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STATISTICS

Taxes and other Compulsory Payments related to Government Policy

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Draft GN: Taxes and other compulsory payments related to government policy

- The draft GN is being presented to AEG for initial discussion and comments ahead of a revised guidance note being brought back to AEG in October
- Background:
 - ▶ **April 2022:** AEG reviewed a draft GN focused on environmental taxes, payments and regulation → supported development of a broader GN looking more widely at government mandated payments
 - ▶ **April-July:** The latest draft GN has been prepared largely by IMF's Government Finance Division, but has benefitted from comments from other GFS and national accounts colleagues
 - ▶ The content of the GN is relevant to a number of other GNs (e.g. depletion accounting, emission permits) → it is believed to provide a helpful framework to support discussion of those other GNs

Structure of Guidance Note

I. Payments to perform activities or to own or use goods/assets

- Relates to where government seeks to exert control/regulation through the issuance of nontransferable permits/licenses/certificates
- Are the payments taxes or payments for services?

II. Payments related to the use or extraction of natural resources

- Considers (a) delineation of rent, and (b) treatment of “contracts, leases and licenses” assets

III. Rearrangement of transactions related to regulatory policies

- Considers when should government mandated transactions be reassigned to government or rerouted through government

Taxes vs Fees: Payments to perform activities or to own or use goods/assets (1)

The Issue

Current guidance delineating between taxes and payments for services (fees) is challenging to apply and open to interpretation which leads to inconsistencies between reporting by countries.

*The payment is **recorded as a tax when a licence or a permit is automatically granted** by the government as a mandatory condition to perform an activity or acquire an asset and when the government unit performs little or no work... The payment is **recorded as the purchase of a service when... issuing the licence or permit implies a proper regulatory function** of the government by exercising control on the activity... if the payment is **out of proportion** to the costs of producing the services, is it treated as a tax. (2008 SNA, §22.89)*

Taxes vs Fees: Payments to perform activities or to own or use goods/assets (2)

Why are there differences in interpretation?

- Differences in understanding of “proper regulatory function”, “out of proportion”, “mandatory process”
- Application of “out of proportion” to all mandatory payments and not just those related to “proper regulatory functions”
- References to recording certain payments by convention (e.g. passports, fishing licenses, TV licenses, vehicle licenses...) – do you follow the convention or the conceptual guidance?
- Differences between statistical manuals in the list of “conventions”

Taxes vs Fees: Payments to perform activities or to own or use goods/assets (3)

- **Option 1: Status quo**
- **Option 2: Clarify or amend existing practical guidance**
 - ▶ remove or caveat guidance on recording by convention (e.g. fishing licenses, vehicle licenses, passports, visa fees)
 - ▶ provide practical guidance on what constitutes “out of proportion”
- **Option 3: Clarify existing conceptual guidance**
 - ▶ clarify when to apply the current guidance: “mandatory process”
 - ▶ clarify when to assess “out of proportion”: “proper regulatory function”

Both option 2 & 3 aim at improving consistency in application of the guidance

Taxes vs Fees: Payments to perform activities or to own or use goods/assets (4)

- **Option 4: Consider as taxes all compulsory payments to government made as part of “mandatory regulatory processes”**
 - ▶ Reflects unique role of government in establishing and enforcing regulatory processes
 - ▶ Recognises that non-transferable permits/licenses are not really required transactions
 - ▶ Also recognises that primary benefit of regulation is the wider community and not the applicant for the permit/license
 - ▶ Significant change, but simplifies current guidance and so likely to lead to more consistency

Note: other compulsory payments (e.g. fines/penalties) and transferable permits/licenses would not be affected

Taxes vs Fees: Payments to perform activities or to own or use goods/assets (5)

- **Option 5: Partition payments into a fee (payments for services) component and a tax component**
 - ▶ Reflects that government does some work when providing a permits/licenses
 - ▶ Reflects that government imposes permits/licenses and fixes the cost – so a tax element
 - ▶ Analogies exist in the SNA, e.g. FISIM
 - ▶ Fee component may be calculated based on administrative costs

Note: Both option 4 & 5 would impact government sales in non-market output, taxes, government final consumption expenditure but not total government revenue or government output

Natural Resources: Payments to use or extract natural resources (1)

The Issues

- While rent is defined as the income receivable by the owner of a natural resource for putting the natural resource at the disposal of another unit for use in production, it is not always clear which income should be considered rent
- There is an apparent difference in how the statistical manuals treat the situation where the permission to use a natural resource is considered to generate a “*contracts, leases, and licences*” nonfinancial asset.

Natural Resources: Payments to use or extract natural resources (2)

- **Option 1: Status quo**
- **Option 2: Clarify guidance on rent**
 - ▶ rent only payable to economic owner of natural resource
 - ▶ payments by user/extractor, which are not similarly paid by other corporations, and are linked to use/extraction are rent regardless of their label (e.g., royalties, sur-taxes, permits..)
 - ▶ other payments by user/extractor are not rent

Note: May require particular clarification when considering payments to government under the proposed split-asset approach (WS.6, WS.10 & WS.11)

Natural Resources: Payments to use or extract natural resources (3)

- **Option 3: Clarify or amend guidance on treatment of licenses for the right to use a natural resource (where license is an asset)**
 - ▶ arguably, the 2008 SNA and GFSM 2014 differ from ESA 2010
 - ▶ SNA/GFSM/ESA: records as sale of license when the owner allows *“the resource to be used for an extended period of time, in such a way that, in effect, the user controls the use of the resource during this time with little if any intervention from the legal owner...”* (2008 SNA 17.314)
 - ▶ SNA/GFSM appears to only record the sale of a license asset
 - ▶ ESA explicitly foresees both rent and a transferable license asset
 - ▶ As the underlying asset remains on the balance sheet of the legal owner should rent not be recorded?

Note: Option 2 & 3 relate to distinct issues and so are not mutually exclusive

Natural Resources: Payments to use or extract natural resources (4)

- **Option 3: ...continued...**
 - ▶ Current SNA and GFS guidance:
 - **On issuance:** transaction in nonfinancial assets “*contracts, leases, and licenses*”
 - **During use/extraction:** revaluation changes in nonfinancial assets (*contracts, leases, and licenses*)
 - ▶ Proposed guidance:
 - **On issuance:** “*contracts, leases, and licenses*” nonfinancial asset appears through other volume change (usually at zero value)
 - **During use/extraction:** accrued rent over life of license + revaluation changes in nonfinancial assets (*contracts, leases, and licenses*)

Rearrangement: Transactions mandated by government regulation (1)

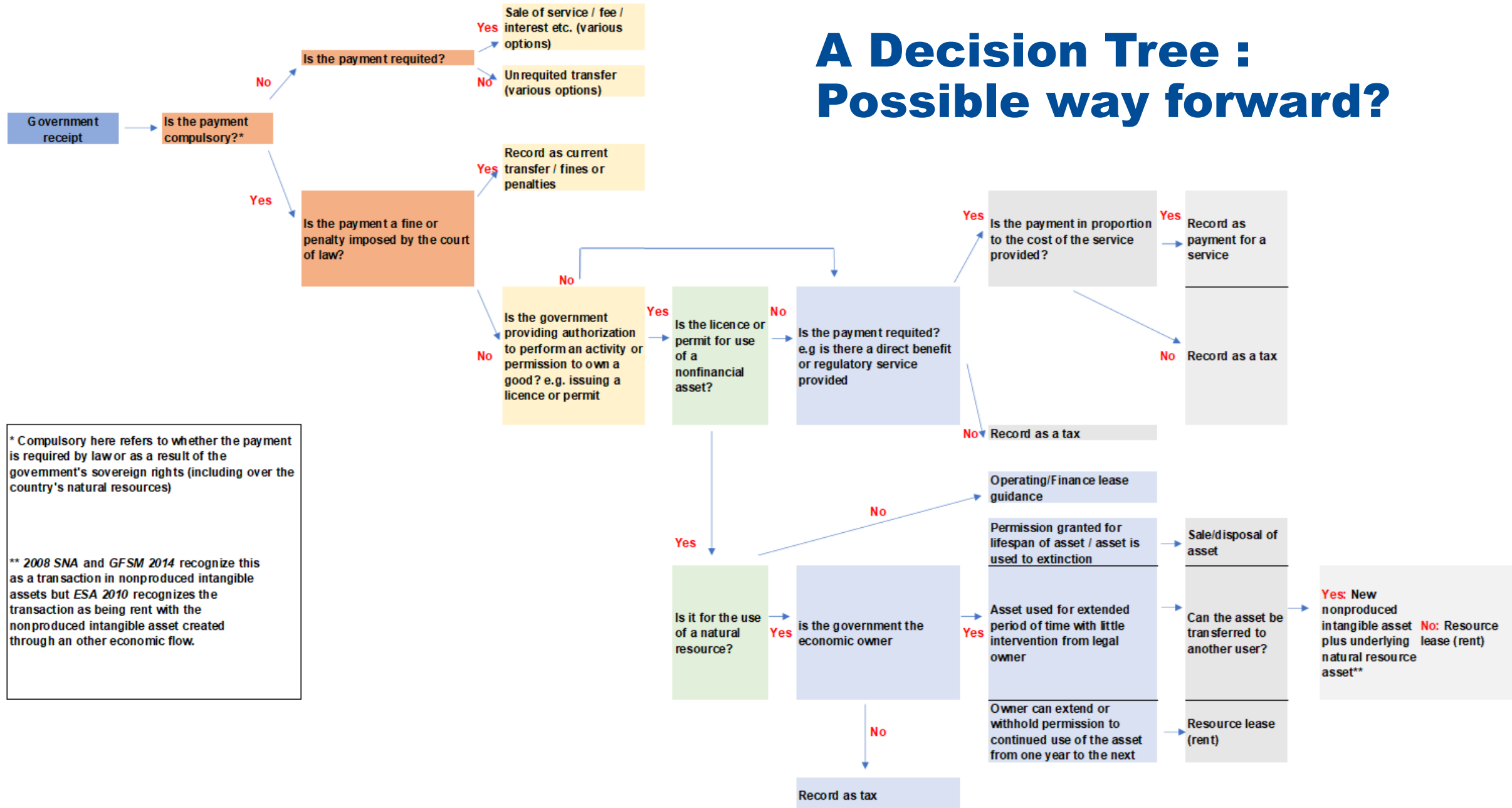
The Issue

- Government can use its regulatory powers to mandate transactions between private agents which can be similar in economic effect to a government tax/subsidy scheme. Should the transaction therefore be rearranged through government? When do you rearrange and when not?
 - ▶ *e.g. Government initially taxes electricity suppliers based on the amount of nonrenewable energy sources they use and pays the tax collected as a subsidy to renewable energy providers. This scheme gets replaced with a regulatory scheme where the electricity suppliers are mandated to pay the renewable energy providers directly. Should taxes and subsidies decrease, or should this mandated transaction be rearranged through government?*

Rearrangement: Transactions mandated by government regulation (2)

- **Option 1: Status quo**
- **Option 1b: Extend guidance on reassignment / principal party**
 - ▶ Provide more guidance on the circumstances under which government should be recognized as the “principal party” in a transaction
- **Option 2: Develop guidance on when to rearrange (reroute) transactions mandated by government regulation**
 - ▶ non-commercial transactions, which are below market prices and loss-making?
- **Option 2b: Require rearrangement (rerouting) of all transactions mandated by government regulation which are intended to be redistributive of income or wealth**

A Decision Tree : Possible way forward?



* Compulsory here refers to whether the payment is required by law or as a result of the government's sovereign rights (including over the country's natural resources)

** 2008 SNA and GFSM 2014 recognize this as a transaction in nonproduced intangible assets but ESA 2010 recognizes the transaction as being rent with the nonproduced intangible asset created through an other economic flow.

Yes: New nonproduced intangible asset
No: Resource lease plus underlying natural resource asset**

Questions

1. Do you agree the GN should be further developed, for further consideration at October AEG meeting?
2. Do you broadly agree with the options presented under each section? Are there other options to consider?
3. Do you have any comments on the options or arguments presented in each section?
4. Do you have specific examples that the GN could usefully explore, particularly with respect to the third section on rearrangement?