

**19th Meeting of the Advisory Expert Group on National Accounts,
20, 26 April and 10 May 2022, Remote Meeting**

Agenda item: 5

WS.14 Distinction between recording a tax, a services transaction and similar boundary cases

Introduction

To implement its policies, government can act in several different roles. This can result in measures that have a very similar economic impact (in terms of outlays and revenues of producers and consumers and in terms of economic incentives) to be recorded in completely different ways in the national accounts. This raises the issue whether further guidance is needed on how to record specific transactions.

Recommendations

- Given the wider implications, it is suggested to drop this issue from the list of topics of the Wellbeing and Sustainability Task Team.
- The ISWGNA/AEG is asked to discuss whether they see merit in the development of a more generic approach for this topic, in that case probably led by colleagues from the GFS community with the involvement of people from other domains including SNA.

Divergent views

None.

Questions to AEG

The AEG is requested to reflect on the following questions:

- Do you agree that the issue of how to clearly distinguish between a tax, a service and a property income payment (and for some transactions possibly other alternatives) may have wider implications than environmental-economic issues only?
- If you agree, do you prefer that a generic approach is being developed on how to make this distinction in practice (ensuring a consistent approaches for similar cases) and, if so, do you have suggestions where to best address this? Alternative is to only address relevant issues on an individual basis when they arise.

WS.14 - Distinction between recording a tax, a services transaction and similar boundary cases

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Introduction and scene setter

This note was originally prepared in June 2020 and then updated based on comments from Peter Van De Ven. It was discussed in the Area Group Environmental Economic Accounting at different occasions, most recently on October 7th, 2021. Ultimately, the Area Group concluded that this issue of boundary cases (and in particular the case 3 described in this note – the impact of government regulation) is a complicated issue that raises issues with the interpretation of many transactions in the SNA. Given the wider implications, the Area Group suggests dropping this issue from its list of issues and to refer it back to the ISWGNA/AEG to discuss whether they would see merit in the development of a more generic approach for this topic (in that case probably led by colleagues from the GFS community with the involvement of people from other domains including SNA).

The issues

To implement its policies, government can act in several different roles. This can result in measures that have a very similar economic impact (in terms of outlays and revenues of producers and consumers and in terms of economic incentives) to be recorded in completely different ways in the national accounts. This note describes some of these issues and presents current guidance (with a focus on Eurostat guidance).

SNA definition of taxes and related boundary case

To implement its policies, government can choose to act in its capacity as:

- a sovereign,
- a regulator,
- a supervisor,
- a producer or provider of public goods and services, or
- an owner of public infrastructure or public non-produced non-financial assets, as well as
- a shareholder in a (quasi-)corporation established under private or public law,
- a contractual party under the private law.

In some cases, government combines a number of policy instruments, or designs a new instrument, which might make it not straightforward for a statistician to identify the “true nature of a transaction” and depict the relevant flows based on standard definitions and classifications of macro-economic statistics.

The issue becomes even more challenging for environmental economic accounts, given that various policy instruments might have a similar economic impact from the environmental perspective. In this context, this note briefly presents a specific problem of cross-country comparability of data on environmental taxes.

The definition of environmental taxes relies strongly on the SNA concept of a tax, with its four distinctive features:

- compulsory payment,
- unrequited payment,
- payment in cash or in kind,
- payment levied by general government or – in the case of the EU - by the institutions of the European Union¹.

Voluntary payments, payments in return for a good or service, and other transactions with a similar economic and environmental effect but without a direct payment to the government budget would not fit the definition of taxes², and, consequently, they will not be reported as taxes.

In respect of the latter, specific consideration needs to be given to transactions where government levies payments for the use (in some cases up to complete depletion) of its sub-soil assets or other produced or non-produced assets. Payments for the use of natural resources, for example, may need to be recorded as property income when they constitute rent appropriation, even if under the national tax legislation these payments are called taxes.

Some cases raise particular ambiguities in this context, and are thus considered as ‘boundary cases’:

1. Licences (see also Annex 1)

Eurostat elaborated the following recommendations:

- If the licences are granted automatically on payment of the amounts due, their payment is treated as taxes.
- However, if the government uses the issue of licences to exercise some proper regulatory function, for example, when the government carries out checks on the suitability or safety of the business premises, on the reliability or safety of the equipment employed, on the professional competence of the staff employed, or on the quality or standard of goods or services produced as a condition for granting such a licence or is checking the competence, or qualifications, of the person/entity concerned, the payments made are treated as purchases of services from government, unless the payments are clearly out of all proportion to the cost of providing the services.’

Therefore, the receipts of general government should be treated as sales of services if the government uses the issue of a licence (i) to organise some proper regulatory function and (ii) if the payments are clearly in proportion to the cost of providing the services.

Some examples where both conditions are often met concern sewage or garbage disposal fees. The government receipts should be recorded as taxes, if either of the two above conditions is not satisfied, examples being licences for the ownership or use of vehicles, and licences to hunt, fish or shoot.

¹ The 2008 SNA definition, e.g. in paragraph 7.71, sets out that “Taxes are compulsory, unrequited payments, in cash or in kind, made by institutional units to government units. They are described as unrequited because the government provides nothing in return to the individual unit making the payment, although governments may use the funds raised in taxes to provide goods or services to other units, either individually or collectively, or to the community as a whole.” The SNA definition thus even more strictly insists on the payment ‘being made to government’.

² Voluntary payments will be recorded under ESA as other current or capital transfers if they are unrequited (ESA D.7 or D.9), payments in return for a good or service will be recorded as government market output (P.11) or payments for government non-market output (P.131).

2. Payments linked to the extraction or to the use of natural resources, such as water, forests, wild flora and fauna, etc.

Eurostat elaborated the following recommendations:

- As a general rule, these are considered environmental taxes, as these activities deplete natural resources.
 - However, all taxes designed to capture the resource rent (ESA D.45) from the extraction of natural resources should be excluded.
3. Distributive impacts of government regulation designed for environmental policy purposes, e.g. cross-subsidizing production of energy from renewable sources through electricity surcharges.

Government regulation may force a number of transactions between institutional units in the economy, which otherwise would not take place or would not take place at that price or volume. An example of this is the different ways governments use to promote electricity production from renewable sources.

- Some countries use schemes whereby the main electricity suppliers and grid operators are simply obliged by law to buy a given proportion of their electricity from renewable generators, possibly at a higher price set by law.
- Other countries have introduced a tax on electricity, the proceeds of which are earmarked to provide subsidies to the producers of electricity from renewable sources directly.
- Yet other countries use special contributions paid by consumers, which are obligatory but are not payments to government (so-called ring-fenced schemes, some of which involve specific bank accounts that collect the special contributions paid by consumers and where the compensatory payments to producers originate from; even though all of this may be regulated in detail by law, the holders of these accounts are not government units).

It may be that the electricity price for consumers, the revenues of producers, the economic incentives structure and the effect for the environment are all identical under these different schemes. At the same time, there will be an environmental tax (combined with a subsidy) recorded in the case where a tax on electricity is introduced but not in the other cases (for an exception see footnote 3). In the case of the ring-fenced schemes described above, which are constructed in exactly the same way as a 'tax-plus-subsidy' scheme, the payments may all be treated as "normal" market sales, for example.

Conceptually one could consider that, when a law results in higher prices than would otherwise be paid, the resulting transaction could be partitioned into a 'normal payment', an imputed tax paid by the buyer and an imputed subsidy received by the seller. However, in practice it might be difficult to do this for each and every impact that government regulation has on the economy. Eurostat's guide on environmental taxes at present recommends being very restrictive about imputing taxes.

It is clear though that currently there is no clear guidance on the treatment of such cases in macro-economic statistics. Some countries have chosen the option to 're-route' the transactions through government accounts (e.g., the United Kingdom³), while others have

³ See the ONS's classification decision of April 2010 'Under the Energy Act 2008 and the subsequent Feed-in Tariff (Specified Maximum Capacity and Functions) Order 2010, the UK Government introduced a regulatory regime to encourage the take up of small scale electricity generation from renewable sources - such as solar

decided not to impute any related transactions in government accounts (e.g. Germany). The different statistical approaches obviously affect the international comparability of the data on environmental taxes and other transactions linked to the environment. It is also not clear how such surcharges on the electricity price are (or should be) recorded in the (business) accounts of corporations and households.

Question to ISWGNA/AEG

- 1) Do you agree that the issue of how to clearly distinguish between a tax, a service and a property income payment (and for some transactions possibly other alternatives) may have wider implications than environmental-economic issues only?
- 2) If you agree, do you prefer that a generic approach is being developed on how to make this distinction in practice (ensuring a consistent approaches for similar cases) and, if so, do you have suggestions where to best address this? Alternative is to only address relevant issues on an individual basis when they arise.

panels, wind turbines and hydro generation. Under this scheme, households or businesses that install qualifying equipment receive a payment from their electricity supplier under a "Generation Tariff" for every kilowatt/hour of energy they generate. This payment is received, even if all energy generated is consumed by the relevant producing household or business (any energy generated and exported back to the grid is subject to a different payment, called the "Export Tariff"). This payment is therefore a compulsory, unrequited payment by the electricity supplier to the generator, which given its redistributive nature, ONS deems to be economically equivalent to a tax on the suppliers and a matching subsidy to the household or business. These flows are therefore imputed (or rerouted) through the Government's accounts, exactly as if Government was operating a more obvious tax and subsidy regime, in line with the guidance in ESA 1995, paragraph 1.39 – source: <https://www.ons.gov.uk/file?uri=/methodology/classificationsandstandards/economicstatisticsclassifications/introductiontoeconomicstatisticsclassifications/pscgmay20.xls>

Annex 1

Figure 1: Distinguishing taxes from fees and charges according to the criteria mentioned above

