VIII THE SECONDARY DISTRIBUTION OF INCOME ACCOUNT

A. Introduction

8.1 The secondary distribution of income account (see table 8.1), shows how the balance of primary 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. This redistribution represents the second stage in the process of income distribution as shown in the accounts of the System.

Table 8.1. Account II.2: Secondary distribution of income account

8.2 The redistribution of income in kind account (see table 8.2), takes the process of income redistribution one stage further. It shows how the disposable income of households, non-profit institutions serving households (NPISHs) and government units are transformed into their adjusted disposable income by the receipt and payment of social transfers in kind. Non-financial and financial corporations are not involved in this process.

Table 8.2. Account II.3: Redistribution of income in kind account

1. The secondary distribution of income account

8.3 Apart from disposable income and balance of primary incomes, the balancing item carried forward from the primary distribution of income accounts, all the entries in the secondary distribution of income 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 counterpart. A capital transfer is one in which the ownership of an asset is transferred or which obliges one or both parties to acquire, or dispose of an asset. Other transfers are described as current. The concept of a transfer is explained in more detail in section B below. Three main kinds of current transfers are distinguished in the account:

Current taxes on income, wealth, etc.

Social contributions and benefits

Other current transfers.

8.4 The transfers payable by an institutional unit or sector are recorded on the left-hand side of the account under uses. For example, in table 8.1, taxes on income payable by the household sector are recorded at the intersection of the row for this item and the uses 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. For example, the social security benefits in cash receivable by the household sector are recorded at the intersection of the row for this item and the resources column for the household sector. In accordance with the general accounting rules of the System, 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. Current transfers may take place between resident and non-resident units as well as between resident institutional units.

8.5 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 and redistribution of income in kind accounts. Their general nature and the purposes they serve are summarized in the following paragraphs.

Current taxes on income, wealth, etc. (D.5)

8.6 Most of these taxes consist 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 8.1, current taxes receivable appear under resources for the general government sector while taxes payable appear under uses for the household and non-financial and financial corporation sectors, and possibly for the non-profit instituions serving households (NPISHs) sector.

Social contributions and benefits (D.6)

8.7 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. There are two kinds of social benefits: social insurance benefits and social assistance benefits. To qualify as social insurance benefits the transfers must be provided under organized social insurance schemes. Social insurance benefits may be provided under general social security schemes, under private funded social insurance schemes or by unfunded schemes managed by employers for the benefit of their existing or former employees without involving third parties in the form of insurance enterprises or pension funds. Payments by insurance enterprises under policies arranged individually and on the individual's own initiative and not under an organized social insurance scheme are excluded even when the same risks and conditions are concerned. Social assistance benefits are intended to meet the same kinds of needs as social insurance benefits but are provided outside of an organized social insurance scheme and are not conditional on previous payments of contributions. Social insurance benefits in kind provided under private funded social insurance schemes or unfunded schemes are treated as if they were paid in cash and included in the secondary distribution of income account. 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 in the redistribution of income in kind account. Thus, in table 8.1 social benefits, except social transfers in kind, are recorded under resources for the household sector and may, in principle, be recorded under uses for any sector as any institutional unit in its capacity as an employer may operate an unfunded scheme in which it receives imputed contributions and pays benefits.

8.8 Social contributions are actual or imputed payments to social insurance schemes to make provision for social insurance benefits to be paid. They may be made by employers on behalf of their employees or by employees, self-employed or non-employed persons on their own behalf. Social contributions may, in principle, be recorded under resources for any sector. Most contributions, however, are likely to be recorded under resources for the general government sector, including social security funds, and for insurance corporations and pension funds in the financial corporate sector. Social contributions are recorded under uses only for households, either resident or non-resident.

Other current transfers (D.7)

8.9 Several kinds of transfers serving quite different purposes are included under this heading. For example, one important group consists of net premiums and claims for non-life insurance. The net non-life insurance premiums receivable by insurance corporations (the actual premiums plus premium supplements reduced by the associated service charges) are recorded under resources for the insurance corporations sub-sector, while the net premiums payable may be recorded under uses for any sector. Conversely, the claims payable by insurance corporations are recorded as uses for the financial corporate sector, while the claims receivable may be recorded under resources for any sector.

8.10 Another group consists of current transfers between different kinds of government units, usually at different levels of government, and also between general government and foreign governments. This heading also includes other current transfers such as between different households.

2. Disposable income (B.6)

8.11 Disposable income is the balancing item in the secondary distribution of income account. It is derived from the balance of primary 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.

8.12 Disposable income, like the balance of primary incomes, may be recorded gross or net of consumption of fixed capital. It may be necessary to record it gross because of the difficulty of measuring consumption of fixed capital even though consumption of fixed capital is a cost of production and not a component of income. The following discussion refers to the net concept of disposable income.

8.13 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 NPIs to households are recorded separately in the redistribution of income in kind account, other transfers in kind are recorded in the secondary distribution of income 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 of services in question as if the transfers were received in cash.

8.14 Households also receive several kinds of property income that is not made available in cash. These include the income accruing from the investment of insurance and pension reserves that is attributed to the households that have taken out insurance policies or have pension entitlements. This income is recorded as being received by the appropriate households in the allocation of primary income account but is automatically repayable as premium supplements to the insurance enterprises or pension funds and cannot be used for purposes of consumption expenditures. Another example is provided by the interest accruing on a zero-coupon bond which is automatically reinvested in the bond.

Links with economic theoretic concepts of income

8.15 Disposable income as measured in the System 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 System, while other changes in the volume of assets and real holding gains or losses are recorded in the other changes in assets account. According to the concept of disposable income used in the System, the net worth that needs to be maintained intact is that at the beginning of the accounting period adjusted for the value of any capital transfers received or paid, for other changes in the volume of assets and for any real holding gains or losses accruing during the accounting period. Disposable income is better interpreted in a narrower 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 theoretic 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 or real holding gains or losses.

National disposable income

8.16 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. However, it should be noted that all social transfers made to or received from non-residents are treated as if they were in cash. It follows that 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.

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

- Current international cooperation: i.e., 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
- Social contributions and/or benefits
- Insurance premiums and claims
- Payments of current taxes on income or wealth
- Remittances between resident and non-resident households.

8.18 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 income in kind account

8.19 Apart from the balancing items, disposable income and adjusted disposable income, all the entries in the redistribution of income 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.

8.20 The most common types of individual non-market goods and services are education and health services provided free, or at prices that are not economically significant, to individual households by non-market producers owned by government units or NPISHs. They are described in chapter IX. As social transfers in kind only take place between government units, NPISHs and households, the redistribution of income in kind account is not needed for the non-financial and financial corporate sectors.

8.21 The social transfers in kind payable by government units or NPISHs are recorded on the left-hand side of their redistribution of income in kind accounts under uses. For example, in table 8.2, 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 column for the general government sector. (These goods and services are valued by their costs of production.) The social transfers receivable by the household sector are recorded on the right-hand side of their account under resources. For example, the value of social security benefits in kind receivable by the household sector is recorded at the intersection of the row for this item and the resources column for the household sector. As only the household sector receives social transfers in kind, the resources columns for the other four sectors are empty.

8.22 There are only four main categories of social transfers in kind, i.e., social benefits in kind, divided into:

- Social security benefits, reimbursements
- Other social security benefits in kind
- Social assistance benefits in kind
- Transfers of individual non-market goods and services.

Each of these categories is described in more detail below.

8.23 Most of the non-market services produced by NPISHs are individual in nature, although some have some of the characteristics of collective services. For simplicity, all the non-market services of NPISHs are treated as individual and are, therefore, recorded under social transfers in kind.

4. Adjusted disposable income (B.7)

8.24 Adjusted disposable income is the balancing item in the redistribution of income 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.

8.25 Adjusted disposable income, like disposable income, may be recorded gross or net of consumption of fixed capital. Because social transfers in kind are payable only by government units and NPISHs to households, it follows that the adjusted disposable incomes of the general government and NPISHs sectors are lower than their disposable incomes, while the adjusted disposable income of the household sector exceeds its disposable income by the total value of social transfers in kind. The adjusted disposable income for the total economy is the same as its disposable income. In practice, the concept of adjusted disposable income is mainly relevant to government units and households, the distinction between adjusted disposable income and disposable income being irrelevant at the level of the economy as whole.

8.26 The adjusted disposable income of a household can be interpreted as measuring the maximum value of the final consumption goods or services that it can afford to consume - the use for the satisfaction of the needs or wants of its members - 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 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 reduce its cash, dispose of other assets or increase its liabilities for the purpose.

B. Transfers

1. Introduction

8.27 A transfer is defined as 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 counterpart. A cash transfer consists of the payment of currency or transferable deposit by one unit to another without any counterpart. A transfer in kind consists either of the transfer of ownership of a good or asset, other than cash, or the provision of a service, again without any counterpart.

8.28 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. Alternatively, a household paying taxes may be able to consume certain collective services provided by government units. Such benefits, however, are generally uncertain or not quantifiable, or both. Moreover, the amount of benefit that may eventually be received by an individual unit may bear no relation to the amount of the transfers previously paid. The entitlement to contingent benefits or collective services cannot be treated as if it were itself some kind of asset that could be valued and recorded in the accounts. Hence, items such as non-life insurance premiums, social insurance contributions and taxes are treated in the accounts as transfers.

8.29 However, payments of premiums on individual life insurance policies taken out by members of households on their own initiative outside any social insurance scheme are not transfers. Similarly, the benefits received when the policies mature are not transfers. Holders of such life insurance policies themselves own the life insurance reserves administered by insurance enterprises into which the premiums are paid and out of which benefits are paid. Payments of premiums and premium supplements (less associated service charges) and the sums received on maturity are, therefore, not transfers between different institutional units. They constitute the acquisition and disposal of financial assets and are recorded as such in the financial accounts of the System as components of the change in the net equity of households in life insurance reserves and pension funds.

8.30 Households participating in funded pension schemes also own the pension reserves so that, in principle, pension contributions and benefits should also be treated in the same way as life insurance premiums and benefits. However, because the payment of pension contributions and the receipt of pensions are widely perceived by the households concerned and others as being transfers, and to avoid treating them differently from state pensions received under social security schemes, they are recorded in the secondary distribution of income accounts as if they were current transfers. In consequence, it is necessary to introduce an adjustment item in the use of income account (see Introduction to chapter IX) in order to ensure overall consistency between the income accounts and the financial accounts of the System.

2. The distinction between current and capital transfers

8.31 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. First, a transfer in kind is capital when it consists of the transfer of ownership of an asset, other than inventories. Secondly, a transfer of cash is capital when it is linked to, or conditional on, the acquisition or disposal of an asset (other than inventories) by one or both parties to the transaction, for example, an investment grant. 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 (e.g., 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.

8.32 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 very infrequent.

8.33 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 in different parts of the System. 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.

3. The recording of transfers

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

Transfers in cash

8.35 Below is an example of a current transfer in cash, such as the payment of a social security benefit in cash. The following entries are needed:

Household	*Social security fund*
Transfer received (secondary distribution of income account)	Transfer made (secondary distribution of income account)
Increase in currency, transferable deposits or other credit (financial account)	Decrease in currency, transferable deposits or other credit (financial account)

The transfer increases the disposable income of the household and reduces that of the social security fund. The eventual use of the cash by the household is recorded subsequently as a separate transaction. If the transfer were a capital transfer, it would be recorded in the capital account instead of the secondary distribution of income account.

Transfers in kind, except social transfers in kind

8.36 Below is an example of an enterprise producing medicines that donates some of its output free of charge to a charity (NPISH). The following entries are needed:

NPISH	*Enterprise*
Transfer received (secondary distribution of income account)	Transfer made (secondary distribution of income account)
Imputed expenditure on medicine(use of disposable income account)	Output (imputed sales)of medicine(production account)

Although the transfer is in kind rather than cash, the recording of the transfer has the same impact on the disposable incomes of the NPISH and the enterprise as a transfer in cash. The acquisition of the medicine by the NPISH has to be recorded in the use of disposable income account as an imputed expenditure out of disposable income, in the same way as the acquisition of a good or service received as remuneration in kind.

8.37 A more complex variant involving two interrelated transactions 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. In this case, the following entries are needed:

NPISH	*Enterprise A*	*Enterprise B*
Transfer received (under resources in secondary distribution of income account)	Transfer made (under uses in secondary distribution of income account)	
Imputed expenditure on medicine (use of disposable income account)		Output (sales)(production account)
	Decrease in currency, transferable deposits or other credit (financial account)	Increase in currency, transferable deposits or other credit (financial account)

As in the previous case, the disposable income of the NPISH receiving the transfer in kind is increased by the transfer, an imputed expenditure of equal value being recorded in the use of disposable income account.

Social transfers in kind

8.38 In the System, final consumption expenditure is incurred only by general government, NPISHs and households. All of households' consumption expenditure 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. By convention, all consumption expenditure by NPISHs is treated as being for the benefit of individual households. This distinction between collective and individual consumption expenditure is of considerable importance in the System and is discussed in detail in chapter IX. 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. Social transfers in kind are recorded differently from other transfers in kind.

8.39 Below is an example of an education service provided to a household by a non-market producer owned by a government unit. The provision of the service is actually recorded twice in the accounts of the System. First, it is recorded in the traditional way in national accounting as production for own final consumption expenditure by government. As this 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:

Imputed consumption expenditure on education services (use of disposable income account)	Non-market output of education services (production account)

This method of recording ignores, and obscures, the fact that in the real economy the education service is actually provided to a household as a transfer in kind paid for by government. A second method of recording is, therefore, also now adopted in the System that recognizes this fact. The following four entries are needed in this second method:

Household	*Social security fund*
Social transfer received (under made (under resources in redistribution of income in kind account)	Social transfer uses in redistribution of income in kind account)
Actual consumption of education services (use of adjusted disposable income account)	Non-market output of educational services (production account)

In this case the consumption of the education service must be recorded as actual consumption (i.e., the acquisition of the service) and not as imputed consumption expenditure because the expenditure has already been attributed to the government in the use of disposable income account. The distinction between actual consumption and consumption expenditure for households, general government and NPISHs is further elaborated in chapter IX. However, this distinction is not recognized in the System for other current transfers in kind for which the acquisition of the good or service is always recorded as involving both the receipt of a transfer and an imputed expenditure by the recipient. In consequence, current transfers in kind, except social transfers, received by households or other institutional units such as NPISHs are recorded in the secondary distribution of income account and therefore affect disposable income.

8.40 Finally, the 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, may be illustrated. The following six entries are needed:

Household	*NPISH or government*	*Market producer*
Social transfer received (under resources in redistribution of income in kind account)	Social transfer made (under uses in redistribution of income in kind account)	
Actual consumption of medicine (use of adjusted disposable income account)		Output (sales) (production account)
	Decrease in currency, transferable deposits or other credit (financial account)	Increase in currency, transferable deposits or other credit (financial account)

This example also covers the case in which the household purchases the medicine directly from a pharmacist and is then reimbursed by a social security fund or other government unit or NPISH. In this case, the household is not recorded as actually incurring any expenditure, the expenditure being attributed to social security fund or other unit that ultimately bears the cost.

4. The treatment of transfers in kind: summary

8.41 Two separate accounts exist in the System to allow for the special recording of social transfers in kind. The transfers as such are recorded in the redistribution of income in kind account under resources for households and under uses for the government unit or NPISH making the transfer. The consumption of the goods and services transferred is recorded in the use of adjusted disposable income account.

8.42 All other transfers in kind are recorded in the secondary distribution of income account along with those taking place in cash. The goods and services transferred are recorded as consumption expenditures by the recipients in the use of disposable income account.

C. Current taxes on income, wealth, etc. (D.5)

1. Introduction

8.43 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 in return to the individual unit paying the tax, although governments do provide goods or services to the community as a whole or to other 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 for the households and corporate sectors in the secondary distribution of income account. The taxes may also be payable by non-residents or possibly by government units or non-profit institutions. Current taxes on income, wealth, etc., would have been described as "direct taxes" in the past, but the terms "direct" and "indirect" are no longer used in the System, as explained in chapter VII. The taxes cannot be described simply as "current taxes on income and wealth" because they include some periodic taxes on households which are assessed neither on the income nor the wealth of the household or its members, for example, poll taxes.

8.44 The general nature of taxes and the accounting rules governing their recording in the System were described in paragraphs 7.55 to 7.61 of chapter VII. For convenience, these paragraphs are repeated below.

Taxes versus fees

8.45 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. 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 taxes, 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 which 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 8.54 (c) below for a further explanation of this matter in the case of households).

Links with the IMF and OECD tax classifications

8.46 The coverage of taxes in the SNA coincides with that of "tax revenue" as defined in the *Manual on Government Finance Statistics, 1986*, or GFS, of the International Monetary Fund (IMF), and also with "taxes" as defined in the Organisation for Economic Co-operation and Development's (OECD) annual publication *Revenue Statistics of OECD Member Countries*, except that the SNA includes imputed taxes or subsidies resulting from the operation of official multiple exchange rates and does not classify social security contributions under the heading of taxes. Chapter IV of the GFS contains a detailed listing and classification of taxes according to the nature of the tax. This classification is also reprinted as annex IV in the *Handbook of National Accounting: Public Sector Accounts* (United Nations, 1988). Part II of *Revenue Statistics* contains an almost identical classification.

8.47 The categories of tax distinguished in the System 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 GFS/OECD classification;

(b) The type of institutional unit paying the tax;

(c) The circumstances in which the tax is payable.

8.48 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 "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 IMF/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 IMF and OECD classifications.

The accrual basis of recording

8.49 In contrast to the GFS and similar systems that require taxes to be recorded when they are actually paid, all taxes should be recorded on an accrual basis in the SNA, i.e., when the activities, transactions or other events occur which 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 System 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, which create liabilities in the form of clear obligations to pay on the part of taxpayers. 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 8.52 below).

8.50 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 System. 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 System 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

8.51 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 they are usually grouped with taxes in practice.

2. Taxes on income (D.51)

8.52 These consist of taxes on incomes, profits and capital gains. They are assessed on the actual or presumed incomes of individuals, households, NPIs 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 of employees, property income, pensions, etc. - after deducting certain agreed allowances. Taxes on the income of owners of unincorporated enterprises are included here (GFS, 1.1; 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 (GFS, 1.2; OECD, 1210);

(c) *Taxes on capital gains*: These consist of taxes on the capital gains (described as holding gains in the System's terminology) of persons or corporations which 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 (GFS, 1.1, 1.2; 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 (GFS, 1.3; OECD, 1130).

3. Other current taxes (D.59)

Current taxes on capital

8.53 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 (e.g., 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 use or ownership of land or buildings by owners (including owner-occupiers of dwellings), tenants or both, excluding taxes on land or buildings rented or owned by enterprises and used by them in production (GFS, 4.1; 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 (GFS, 4.2; 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 (GFS, 4.6; OECD, 4600).

Miscellaneous current taxes

8.54 These 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 (GFS, 7.1; 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 (GFS, 7.3; OECD, 6000);

(c) *Payments by households to obtain certain licences*: Payments by persons or households for licences to own or use vehicles, boats or aircraft and for licences to hunt, shoot or fish are treated as current taxes. Payments for all other kinds of licences (e.g., driving or pilot's licences, television or radio licences, firearm licences, etc.) or fees to government (e.g., 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 (GFS, 5.5.2 and 5.5.3; OECD, 5200);

(d) Taxes on international transactions: These consist of taxes on travel abroad, foreign remittances, foreign investments, etc., except those payable by producers (GFS, 6.5 and 6.6; OECD, 5127).

D. Social insurance schemes

1. Introduction

8.55 Social insurance schemes are schemes in which social contributions are paid by employees 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 or other contributors, their dependants or survivors. They 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 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.

2. Circumstances covered by social insurance schemes

8.56 Six kinds of circumstances illustrate when social insurance benefits may be payable as follows:

(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 which 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, or 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, in particular:

(i) Voluntary or compulsory retirement;

(ii) Involuntary unemployment, including temporary lay-offs and short-time working;

(iii) 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 which 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 be provided in kind.

8.57 The above are typical circumstances in which social insurance 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 insurance schemes is liable to vary significantly from country to country, or from scheme to scheme within the same country.

3. The organization of social insurance schemes

8.58 The schemes themselves 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.

8.59 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 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.

8.60 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 private insurance. 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 paragraph 8.56 above, and in addition, one or more of the following conditions must be satisfied:

(a) 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;

(b) 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;

(c) 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.

8.61 Thus, 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 or that of their dependants. 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 - 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 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.

8.62 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 in kind 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 an unfunded scheme for the benefit of its employees.

8.63 Three 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;

(b) The second type consists of private funded schemes. There are two categories of private funded schemes. The first consists of schemes in which the social contributions are paid to insurance enterprises or autonomous pension funds that are separate institutional units from both the employers and the employees. The insurance enterprises and autonomous pension funds are responsible for managing the resulting funds and paying the social benefits. The second consists of schemes in which employers maintain special reserves which are segregated from their other reserves even though such funds do not constitute separate institutional units from the employers. These are referred to as non-autonomous pension funds. The reserves are treated in the System as assets that belong to the beneficiaries and not to the employers;

(c) The third type consists of unfunded schemes in which employers pay social benefits to their employees, former employees or their dependants out of their own resources without creating special reserves for the purpose.

Social insurance schemes organized by government units for their own employees, as opposed to the working population at large, are classified as private funded schemes or unfunded schemes as appropriate and are not classified as social security schemes.

Social security schemes

8.64 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 and controlled 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. The social security funds established for this purpose are separate institutional units organized and managed separately from other government funds. 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, may be compulsory by law, but some other individuals may choose to pay voluntarily in order to qualify for the receipt of social security benefits. The benefits paid to individuals, or households, are not necessarily determined by the amounts previously paid in contributions, while the levels of the benefits paid out to the community as a whole may be varied in accordance with the requirements of the government's overall economic policy.

Private funded social insurance schemes

8.65 In the case of private funded social insurance schemes that are arranged by employers, via insurance enterprises and autonomous pension funds, the premiums paid by employees to obtain social benefits include a service charge. This service charge is recorded as final consumption expenditure by households. In the case of non-autonomous pension funds, however, no service charge is deducted from contributions paid by the employees. As such funds do not constitute separate institutional units from the employers, the costs of managing and administering the funds are assimilated with the employers' general production costs.

4. Different types of social contributions and benefits

8.66 Social contributions and social benefits have various characteristics that affect their classification:

(a) Social benefits may be divided into those paid as social insurance benefits under a social insurance scheme and those paid as social assistance benefits outside any such scheme;

(b) Social insurance schemes may be classified according to the type of scheme - social security, private funded or unfunded;

(c) Social contributions may be divided into actual contributions payable under social security and private funded schemes and imputed contributions recorded for unfunded schemes;

(d) Social contributions may be divided into those paid by employers on behalf of their employees and those paid by employees, self-employed or non-employed persons on their own behalf;

(e) Social contributions may be divided into those that are compulsory by law and those that are not;

(f) Social benefits may be divided into those paid in cash and those in kind.

These various characteristics are built into the classification of social contributions and benefits utilized in the secondary distribution of income account and in the redistribution of income in kind account. Sections E and F below describe the social contributions or benefits included under each heading of the classification in the secondary distribution of income account. The final section of this the chapter (see section H) describes the social benefits included under each heading in the redistribution of income in kind account.

E. Social contributions (D.61)

1. Employers' actual social contributions (D.6111)

8.67 These are social contributions paid by employers to social security funds, insurance enterprises, or autonomous pension funds, administering social insurance schemes to secure social benefits for their employees. As employers' actual social contributions are made for the benefit of their employees their value is recorded as one of the components of compensation of employees together with wages and salaries in cash and in kind. The social contributions are then recorded as being paid by the employees as current transfers to the social security funds, insurance enterprises or autonomous pension funds. Although it is administratively more efficient for employers to pay the contributions on behalf of their employees, this must not be allowed to obscure the underlying economic reality. The payment made by the employer to the social security fund, insurance enterprise or autonomous pension fund is not, in fact, a current transfer by the employer. The transfer takes place between the employee and the social security fund, insurance enterprise or autonomous pension fund out of remuneration provided by the employer. The situation is parallel to one in which income taxes payable by employees are deducted by employers from the wages or salaries and paid directly to the tax authorities. In this case, it is evident that the taxes are not current transfers payable by the employers. It is customary to describe the employers' social contributions as being re-routed in the accounts via the employees' primary and secondary distribution of income accounts. However, the accounts depict the various payables and receivables correctly. The direct payment of social contributions, or income taxes, by employers to social security funds, insurers or tax authorities is merely a short cut taken on grounds of administrative convenience and efficiency.

8.68 An amount equal in value to employers' social contributions is first recorded in the generation of income account as one of the components of compensation of employees and then recorded in the secondary distribution of income account as being transferred by households to social security funds, insurance enterprises, or autonomous or non-autonomous pension funds as the case may be. The transactions are recorded simultaneously in both accounts at the times when the work is carried out that gives rise to the liability to pay the contributions. The contributions paid to social security funds may be fixed amounts per employee or may vary with the levels of wages or salaries paid. The amounts paid under privately organized schemes depend on the arrangements agreed between employers and employees. When social security schemes exist the relevant employers' social security contributions are usually compulsory, but not necessarily so. A distinction is made in the System's classification between those employers' actual social contributions that are compulsory by law and those that are not.

2. Employees' social contributions (D.6112)

8.69 These are social contributions payable by employees to social security funds and private funded social insurance schemes. They are recorded at the times when the work is carried out that gives rise to the liability to pay the contributions. Employees' social contributions consist of the actual contributions payable each period plus, in the case of private funded schemes, the contribution supplements payable out of the property income attributed to insurance policyholders received by employees participating in the schemes less the service charges, when appropriate. The property income accrues on the investment of reserves built up out of both employers' and employees' contributions in the past, but the reserves belong only to the employees, not to the employers. The whole of the property income from the investment of the reserves is, therefore, attributed to the participating employees who are then treated as paying it back into schemes as contribution supplements. The employees' social contributions payable into private funded schemes are recorded after deducting the associated services charges, except for contributions to non-autonomous pension funds where there are no service charges. All the service charges are treated as charges against the employees' contributions and not the employers'. The contributions to social security funds, when these exist, are usually compulsory, although voluntary contributions may sometimes also be made by employees. A distinction is made between those employees' actual social contributions that are compulsory by law and those that are not.

3. Social contributions by self-employed and non-employed persons (D.6113)

8.70 These are social contributions payable for their own benefit by persons who are not employees - i.e., self-employed persons (employers or own-account workers), or non-employed persons. They are recorded when the liabilities to pay are created. Some may consist of compulsory social security contributions, while others consist of voluntary contributions to social security or to other social insurance schemes. They also include the value of the contribution supplements payable out of the property income attributed to insurance policyholders received by participating individuals that they are recorded as paying back to the insurance enterprises in addition to their other contributions. The contributions payable to private insurance enterprises are equal to the total contributions payable less the service charges. Again, a distinction is made in the classification between contributions that are compulsory by law and others.

4. Imputed social contributions (D.612)

8.71 An entry is needed in the secondary distribution of income account for the imputed social contributions payable by employees when employers operate unfunded social insurance schemes. For convenience, the discussion of the corresponding item in chapter VII, paragraphs 7.45 to 7.47 is repeated here.

8.72 Some employers provide social benefits themselves directly to their employees, former employees or dependants out of their own resources without involving an insurance enterprise or autonomous pension fund, and without creating a special fund or segregated reserve for the purpose. In this situation, existing employees may be considered as being protected against various specified needs, or circumstances, even though no payments are being made to cover them. Remuneration should therefore be imputed for such employees equal in value to the amount of social contributions that would be needed to secure the de facto entitlements to the social benefits they accumulate. These amounts depend not only on the levels of the benefits currently payable but also on the ways in which employers' liabilities under such schemes are likely to evolve in the future as a result of factors such as expected changes in the numbers, age distribution and life expectancies of their present and previous employees. Thus, the values that should be imputed for the contribution ought, in principle, to be based on the same kind of actuarial considerations that determine the levels of premiums charged by insurance enterprises.

8.73 In practice, however, it may be difficult to decide how large such imputed contributions should be. The enterprise may make estimates itself, perhaps on the basis of the contributions paid into similar funded schemes, in order to calculate its likely liabilities in the future, and such estimates may be used when available. Otherwise, the only practical alternative may be to use the unfunded social benefits payable by the enterprise during the same accounting period as an estimate of the imputed remuneration that would be needed to cover the imputed contributions. While there are obviously many reasons why the value of the imputed contributions that would be needed may diverge from the unfunded social benefits actually paid in the same period, such as the changing composition and age structure of the enterprise's labour force, the benefits actually paid in the current period may nevertheless provide the best available estimates of the contributions and associated imputed remuneration.

8.74 The two steps involved may be summarized as follows:

(a) Employers are recorded, in the generation of income account, as paying to their existing employees as a component of their compensation an amount, described as imputed social contributions, equal in value to the estimated social contributions that would be needed to provide for the unfunded social benefits to which they become entitled;

(b) Employees are recorded, in the secondary distribution of income account, as paying back to their employers the same amount of imputed social contributions (as current transfers) as if they were paying them to a separate social insurance scheme.

F. Social benefits

1. Introduction

8.75 As already noted, there are two kinds of social benefits, i.e., social insurance benefits and social assistance benefits. The latter consist of transfers made by government units or NPIs to households to meet the same kinds of needs as social insurance benefits but outside of any social insurance scheme. The kinds of events or circumstances that may occasion the payment of social insurance benefits are described in paragraph 8.56 above. Social benefits may be paid in cash or in kind. For example, institutional units administering social insurance schemes may maintain their own clinics, convalescent or retirement homes for the treatment and care of the beneficiaries or their dependants.

8.76 When employers provide unfunded social benefits to their own employees it may not always be easy to distinguish them from the payment of wages or salaries in cash. For example, the continued payment of wages and salaries to employees during absence from work as a result of sickness, accident, maternity needs, etc. is a social benefit but it may be difficult to separate such payments from ordinary wages and salaries, except perhaps in the case of prolonged absences of several months or more. However, when the value of the imputed social contributions is estimated to be equal to the payment of such benefits in the same period, the total compensation of employees of the group of workers in question is not affected.

2. Social benefits other than social transfers in kind (D.62)

8.77 These consist of all social benefits except social transfers in kind. They therefore consist of:

(a) All social benefits in cash - both social insurance and social assistance benefits - provided by government units, including social security funds, and NPISHs; and

(b) All social insurance benefits provided under private funded and unfunded social insurance schemes, whether in cash or in kind.

In the classification used in the System, social benefits in cash provided by government units and NPISHs, category (a) above, are divided into:

- Social security benefits in cash
- Social assistance benefits in cash.

Social insurance benefits in category (b) above are divided into:

- Private funded social insurance benefits
- Unfunded employee social insurance benefits.

Social benefits in kind provided by general government and NPISHs are not recorded in the secondary distribution of income account. They form part of social transfers in kind and are recorded in the redistribution of income in kind account.

Social security benefits in cash (D.621)

8.78 These are social insurance benefits payable in cash to households by social security funds. They may take the form of:

- Sickness and invalidity benefits
- Maternity allowances
- Childrens' or family allowances, other dependants' allowances
- Unemployment benefits
- Retirement and survivors' pensions
- Death benefits
- Other allowances or benefits.

The list is intended to be illustrative only as the coverage and range of benefits provided under social security schemes may vary from country to country.

Private funded social insurance benefits (D.622)

8.79 These are social insurance benefits payable to households by insurance enterprises or other institutional units administering private funded social insurance schemes. The kinds of benefits provided are similar to those listed above for social security funds. Unlike social security benefits, however, no distinction is made between benefits in cash and in kind as private funded benefits cannot be social transfers in kind. Both types of benefit are recorded in the secondary distribution of income account.

Unfunded employee social insurance benefits (D.623)

8.80 These are social benefits payable to their employees, their dependants or survivors by employers administering unfunded social insurance schemes. All unfunded benefits are recorded in the secondary distribution of income account whether in cash or in kind. They typically include:

(a) The continued payment of normal or reduced wages during periods of absence from work as a result of ill health, accidents, maternity needs, etc.;

(b) The payment of family, education or other allowances in respect of dependants;

(c) The payment of retirement or survivors' pensions to former employees or their survivors, and the payment of severance allowances to workers or their survivors in the event of redundancy, incapacity, accidental death, etc.;

(d) General medical services not related to the employee's work;

(e) Convalescent and retirement homes.

Social assistance benefits in cash (D.624)

8.81 Social assistance benefits 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 incorporating social contributions and social insurance benefits. They therefore exclude all benefits paid by social security funds. They may be payable in cash and in kind. Those in kind are part of social transfers in kind, entered in the redistribution of income in kind account.

8.82 Social assistance benefits may be payable in the following circumstances:

(a) No social insurance scheme exists to cover the circumstances in question;

(b) Although a social insurance scheme, or schemes, may exist, the households in question do not participate and are not eligible for social insurance benefits;

(c) Social insurance benefits are deemed to be inadequate to cover the needs in question, the social assistance benefits being paid in addition.

8.83 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.

G. Other current transfers (D.7)

1. Introduction

8.84 Other current transfers consist of all current transfers between resident institutional units, or between residents and non-residents, except those already described in previous sections of this chapter, 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 most important categories are described below.

2. Net non-life insurance premiums (D.71)

8.85 Non-life insurance premiums included under this heading refer to those payable under policies taken out by enterprises 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.

8.86 Non-life insurance premiums as stated earlier, comprise both the actual premiums payable by policyholders to obtain insurance cover during the accounting period (premiums earned) and the premium supplements payable out of the property income attributed to insurance policyholders. The total of the non-life insurance premiums payable in this way has to cover payments of service charges to the insurance enterprises for arranging the insurance and payments for the insurance itself. The way in which the service charges are calculated was explained in chapter VI, paragraphs 6.138 to 6.140. After deducting the service charges from total non-life insurance premiums, the remainder is described as net non-life insurance premiums. These are the amounts available to 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 - fires, floods, crashes, collisions, sinkings, theft, violence, accidents, sickness, etc. - or against financial losses resulting from events such as sickness, unemployment, accidents, etc. Only the net non-life insurance premiums constitute current transfers and are recorded in the secondary distribution of income account. The service charges constitute purchases of services by the policyholders and are recorded as intermediate or final consumption, as appropriate.

3. Non-life insurance claims (D.72)

8.87 Non-life insurance claims do not include payments to households in the form of social insurance benefits. They are the amounts payable in settlement of claims that become due during the current accounting period. Claims become due at the moment when the eventuality occurs which gives rise to a valid claim accepted by the insurance enterprise. As the service charges on non-life insurance are calculated by subtracting claims due from the combined value of the premiums earned and premium supplements, it follows that the total claims due for an insurance enterprise must equal the net non-life premiums receivable by that enterprise during the same accounting period. This emphasizes the fact that the essential function of non-life insurance is to redistribute resources.

8.88 The settlement of a non-life insurance claim is treated as a transfer to the claimant. Such payments are always 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 which have been damaged or destroyed need not necessarily be repaired or replaced.

8.89 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.

4. Current transfers within general government (D.73)

8.90 These consist of current transfers between different government units or different sub-sectors of general government. They include current transfers between different levels of government, such as frequently occur between central and state or local government units, and between government units 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.

8.91 One government unit may act as an agent on behalf of a second government unit by, for example, collecting taxes which 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/payable” in the financial account.

5. Current international cooperation (D.74)

8.92 Current international cooperation consists of current transfers in cash or in kind between the governments of different countries or between governments and international organizations. This includes:

(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 supra-national organizations);

(c) Payments by governments or international organizations to other governments to cover the salaries of those technical assistance staff who are deemed to be resident in the country in which they are working.

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

6. Miscellaneous current transfers (D.75)

8.93 These consist of various different kinds of current transfers that may take place between resident institutional units or between resident and non-resident units. Some of the more important are shown below.

Current transfers to NPISHs

8.94 Most current transfers to NPISHs consist of cash transfers received 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. Such transfers 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 assistance benefits. This heading also covers transfers in kind in the form of gifts of food, clothing, blankets, medicines, etc. to charities for distribution to resident or non-resident households. However, 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 chapter VI, paragraph 6.59).

Current transfers between households

8.95 These consist of all current transfers in cash or in kind made, or received, by resident households to or from other resident or non-resident households. 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, i.e., members of their original households, when they work abroad for short periods of less than a year.

Fines and penalties

8.96 Fines and penalties imposed on institutional units by courts of law or quasi-judicial bodies are treated as compulsory current transfers. 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 licences, such payments being either taxes or payments for services rendered by government units (see paragraph 8.45).

Lotteries and gambling

8.97 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 System as taking place directly between those participating in the lottery or gambling, that is, between households. When non-resident households take part there may be significant net transfers between the household sector and the rest of the world.

Payments of compensation

8.98 These 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 excluding 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 only compensation for injuries or damages caused by other institutional units. It also covers ex gratia payments made by government units or NPISHs in compensation for injuries or damages caused by natural disasters.

H. Social transfers in kind (D.63)

1. Introduction

8.99 The only items other than balancing items recorded in the redistribution of income in kind account are social transfers in kind. These consist of individual goods and services provided as transfers in kind to individual households by government units (including social security funds) and NPISHs, whether purchased on the market or produced as non-market output by government units or NPISHs. They may be financed out of taxation, other government income or social security contributions, or out of donations and property income in the case of NPISHs. If it is not possible to segregate the accounts of social security funds from those of other sub-sectors of government, it may not be possible to divide social benefits into those provided by social security and others. Social security benefits in kind are subdivided into two types: those where beneficiary households actually purchase the goods or services themselves and are then reimbursed, and those where the relevant services are provided directly to the beneficiaries.

8.100 The number and type of social transfers in kind provided to households by government units reflects their general economic and social policy concerns. Whereas the recipients of current cash transfers may dispose of them as they wish, the recipients of social transfers in kind have little or no choice. The attraction of transfers in kind over transfers in cash to policy makers is that the resources transferred can be targeted towards meeting specific needs, such as health or education, and must be consumed in the ways that their providers intend.

2. Social security benefits, reimbursements (D.6311)

8.101 The reimbursement by social security funds of approved expenditures made by households on specified goods or services is a form of social benefit in kind. Examples of expenditures that may be reimbursable are expenditures on medicines, medical or dental treatments, hospital bills, optometrists' bills, etc.

8.102 When a household purchases a good or service for which it is subsequently reimbursed, in part or in whole, by a social security fund, the household can be regarded as if it were an agent acting on behalf of the social security fund. In effect, the household provides a short-term credit to the social security fund that is liquidated as soon as the household is reimbursed. The amount of the expenditure reimbursed is recorded as being incurred directly by the social security fund at the time the household makes the purchase, while the only expenditure recorded for the household is the difference, if any, between the purchaser's price paid and the amount reimbursed. Thus, the amount of the expenditure reimbursed is not treated as a current transfer in cash from the social security fund to households.

3. Other social security benefits in kind (D.6312)

8.103 These consist of social transfers in kind, except reimbursements, made by social security funds to households. Most are likely to consist of medical or dental treatments, surgery, hospital accommodation, spectacles or contact lenses, medical appliances or equipment, and similar goods or services associated with the provision of health care. The services may be provided by market or non-market producers and should be valued accordingly. In both cases any nominal payments made by the householders themselves should be deducted. The transfers should be recorded at the times the goods are transferred or services provided.

4. Social assistance benefits in kind (D.6313)

8.104 These consist of transfers in kind provided to households by government units or NPISHs that are similar in nature to social security benefits in kind but are not provided in the context of a social insurance scheme. Like social assistance benefits in cash, they tend to be provided under the following circumstances:

(a) No social insurance scheme exists to cover the circumstances in question;

(b) Although a social insurance scheme, or schemes, may exist, the households in question do not participate and are not eligible for its social benefits;

(c) Social insurance benefits are deemed to be inadequate to cover the needs in question, the social assistance benefits being paid in addition.

5. Transfers of individual non-market goods or services (D.632)

8.105 These consist of goods or services provided to individual households free, or at prices which are not economically significant, by non-market producers of government units or NPISHs. Although some of the non-market services produced by NPISHs have some of the characteristics of collective services, all the non-market services produced by NPISHs are, for simplicity and by convention, treated as individual in nature. Non-market producers are described in more detail in chapter VI. Services provided free, or at prices that are not economically significant, to households are described as individual services to distinguish them from collective services provided to the community as a whole, or large sections of the community. Individual services consist mainly of education and health services, although other kinds of services such as housing services, cultural and recreational services are also frequently provided. They may be provided either by market or non-market producers and are valued accordingly. They are described in more detail in chapter IX.

8.106 The services provided as social transfers in kind to households are recorded at the times they are provided. These are the times at which they are produced. Any goods provided directly to households by non-market producers should be recorded at the times the change of ownership takes place.