# Comments on draft SNA chapter:
# Chapter 7: The distribution of income accounts

**Deadline for comments: 15 April 2007**
**Send comments to: sna@un.org**

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| Submission date: | 17 April 2007 |

This three-part template allows you to record your comments on draft chapter 7 easily and, at the same time, makes it easy for us to use your comments in considering revisions to the draft chapter. You may complete any one, any two, or all of the three parts of the template.
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## Part I: General comments

In the space below, please provide any general comments, such as about the clarity with which the new recommendations were incorporated (30 words or less).

*Comment:*

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| Click here and start typing. |

## Part II: Comments on specific draft paragraphs or passages *(to follow soon)*

In your review of draft chapter 7, you may wish to devote particular attention to the passages listed below. There is space after each issue for any comment you wish to make.

1. There are some changes in the text of section B on compensation of employees received from the ILO. Do you have any questions on the changes?

*Comment:*

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2. In sections C and D, there are some changes in the text on taxes and subsidies suggested by the IMF and OECD staff responsible for classifying tax statistics. Do you have any questions on the changes?

*Comment:*

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3. Section E, on property income, is expanded in keeping with AEG recommendations (see the Note by the editor). Do you find the new text clear enough? . It is proposed to introduce a heading, Investment income, under property income (equal to property income less rent) to facilitate consistency with the BPM. Do you have any comments on this proposal?

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Section E3

General comments

The general outline of the chapter is better but I have found contradictions and ambiguities leading to problems in compiling the relevant statistics. It seems that the new concept "super-dividends" not have been carefully prepared: The consequences for taxes and rest of the world accounts are examples of this. Therefore I prefer the part dealing with dividends, withdrawals from quasi-corporations and reinvested earnings in SNA93 unchanged or in some cases only clarified.

Dividends

In paragraph 7.104 (§7.114 in SNA93) it is stated that

"…dividends must also be understood to cover all distributions of profits by corporations to their shareholders or owners, by whatever name they are called."

This, I think, is a general description of what dividends are. Maybe the list of examples of what should not be accounted as dividends can be made longer than the only example now mentioned: issue of bonus shares.
But, nevertheless the general idea of what dividends are is well captured in the paragraph and should therefore be retained.

Profits includes realised gains or losses on assets (c.f. §7.18 in SNA93) and thus makes a difference between the generation of income account where holding gains/losses not shall enter the accounts and the distribution of income account where realised holding gains/losses might determine the size of dividends. Holding gains/losses do not form part of income but are in the first phase paid out of income (by buyers who have not made any previous holding gains/losses) and is in this respect a kind of redistribution of income.

I also note that the concept of profit is excluded in the discussion of entrepreneurial income in paragraph 7.21 relative to SNA93 (§7.18). Somewhere in the SNA it should be stated explicitly what makes up the difference between the income concepts in SNA, like entrepreneurial income and profits in business accounting. It is mentioned in the part "I. Links with business accounting and economic theory", but could be devoted more space for a detailed explanation.

To set up a statistical system that separates dividends only related to generated income (operating surplus / mixed income) is impossible. Other transactions will have an impact on the profit and loss account of the corporation and thereby what can be paid out as dividends to the shareholders. This is established in SNA93 and should not be changed or restricted by concepts like "super-dividends".

Dividends are paid out of profits for different reasons. The size of dividends depends on the success of the corporation and the plans for the future. So, dividends in relation to profits may vary over time. A young corporation might be focused on growth and stability and therefore have a low dividend to profit ratio whereas a mature corporation has a different policy. There is no single rule to be used to evaluate if the dividends are normal or not.

Especially at the current period when mergers are common, corporations use accumulated profits to buy subsidiaries from other corporations. These profits may be generated in own subsidiary corporations or affiliates and then transferred to the parent corporation as dividend payments (withdrawals). But there is also the other side of this trend, corporations having large deposits (e.g. after sales of subsidiaries) but without potential investments or mergers to make. These corporations might instead decide to make larger than normal dividend payments to let the owners decide how to use the excess capital. To say that this is equal to shifting out equity is not wholly correct because instead the corporation could have had larger historic dividend payments if they had known the outcome of their activities and decisions at an earlier stage (i.e. if they have had perfect foresight). But it is wise to decide how to use money capital when you have it rather than when you forecast it. In the meantime unallocated profits become part of corporate equity.

If "super-dividends" are not to be accounted as dividends (current transfer) the second best alternative then would be as a capital transfer but as a financial transaction only, is inconsistent with the characteristic of the transaction. When part of corporate equity is transferred to the owners it is part of the corporate assets which are transferred and this fits perfectly with the definition of a capital transfer. A financial transaction on the other hand is an equal exchange where both parties get something for what they pay but opposite to transactions in goods and services it is a financial asset which is the object of the transaction. A transfer of a financial asset, e.g. the withdrawal of owners' equity, is by definition a capital transfer.

It is a deliberate decision made by the owners or shareholders to use accumulated profits in the way they think is best as owners of the corporation or group of corporations. When capital can not be used in a corporation efficiently it is from the owner point of view rational to allocate this capital to other uses even if it is outside the accounts of the corporation.

When we have adjusted for "super-dividends" at one side of the accounts we also have to make the corresponding adjustment for those sectors receiving dividends including the rest of the world accounts. To be able to know which sector to adjust detailed information on the shareholders/owners sector belonging is needed. This can only be achieved by information on the level of corporations. A special kind of problem occurs when "super-dividends" is paid/received to/from the rest of the world. First of all, how do we identify dividends as "super-dividends" and secondly how do we calculate to which sector the "super-dividends" belongs?

A problem not dealt with is how taxes paid on property income reclassified to financial transactions (super-dividends) should be accounted for. If part of dividends no longer will be treated as dividends but as a financial transaction then taxes on that part should be reclassified as another kind of taxes than income taxes. But what kind of taxes is not clear (wealth?).

If we want to make corrections for government units transferring large amounts of assets from corporations or quasi-corporations with the only purpose of improving their balances this must be done on a case by case basis. In the SNA a general description of this problem might be relevant but in the end it will always be up to sound statistical practises.

The new concept "super-dividends" is contradictory to the definition of dividends (see above) and should be dropped. Dividends can not both include all distributions of profits and also exclude a large part of them because they are of an irregular nature.

In this part of chapter 7 it is also introduced a new concept: “entrepreneurial earnings”. Whether this is equal to entrepreneurial income or not is unclear. The same goes for the concept “distributable earnings” and distributable income. But with reference to the concept retained earnings (§7.113 and §7.122 in SNA93) it seems likely that earnings and income are identical concepts. To avoid ambiguities I think that using only entrepreneurial income would be an improvement. The definition of “distributable earnings” would then have a clear reference to paragraph 7.21 where entrepreneurial income is defined.

Now turning to reinvested earnings in paragraph 7.113. Maybe it is good to repeat what balancing items and transactions the concept is made up of instead of referring to the definition of distributable income. In the proposed text users have to trace the concept back to its detailed definition by use of paragraphs 7.21 and 7.106. It is a simple service to repeat the definition now and then. To increase the understanding of what reinvested earnings are I also think it should be stated that by operating surplus is meant operating surplus, net.

4. It is proposed (section E.5) to use the expression “after-tax rent” instead of “net rent” to facilitate consistency with the SEEA. Do you have any comments on this?

*Comment:*

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**Part III. Other specific comments**

You are welcome to make other comments. Please do so by using Adobe Acrobat Version 6 or 7 to comments directly on the PDF of the draft chapter.

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