



STATISTICS

INTER SECRETARIAT  
WORKING GROUP ON  
NATIONAL ACCOUNTS

## Draft GN on The Borderline Between Taxes, Sales of Service, and Other Government Revenue Boundary Issues (BOPCOM 22/12)/(SNA/M4.22/22)

Joint (Virtual) Thirty-Ninth Meeting of the IMF Committee on  
Balance of Payments Statistics and Twenty-First Meeting of  
the Advisory Expert Group on National Accounts

October 18–20, 2022

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### GN WS.14: The Borderline between Taxes and Sales of Service, and Other Government Revenue Boundary issues

- The draft GN is being presented to seek approval to go to global consultation
- Background:
  - ▶ **April 2022:** AEG reviewed a draft GN focused on recording of environmental taxes, payments, and regulation
  - ▶ **July 2022:** A new and broader GN went to AEG for initial views
  - ▶ **October 2022:** Latest draft of GN incorporating comments from AEG, IMF colleagues and Eurostat GFS Directorate
- Related GNs:
  - ▶ AI.2 (Treatment of Rent), WS.6 (Accounting for the Economic Ownership and Depletion of Natural Resources), WS.7 (Emissions permits)

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## Structure of Guidance Note

- I. Payments to obtain permission to perform activities or to own or use goods/assets**
  - Relates to where government seeks to exert control/regulation, or raise funds, through the issuance of nontransferable permits/licenses/certificates
- 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. Proposes a decision tree to guide classification of government receipts**
- IV. Rearrangement of transactions through government accounts**
  - Considers when should government mandated transactions be reassigned or rerouted through government

## I. Payments to Obtain Permission to Perform Activities or to Own or Use Goods/Assets

## Taxes vs Sales of Services (1)

### The Issue

Current guidance delineating between taxes and payments for services (fees) for mandatory licenses/permits 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, for instance, 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)*

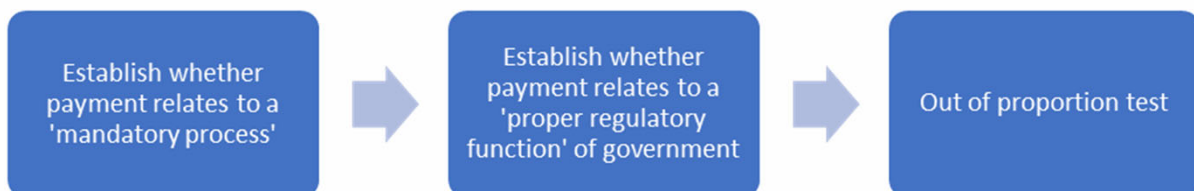
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## Taxes vs Sales of Services (2)

Assessment process for payments related to non-transferable licenses / permits / certificates:



Generally, record as a tax unless

- (a) the issuance of the license is part of a **regulatory function**,  
**AND**
- (b) payment is **not out of proportion** to the costs of providing the license

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## Taxes vs Sales of Services (3)

### Difficulties in interpretation of current guidance

- Differences in understanding terms (“proper regulatory function”, “out of proportion”, “mandatory process”, and “compulsory”)
- Unclear how to apply the “out of proportion” test
- Confusion over 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?

## Taxes vs Sales of Services (4)

- If payment must be legally made to government for permission to perform an activity or own/use a good/asset\* then **the payment is compulsory**
- **But, is it required or unrequired?**
  - Recipients do receive some benefits (i.e., the license) BUT...
  - Recipients have no choice to pay
  - Many licenses are tools to control activities/goods and/or raise revenue
  - Regulatory licenses may be seen as being for the benefit of society

\* not owned by government

## Taxes vs Sales of Services: Options (1)

- **Option 1: Status quo**
- **Option 2: Clarify existing guidance**
  - ▶ define “compulsory” and “mandatory process”
  - ▶ further clarify what is a “proper regulatory function” and why payments for these licences might be sales of services
  - ▶ provide guidance on how to assess whether a payment is “out of proportion”
  - ▶ removing, standardizing and/or caveating the recording “by convention” examples to emphasize the conceptual guidance
  - ▶ provide further guidance on how to recognize when a payment for a license might be considered required

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## Taxes vs Sales of Services: Options (2)

- **Option 3: Consider all payments for mandatory licenses to be taxes**
  - ▶ considers non-transferable licenses as unrequited
  - ▶ recognises that the primary beneficiary is society and not the applicant for the license
  - ▶ reflects unique role of government in establishing and enforcing license payments
  - ▶ significant change, but simplifies current guidance, easy to implement and should increase consistency/comparability

**RECOMMENDED** by GN drafting team

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

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## Taxes vs Sales of Services: Options (3)

- **Option 4: Partition payments for licenses issued as part of a regulatory function into a fee (payments for services) component and a tax component**
  - ▶ reflects that the license recipient receives some direct benefit (a required service) but..
  - ▶ also reflects that the regulatory function provides a wider benefit to society (an unrequited – tax – element)
  - ▶ fee component may be calculated based on administrative costs
  - ▶ measurement challenges involved in partitioning

*Note: Both Option 3 & 4 would impact government sales in non-market output, taxes, government final consumption expenditure but not total government revenue or government output*

## II. Payments Related to the Use or Extraction of Natural Resources

## Payments to Use or Extract Natural Resources (1)

### The Issues

- **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
- **Resource leases:** 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.

## Payments to Use or Extract Natural Resources (2)

- **Option 1: Status quo**
- **Option 2A: Clarify definition of 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 be of relevance when considering payments to government under the proposed split-asset approach (WS.6, WS.10, & WS.11)*

## Payments to Use or Extract Natural Resources (3)

- **Option 2B: Clarify guidance on treatment of permits to use natural resources (where license is an asset)**
  - ▶ the 2008 SNA and GFSM 2014 appear to 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 suggest to only record the sale of a license asset (transaction in nonfinancial nonproduced assets)
  - ▶ ESA explicitly foresees both rent and a transferable license asset

Cont.

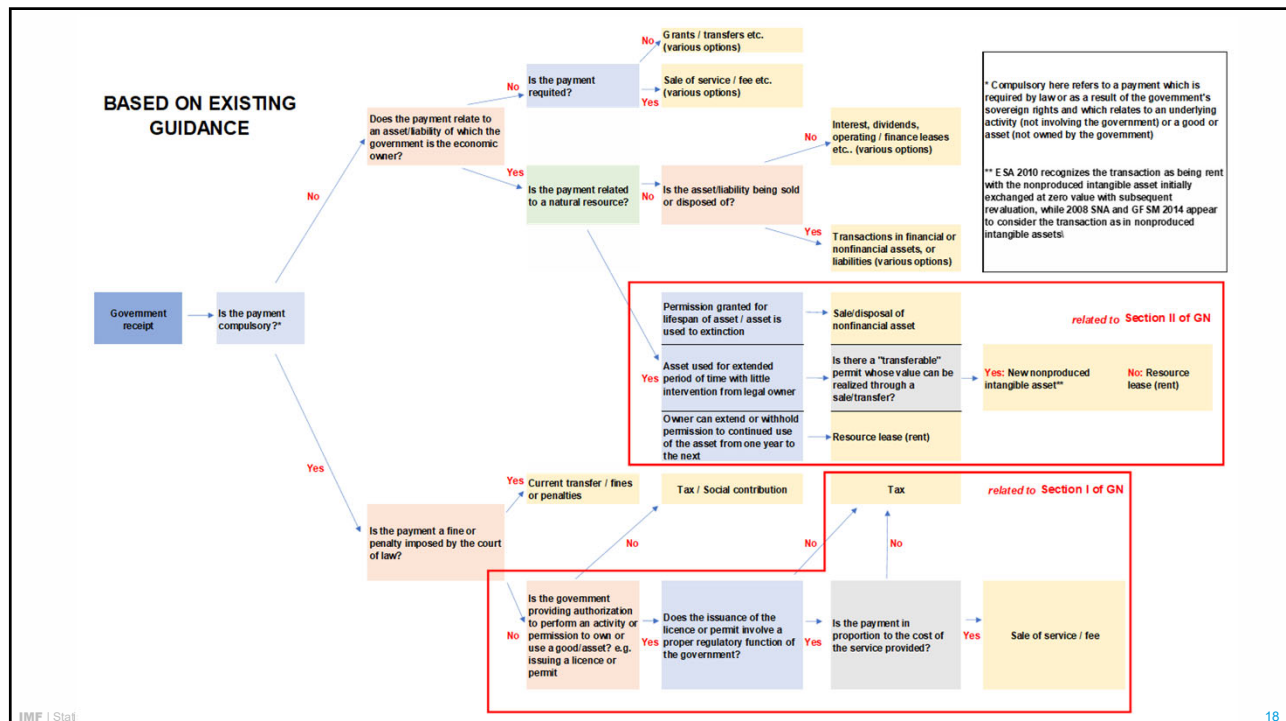
## Payments to Use or Extract Natural Resources (4)

- **Option 2B: ...continued...**
  - ▶ Proposed clarified guidance:
    - **On issuance:** *“contracts, leases, and licenses”* nonfinancial asset appears through other volume change and is transferred to licensee (all usually at zero value)
    - **During use/extraction:** accrued rent over life of license + revaluation changes in nonfinancial assets (*contracts, leases, and licenses*) based on market price of underlying asset and the associated rent
- **Option 2c: Introduce clarifications in Options 2A and 2B**  
**RECOMMENDED by GN drafting team**



### III. Decision Tree to Guide Classification of Payments to Government

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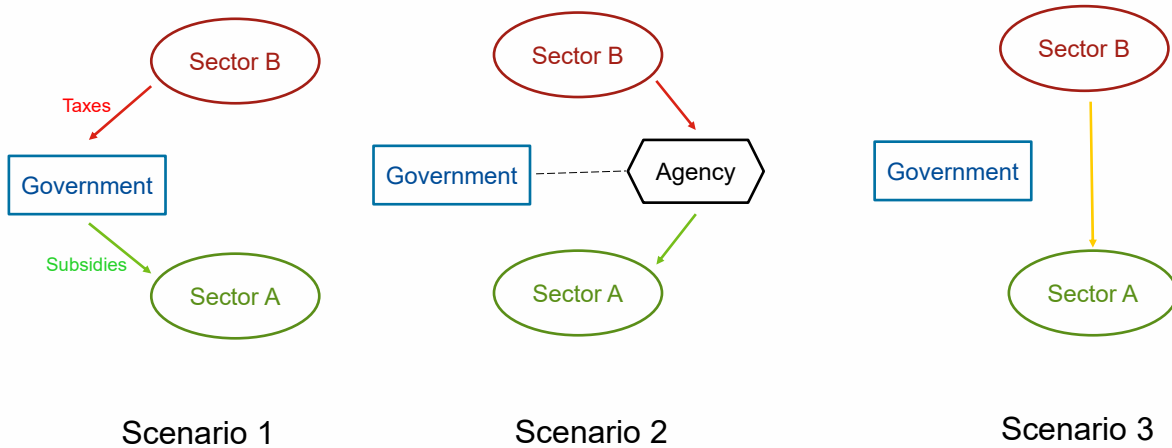
## IV. Rearrangement of Transactions Through Government Accounts

### Rearrangement of Transactions Through Government (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?

## Rearrangement of Transactions Through Government (2)



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## Rearrangement of Transactions Through Government (3)

- Many challenges in rearranging transactions:
  - Government is involved in activities across the economy
  - Government intention in policies can be hard to assess
  - Impact of government policies can be hard to measure
  - Cross-subsidization of products and services in the private sector is perhaps similar to government mandating transactions at below-market terms
  - Risk of excessive rearrangement having unintended impacts on key macroeconomic metrics

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## Rearrangement of Transactions Through Government (4)

- **Option 1: Status quo**
- **Option 2: Develop guidelines on a limited number of scenarios where payments should (and should not) be rearranged**

**RECOMMENDED** by GN drafting team

For example, rearrangement where:

- a pre-existing scheme with payments to/from government is replaced by one without such payments
- government mandates cash payments between economic actors which would not otherwise happen
- government instigates price caps/fixes and has mechanisms to “finance” the difference (perhaps at a future date, or in tax deductions)

## Questions for AEG and BOPCOM

1. Do you support the methodological issues and options raised in the GN, or should other options be included?
2. What are your preliminary views? Do you agree with the proposed recommendations of the drafting team?
  - a. Section I: Option 3
  - b. Section II: Option 2C
  - c. Section IV: Option 2
3. Do you support the introduction of a decision tree for payments to government?
4. Do you agree to submit this GN to global consultation?