationship in the provision of pension and possibly other entitlements that are part of the conditions of employment and where responsibility for the provision of benefits does not devolve to general government under social security provisions. They may also relate to collective arrangements organized for self-employed persons (see paragraph 9.79).

Making this distinction is difficult in some countries where the ultimate responsibility for administering the scheme and paying benefits is undertaken by government on behalf of many employers not working for general government. In countries where there is no such arrangement, social insurance schemes organized by government units for their own employees, as opposed to the working population at large, should, if possible, be included in the group of other ~~employment-related~~ social insurance schemes and not remain within social security schemes.

Social security schemes

9.779.82 In many countries, social security schemes are by far the most important category of social insurance schemes and it is worth summarizing their main characteristics. Social security schemes are schemes imposed, controlled and financed by government units for the purpose of providing social benefits to members of the community as a whole, or of particular sections of the community. When social security funds are established for this purpose and are organized and managed separately from other government funds, they are treated as separate institutional units. Their receipts consist mainly of contributions paid by individuals and by employers on behalf of their employees, but they may also include transfers from other government funds. The payment of social security contributions by, or on behalf of, certain specified individuals, such as employees and self-employed, including persons temporarily without employment, is generally compulsory by law, but some other individuals may choose to pay voluntarily in order to qualify for the receipt of social security benefits.

Other employment-related social insurance schemes

9.789.83 The terms of ~~employment-related~~ other social insurance schemes are typically determined by employers, possibly in conjunction with their employees and may be administered by the employers themselves. They may also be organised for selected groups of self-employed persons. Very often, though ~~In the case of schemes organised by employers for their employees~~, the funds may form a separate institutional unit (e.g., an

autonomous pension fund) or they may be managed by an insurance corporation on behalf of the employer. Collective agreements for selected groups of self-employed persons are generally restricted to those managed by a separate institutional unit (see paragraph 9.79).

~~9.799.84~~ Not all employment-related Other social insurance schemes ~~are~~ may not be adequately funded, particularly in the case of pension schemes organized by employers for their employees. In the case of the employer being responsible for any shortfall, transactions are recorded. ~~In~~ the secondary distribution of income transfers other than social transfers in kind account, ~~transactions are recorded~~ as if the schemes are adequately funded and any discrepancies are recorded in the financial account under claims of pension funds to pension managers ~~other accounts receivable or payable~~. A complete overview of the recording of pension schemes is given in ~~part 2 of~~ chapter 1724.

E. Net-s Social contributions less service charges

~~9.809.85~~ In the SNA, all contributions to social insurance schemes are shown as made by households. There are, however, several elements to the amounts paid. The first is the amount of actual and imputed contributions made by the employer on behalf of the employee. This amount is part of compensation/remuneration of employees and is received by households in the generation of earned income account and thus forms part of the balance of primary/earned income of households. The second element consists of actual payments made by households in the current period to cover their share of the pension and other provisions relating to the current period. These payments may be made by employees, or self-employed persons, which may also include persons temporarily without employment ~~persons or non-employed persons~~. A third element consists of contribution supplements, or imputed payments by households, which represent the reinvestment of the property income earned on pension entitlements ~~the return to the pension fund of the property income earned on the start of year pension entitlement~~ and on any reserves established for non-pension benefits. These are attributed to households in the allocation of primary/earned income account and, like the employers' contributions, are included in the balance of primary/earned incomes for households. Set against these is the service fee charged by the unit administering the pension scheme. This may be an service ~~explicit~~ charge made by a unit separate from the employer or may be the sum of costs incurred by the employer in administering the scheme if it is not a separate unit. Depending on the nature of the scheme, either the contribution by the employer or the property income includes the value of the service charge

Table 8.49.4: The secondary distribution of income transfers other than social transfers in kind account - with details of social benefits - uses/expenditures

Table 8.49.4 (cont): The secondary distribution of income transfers other than social transfers in kind account - with details of social benefits - resources/revenues

~~9.819.86~~ Table 8.39.3 shows table 8.19.1 with social contributions disaggregated according to these criteria. For practical reasons, the tables show the employers' contributions and property income at the same value as recorded in the distribution of primary/earned income accounts with the service charge shown separately. This charge, though, is not a redistributive transaction but part of output and consumption expenditure. It is included in the table to clarify the way in which social insurance is funded. Each heading is discussed briefly in turn below. A more extensive discussion of the transactions to be recorded for pension schemes is given in ~~part 2 of~~ chapter 1724.

1. Components of social contributions

~~9.829.87~~ Net-s Social contributions less service charges are the actual or and imputed contributions made by households to social insurance schemes to make provision for social benefits to be paid. Fees charged by the administrators of the schemes are excluded from contributions payable. These fees are treated as consumption expenditure by households in the use of disposable income account.

2. Employers' actual social contributions

9.839.88 This item is exactly the same as that recorded in the allocation of primary earned income account and described in paragraph 7.62-8.62.

3. Employers' imputed social contributions

9.849.89 This item is exactly the same as that recorded in the allocation of primary earned income account and described in paragraphs 7.63 to 7.69-8.63 to 8.70.

4. Households' actual social contributions

9.859.90 *Households' actual social contributions are social contributions payable on their own behalf by employees, or self-employed persons, which may include persons temporarily without employment, or non-employed persons to social insurance schemes.* They are recorded on an accrual basis. For those in work, this is at the times when the work that gives rise to the liability to pay the contributions is carried out.

5. Households' social contribution supplements

9.869.91 *Households' social contribution supplements consist of the property income earned during the accounting period on the stock of pension and non-pension entitlements.* This amount is included in property income payable by the administrators of pension funds to households in the allocation of primary earned income account.

F. Social benefits other than social transfers in kind

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

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

1. Institutional arrangements

Social insurance schemes or social assistance

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

Social security and social assistance

9.909.95 There is a fundamental difference between government provision of benefits under social security and under social assistance although the proportion of benefits allocated to one or the other heading varies considerably

from country to country depending on national institutional arrangements.

9.949.96 Social security is one form of a social insurance scheme. The beneficiary is enrolled in the scheme or participates usually by paying a contribution to the scheme or having one paid to the scheme on his behalf. The payment may be made by the employer or a family member or even in some cases by government itself (perhaps for the duration of unemployment, for instance). Because it is a contributory scheme, there is some sort of contract between the government and the beneficiaries. In some countries this contract has a strict legal form and cannot be altered retrospectively; in others the contract is much looser and retroactive adjustments are possible. For all social security schemes, the difference between the contributions receivable and the benefits payable is monitored in the context of the government budget since persistent deficits cannot be sustained for ever without intervention to raise contributions, lower benefits or both.

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

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

2. Types of social benefits

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

Pensions

9.959.100 The main social benefit payable in cash is pension provision for retirees. However, others may be entitled to pensions, for example widows and the permanently disabled. Pensions are almost always paid in cash though there may be some circumstances where housing is available free or at a reduced rate to some pensioners in which case the value of this housing benefit is treated as part of the cash payment with the same amount showing as purchase of housing services from the provider.

9.969.101 As noted, pensions payable under social insurance pensions are distinguished from those payable as social assistance.

Non-pension benefits payable in cash

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

Receivables by households that are not social benefits

9.989.103 Government may make payments to a household in respect of the production activities of the

household. An example might be a payment to encourage the production of a particular agricultural crop. Such payments are treated as subsidies to the household enterprise. Less common, but conceptually possible, is if government ~~make~~ a payment to permit the household to acquire a fixed asset for use in production, this would be recorded as an investment grant (a capital transfer).

9.999.104 An employer, whether government or not, may provide an employee with equipment that is necessary to carrying out the labour services the employee provides. Examples are uniforms or small tools, such as scissors for hairdressers or bicycles for delivering mail. This equipment is recorded as intermediate consumption of the employing enterprise and is never recorded as being acquired by the household to which the employee belongs. The same convention applies to services provided to employees carrying out their tasks, for example the cost of food and hotel accommodation when travelling on business is treated as intermediate consumption of the employer and not final consumption of the employee.

9.1009.105 When an employer makes available to the employee a good or service that the employee does use other than in the course of his employment, these goods and services are treated as the provision of wages and salaries in kind that are recorded as being in cash with corresponding expenditure by the employees on the goods and services. Examples include the provision of free housing or making a car available to the employee to use for personal purposes as well as for business. Typically the value of these goods and services will be treated as part of the employee's income for tax purposes.

9.1019.106 Households may receive significant gifts from other households, both resident in the same economy and abroad, or may receive compensation from another unit in respect of an injury sustained or wrongful arrest, for example. Even though these payments may enable the household to improve their standard of living (as might a lottery win also) they are not treated as social benefits in the SNA. Other current transfers, both those payable and receivable by households and other sectors of the economy also, are discussed in more detail in section G.

Non-pension benefits payable in kind

9.1029.107 All benefits arising from ~~employment related~~ social insurance schemes other than social security are recorded as if they are received in cash. Even if the employee does not initially pay for health treatment, for example, but simply sends the bill to his social insurance scheme for payment by them, the amount paid by the social insurance scheme is recorded as paid to the employee and the expenditure on the health service is then recorded as being undertaken by the employee. The rationale for this is that a private social insurance scheme operates simply as a financial corporation and cannot have final consumption expenditure. Some services provided by an employer are regarded as intermediate consumption by the employer, for example a medical service at the workplace to provide assistance to someone falling ill at work or training that it is in the interests of the employer that the employee should undertake. However, general health and education provision via a social insurance scheme are part of the compensation package of the employee and not part of the intermediate consumption of the employer.

Benefits provided in kind by government

9.1039.108 Social benefits paid in cash allow households to use this cash indistinguishably from income coming from other sources. When social benefits are payable in kind, the household has no discretion over the use of the benefit; the benefits simply relieve the household from having to meet these expenses out of income from other sources. However, governments all over the world take on responsibility to provide households with services they can make use of but not trade for other services or exchange them with other households. These are the individual services provided by government to households either free or at prices that are not economically significant. These benefits are described as social transfers in kind. They are recorded not in the ~~secondary distribution of income~~ transfers other than social transfers in kind account but in the ~~redistribution of incomes~~ social transfers in kind account as described below in section H.

9.1049.109 A special case of benefits payable in kind is that of reimbursements, when the household initially makes a cash outlay but the government reimburses some or all of the expense. For example, when a payment

is made by an employee or other member of a resident household for health or education benefits and these are subsequently reimbursed by government, they are not shown as a social insurance benefit and thus as part of ~~compensation/remuneration~~ of employees but as part of the expenditure by government on health services provided to individual household members. The expenditure by government on individual services is part of government final consumption expenditure and not part of household final consumption expenditure nor of ~~compensation/remuneration~~ of employees.

~~9.1059.110~~ If a household is reimbursed by government for only a part of the health (or other) services provided, the part that is reimbursed is treated as government final consumption expenditure and the part that is not reimbursed by government as household final consumption expenditure. Only if the employer explicitly agrees to reimburse the part of the expenditure not reimbursed by government is it treated as part of ~~compensation/remuneration~~ of employees.

~~9.1069.111~~ All social benefits in kind provided by government are treated in the same way with no attempt made to separate these into social security and social assistance.

3. Social benefits recorded in the income transfers other than social transfers in kind secondary distribution of income account

~~9.1079.112~~ Taking the foregoing considerations into account, social benefits recorded in the ~~secondary distribution of income~~ transfers other than social transfers in kind account are structured as follows:

Social benefits other than social transfers in kind

Social security benefits in cash

Social security pension benefits

Social security non-pension benefits in cash

Other social insurance benefits

Other social insurance pension benefits

Other social insurance non-pension benefits

Social assistance benefits in cash.

~~9.1089.113~~ Social security benefits in cash are social insurance benefits payable in cash to households by social security funds. The benefits are divided between pensions and non-pension benefits.

~~9.1099.114~~ Other ~~employment-related~~ social insurance benefits are social benefits payable by social insurance schemes other than social security to contributors to the schemes, their dependants or survivors. The benefits are divided between pensions and ~~other~~non-pension benefits.

~~9.1109.115~~ Social assistance benefits in cash are current transfers payable to households by government units or NPISHs to meet the same needs as social insurance benefits but which are not made under a social insurance scheme requiring participation usually by means of social contributions. They therefore exclude all benefits paid by social security funds. ~~The benefits are divided between pensions and other benefits.~~

~~9.1119.116~~ Social assistance benefits do not include current transfers paid in response to events or circumstances that are not normally covered by social insurance schemes. Thus, social assistance benefits do not cover transfers in cash or in kind made in response to natural disasters such as drought, floods or earthquakes. Such transfers are recorded separately under other current transfers.

~~9.1129.117~~ Table ~~8.49.4~~ shows table ~~8.19.1~~ with the disaggregation of social benefits described here.

G. Other current transfers

9.1139.118 Other current transfers consist of all current transfers between resident institutional units, or between residents and non-residents, except for current taxes on income, wealth, etc. and social contributions and benefits. Other current transfers include a number of different kinds of transfers serving quite different purposes. The four categories are insurance-related transactions, transfers within government, current international cooperation and miscellaneous current transfers. Each of these is described in turn below.

9.1149.119 Table 8.59.6 shows table 8.19.1 with this disaggregation of current transfers.

Table 8.59.6: The secondary distribution of income transfers other than social transfers in kind account - with details of current transfers - ~~uses~~expenditures

Table 8.59.6 (cont): The secondary distribution of income transfers other than social transfers in kind account - with details of current transfers - ~~resources~~revenues

1. Insurance-related transactions

9.1159.120 There are three types of transactions included under the heading of insurance. These are ~~net~~ premiums less service charges and claims related to direct insurance, ~~net~~ premiums less service charges and claims related to reinsurance and payments related to standardized guarantees. Each of these is described below. A more detailed description of transactions to be recorded for insurance appears in ~~part 1~~ of chapter 1724 and for standardized guarantees in ~~part 3~~ of chapter 1725.

9.1169.121 It should be noted that in this context “~~net~~less service charges” as applied to premiums implies that the service charge for the insurance services has been deducted from actual premiums ~~paid~~earned plus premium supplements. There is no netting between direct insurance and reinsurance; each is recorded in full and separately from the other.

~~Net~~Non-life insurance premiums less service charges

9.1179.122 Non-life insurance policies provide cover against various events or accidents resulting in damage to goods or property or harm to persons as a result of natural or human causes (for example, fires, floods, crashes, collisions, sinkings, theft, violence, accidents, sickness, etc.) or against financial losses resulting from events such as sickness, unemployment, accidents, etc. Such policies are taken out by enterprises, government units, NPISHs or individual households. The policies taken out by individual households are those taken out on their own initiative and for their own benefit, independently of their employers or government and outside any social insurance scheme. ~~Net~~Non-life insurance premiums less service charges comprise both the actual premiums payable by policyholders to obtain insurance cover during the accounting period (actual premiums earned) and the premium supplements payable out of the investment income attributed to insurance policyholders less the service charges payable to the insurance corporation. The way in which the service charges are calculated is explained in paragraphs 7.185 to 7.191~~6.184 to 6.191~~. After deducting the service charges from the sum of non-life insurance actual premiums and premium supplements, the remainder is described as ~~net~~ non-life insurance premiums less service charges. Only the ~~net~~ non-life insurance premiums less service charges constitute current transfers and are recorded in the ~~secondary distribution of~~ income transfers other than social transfers in kind account. The service charges constitute purchases of services by the policyholders and are recorded as intermediate or final consumption, as appropriate.

Non-life insurance claims

9.1189.123 *Non-life insurance claims are the amounts payable in settlement of damages that result from an event covered by a non-life insurance policy during the current accounting period.* Claims normally become due at the moment when the eventuality occurs that gives rise to a valid claim under the terms of the policy. An exception is made in cases where the possibility of making a claim is recognized only long after the event has happened. For example, an important series of claims were recognized only when exposure to asbestos

was established as a cause of serious illness. In such cases the claim is recorded at the time that the insurance company accepts the liability. This may not be the same time as when the size of the claim is agreed on or when the claim is paid.

[9.1199.124](#) The settlement of a non-life insurance claim is treated as a transfer to the claimant. The claimant is usually but not invariably the policyholder. Claims are usually treated as current transfers, even when large sums may be involved as a result of the accidental destruction of a fixed asset or serious personal injury to an individual. The amounts received by claimants are usually not committed for any particular purpose and goods or assets that have been damaged or destroyed need not necessarily be repaired or replaced.

[9.1209.125](#) Some claims arise because of damages or injuries that the policyholders cause to the property or persons of third parties, for example, the damages or injuries that insured drivers of vehicles may cause to other vehicles or persons. In these cases, valid claims are recorded as being payable directly by the insurance enterprise to the injured parties and not indirectly via the policyholder.

[9.1219.126](#) In exceptional circumstances, some proportion of claims may be recorded not as current transfers but as capital transfers. The description of the functioning of the insurance activity in [part 1 of chapter 1724](#) explains when this is deemed to be appropriate.

NetNon-life reinsurance premiums less service charges and non-life reinsurance claims

[9.1229.127](#) Direct insurers provide a means of redistribution amongst regular policyholders. Instead of a large loss on an irregular basis, policyholders face regular smaller costs in the knowledge that, when and if a large loss happens, it will be settled by the insurance company and thus avoid the policyholder from bearing a large loss in that year. Reinsurance policies work in the same way to allow direct insurers (and other reinsurers) to protect themselves against particularly heavy claims by taking out a policy with another insurance corporation that specializes in reinsurance.

[9.1239.128](#) NetNon-life reinsurance premiums less service charges and non-life insurance claims are calculated in exactly the same manner as non-life insurance premiums and claims. However, because the reinsurance business is concentrated in a few countries, globally most reinsurance policies are with non-resident units.

Fees and calls under standardized guarantees

[9.1249.129](#) Some units, especially government units, may provide a guarantee against a creditor defaulting in conditions that have many of the same characteristics as non-life insurance. This happens when many guarantees of the same sort are issued and it is possible to make a realistic estimate of the probable level of defaults overall. In this case, the fees payable (and the property income earned on them) are treated in the same way as non-life insurance premiums and the calls under the guarantees are treated in the same way as non-life insurance claims. [Part 3 of eChapter 1725](#) discusses the topic of standardized guarantees in detail.

[9.1259.130](#) Standardized guarantees provide cover only for financial instruments and do not extend to product warranties.

2. Current transfers within general government

[9.1269.131](#) *Current transfers within general government consist of current transfers between different government units.* They include current transfers between different levels of government, such as frequently occur between central and state or local government units, and between general government and social security funds. They do not include transfers of funds committed to finance gross fixed capital formation, such transfers being treated as capital transfers.

[9.1279.132](#) One government unit may act as an agent on behalf of a second government unit by, for example, collecting taxes that are due to the second unit, at the same time as it collects its own taxes. Taxes collected on behalf of the second unit in this way are to be recorded as accruing directly to the second unit and are not to be treated as a current transfer from the first to the second unit. Delays in remitting the taxes from the first to the second government unit give rise to entries under “other accounts receivable or payable” in the financial account.

3. Current international cooperation

9.1289.133 *Current international cooperation consists of current transfers in cash or in kind between the governments of different countries or between governments and international organizations.* These include:

- a. Transfers between governments that are used by the recipients to finance current expenditures, including emergency aid after natural disasters; they include transfers in kind in the form of food, clothing, blankets, medicines, etc.;
- b. Annual or other regular contributions paid by member governments to international organizations (excluding taxes payable to supranational organizations);
- c. Payments by governments or international organizations to other governments to cover the salaries of those technical assistance staff who are resident in the country in which they are working and are employed by the host government.

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

4. Miscellaneous current transfers

9.1299.134 *Miscellaneous current transfers consist of current transfers other than insurance-related premiums and claims, current transfers within general government and current international cooperation.* Some of the more important examples are described below.

~~Current transfers between the central bank and general government~~

~~As described in paragraph 6.155, a current transfer representing the value of non-market output of the central bank is recorded as payable by the central bank to general government. The non-market output consists of monetary policy services, which are regarded as collective consumption.~~

~~This item may also include transfers between the central bank and government that are recorded when the central bank charges interest at a rate that is out of line with market rates for policy purposes. The recording in such cases is described in paragraphs 7.122 to 7.126.~~

Current transfers to NPISHs

9.1309.135 Current transfers to NPISHs consist of transfers received by NPISHs from other resident or non-resident institutional units in the form of membership dues, subscriptions, voluntary donations, etc. whether made on a regular or occasional basis. Transfers to NPISHs are intended to cover the costs of the non-market production of NPISHs or to provide the funds out of which current transfers may be made to resident or non-resident households in the form of social benefits. Transfers in the form of gifts of food, clothing, blankets, medicines, etc. to charities for distribution to resident or non-resident households are included to the extent that they are newly acquired and are treated as transfers in cash used to purchase these commodities. Gifts of unwanted or used articles from households typically do not have a market value and so do not feature in the accounts as transfers. Gifts of valuables are treated as transfers of the value of the valuable in the balance sheet. Payments of membership dues or subscriptions to market NPIs serving businesses, such as chambers of commerce or trade associations, are treated as payments for services rendered and are therefore not transfers (see [paragraph 4.885.88](#)). They are recorded in the production account as intermediate consumption and not in the ~~secondary distribution of income~~ transfers other than social transfers in kind account.

Current transfers between households

9.1319.136 Current transfers between households consist of all current transfers made, or received, by resident households to or from other resident or non-resident households. The transfers include all cash transfers and the value of transfers in kind. In the context of remittances, current transfers between households are often referred to as personal transfers. They include regular remittances between members of the same family resident in different parts of the same country or in different countries, usually from a member of a family working in a foreign country for a period of a year or longer. Earnings remitted by seasonal workers to their families are not international transfers as the workers remain resident in their country of origin (that is, they are still members of their original households) when they work abroad for periods of less than a year. Their earnings are recorded as ~~compensation~~remuneration of employees from abroad if they have the status of an employee in the non-resident country while they are working there or as the provision of services otherwise.

9.1329.137 Transfers from non-resident households to resident households (and vice versa) are an item of considerable policy interest. In addition, ~~memorandum~~supplementary items in the balance of payments are suggested for personal remittances and total remittances. Personal remittances from abroad are equal to personal transfers from abroad plus ~~compensation~~remuneration of employees from abroad less ~~expenditure abroad~~taxes and social contributions related to employment paid abroad less transport and travel expenditure by the employees plus capital transfers received from households. Personal remittances thus show the total flows into an economy resident household from households abroad or from a member of the household working abroad for part of the year. Total remittances from abroad are equal to personal remittances plus social benefits (including pensions due from abroad in relation to earlier work abroad by a member of the household). Payments to abroad are defined correspondingly. For more details, reference should be made to chapter 2633 and to BPM76.

Fines and penalties

9.138 *Fines and penalties are compulsory payments imposed on institutional units by courts of law or quasi-judicial bodies.* However, fines or other penalties imposed by tax authorities for the evasion or late payment of taxes cannot usually be distinguished from the taxes themselves and are, therefore, grouped with the latter in practice and not recorded under this heading; nor are payments of fees to obtain government licences, ~~such payments being either taxes or payments for services rendered by government units~~ (see paragraphs 8.54–9.54 and 9.55).

9.139 *Fines and penalties should be distinguished from payments of compensation* (see paragraph 9.146). While ~~fines and penalties are compulsory payments that are punitive in nature, that is, are intended to punish and/or deter certain activities or behaviour, compensation payments are intended to remedy specific harms, such as property damage or loss of income. As such, it may be appropriate to treat certain fines and penalties that are identified in legal documents as a fine/penalty, but are actually intended to compensate for damages, as payments for compensation of damages.~~ Fines and penalties are always recorded as a current transfer.

9.1339.140 *Given the number of appeals that often follow an initial ruling, fines and penalties should not be recorded until the unit issuing the fine/penalty has an unconditional claim to the funds. If a judgment or ruling is subject to further appeal, an unconditional claim only exists when the appeal is resolved. Fines and penalties accrued but not yet paid should be recorded as other accounts receivable and payable.*

9.1349.141 *Some fines and penalties may be established in contracts of mergers and acquisitions where the contract may include contingent fines or penalties based on, for example, profitability, or a pending lawsuit, and resulting in a payment between the buyer and seller after the initial transaction. In these cases, the fines and penalties would be interpreted as an adjustment or update of the exchange value of the acquired enterprise, and treated as a direct investment transaction (or a portfolio investment transaction if the buyer has less than 10 percent of the voting power), instead of a current transfer.*

Lotteries and gambling

9.1359.142 The amounts paid for lottery tickets or placed in bets consist of two elements: the payment of a service charge to the unit organizing the lottery or gambling and a residual current transfer that is paid out to

the winners. The service charge may be quite substantial and may have to cover taxes on the production of gambling services. The transfers are regarded in the SNA as taking place directly between those participating in the lottery or gambling, that is, between households.

9.1369.143 Some lotteries may be organized with three components, the two as just described and a third element that is donated to charity. This element shows as a transfer to the charity, usually an NPISH.

9.1379.144 When non-resident households take part there may be significant net transfers between the household sector and the rest of the world.

9.1389.145 In some cases the winner of a lottery does not receive a lump sum immediately but a stream of income over future periods. In the SNA this should be recorded as the receipt of the lump sum and the immediate purchase of an annuity. The recording of annuities is described in ~~part 1 of~~ chapter ~~1724~~.

Payments of compensation

9.146 Payments of compensation consist of current transfers paid by institutional units to other institutional units in compensation for injury to persons or damage to property caused by the former that are not settled as payments of non-life insurance claims. Payments of compensation could be either compulsory payments awarded by courts of law, or ex gratia payments agreed out of court. This heading covers compensation for injuries or damages caused by other institutional units and ex gratia payments made by government units or NPISHs in compensation for injuries or damages caused by natural disasters. However, major compensation payments should be recorded as capital transfers (instead of current transfers) if they are intended to recover losses incurred over a multi-year period or to replace a financial or non-financial asset.

9.147 Regarding the time of recording of compensation payments, the same rules apply as the ones for fines and penalties (see paragraph 9.140).

Citizenship by investment programmes

9.1399.148 Individuals may obtain an additional citizenship, or passport, by making economic contributions to another country. If these contributions take the form of non-refundable contributions to the government, nominated development funds, or possibly NPISHs, they should be recorded as current transfers, unless the contributions are specifically earmarked for capital investment projects. In the latter case, the contributions should be recorded as capital transfers.

H. Social transfers in kind

9.1409.149 As explained in section G, the ~~secondary distribution of~~ income transfers other than social transfers in kind account is concerned with how income is redistributed among sectors by means of transfers in cash or transfers that are treated as if they are in cash. However, there remains an important class of transfers that are recorded as a transfer of consumption expenditure originally undertaken by general government and NPISHs. These are described as social transfers in kind. ***Social transfers in kind consist of goods and services provided to households by government and NPISHs either free or at prices that are not economically significant.*** These transfers are sufficiently distinctive that two separate accounts are devoted to recording them.

9.1419.150 Social transfers in kind consist of final consumption expenditure undertaken by government and NPISHs on behalf of households. For this reason they are described as individual goods and services. This is in distinction from public goods such as defence and street lighting, which the SNA refers to as collective services. (There is more discussion on the difference between individual and collective expenditure of government in chapter 910.) There are two main reasons why government may choose to provide individual services to households. One is that by meeting the needs of very large sections, or even all, the population centrally there are cost efficiencies to be realized. The other is that the government can ensure that these services are available to the population at reasonable cost to households, prescribe the standards of the service to be observed and can insist that households avail themselves of the services, for example by requiring

children to attend school.

9.1429.151 For some analytical purposes, it is instructive to consider a measure of household consumption that includes the goods and services provided as social transfers in kind. The expanded view of consumption, though, must be matched by a similarly extended view of income since household saving is unaffected by this different perspective. In order to accommodate this different view of household income and consumption, the SNA introduces two accounts, one of which derives an alternative measure of income (the ~~redistribution of income~~social transfers in kind account, described below. The second account shows the alternative measure of consumption (the use of ~~adjusted~~ disposable income adjusted for social transfers in kind account) and is described in chapter 910.

1. The ~~redistribution of income~~social transfers in kind account

9.1439.152 The ~~redistribution of income~~social transfers in kind account takes the balancing item of the ~~secondary distribution of~~ income transfers other social transfers in kind account, disposable income, and adjusts this for the value of social transfers in kind to reach a new balancing item called ~~adjusted~~ disposable income adjusted for social transfers in kind. For households, ~~adjusted~~ disposable income adjusted for social transfers in kind is higher than disposable income; for government and NPISHs, it is lower.

2. Social transfers in kind paid to non-residents

9.1449.153 In principle, social transfers in kind may be paid to non-residents. One simple example is emergency medical care provided to a foreign tourist by a hospital within general government. However, just as non-resident households may benefit from social transfers in kind from the national government, so resident households may benefit from social transfers in kind paid by the government of another economy. In general these flows to non-residents will be small relative to the total level of social transfers in kind and, unless there is strong evidence to the contrary, by convention it may be assumed that the flows to non-residents are balanced by flows from governments (and NPISHs) of other economies. Subject to this convention, it is therefore the case that total disposable income for the total economy is exactly equal to total ~~adjusted~~ disposable income adjusted for social transfers in kind.