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## ANNEX A

### EUROPEAN SYSTEM OF ACCOUNTS ESA 1995

#### CHAPTER 4

#### **DISTRIBUTIVE TRANSACTIONS**

- 4.01. Definition: Distributive transactions consist of transactions by means of which the value added-generated by production is distributed to labour, capital and government, and of transactions involving the redistribution of income and wealth.

The system draws a distinction between current and capital transfers, with the latter deemed to redistribute saving or wealth rather than income.

#### COMPENSATION OF EMPLOYEES (D.1)

- 4.02. Definition: Compensation of employees (D.1) is defined as the total remuneration, in cash or in kind, payable by an employer to an employee in return for work done by the latter during the accounting period.

Compensation of employees is broken down into:

- (a) wages and salaries (D.11):
- wages and salaries in cash;
  - wages and salaries in kind;
- (b) employers' social contributions (D.12):
- employers' actual social contributions (D.121);
  - employers' imputed social contributions (D.122).

#### WAGES AND SALARIES (D.11)

##### Wages and salaries in cash

- 4.03. Wages and salaries in cash include the values of any social contributions, income taxes, etc. payable by the employee even if they are actually withheld by the employer and paid directly to social insurance schemes, tax authorities, etc. on behalf of the employee:

Wages and salaries in cash include the following kinds of remuneration:

- (a) basic wages and salaries payable at regular intervals;
- (b) enhanced rates of pay for overtime, night work, weekend work, disagreeable or hazardous circumstances;
- (c) cost of living allowances, local allowances and expatriation allowances;
- (d) bonuses based on productivity or profits, Christmas and New Year bonuses excluding employee social benefits (see paragraph 4.07. c), '13th to 14th month' pay (annual supplementary pay);
- (e) allowances for transport to and from work, excluding allowances or reimbursement of employees for travelling, separation, removal and entertainment expenses incurred in the course of their duties (see paragraph 4.07. a);
- (f) holiday pay for official holidays or annual holidays;

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- (g) commissions, tips, attendance and directors' fees paid to employees;
  - (h) *ad hoc* bonuses or other exceptional payments linked to the overall performance of the enterprise made under incentive schemes;
  - (i) payments made by employers to their employees under saving schemes;
  - (j) exceptional payments to employees who leave the enterprise, if those payments are not linked to a collective agreement;
  - (k) housing allowances paid in cash by employers to their employees.
- Wages and salaries in kind

4.04.	<i>Definition:</i>	Wages and salaries in kind consist of good and services, or other benefits, provided free or at reduced prices by employers, that can be used by employees in their own time and at their own discretion, for the satisfaction of their own needs or wants or those of other members of their households. Those goods and services, or other benefits, are not necessary for the employers' production process. For the employees, those wages and salaries in kind represent an additional income: they would have paid a market price if they had bought these goods or services by themselves.
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- 4.05. The most common are:
- (a) meals and drinks, including those consumed when travelling on business (because they would have been taken anyway) but excluding special meals or drinks necessitated by exceptional working conditions. Price reductions obtained in free or subsidized canteens, or obtained by luncheon vouchers, are to be included in wages and salaries in kind;
  - (b) own account and purchased housing or accommodation services of a type that can be used by all members of the household to which the employee belongs;
  - (c) uniforms or other forms of special clothing which employees choose to wear frequently outside of the workplace as well as at work;
  - (d) the services of vehicles or other durables provided for the personal use of employees;
  - (e) goods and services produced as outputs from the employer's own processes of production, such as free travel for the employees of railways or airlines, free coal for miners, or free food for employees in agriculture;
  - (f) the provision of sports, recreation or holiday facilities for employees and their families;
  - (g) transportation to and from work, except when organized in the employer's time, car parking;
  - (h) crèches for the children of employees;

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- (i) payments made by employers to works councils or similar bodies;
  - (j) bonus shares distributed to employees;
  - (k) remuneration in kind may also include the value of the interest foregone by employers when they provide loans to employees at reduced, or even zero, rates of interest. This value may be estimated as the amount the employee would have to pay if average mortgage (when buying houses) or consumer loan (when buying other goods and services) interest rates were charged, less the amount of interest actually paid. An imputed payment from the employee is rerouted in the primary distribution of income account back to the employer.
- 4.06. Goods and services, or other advantages, should be valued at basic prices when produced by the employer, and at purchasers' prices when purchased by the employer (that is, the price actually paid by the employer).

When provided free, the whole value of the wages and salaries in kind is calculated according to the basic prices (or purchasers' prices of the employer when purchased by him) of the goods and services, or other advantages, in question.

When provided at reduced prices, the value is given by the difference between the calculation explained above and the amount paid by the employee.

- 4.07. Wages and salaries do not include:
- (a) expenditure by employers which is to their own benefit as well as to that of their employees, because it is necessary for the employers' production process:
    - 1. allowances or reimbursement of employees for travelling, separation, removal and entertainment expenses incurred in the course of their duties;
    - 2. expenditure on providing amenities at the place of work, medical examinations required because of the nature of the work, supplying working clothes which are worn exclusively, or mainly, at work;
    - 3. accommodation services at the place of work of a kind which cannot be used by the households to which the employees belong — cabins, dormitories, huts and so on;
    - 4. special meals or drinks necessitated by exceptional working conditions;
    - 5. allowances paid to employees for the purchase of tools, equipment or special clothing needed exclusively, or primarily, for their work, or that part of their wages or salaries which, under their contracts of employment, employees are required to devote to such purchases.

Such expenditure on goods and services that employers are obliged to provide to their employees in order for them to be able to carry out their work is treated as intermediate consumption by employers.

- (b) The amounts of wages and salaries which employers continue to pay to their employees temporarily in the case of sickness, maternity, industrial injury, disability, redundancy, etc. These payments are treated as unfunded employee social benefits (D.623), with the same amounts being shown under employers' imputed social contributions (D.122);
- (c) other unfunded employee social benefits, in the form of children's, spouses', family, education or other allowances in respect of dependants, and in the form of the

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provision of free medical services (other than those necessitated by the nature of the work) to employees or their families;

- (d) any taxes payable by the employer on the wage and salary bill — for example, a payroll tax. Such taxes are treated as other taxes on production.

#### EMPLOYERS' SOCIAL CONTRIBUTIONS (D.12)

- 4.08. An amount equal to the value of the social contributions incurred by employers in order to secure for their employees the entitlement to social benefits needs to be recorded under compensation of employees. Employers' social contributions may be either actual or imputed.

#### Employers' actual social contributions (D.121)

- 4.09. **Definition:** Employers' actual social contributions (D.121) consist of the payments made by employers for the benefit of their employees to insurers (social security funds and private funded schemes). These payments cover statutory, conventional, contractual and voluntary contributions in respect of insurance against social risks or needs (see paragraph 4.92.a)

Although paid directly by employers to the insurers, these employers' contributions are treated as a component of the compensation of employees, who are then deemed to pay them over to the insurers.

#### Employers' imputed social contributions (D.122)

- 4.10. *Definition* : Employers' imputed social contributions (D.122) represent the counterpart to unfunded social benefits (less eventual employees' social contributions) paid directly by employers to their employees or former employees and other eligible persons<sup>(1)</sup> without involving an insurance enterprise or autonomous pension fund, and without creating a special fund or segregated reserve for the purpose.

The fact that certain social benefits are paid directly by employers, and not through the medium of social security funds or other insurers, in no way detracts from their character as social welfare benefits. However, since the costs of these benefits form part of employers' labour costs, they should also be included in the compensation of employees.

- 4.11. In the accounts of the sectors, the costs of direct social benefits appear first among uses in the generation of income account, as a component of the compensation of employees, and a second time among uses in the secondary distribution of income account, as social benefits. In order to balance the latter account, it is assumed that the households of employees pay back to the employers' sectors the employers' imputed social contributions which finance together with eventual employees' social contributions the direct social welfare benefits provided to them by these same employers. This notional circuit is similar to that for employers' actual social contributions, which pass through the accounts of households and are then deemed to be paid by them to the insurers.

For the valuation of employers' imputed social contributions, the amount of which does not necessarily coincide with that of direct social benefits, reference should be made to heading D.612.

- 4.12. Time of recording of compensation of employees:

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- (a) wages and salaries (D.11) are recorded in the period during which the work is done. However, *ad hoc* bonuses or other exceptional payments, 13th month, etc. are recorded when they are due to be paid;
  - (b) employers' actual social contributions (D.121) are recorded in the period during which the work is done;
  - (c) employers' imputed social contributions (D.122):
    - 1. representing the counterpart of compulsory direct social benefits are recorded in the period during which the work is done;
    - 2. representing the counterpart of voluntary direct social benefits are recorded at the time these benefits are provided.
- 4.13. The compensation of employees may consist of:
- (a) the compensation of resident employees by resident employers;
  - (b) the compensation of resident employees by non-resident employers;
  - (c) the compensation of non-resident employees by resident employers.

These different items are recorded in the ESA as follows:

- 1. the compensation of resident and non-resident employees by resident employers groups together items (a) and (c) and appears among uses in the generation of income account of the sectors and industries to which the employers belong;
- 2. the compensation of resident employees by resident and non-resident employers groups together items (a) and (b) and appears among resources in the allocation of primary income account of households;
- 3. item (b), compensation of resident employees by non-resident employers, appears among uses in the external account of primary incomes and current transfers;
- 4. item (c), compensation of non-resident employees by resident employers appears, among resources in the external account of primary incomes and current transfers.

#### TAXES ON PRODUCTION AND IMPORTS (D.2)

4.14. <i>Definition:</i>	Taxes on production and imports (D.2) consist of compulsory, unrequited payments, in cash or in kind which are levied by general government, or by the institutions of the European Union, in respect of the production and importation of goods and services, the employment of labour, the ownership or use of land, buildings or other assets used in production. These taxes are payable whether or not profits are made.
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4.15. Taxes on production and imports are divided into:

- (a) taxes on products (D.21):
  - 1. value-added type taxes (VAT) (D.211);

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2. taxes and duties on imports excluding VAT (D.212):
  - import duties (D.2121),
  - taxes on imports excluding VAT and import duties (D.2122);
3. taxes on products, except VAT and import taxes (D.214);

(b) other taxes on production (D.29).  
TAXES ON PRODUCTS (D.21)

4.16. <i>Definition:</i>	Taxes on products (D.21) are taxes that are payable per unit of some good or service produced or transacted. The tax may be a specific amount of money per unit of quantity of a good or service, or it may be calculated <i>ad valorem</i> as a specified percentage of the price per unit or value of the goods and services produced or transacted. As a general principle, taxes in fact assessed on a product, irrespective of which institutional unit pays the tax, are to be included in taxes on products, unless specifically included in another heading.
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Value-added type taxes (VAT) (D.211)

4.17. *Definition:* A value-added type tax (VAT) is a tax on goods or services collected in stages by enterprises and which is ultimately charged in full to the final purchasers.

This heading value-added type taxes (D.211) comprises the value-added tax which is collected by the general government and which is applied to national and imported products, as well as, where appropriate, other deductible taxes applied under similar rules to those governing VAT, for simplicity henceforth called 'VAT'.

Producers are obliged to pay only the difference between the VAT on their sales and the VAT on their purchases for their own intermediate consumption or gross fixed capital formation.

VAT is recorded net in the sense that:

- (a) outputs of goods and services and imports are valued excluding invoiced VAT;
- (b) purchases of goods and services are recorded inclusive of non-deductible VAT. VAT is recorded as being borne by purchasers, not sellers, and then only by those purchasers who are not able to deduct it. The greater part of VAT is therefore recorded in the system as being paid on final uses, mainly on household consumption. A part of VAT may, however, be paid by enterprises, mainly by those which are exempted from VAT.

[<sup>F1</sup>For the total economy, VAT is equal to the difference between total invoiced VAT and total deductible VAT (see point 4.27).]

#### Textual Amendments

**F1** Substituted by [Commission Regulation \(EC\) No 995/2001 of 22 May 2001 implementing Regulation \(EC\) No 2516/2000 of the European Parliament and of the Council modifying the common principles](#)

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of the European system of national and regional accounts in the Community (ESA 95) as concerns taxes and social contributions.

#### Taxes and duties on imports excluding VAT (D.212)

4.18. **Definition:** Taxes and duties on imports excluding VAT (D.212) comprise compulsory payments levied by general government or the institutions of the European Union on imported goods, excluding VAT, in order to admit them to free circulation on the economic territory, and on services provided to resident units by non-resident units.

These payments include:

- (a) import duties (D.2121): these consist of customs duties, or other import charges, payable according to customs tariff schedules on goods of a particular type when they enter for use in the economic territory of the country of utilization;
- (b) taxes on imports, excluding VAT and import duties (D.2122).

This heading includes:

- 1. levies on imported agricultural products;
- 2. monetary compensatory amounts levied on imports;
- 3. excise duties and special taxes on certain imported products, provided such duties and taxes on similar products of domestic origin are paid by the producer branch itself;
- 4. general sales taxes payable on imports of goods and services;
- 5. taxes on specific services provided by non-resident enterprises to resident units within the economic territory;
- 6. profits of public enterprises exercising a monopoly over the imports of some good or service, which are transferred to the State.

Net taxes and duties on imports excluding VAT are calculated by deducting import subsidies (D.311) from taxes and duties on imports excluding VAT (D.212).

#### Taxes on products, except VAT and import taxes (D.214)

4.19. <i>Definition:</i>	Taxes on products, except VAT and import taxes (D.214) consist of taxes on goods and services that become payable as a result of the production, export, sale, transfer, leasing or delivery of those goods or services, or as a result of their use for own consumption or own capital formation.
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4.20. This heading includes, in particular:

- (a) excise duties and consumption taxes (other than those included in taxes and duties on imports);
- (b) stamp taxes on the sale of specific products, such as alcoholic beverages or tobacco, and on legal documents or cheques;

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- (c) taxes on financial and capital transactions, payable on the purchase or sale of non-financial and financial assets, including foreign exchange. They become payable when the ownership of land or other assets changes, except as a result of capital transfers (mainly inheritances and gifts). They are treated as taxes on the services of intermediaries;
- (d) car registration taxes;
- (e) taxes on entertainment;
- (f) taxes on lotteries, gambling and betting, other than those on winnings;
- (g) taxes on insurance premiums;
- (h) other taxes on specific services: hotels or lodging, housing services, restaurants, transportation, communication, advertising;
- (i) general sales or turnover taxes (excluding VAT type taxes): these include manufacturers' wholesale and retail sales taxes, purchase taxes, turnover taxes;
- (j) profits of fiscal monopolies which are transferred to the State, except those exercising a monopoly over the imports of some good or services (included in D.2122). Fiscal monopolies are public enterprises which have been granted a legal monopoly over the production or distribution of a particular kind of good or service in order to raise revenue and not in order to further the interests of public economic or social policy. When a public enterprise is granted monopoly powers as a matter of deliberate economic or social policy because of the special nature of the good or service or the technology of production — for example, public utilities, post offices and telecommunications, railways and so on — it should not be treated as a fiscal monopoly. As a general rule, fiscal monopolies are typically engaged in the production of goods or services which may be heavily taxed in other countries; they tend to be confined to the production of certain consumer goods (alcoholic beverages, tobacco, matches, etc.) or fuels;
- (k) export duties and monetary compensatory amounts collected on exports.

4.21. Net taxes on products are obtained by deducting subsidies on products (D.31) from taxes on products (D.21).

#### OTHER TAXES ON PRODUCTION (D.29)

4.22. Definition: Other taxes on production (D.29) consist of all taxes that enterprises incur as a result of engaging in production, independent of the quantity or value of the goods and services produced or sold.

They may be payable on the land, fixed assets or labour employed in the production process or on certain activities or transactions.

4.23. Other taxes on production (D.29) include in particular:

- (a) taxes on the ownership or use of land, buildings, or other structures utilized by enterprises in production (including owner-occupiers of dwellings);
- (b) taxes on the use of fixed assets (vehicles, machinery, equipment) for purposes of production, whether such assets are owned or rented;
- (c) taxes on the total wage bill and payroll taxes;



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- (d) taxes on international transactions (travel abroad, foreign remittances, or similar transactions with non-residents) for purposes of production;
- (e) taxes paid by enterprises in order to obtain business and professional licences if those licences are being granted automatically on payment of the amounts due. However, if the government carries out checks on the suitability or safety of the business premises, on the reliability or safety of the equipment employed, on the professional competence of the staff employed, or on the quality or standard of goods or services produced as a condition for granting such a licence, the payments are treated as purchases of services rendered, unless the amounts charged for the licences are out of all proportion to the costs of the checks carried out by the government;
- (f) taxes on pollution resulting from production activities. These consist of taxes levied on the emission or discharge into the environment of noxious gases, liquids or other harmful substances. They do not include payments made for the collection and disposal of waste or noxious substances by public authorities, which constitute intermediate consumption of enterprises;
- (g) under-compensation of VAT resulting from the flat rate system, frequently found in agriculture.

4.24. This heading excludes taxes on the personal use of vehicles etc. by households, which are recorded under current taxes on income, wealth, etc.

#### TAXES ON PRODUCTION AND IMPORTS PAID TO THE INSTITUTIONS OF THE EUROPEAN UNION

4.25. The taxes on production and imports paid to the institutions of the European Union include, in particular:

- (a) taxes paid directly by resident producer units to the institutions of the European Union (the ECSC levy on mining and iron and steel producing enterprises);
- (b) taxes collected by national governments on behalf of the institutions of the European Union, namely:
  - 1. receipts from the common agricultural policy;  
levies on imported agricultural products, monetary compensatory amounts levied on exports and imports, sugar production levies and the tax on isoglucose, co-responsibility taxes on milk and cereals;
  - 2. receipts from trade with third countries: customs duties levied on the basis of the Integrated Tariff of the European Union (Taric);
  - 3. receipts from VAT in each Member State.

4.26. Recording of taxes on production and imports: taxes on production and imports are recorded when the activities, transactions or other events occur which create the liabilities to pay taxes.

4.27. 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 or receivables. For this reason, the amounts to be recorded in the system are determined by the amounts due for payment only when evidenced by tax assessments, declarations or other instruments which create liabilities in the form of clear obligations to pay on

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the part of taxpayers. The system does not impute missing taxes not evidenced by tax assessments.

[<sup>F1</sup>Taxes recorded in the accounts may be derived from two sources: amounts evidenced by assessments and declarations or cash receipts.

(a) If assessments and declarations are used, the amounts shall be adjusted by a coefficient reflecting assessed and declared amounts never collected. As an alternative treatment, a capital transfer, to the relevant sectors could be recorded equal to the same adjustment. The coefficients shall be estimated on the basis of past experience and current expectations in respect of assessed and declared amounts never collected. They shall be specific to different types of taxes.

(b) If cash receipts are used, they shall be time-adjusted so that the cash is attributed when the activity took place to generate the tax liability. This adjustment may be based on the average time difference between the activity and cash tax receipt.]

4.28. The total value of the taxes which should be recorded includes any interest charged on arrears of taxes due and any fines imposed by taxation authorities if it is impossible to record such interest and fines separately from taxes; it also includes any charges which may be imposed in connection with the collection or recovery of taxes outstanding. Correspondingly, it is reduced by the amount of any tax rebates made by general government as a matter of economic policy and any tax refunds made as a result of over-payments.

4.29. In the system of accounts, taxes on production and imports (D.2) appear:

(a) among uses in the generation of income account of the total economy;

(b) among resources in the allocation of primary income account of the general government sector and in the external account of primary incomes and current transfers.

Taxes on products are recorded as resources in the goods and services account of the total economy. This enables the resources of goods and services — valued exclusive of taxes on products — to be balanced with the uses, which are valued inclusive of these taxes.

Other taxes on production (D.29) appear among uses in the generation of income accounts of the industries or sectors which pay them.

SUBSIDIES (D.3)

4.30. *Definition* : Subsidies (D.3) are current unrequited payments which general government or the institutions of the European Union make to resident<sup>(2)</sup> producers, with the objective of influencing their levels of production, their prices or the remuneration of the factors of production.

Other non-market producers can receive other subsidies on production only if those payments depend on general regulations applicable to market and non-market producers as well. By convention, subsidies on products are not recorded on other non-market output (P.13).

4.31. Subsidies granted by the institutions of the European Union cover only current transfers made directly by them to resident producer units.

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4.32. Subsidies are classified into:

- (a) subsidies on products (D.31):
    - 1. import subsidies (D.311);
    - 2. other subsidies on products (D.319);
  - (b) other subsidies on production (D.39).
- SUBSIDIES ON PRODUCTS (D.31)

4.33. <i>Definition:</i>	Subsidies on products (D.31) are subsidies payable per unit of a good or service produced or imported. The subsidy may be a specific amount of money per unit of quantity of a good or service, or it may be calculated <i>ad valorem</i> as a specified percentage of the price per unit. A subsidy may also be calculated as the difference between a specified target price and the market price actually paid by a buyer. A subsidy on a product usually becomes payable when the good is produced, sold or imported. By convention, subsidies on products can only pertain to market output (P.11) or to output for own final use (P.12).
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Import subsidies (D.311)

4.34. <i>Definition:</i>	Import subsidies (D.311) consist of subsidies on goods and services that become payable when the goods cross the frontier for use in the economic territory or when the services are delivered to resident institutional units. They may include losses incurred as a matter of deliberate government policy by government trading organizations whose function is to purchase products from non-residents and then sell them at lower prices to residents.
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Other subsidies on products (D.319)

- 4.35. Other subsidies on products (D.319) include:
- (a) subsidies on products used domestically: these consist of subsidies payable to resident producers in respect of their production which is used or consumed within the economic territory;
  - (b) losses of government trading organizations whose function is to buy the products of resident producers and then sell them at lower prices to residents or non-residents, when they are incurred as a matter of deliberate government economic or social policy;

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- (c) subsidies to public corporations and quasi-corporations to compensate for persistent losses which they incur on their productive activities as a result of charging prices which are lower than their average costs of production as a matter of deliberate government or European economic and social policy;
- (d) direct subsidies on exports payable directly to resident producers when the goods leave the economic territory or the services are provided to non-residents — except repayments at the customs frontier of taxes on products previously paid and waiving of the taxes that would be due if the goods were to be sold or used inside the economic territory.

#### OTHER SUBSIDIES ON PRODUCTION (D.39)

4.36.	<i>Definition:</i>	Other subsidies on production (D.39) consist of subsidies except subsidies on products which resident producer units may receive as a consequence of engaging in production. For their other non-market output, other non-market producers can receive other subsidies on production only if those payments from general government depend on general regulations applicable to market and non-market producers as well.
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- 4.37. This heading includes in particular:
- (a) subsidies on payroll or work force: these consist of subsidies payable on the total wage or salary bill, or total work force, or on the employment of particular types of persons such as physically handicapped persons or persons who have been unemployed for long periods, or on the costs of training schemes organized or financed by enterprises;
  - (b) subsidies to reduce pollution: these consist of current subsidies intended to cover some or all of the costs of additional processing undertaken to reduce or eliminate the discharge of pollutants into the environment;
  - (c) grants for interest relief made to resident, producer units, even when they are intended to encourage capital formation<sup>(9)</sup>. In effect, these are current transfers designed to lighten producers' operating costs. They are treated in the accounts as subsidies to the producers benefiting from them, even when the difference in the interest is, in practice, paid directly by the government to the credit institution making the loan;
  - (d) over-compensation of VAT resulting from the flat rate system, frequently found in agriculture.

4.38. The following are not treated as subsidies:

- (a) current transfers from general government to households in their capacity as consumers. These are treated either as social benefits or as miscellaneous current transfers (D.75);
- (b) current transfers between different parts of general government in their capacity as producers of non-market goods and services, except other subsidies on production (D.39). The current transfers are shown under the heading current transfers within general government (D.73);

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- (c) investment grants (D.92);
  - (d) extraordinary payments into social insurance funds, in so far as these payments are designed to increase the actuarial reserves of these funds. Such payments are shown under the heading other capital transfers (D.99);
  - (e) transfers made by general government to non-financial corporations and quasi-corporations to cover losses accumulated over several financial years, or exceptional losses due to factors outside the control of the enterprise, are classified under the heading other capital transfers (D.99);
  - (f) the cancellation of debts which producer units have incurred towards the government (resulting, for example, from loans advanced by a government agency to a non-financial enterprise which has accumulated trading losses over several financial years). In general, these transactions are treated in the accounts as other capital transfers (D.99) (see paragraph 4.165.f);
  - (g) payments made by general government or by the rest of the world for damage to, or losses of, capital goods as a result of acts of war, other political events or national disasters are shown under the heading other capital transfers (D.99);
  - (h) shares and other equities in corporate enterprises purchased by general government, which are shown under the heading shares and other equity (AF.5);
  - (i) payments made by a general government agency which has assumed responsibility for abnormal pension charges affecting a public enterprise. These payments must be recorded under miscellaneous current transfers (D.75);
  - (j) payments made by general government to market producers to pay entirely, or in part, for goods and services that those market producers provide directly and individually to households in the context of social risks or needs (see paragraph 4.84), and to which the households have a legally established right. These payments are included in individual consumption expenditure of general government (P.31) and subsequently in social benefits in kind (D.631) and actual individual consumption of households (P.41).
- 4.39. Time of recording: Subsidies are recorded when the transaction or the event (production, sale, import, etc.) which gives rise to the subsidy occurs.

Particular cases:

- (a) subsidies which take the form of the difference between the purchase price and the selling price charged by a government trading agency are recorded at the time the goods are bought by the agency, if the selling price is known at that time;
- (b) subsidies intended to cover a loss incurred by a producer are recorded at the time the general government agency decides to cover the loss.

4.40. In the system of accounts, subsidies appear:

- (a) among negative uses in the generation of income account of the total economy;
- (b) among negative resources in the allocation of primary income account of the general government sector and in the external account of primary incomes and current transfers.

Subsidies on products are recorded as negative resources in the goods and services account of the total economy. This enables the resources of goods and services to be balanced with the uses.

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Other subsidies on production (D.39) appear among negative uses in the generation of income accounts of the industries or sectors which receive them.

Consequences of a system of multiple exchange rates on taxes on production and imports and on subsidies: multiple exchange rates are not currently applicable among the Member States of the European Union. In such a system:

- (a) implicit taxes on imports are treated as taxes on imports excluding VAT and import duties (D.2122);
- (b) implicit taxes on exports are treated as taxes on products, except VAT and import taxes (D.214);
- (c) implicit subsidies on imports are treated as import subsidies (D.311);
- (d) implicit subsidies on exports are treated as other subsidies on products (D.319).

#### PROPERTY INCOME (D.4)

4.41. Definition: Property income (D.4) is the income receivable by the owner of a financial asset or a tangible non-produced asset in return for providing funds to, or putting the tangible non-produced asset at the disposal of, another institutional unit.

Property incomes are classified in the following way in the system:

- (a) interest (D.41);
- (b) distributed income of corporations (D.42):
  - 1. dividends (D.421);
  - 2. withdrawals from income of quasi-corporations (D.422);
- (c) reinvested earnings on direct foreign investment (D.43);
- (d) property income attributed to insurance policy holders (D.44);
- (e) rents (D.45).

#### INTEREST (D.41)

4.42. <i>Definition:</i>	Under the terms of the financial instrument agreed between them, interest (D.41) is the amount that the debtor becomes liable to pay to the creditor over a given period of time without reducing the amount of principal outstanding.
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4.43. Creditors lend funds to debtors that lead to creation of one or other of the financial instruments listed below.

This form of property income is receivable by the owners of certain kinds of financial assets:

- (a) deposits (AF.2);
- (b) securities other than shares (AF.3);
- (c) loans (AF.4);
- (d) other accounts receivable (AF.7).

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#### Interest on deposits, loans and accounts receivable and payable

- 4.44. The interest receivable and payable on these financial assets and liabilities is determined by applying the relevant rate of interest to the principal outstanding at each point of time throughout the accounting period.

#### Interest on securities

##### Interest on bills and similar short-term instruments

- 4.45. The difference between the face value and the price paid at the time of issue (i.e. the discount) measures the interest payable over the life of the bill. The increase in the value of a bill due to the accumulation of accrued interest does not constitute a holding gain because it is due to an increase in the principal outstanding and not a change in the price of the asset. Other changes in the value of the bill are treated as holding gains/losses.

#### Interest on bonds and debentures

- 4.46. Bonds and debentures are long-term securities that give the holder the unconditional right to: a fixed or contractually determined variable money income in the form of coupon payments, or a stated fixed sum on a specified date or dates when the security is redeemed, or both these two terms.
- (a) zero-coupon bonds: there are no coupon payments. The interest based on the difference between the redemption price and the issue price has to be distributed over the years to the maturity of the bond. The interest accruing each year is reinvested in the bond by its holder, thus counterpart entries equal to the value of the accrued interest must be recorded in the Financial Account as the acquisition of more bond by the holder and as a further issue of more bond by the issuer or debtor (i.e. as a growth in the 'volume' of the original bond);
- (b) other bonds, including deep-discounted bonds. The interest has two components:
1. the amount of the money income receivable from coupon payments each period;
  2. the amount of interest accruing each period attributable to the difference between the redemption price and the issue price, calculated in the same way as for zero-coupon bonds;
- (c) index-linked securities: the amounts of the coupon payments and/or the principal outstanding are linked to a price index. The change in the value of the principal outstanding between the beginning and the end of a particular accounting period due to the movement in the relevant index is treated as interest accruing in that period, in addition to any interest due for payment in that period. The interest accruing as a result of the indexing is effectively reinvested in the security and must be recorded in the financial accounts of the holder and issuer.

#### Interest rate swaps and forward rate agreements

- [<sup>F2</sup>4.47. No payment resulting from any kind of swap arrangement is to be considered as interest and recorded under property income. (See paragraphs 5.67(d) and 5.139(c) relative to financial derivatives).

Similarly, transactions under forward rate agreements are not to be recorded as property income. (See paragraph 5.67(e)).]

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### Textual Amendments

- F2** Substituted by [Regulation \(EC\) No 2558/2001 of the European Parliament and of the Council of 3 December 2001 amending Council Regulation \(EC\) No 2223/96 as regards the reclassification of settlements under swaps arrangements and under forward rate agreements \(Text with EEA relevance\)](#).

### Interest on financial leases

- 4.48. A financial lease is an alternative to lending as a method of financing the purchase of machinery and equipment. It is a contract which channels funds from a lender to a borrower: the lessor purchases the equipment and the lessee contracts to pay rentals which enable the lessor, over the period of the contract, to recover all, or virtually all, of his costs including interest.

The lessor is treated as making a loan to the lessee equal to the value of the purchaser's price paid for the asset, this loan being gradually paid off in full over the period of the lease. The rental paid each period by the lessee is therefore treated as having two components: a repayment of principal and a payment of interest. The rate of interest on the imputed loan is implicitly determined by the total amount paid in rentals over the life of the lease in relationship to the purchaser's price of the asset. The share of the rental that represents interest gradually declines over the life of the lease as the principal is repaid. The initial loan by the lessee, together with the subsequent repayments of principal, are recorded in the Financial Accounts of the lessor and lessee. The interest payments are recorded under interest in their respective Primary Distribution of Income Accounts.

### Other interest

- 4.49. The following are also treated as interest:
- (a) interest charged on bank overdrafts, extra interest paid on deposits left longer than originally agreed, and payments to certain bond holders which are determined by lottery;
  - (b) interest received by mutual funds (see paragraph 2.51.b), from the investments they have made, and which is assigned to shareholders, even if it is capitalized. It excludes holding gains or losses on financial instruments belonging to unit trusts, which are not recorded as property income.

### Time of recording

- 4.50. Interest is recorded on an accrual basis: that is, interest is recorded as accruing continuously over time to the creditor on the amount of principal outstanding. The interest accruing in each accounting period must be recorded whether or not it is actually paid or added to the principal outstanding. When it is not actually paid, the increase in the principal must also be recorded in the Financial Account as a further acquisition of that kind of financial asset by the creditor and an equal acquisition of a liability by the debtor.
- 4.51. Interest is to be recorded before the deduction of any taxes levied on it. Interest received and paid is always recorded inclusive of grants for interest relief, even if those grants are directly paid to financial institutions and not to the beneficiaries (see subsidies).

The value of the services provided by financial intermediaries not being allocated among different customers, the actual payments or receipts of interest to or from financial intermediaries are not adjusted to eliminate the margins that represent the implicit charges made by financial intermediaries. An adjustment item is needed in the allocation of primary income



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account of financial intermediaries and of a nominal industry to which, by convention, the whole output of financial intermediaries is allocated as intermediate consumption.

4.52. In the system of accounts, interest is shown:

- (a) among resources and among uses in the allocation of primary income account of the sectors<sup>(4)</sup>;
- (b) among resources and among uses in the external account of primary incomes and current transfers.

#### DISTRIBUTED INCOME OF CORPORATIONS (D.42)

##### Dividends (D.421)

4.53. <i>Definition:</i>	Dividends (D.421) are a form of property income received by owners of shares (AF.5) to which they become entitled as a result of placing funds at the disposal of corporations. Raising equity capital through the issue of shares is an alternative way of raising funds to borrowing. In contrast to loan capital, however, equity capital does not give rise to a liability that is fixed in monetary terms and it does not entitle the holders of shares of a corporation to a fixed or predetermined income.
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4.54. This heading also includes:

- (a) shares issued to shareholders in payment of the dividend for the financial year. However, issues of bonus shares which represent the capitalization of own funds in the form of reserves and undistributed profits and give rise to new shares to shareholders in proportion for their holdings are not included;
- (b) dividends received by mutual funds (see paragraph 2.51.b) from the investments they have made, and which are assigned to shareholders, even if they are capitalized. It excludes holding gains or losses on financial instruments belonging to unit trusts, which are not recorded as property income;
- (c) the income paid to general government by public enterprises which are recognized as independent legal entities though not formally constituted as corporate enterprises.

4.55. Time of recording: dividends are recorded at the time they are due to be paid as determined by the corporation.

In the system of accounts, dividends appear:

- (a) among uses in the allocation of primary income account of the sectors in which the corporations are classified;
- (b) among resources in the allocation of primary income account of the sectors in which shareholders are classified;
- (c) among uses and resources in the external account of primary incomes and current transfers.

Withdrawals from the income of quasi-corporations (D.422)

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| 4.56. | <i>Definition:</i> | Withdrawals from the income of quasi-corporations (D.422) consist of the amounts which entrepreneurs actually withdraw for their own use from the profits earned by the quasi-corporations which belong to them. |
|-------|--------------------|--|
- 4.57. These amounts are to be recorded before the deduction of any current taxes on income, wealth, etc. which are deemed always to be paid by the owners of the businesses.
- 4.58. When a quasi-corporation makes a trading profit, the unit which owns it may choose to leave part or all of the profit in the business, especially for investment purposes. This income left in the business appears as saving by the quasi-corporation, and only the profits actually withdrawn by the owner units are recorded in the accounts under the heading withdrawals from the income of quasi-corporations.
- 4.59. When profits are earned in the rest of the world by the branch-offices, agencies, etc. of resident enterprises, in so far as these branch-offices etc. are treated as non-resident units, retained earnings appear as reinvested earnings on direct foreign investment (D.43). Only the income actually transferred to the parent enterprise is treated in the accounts as withdrawals from the income of quasi-corporations received from the rest of the world. The same principles are applied to deal with the relations between branch-offices, agencies, etc. operating on the economic territory and the non-resident parent enterprise to which they belong.
- 4.60. This heading includes the net operating surplus received by residents as owners of land and buildings in the rest of the world, or by non-residents as owners of land or buildings on the economic territory. In effect, in respect of all transactions in land and buildings carried out on the economic territory of a country by non-resident units, the latter are considered, in accordance with the conventions adopted in the ESA, to be notional resident units in which the non-resident owners own the equity.

The rental value of owner-occupied dwellings abroad is registered as imports of services and the corresponding net operating surplus as primary income received from the rest of the world; the rental value of owner-occupied dwellings belonging to non-residents is registered as exports of services and the corresponding net operating surplus as primary income paid to the rest of the world.

- 4.61. The heading withdrawals from the income of quasi-corporations does not include amounts which their owners receive:
- (a) from the sale of existing fixed capital goods;
  - (b) from the sale of land and intangible assets;
  - (c) from withdrawals of capital (e.g. the total or partial liquidation of their equity in the quasi-corporation).

These amounts are treated as withdrawals from equity in the financial account. Conversely, any funds provided by the owner(s) of a quasi-corporation for the purpose of acquiring assets or reducing its liabilities is treated as additions to its equity. However, if the quasi-corporation is owned by government, and if it runs a persistent operating deficit as a matter of deliberate government economic and social policy, any regular transfers of funds into the enterprise made by government to cover its losses should be treated as subsidies.

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- 4.62. Time of recording: withdrawals from the income of quasi-corporations are recorded when they are made by the owners.
- 4.63. In the system of accounts, withdrawals from the income of quasi-corporations appear:
- (a) among uses in the allocation of primary income account of the sectors in which the quasi-corporations are classified;
  - (b) among resources in the allocation of primary income account of the owner sectors;
  - (c) among uses and resources in the external account of primary incomes and current transfers.

#### REINVESTED EARNINGS ON DIRECT FOREIGN INVESTMENT (D.43)

4.64.	<i>Definition:</i>	Reinvested earnings on direct foreign investment (D.43) are equal to:	
		the operating surplus of the direct foreign investment enterprise	
		<i>plus</i>	any property incomes or current transfers receivable
		<i>minus</i>	any property incomes or current transfers payable, including actual remittances to foreign direct investors and any current taxes payable on the income, wealth, etc., of the direct foreign investment enterprise.

- 4.65. A direct foreign investment enterprise is an incorporated or unincorporated enterprise in which an investor resident in another economy owns 10 % or more of the ordinary shares or voting power (for an incorporated enterprise) or the equivalent (for an unincorporated enterprise). Direct foreign investment enterprises comprise those entities that are identified as subsidiaries (investor owns more than 50 %), associates (investor owns 50 % or less) and branches (wholly or jointly owned unincorporated enterprises), either directly or indirectly owned by the investor. Consequently, 'direct foreign investment enterprises' is a broader concept than 'foreign controlled corporations'.
- 4.66. Actual distributions may be made out of the entrepreneurial income of direct foreign investment enterprises in the form of dividends or withdrawals of income from quasi-corporations.

In addition, retained earnings are treated as if they were distributed and remitted to foreign direct investors in proportion to their ownership of the equity of the enterprise and then reinvested by them.

Reinvested earnings on direct foreign investment can be either positive or negative.

- 4.67. Time of recording: reinvested earnings on direct foreign investment are recorded when they are earned.

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In the system of accounts, reinvested earnings on direct foreign investment appear:

- (a) among uses and resources in the allocation of primary income account of the sectors;
- (b) among uses and resources in the external account of primary incomes and current transfers.

#### PROPERTY INCOME ATTRIBUTED TO INSURANCE POLICY HOLDERS (D.44)

4.68.	<i>Definition:</i>	Property income attributed to insurance policy holders corresponds to total primary incomes received from the investment of insurance technical reserves. Insurance technical reserves are invested by insurance enterprises and pension funds in financial assets or land (from which net property income, i.e. after deducting any interest paid, is received) or in buildings (which generate net operating surpluses). Any net income received that results from the investment of insurance enterprises' own funds is to be excluded in proportion to the ratio between own funds and a sum of own funds and insurance technical reserves.
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- 4.69. Since technical reserves are assets of insurance policy holders, the receipts from investing them are shown in the accounts as being paid by insurance enterprises and pension funds to the policy holders in the form of property income attributed to insurance policy holders.

As this income is retained by insurance enterprises and pension funds in practice, it is therefore treated as being paid back to the insurance enterprises and pension funds in the form of premium and contribution supplements that are additional to actual premiums and contributions payable.

These premium and contribution supplements on non-life insurance policies and on life insurance policies taken out under social insurance schemes are recorded together with the actual premiums and contributions in the secondary distribution of income accounts of the units concerned.

The premium supplements on individual life insurance not taken out under social insurance schemes, like the actual premiums, are not current transfers and are therefore not recorded in the secondary distribution of income accounts. They are directly included as one of the elements contributing to the change in the 'net equity of households in life insurance reserves and in pension funds reserves' recorded in the financial accounts of the units concerned.

- 4.70. Time of recording: property income attributed to insurance policy holders is recorded when it accrues.
- 4.71. In the system of accounts, the property income attributed to insurance policy holders appears:
- (a) among resources in the allocation of primary income account of policy holders;
  - (b) among uses in the allocation of primary income account of the insurers;

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- (c) among resources and among uses in the external account of primary incomes and current transfers.

#### RENTS (D.45)

##### Rents on land

- 4.72. The rent received by a landowner from a tenant constitutes a form of property income.

This heading also includes the rents payable to the owners of inland waters and rivers for the right to exploit such waters for recreational or other purposes, including fishing.

A landowner may be liable to pay land taxes or incur certain maintenance expenses solely as a consequence of owning the land. By convention, such taxes and expenses are treated as payable by the person entitled to use the land, who is deemed to deduct them from the rent that he would otherwise be obliged to pay to the landowner.

- 4.73. Rents on land do not include the rentals of buildings and of dwellings situated on it; those rentals are treated as the payment for a market service provided by the owner to the tenant of the building or dwelling, and are shown in the accounts as the intermediate or final consumption of the tenant unit. If there is no objective basis on which to split the payment between rent on land and rental on the buildings situated on it, the whole amount is treated as rent when the value of the land is believed to exceed the value of the buildings on it and as rental otherwise.

##### Rents on sub-soil assets

- 4.74. This heading includes the royalties that accrue to owners of deposits of minerals or fossil fuels (coal, oil or natural gas) who grant leases to other institutional units permitting them to explore or to extract such deposits over a specified period of time.

- 4.75. Time of recording of rents: rents are recorded in the period when payable.

- 4.76. In the system of accounts, rents are recorded:

- (a) among resources and among uses in the allocation of primary income account of sectors;
- (b) among resources and among uses in the external account of primary incomes and current transfers.

#### CURRENT TAXES ON INCOME, WEALTH, ETC. (D.5)

- 4.77. Definition: Current taxes on income, wealth, etc. (D.5) cover all compulsory, unrequited payments, in cash or in kind, levied periodically by general government and by the rest of the world on the income and wealth of institutional units, and some periodic taxes which are assessed neither on the income nor the wealth.

Current taxes on income, wealth, etc. are divided into:

- (a) taxes on income (D.51);
- (b) other current taxes (D.59).

#### TAXES ON INCOME (D.51)

- 4.78. Definition: Taxes on income (D.51) consist of taxes on incomes, profits and capital gains. They are assessed on the actual or presumed incomes of individuals, households, corporations or NPIs. 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.

Taxes on income include:

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- (a) taxes on individual or household income (income from employment, property, entrepreneurship, pensions, etc.), including taxes deducted by employers (pay-as-you-earn taxes). Taxes on the income of owners of unincorporated enterprises are included here;
- (b) taxes on the income or profits of corporations;
- (c) taxes on holding gains;
- (d) taxes on winnings from lottery or gambling, 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.

#### OTHER CURRENT TAXES (D.59)

##### 4.79. Other current taxes (D.59) include:

- (a) current taxes on capital which consist of taxes that are payable periodically on the ownership or use of land or buildings by owners, and current taxes on net wealth and on other assets (jewellery, other external signs of wealth) — except taxes mentioned in D.29 (which are paid by enterprises as a result of engaging in production) and those mentioned in D.51 (taxes on income);
- (b) poll taxes, levied per adult or per household, independently of income or wealth;
- (c) expenditure taxes, payable on the total expenditures of persons or households;
- (d) payments by households for licences to own or use vehicles, boats or aircraft (which are not used for business purposes), or for licences to hunt, shoot or fish, etc.<sup>(5)</sup>;
- (e) taxes on international transactions (travel abroad, foreign remittances, foreign investments, etc.), except those payable by producers and import duties paid by households.

##### 4.80. Current taxes on income, wealth, etc. do not include:

- (a) inheritance taxes, death duties or taxes on gifts *inter vivos*, which are deemed to be levied on the capital of the beneficiaries and are shown under the heading capital taxes (D.91);
- (b) occasional or exceptional levies on capital or wealth, which are shown under the heading capital taxes (D.91);
- (c) taxes on land, buildings or other assets owned or rented by enterprises and used by them for production, such taxes being treated as other taxes on production (D.29);
- (d) payments by households for licences other than licences on the use of vehicles, boats or aircraft, or licences to hunt, shoot or fish: driving or pilot's licences, television or radio licences, firearm licences, museum or library admissions, garbage disposal fees, etc. which are treated in most cases as purchases of services rendered by government<sup>(6)</sup>.

4.81. The total value of the taxes which should be recorded includes any interest charged on arrears of taxes due and any fines imposed by taxation authorities if it is impossible to record such interest and fines separately; it also includes any charges which may be imposed in connection with the recovery and assessment of taxes outstanding. Correspondingly, it is reduced by the amount of any rebates made by general government as a matter of economic policy and any refunds made as a result of over-payments.

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- 4.82. Recording of current taxes on income, wealth, etc.: current taxes on income, wealth, etc. are recorded at the time when activities, transactions or other events occur which create the liabilities to pay.

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 or receivables. For this reason, the amounts to be recorded in the system are determined by the amounts due for payment only when evidenced by tax assessments, declarations or other instruments which create liabilities in the form of clear obligations to pay on the part of taxpayers. The system does not impute missing taxes not evidenced by tax assessments.

[<sup>F1</sup>Taxes recorded in the accounts may be derived from two sources: amounts evidenced by assessments and declarations or cash receipts.

- (a) If assessments and declarations are used, the amounts shall be adjusted by a coefficient reflecting assessed and declared amounts never collected. As an alternative treatment, a capital transfer to the relevant sectors could be recorded equal to the same adjustment. The coefficients shall be estimated on the basis of past experience and current expectations in respect of assessed and declared amounts never collected. They shall be specific to different types of taxes.
- (b) If cash receipts are used, they shall be time-adjusted so that the cash is attributed when the activities, transactions or other events took place to generate the tax liability (or when the amount of tax was determined, in the case of some income taxes). This adjustment may be based on the average time difference between the activities, transactions or other events (or the determination of the amount of tax) and cash tax receipt.

When retained at source by the employer, current taxes on income, wealth, etc. should be included in wages and salaries even if the employer did not in fact pass them on to the general government. The households sector is then shown as paying the full amount on to the general government sector. The amounts actually unpaid have to be neutralised under D.995 as a capital transfer from general government to the employers' sectors.]

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 PAYE 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.

In the system of accounts, current taxes on income, wealth, etc. are recorded:

- (a) among uses in the secondary distribution of income account of the sectors in which the taxpayers are classified;
- (b) among resources in the secondary distribution of income account of general government;
- (c) among uses and resources in the external account of primary incomes and current transfers.

SOCIAL CONTRIBUTIONS AND BENEFITS (D.6)

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| 4.83. | <i>Definition:</i> | Social benefits are transfers to households, in cash or in kind, intended to relieve them from the financial burden of a number of risks or needs, made through collectively organized schemes, or outside such schemes by government units and NPISHs; they include payments from general government to producers which individually benefit households and which are made in the context of social risks or needs. |
|-------|--------------------|--|
- 4.84. The list of risks or needs which may give rise to social benefits is, by convention, fixed as follows:
- (a) sickness;
  - (b) invalidity, disability;
  - (c) occupational accident or disease;
  - (d) old age;
  - (e) survivors;
  - (f) maternity;
  - (g) family;
  - (h) promotion of employment;
  - (i) unemployment;
  - (j) housing<sup>(7)</sup>;
  - (k) education;
  - (l) general neediness.
- 4.85. Social benefits include:
- (a) current and lump-sum transfers from schemes which receive contributions, cover the entire community or large sections of the community and are imposed and controlled by government units (social security schemes);
  - (b) current and lump sum transfers from schemes organized by enterprises on behalf of their employees, ex-employees or dependants (private funded and unfunded enterprises' schemes). Contributions may be made by employees or employers; they may also be made by self-employed persons;
  - (c) current transfers from government units and NPISHs which are not conditional on previous payment of contributions (assistance).
- 4.86. Social benefits exclude:
- (a) insurance claims based on policies taken out solely on the own initiative of the insured, independently of his employer or government;



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- (b) insurance claims on policies taken out with the sole purpose of obtaining a discount, even if those policies follow from a collective agreement.
- 4.87. 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 correspond to the risks or needs listed in paragraph 4.84 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 employees, self- 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, self- 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.
- 4.88. Social insurance schemes are 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.

Social insurance schemes may be classified according to the following types:

- (a) social security schemes, covering the entire community, or large sections of the community, that are imposed, controlled and financed by government units;
  - (b) private funded schemes, which consist of:
    - 1. schemes in which the social contributions are paid to third parties (insurance enterprises, autonomous pension funds);
    - 2. schemes in which employers maintain special reserves which are segregated from their other reserves, even though such schemes do not constitute separate institutional units from the employers. These are referred to as non-autonomous pension funds. The reserves are treated as assets that belong to the beneficiaries and not the employers;
  - (c) unfunded schemes in which employers pay social benefits to their employees, ex-employees or their dependants out of their own resources without creating special reserves for the purpose.
- 4.89. Social insurance schemes organized by government units for their own employees are classified as private funded schemes or unfunded schemes as appropriate and not as social security schemes.
- 4.90. Social contributions may be divided into actual contributions payable under the first two categories of schemes mentioned in paragraph 4.88 above and imputed contributions payable under unfunded schemes.
- 4.91. Social contributions may be divided into those that are compulsory by law and those that are not.

#### SOCIAL CONTRIBUTIONS (D.61) Actual social contributions (D.611)

- 4.92. Actual social contributions include:

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- (a) employers' actual social contributions (D.611). These correspond to flow D.121.
- Employers' actual social contributions are paid by employers to social security funds, insurance enterprises or autonomous as well as non-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 as well as non-autonomous pension funds;
- (b) employees' social contributions (D.6112).
- These are social contributions payable by employees to social security, private funded and unfunded schemes. Employees' social contributions consist of the actual contributions payable plus, in the case of private funded schemes, the contribution supplements payable out of the property income attributed to insurance policy holders received by employees participating in the schemes, minus the service charges. All the service charges are treated as charges against the employees' contributions and not the employers';
- (c) social contributions by self-employed and non-employed persons (D.6113).
- These are social contributions payable for their own benefit by persons who are not employees — namely, self-employed persons (employers or own-account workers), or non-employed persons. They also include the value of the contribution supplements payable out of the property income attributed to insurance policy holders received by participating individuals that they are recorded as paying back to the insurance enterprises in addition to their other contributions.
- 4.93. Payments of actual social contributions may be compulsory by virtue of a statute or regulation, or they may be paid as a result of collective agreements in a particular industry or agreements between employer and employees in a particular enterprise, or because they are written into the contract of employment itself. In certain cases, the contributions may be voluntary.

The voluntary contributions referred to here cover:

- (a) social contributions which persons who are not, or who are no longer, legally obliged to contribute pay or continue to pay to a social security fund;
- (b) social contributions paid to insurance enterprises (or friendly societies and pension funds classified in the same sector) as part of supplementary insurance schemes organized by enterprises for the benefit of their employees and which the latter join voluntarily;
- (c) contributions to friendly societies with membership open to employees or self-employed workers.
- 4.94. To distinguish between social contributions that are compulsory and those that are not, a supplementary level is introduced in the classification:
- (a) compulsory employers' actual social contributions (D.61111);
- (b) voluntary employers' actual social contributions (D.61112);
- (c) compulsory employees' social contributions (D.61121);

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- (d) voluntary employees' social contributions (D.61122);
  - (e) compulsory social contributions by self and non-employed persons (D.61131);
  - (f) voluntary social contributions by self and non-employed persons (D.61132).
- 4.95. Actual social contributions to social security funds or other government agencies are recorded gross as distributive transactions.

On the other hand, social contributions paid under private funded schemes to insurance enterprises, and to friendly societies and autonomous pension funds included in the same sector, are recorded net, i.e. after deducting that part of the contribution which represents the value of the insurance service provided to (resident and non-resident) households. Under the conventions adopted, this part of the contribution represents, in effect, the payment for a market service which forms part of the final consumption of households or, in the case of contributions paid by non-resident households, part of exports of services.

In the case of non-autonomous private funded social insurance schemes, where employers maintain their own segregated reserves, no service charge is deducted from contributions paid by the employees. As such schemes 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.

- 4.96. Time of recording: employers' actual social contributions (D.6111) and employees' social contributions (D.6112) are recorded at the time when the work that gives rise to the liability to pay the contributions is carried out. Social contributions by self-employed and non-employed persons (D.6113) are recorded when the liabilities to pay are created.

[<sup>F3</sup>Social contributions payable to the general government sector recorded in the accounts may be derived from two sources: amounts evidenced by assessments and declarations or cash receipts.

#### Textual Amendments

**F3** Inserted by [Commission Regulation \(EC\) No 995/2001 of 22 May 2001 implementing Regulation \(EC\) No 2516/2000 of the European Parliament and of the Council modifying the common principles of the European system of national and regional accounts in the Community \(ESA 95\) as concerns taxes and social contributions.](#)

- (a) If assessments and declarations are used, the amounts shall be adjusted by a coefficient reflecting assessed and declared amounts never collected. As an alternative treatment, a capital transfer to the relevant sectors could be recorded equal to the same adjustment. The coefficients shall be estimated on the basis of past experience and current expectations in respect of assessed and declared amounts never collected. They shall be specific to different types of social contributions.
- (b) If cash receipts are used, they shall be time-adjusted so that the cash is attributed when the activity took place to generate the social contribution liability (or when the liability is created). This adjustment may be based on the average time difference between the activity (or the creation of the liability) and cash receipt.

When retained at source by the employer, social contributions payable to the general government sector should be included in wages and salaries even if the employer did not in fact pass them on to the general government. The households sector is then shown as paying the full amount

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on to the general government sector. The amounts actually unpaid have to be neutralised under D.995 as a capital transfer from general government to the employers' sectors.]

- 4.97. In the system of accounts, actual social contributions are recorded:
- (a) among uses in the secondary distribution of income account of households;
  - (b) among uses in the external account of primary incomes and current transfers (in the case of non-resident households);
  - (c) among resources in the secondary distribution of income account of resident insurers or employers;
  - (d) among resources in the external account of primary incomes and current transfers (in the case of non-resident insurers or employers).
- Imputed social contributions (D.612)
- 4.98. Imputed social contributions (D.612) represent the counterpart to social benefits (less eventual employees' social contributions) paid directly by employers (i.e. not linked to employers' actual contributions) to their employees or former employees and other eligible persons. They correspond to flow D.122. Their value should, in principle, be based on actuarial considerations.
- 4.99. It is necessary to introduce imputed social contributions if the social benefits distributed directly by employers are to be included in the accounts under the heading social benefits and if the cost of these benefits (for the part which is not covered by employees' actual contributions) is to be included in the compensation of employees paid by the employer.

When employers provide social benefits themselves directly to their employees, ex-employees or dependants out of their own resources without involving a social security fund, an insurance enterprise or an autonomous pension fund, and without creating a special fund or segregate reserve for the purpose, beneficiaries may be considered as being protected against various specific needs, or circumstances, even though no payments are being made to cover them.

Remuneration should therefore be imputed for 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. When as a result of political events or economic changes, the ratio between the number currently employed and the number receiving pensions changes appreciably and becomes abnormal, the value of the imputed contributions for current employees should be estimated, which will be different from the actual value of the pensions paid out. A reasonable percentage of wages and salaries paid to current employees can be used for this purpose.

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. Otherwise, the only practical alternative may be to use the unfunded social benefits payable by the enterprise during the same accounting period (after deducting actual contributions made by employees themselves) 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

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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 (less employees' social contributions) may nevertheless provide sufficient estimates of the contributions and associated imputed remuneration.

- 4.100. 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. Employees are recorded, in the secondary distribution of income account, as paying back to their employers the same amount of imputed social contributions (i.e. current transfers) as if they were paying them to a separate social insurance scheme.
- 4.101. Time of recording: imputed social contributions which represent the counterpart of compulsory direct social benefits are recorded at the time the obligation to pay the benefits arises.

Imputed social contributions which represent the counterpart of voluntary direct social benefits are recorded at the time the benefits are provided.

- 4.102. In the system of accounts, imputed social contributions are recorded:
- (a) among uses in the secondary distribution of income account of households and in the external account of primary incomes and current transfers;
  - (b) among resources in the secondary distribution of income account of the sectors to which the employers belong and in the external account of primary incomes and current transfers.

#### SOCIAL BENEFITS OTHER THAN SOCIAL TRANSFERS IN KIND (D.62)

- 4.103. The heading D.62 is made up of four sub-headings:  
Social security benefits in cash (D.621)

They are payable to households by social security funds (excluding reimbursements, see D.6311).

Those benefits are provided under social security schemes.  
Private funded social benefits (D.622)

They are (in cash or in kind), payable to households by insurance enterprises or other institutional units administering private funded social insurance schemes.  
Unfunded employee social benefits (D.623)

They are (in cash or in kind), payable to their employees, their dependants or survivors by employers administering unfunded social insurance schemes. They typically include:

- (a) the continued payment of normal, or reduced, wages during periods of absence from work as a result of ill health, accident, maternity, etc.;
- (b) the payment of family, education or other allowances in respect of dependants;
- (c) the payment of retirement or survivors' pensions to ex-employees or their survivors, and the payment of severance allowances to workers or their survivors in the event of redundancy, incapacity, accidental death, etc. (if linked to collective agreements);
- (d) general medical services not related to the employee's work;

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(e) convalescent and retirement homes.

Unfunded employee social benefits payable by employers to their former employees or other eligible persons should be recorded including employers' actual social contributions, i.e. payments made by the employers for the benefit of the persons concerned to insurers.  
Social assistance benefits in cash (D.624)

They are 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. Such benefits do not include current transfers paid in response to events or circumstances that are not normally covered by social insurance schemes (i.e. transfers made in response to natural disasters, recorded under other current transfers or under other capital transfers).

SOCIAL TRANSFERS IN KIND (D.63)

4.104. Definition: Social transfers in kind (D.63) consist of individual goods and services provided as transfers in kind to individual households by government units 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.

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. 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.

The heading social transfers in kind (D.63) includes social benefits in kind and transfers of individual non-market goods or services.  
Social benefits in kind (D.631)

4.105. Social benefits in kind are social transfers in kind intended to relieve the households from the financial burden of social risks or needs (see paragraph 4.84). They can be subdivided into those where beneficiary households actually purchase the goods and services themselves and are then reimbursed, and those where the relevant services are provided directly to the beneficiaries. In this second case, general government units or NPISHs produce or purchase, entirely or in part, goods and services which are directly provided by their producers to the beneficiaries.

Social security benefits, reimbursements (D.6311)

These benefits consist of reimbursement by social security funds of approved expenditures made by households on specified goods or services.

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 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

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reimbursed. Thus, the amount of the expenditure reimbursed is not treated as a current transfer in cash from the social security funds to households.

Other social security benefits in kind (D.6312)

These consist of social transfers in kind, except reimbursements, made by social security funds to households. Most other social security benefits in kind 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 in the context of social risks or needs. The service is provided directly to the beneficiaries, without reimbursement, by market or non-market producers and should be valued accordingly. Any payments made by the householders themselves should be deducted.<sup>F4</sup> Other social security benefits in kind can be therefore subdivided into those for which the service is produced by market producers and purchased by general government units or NPISHs (D.63121), and those for which the service is produced by non-market producers (D.63122).]

#### Textual Amendments

**F4** Inserted by [Commission Regulation \(EC\) No 1500/2000 of 10 July 2000 implementing Council Regulation \(EC\) No 2223/96 with respect to general government expenditure and revenue.](#)

Social assistance benefits in kind (D.6313)

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. Included are, if not covered by a social insurance scheme, social housing, dwelling allowance, day nurseries, professional training, reductions on transport prices (provided that there is a social purpose), and similar goods and services in the context of social risks or needs. Any payments made by the householders themselves should be deducted.<sup>F4</sup> Social assistance benefits in kind can be therefore subdivided into those for which the service is produced by market producers and purchased by general government units or NPISHs (D.63131), and those for which the service is produced by non-market producers (D.63132).]

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

4.106.	<i>Definition:</i>	Transfers of individual non-market goods or services (D.632) consist of goods or services provided to individual households free or at prices which are not economically significant, by non-market producers or government units or NPISHs. They correspond to individual consumption expenditure of NPISHs and government (see paragraph 3.85), less social benefits in kind (D.631) granted to households under social security or social assistance arrangements.
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4.107. Time of recording of social benefits:

(a) in cash, they are recorded when the claims on the benefits are established;

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(b) in kind, they are recorded at the time the services are provided, or at the time the changes of ownership of goods provided directly to households by non-market producers take place.

4.108. In the system of accounts, social benefits other than social transfers in kind (D.62) are recorded:

(a) among uses in the secondary distribution of income account of the sectors granting the benefits;

(b) among uses in the external account of primary incomes and current transfers (in the case of benefits granted by the rest of the world);

(c) among resources in the secondary distribution of income account of households;

(d) among resources in the external account of primary incomes and current transfers (in the case of benefits granted to non-resident households).

Social transfers in kind (D.63) are recorded:

(a) among uses in the redistribution of income in kind account of the sectors granting the benefits;

(b) among resources in the redistribution of income in kind account of households.

The consumption of the goods and services transferred is recorded in the use of adjusted disposable income account.

By convention there are no social transfers in kind with the rest of the world (they are registered in D.62 social benefits other than social transfers in kind).

OTHER CURRENT TRANSFERS (D.7)

NET NON-LIFE INSURANCE PREMIUMS (D.71)

4.109. *Definition* : Net non-life insurance premiums (D.71) are premiums payable under policies taken out by institutional units. 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<sup>(8)</sup>. Net non-life insurance premiums comprise both the actual premiums payable by policy holders to obtain insurance cover during the accounting period (premiums earned) and the premium supplements payable out of the property income attributed to insurance policy holders, after deducting the service charges of insurance enterprises arranging the insurance.

Net non-life insurance premiums 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.

4.110. Time of recording: net non-life insurance premiums are recorded when they are earned.



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The insurance premiums from which the service charges are deducted are those parts of the total premiums paid in the current period, or previous periods, that cover risks outstanding in the current period.

Premiums earned in the current period must be distinguished from the premiums due for payment during the current period, which are likely to cover risks in future periods as well as the current period.

- 4.111. In the system of accounts net non-life insurance premiums are recorded:
- (a) among uses in the secondary distribution of income account of resident policy holders;
  - (b) among uses in the external account of primary incomes and current transfers (in the case of non-resident policy holders);
  - (c) among resources in the secondary distribution of income account of resident insurance enterprises;
  - (d) among resources in the external account of primary incomes and current transfers (in the case of non-resident insurance enterprises).

#### NON-LIFE INSURANCE CLAIMS (D.72)

- 4.112. *Definition* : Non-life insurance claims (D.72) represent the claims due under contracts in respect of non-life insurance<sup>(9)</sup>; that is, the amounts which insurance enterprises are obliged to pay in settlement of injuries or damage suffered by persons or goods (including fixed capital goods).

4.113. Non-life insurance claims do not include payments which constitute social benefits.

4.114. 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 must equal the net non-life premiums receivable by an insurance enterprise during the same accounting period. This underlines the fact that the essential function of non-life insurance is to redistribute resources.

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.

Some claims arise because of damage or injuries that the policy holders cause to the property or persons of third parties. In these cases, valid claims are recorded as being payable directly by the insurance enterprise to the injured parties and not indirectly via the policy holder.

4.115. Time of recording: non-life insurance claims are recorded at the time the accident or other event insured against occurs.

4.116. In the system of accounts, they are recorded:

- (a) among uses in the secondary distribution of income account of resident insurance enterprises;
- (b) among uses in the external account of primary incomes and current transfers (in the case of non-resident insurance enterprises);

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- (c) among resources in the secondary distribution of income account of the beneficiary sectors;
- d) among resources in the external account of primary incomes and current transfers (in the case of non-resident beneficiaries).

#### CURRENT TRANSFERS WITHIN GENERAL GOVERNMENT (D.73)

- |        |                    |  |
|--------|--------------------|--|
| 4.117. | <i>Definition:</i> | Current transfers within general government (D.73) include transfers between the different subsectors of general government (central government, state government, local government, social security funds) with the exception of taxes, subsidies, investment grants and other capital transfers. |
|--------|--------------------|--|
- 4.118. Current transfers within general government do not include transactions on behalf of another unit; these are recorded only once in the accounts, in the resources of the beneficiary unit on whose behalf the transaction is made. This situation arises particularly when a government agency (e.g. a central government department) collects taxes which are automatically transferred, in total or in part, to another government agency (e.g. a local authority). In this case, the tax receipts destined for the other government agency are shown as if they were collected directly by that agency and not as a current transfer within general government. This solution applies *a fortiori* in the case of taxes destined for another government agency which take the form of additional rates superimposed on taxes levied by central government. 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.

On the other hand, transfers of tax receipts which form part of a block transfer from central government to another government agency are included in current transfers within general government. These transfers do not correspond to any specific category of taxes and they are not made automatically but mainly through certain funds (county and local authority funds) in accordance with scales of apportionment laid down by central government.

- 4.119. Time of recording: Current transfers within general government are recorded at the time the regulations in force stipulate they are to be made.
- 4.120. In the system of accounts, current transfers within general government are recorded among uses and resources in the secondary distribution of income account of the subsectors of general government<sup>(10)</sup>.

#### CURRENT INTERNATIONAL COOPERATION (D.74)

- 4.121. *Definition* : Current international cooperation (D.74) includes all transfers in cash or in kind between general government and governments or international organisations<sup>(11)</sup> in the rest of the world, except investment grants and other capital transfers.
- 4.122. Heading D.74 covers:
- (a) the non-tax contributions of the government to the institutions of the European Union, except the 'GNP'-based fourth own resource<sup>(12)</sup>;

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- (b) the contributions of the government to international organizations (excluding taxes payable by member governments to supranational organizations);
- (c) any current transfers which general government may receive from the institutions or organizations referred to under (a) and (b)<sup>(13)</sup>;
- (d) current transfers between governments, either in cash e.g. payments intended to finance the budget deficits of foreign countries or overseas territories) or in kind (e.g. counterpart of gifts of food, military equipment, emergency aid after natural disasters in the form of food, clothing, medicines, etc.);
- (e) wages and salaries paid by a government, an institution of the European Union or an international organization, to advisers or technical assistance experts made available to developing countries.

Current international cooperation includes transfers between general government and international organizations located in the country, as international organizations are not treated as resident institutional units of the countries in which they are located.

4.123. Time of recording: the time the regulations in force stipulate the transfers are to be made (obligatory transfers), or the time the transfers are made (voluntary transfers).

4.124. In the system of accounts, current international cooperation is recorded:

- (a) among uses and resources in the secondary distribution of income account of the general government sector;
- (b) among uses and resources in the external account of primary incomes and current transfers.

#### MISCELLANEOUS CURRENT TRANSFERS (D.75)

##### Current transfers to NPISHs

4.125. Current transfers to NPISHs include all voluntary contributions (other than legacies), membership subscriptions and financial assistance which NPISHs receive from households (including non-resident households) and, to a lesser extent, from other units.

4.126. The following are included:

- (a) regular subscriptions paid by households to trade unions and political, sporting, cultural, religious and similar organizations classified in the sector NPISHs;
- (b) voluntary contributions (other than legacies) from households, corporate enterprises and the rest of the world to NPISHs, including transfers in kind in the form of gifts of food, clothing, blankets, medicines, etc. to charities for distribution to resident or non-resident households;
- (c) assistance and grants from general government, other than transfers made for the specific purpose of financing capital expenditure, which are shown under investment grants.

Excluded are payments of membership dues or subscriptions to market NPIs serving businesses, such as chambers of commerce or trade associations, which are treated as payments for services rendered.

4.127. Time of recording: current transfers to NPISHs are recorded at the time they are made.

4.128. In the system of accounts, current transfers to NPISHs are recorded:

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- (a) among uses in the secondary distribution of income account of the contributing sectors;
- (b) among uses in the external account of primary incomes and current transfers;
- (c) among resources in the secondary distribution of income account of the NPISHs sector.

#### Current transfers between households

4.129.	<i>Definition:</i>	Current transfer between households 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. In particular, these comprise remittances by emigrants or workers permanently settled abroad (or working abroad for a period of a year or longer) to members of their family living in their country of origin, or by parents to children in another location.
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4.130. Time of recording: the time the transfers occur.

4.131. In the system of accounts, current transfers between households are recorded:

- (a) among uses and resources in the secondary distribution of income account of households;
- (b) among uses and resources in the external account of primary incomes and current transfers.

#### Fines and penalties

4.132.	<i>Definition:</i>	Fines and penalties imposed on institutional units by courts of law or quasi-judicial bodies are treated as compulsory current transfers.
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4.133. Not included under this heading are:

- (a) fines and penalties imposed by tax authorities for the evasion or late payment of taxes, which cannot usually be distinguished from the taxes themselves;
- (b) payments of fees to obtain licences, such payments being either taxes or payments for services rendered by government units (see D.29 and D.59).

4.134. Time of recording: fines and penalties are recorded at the time the liabilities arise.

#### Lotteries and gambling

4.135. 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. The current transfers are recorded at the time they are made.

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## Payments of compensation

4.136. <i>Definition:</i>	Payments of compensation 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 a court of law, or <i>ex gratia</i> payments agreed out of court. This heading covers <i>ex gratia</i> payments made by government units or NPISHs in compensation for injuries or damage caused by natural disasters other than those classified as capital transfers.
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4.137. Time of recording: payments of compensation are recorded when they are made (*ex gratia* payments) or when they are to be made (compulsory payments).  
GNP-based fourth own resource

4.138. The 'GNP-based fourth own resource' created by the Council Decision of 24 June 1988 on the system of Communities' own resources is a current transfer paid by the general government of each Member State to the institutions of the European Union.

It is a residual contribution to the budget of those institutions, which is assessed on the levels of GNP of each of the countries.

Time of recording: GNP-based fourth own resource is recorded when it is to be paid.

In the system of accounts, GNP-based fourth own resource appears:

- (a) among uses in the secondary distribution of income account of general government;
  - (b) among resources in the external account of primary incomes and current transfers.
- Other

- 4.139.
- (a) Current transfers from NPISHs to general government which are not taxes.
  - (b) Payments by general government to public enterprises classified in the sector non-financial corporate and quasi-corporate enterprises intended to cover abnormal pension charges.
  - (c) Travelling fellowships and awards paid to resident or non-resident households by general government or NPISHs.
  - (d) Bonus payments on savings granted at intervals by general government to households in order to reward them for their saving during the period.
  - (e) The refunds by households of expenditure incurred on their behalf by social welfare organizations.
  - (f) Current transfers from NPISHs to the rest of the world.

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- (g) Sponsoring by corporations if those payments cannot be regarded as purchases of advertising or other services (for instance, transfers for a good cause, or scholarships).
- (h) Current transfers from general government to households in their capacity as consumers, if not recorded as social benefits.
- 4.140. Time of recording: these transfers are recorded when they are made, except those from or to general government, which are recorded when they are to be made.

In the system of accounts, miscellaneous current transfers appear:

- (a) among resources and uses in the secondary distribution of income account of all sectors;
- (b) among resources and uses in the external account of primary incomes and current transfers.

#### ADJUSTMENT FOR THE CHANGE IN THE NET EQUITY OF HOUSEHOLDS IN PENSION FUNDS RESERVES (D.8)

4.141.	<i>Definition:</i>	The adjustment for the change in the net equity of households in pension funds reserves (D.8) represents the adjustment needed to make appear in the saving of households the change in the actuarial reserves on which households have a definite claim (a claim which reappears at the financial level as an asset under heading F.61) and which are fed by premiums and contributions recorded in the secondary distribution of income account as social contributions.
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- 4.142. Since households are treated in the financial accounts and balance sheets of the system as owning the reserves of private funded schemes, both autonomous and non-autonomous, an adjustment item is necessary to ensure that any excess of pension contributions over pension receipts (i.e. of 'transfers' payable over 'transfers' receivable) does not affect household saving.

In order to neutralize this effect, an adjustment equal to:

	the total value of the actual social contributions in respect of pensions payable into private funded pension schemes
<i>plus</i>	the total value of contribution supplements payable out of the property income attributed to insurance policy holders
<i>minus</i>	the value of the associated service charges
<i>minus</i>	the total value of the pensions paid out as social insurance benefits by private funded pension schemes

is added to the disposable income, or adjusted disposable income, of households in the use of income accounts before arriving at saving.

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In this way, the saving of households is the same as what it would be if pension contributions and pension receipts had not been recorded as current transfers in the secondary distribution of income account. This adjustment item is necessary in order to reconcile the saving of households with the change in their net equity in pension funds reserves recorded in the financial account of the system. Opposite adjustments are, of course, needed in the use of income accounts of the insurance enterprises or autonomous pension funds or employers maintaining non-autonomous pension funds.

- 4.143. Time of recording: the adjustment is recorded according to the flows which compose it.
- 4.144. In the system of accounts, the adjustment for the change in the net equity of households in pension funds reserves is recorded:
- (a) among uses in the use of income accounts of the insurance enterprises sector and other sectors administering non-autonomous pension funds;
  - (b) among uses in the external account of primary incomes and current transfers (in the case of non-resident institutions);
  - (c) among resources in the use of income accounts of the households sector;
  - (d) among resources in the external account of primary incomes and current transfers (in the case of non-resident households).

#### CAPITAL TRANSFERS (D.9)

- 4.145. Capital transfers are different from current transfers by the fact that they involve the acquisition or disposal of an asset, or assets, by at least one of the parties to the transaction. Whether made in cash or in kind, they should result in a commensurate change in the financial, or non-financial, assets shown in the balance sheets of one or both parties to the transaction.
- 4.146. A capital transfer in kind consists of the transfer of ownership of an asset (other than inventories and cash), or the cancellation of a liability by a creditor, without any counterpart being received in return.

A capital transfer in cash consists of the transfer of cash that the first party has raised by disposing of an asset, or assets (other than inventories), or that the second party is expected, or required, to use for the acquisition of an asset, or assets (other than inventories). The second party, the recipient, is often obliged to use the cash to acquire an asset, or assets, as a condition on which the transfer is made.

- 4.147. Capital transfers cover capital taxes (D.91), investment grants (D.92) and other capital transfers (D.99).

#### CAPITAL TAXES (D.91)

- |        |                    |  |
|--------|--------------------|--|
| 4.148. | <i>Definition:</i> | Capital taxes (D.91) consist of taxes levied at irregular and very infrequent intervals on the values of the assets or net worth owned by institutional units or on the values of assets transferred between institutional units as a result of legacies, gifts <i>inter vivos</i> or other transfers. |
|--------|--------------------|--|

- 4.149. Capital taxes include:

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- (a) taxes on capital transfers: inheritance taxes, death duties and taxes on gifts *inter vivos*, which are deemed to be levied on the capital of the beneficiaries (except taxes on sales of assets, as these are not transfers);
  - (b) capital levies: occasional and exceptional levies on assets or net worth owned by institutional units<sup>(14)</sup>. These include betterment levies, that is taxes on the increase in the value of agricultural land due to planning permission to develop the land for commercial or residential purposes.
- 4.150. [F<sup>1</sup>Taxes recorded in the accounts may be derived from two sources: amounts evidenced by assessments and declarations or cash receipts.
- (a) If assessments and declarations are used, the amounts shall be adjusted by a coefficient reflecting assessed and declared amounts never collected. As an alternative treatment, a capital transfer to the relevant sectors could be recorded equal to the same adjustment. The coefficients shall be estimated on the basis of past experience and current expectations in respect of assessed and declared amounts never collected. They shall be specific to different types of taxes.
  - (b) If cash receipts are used, they shall be time-adjusted so that the cash is attributed when the activity took place to generate the tax liability (or when the amount of tax was determined). This adjustment may be based on the average time difference between the activity (or the determination of the amount of tax) and cash tax receipt.]
- 4.151. In the system of accounts, capital taxes are recorded:
- (a) among changes in liabilities and net worth (-) in the capital account of the sectors in which the taxpayers are classified;
  - (b) among changes in liabilities and net worth (+) in the capital account of general government;
  - (c) among changes in liabilities and net worth in the capital account of the rest of the world.

#### INVESTMENT GRANTS (D.92)

- 4.152. *Definition* : Investment grants (D.92) consist of capital transfers in cash or in kind made by governments or by the rest of the world<sup>(15)</sup> to other resident or non-resident institutional units to finance all or part of the costs of their acquiring fixed assets.
- 4.153. Investment grants can be made in cash or in kind. Investment grants in kind consist of transfers of transport equipment, machinery and other equipment by governments to other resident or non-resident units and also the direct provision of buildings or other structures for resident or non-resident units.
- 4.154. Investment grants do not include transfers of military equipment in the form of weapons or equipment whose sole function is to fire such weapons, as they are not classified as fixed assets.
- 4.155. The value of capital formation carried out by general government for the benefit of other sectors of the economy is also to be shown under investment grants whenever the beneficiary is identifiable and becomes the owner of the capital. In such cases, the capital formation is recorded among changes in assets in the capital account of the



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beneficiary and is financed by an investment grant which appears among changes in liabilities and net worth in the same account.

- 4.156. Heading D.92 includes not only single non-recurrent payments designed to finance capital formation during the same period, but also instalment payments in respect of capital formation carried out during an earlier period. Thus, those parts of the annual payments by general government which represent the amortization of debts, contracted by enterprises for the purpose of capital formation projects for whose amortization the government has assumed total or partial responsibility, are also treated as investment grants.

Grants for interest relief made by general government are, however, excluded, even when the object of the relief is to encourage capital formation. In practice, the assumption by public authorities of part of the interest charges constitutes, like the flow of interest itself, a current distributive transaction. Nevertheless, when a grant serves the dual purpose of financing the amortization of the debt contracted and the payment of the interest on the capital borrowed, and when it is not possible to separate these two elements, the whole of the grant is treated in the accounts as an investment grant.

- 4.157. Investment grants to the sector non-financial corporate and quasi-corporate enterprises include, in addition to grants to private enterprises, capital grants to public enterprises recognized as independent legal entities, provided that the government department which makes the grant does not retain a claim against the public enterprise.
- 4.158. Investment grants to the households sector include equipment and modernization grants to businesses other than corporate or quasi-corporate enterprises and grants to households for the construction, purchase and improvement of dwellings.
- 4.159. Investment grants to general government include all payments (except grants for interest relief) made to subsectors of general government<sup>(16)</sup> for the purpose of financing capital formation. The most important examples are transfers from central government to local authorities for the specific purpose of financing their gross fixed capital formation. It should be emphasized that transfers of a general nature intended for various or indeterminate purposes are shown under current transfers within general government, even if they are partly used to cover expenditure on capital formation.
- 4.160. Investment grants to non-profit institutions from general government and from the rest of the world are distinguished from current transfers to non-profit institutions by using the same criterion.
- 4.161. Investment grants to the rest of the world should also be restricted to transfers with the specific objective of financing capital formation by non-resident units. They include, for example, unrequited transfers for the construction of bridges, roads, factories, hospitals or schools in developing countries, or for constructing buildings for international organizations. They may comprise instalment payments over a period of time as well as single payments. This heading also covers the supply of fixed capital goods free of charge.
- 4.162. Time of recording: investment grants in cash are recorded when the payment is due to be made. Investment grants in kind are recorded when the ownership of the asset is transferred.
- 4.163. In the system of accounts, investment grants are recorded:
- (a) among changes in liabilities and net worth (-) in the capital account of general government;

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- (b) among changes in liabilities and net worth (+) in the capital account of the sectors receiving the grants;
- (c) among changes in liabilities and net worth in the capital account of the rest of the world.

#### OTHER CAPITAL TRANSFERS (D.99)

4.164.	<i>Definition:</i>	Other capital transfers (D.99) cover transfers other than investment grants and capital taxes which do not themselves redistribute income but redistribute saving or wealth among the different sectors or subsectors of the economy or the rest of the world.
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4.165. Other capital transfers include the following transactions:

- (a) payments by general government or by the rest of the world to the owners of capital goods destroyed or damaged by acts of war, other political events or natural disasters (floods etc.);
- (b) transfers from general government to non-financial corporate and quasi-corporate enterprises to cover losses accumulated over several financial years or exceptional losses from causes beyond the control of the enterprise;
- (c) transfers between subsectors of general government designed to cover unexpected expenditure or accumulated deficits<sup>(17)</sup>;
- (d) non-recurrent bonus payments on savings granted by general government to households to reward them for their savings carried out over a period of several years;
- (e) legacies, large gifts *inter vivos* and donations between units belonging to different sectors, including legacies or large gifts to NPIs (for example, gifts to universities to cover the costs of building new residential colleges, libraries, laboratories, etc.);
- (f) the counterpart transaction of cancellation of debts by agreement between institutional units belonging to different sectors or subsectors (for example, the cancellation by the government of a debt owed to it by a foreign country; payments in fulfilment of guarantees which free defaulting debtors from their obligations)<sup>F3</sup>— except the particular case of taxes and social contributions payable to the general government sector (see 4.165 (j)).] Such cancellations by mutual agreement are treated as a capital transfer from the creditor to the debtor equal to the value of the outstanding debt at the time of cancellation. Likewise the counterpart transaction of debt assumption is another capital transfer. However, excluded are:
  1. cancellation of financial claims against and assumption of liabilities from quasi-corporations by the owner of the quasi-corporation. This case is treated as a transaction in shares and other equity (see paragraph 5.16);
  2. debt cancellation against and debt assumption from a public corporation by government which disappears as an institutional unit in the system. This case is recorded in the other changes in the volume of assets account (see paragraphs 5.16, 6.29 and 6.30);
  3. debt cancellation against and debt assumption from a public corporation by government as a part of an ongoing process of privatization to be achieved

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in a short term perspective. This case is treated as a transaction in shares and other equity (see paragraph 5.16).

The writing-off of debt is not a transaction between institutional units and therefore does not appear in either the capital account or the financial account of the system. If the creditor decides such a write-off, it should be recorded in the other changes in the volume of assets accounts of the creditor and the debtor (see paragraph 6.27. d)). Provisions for bad debt are treated as book-keeping entries that are internal to the institutional producer unit and do not appear anywhere in the system. The unilateral repudiation of debt by a debtor is also not a transaction and is not recognized in the system;

- (g) that part of realized capital gains (or losses) which is redistributed to another sector, as, for example, capital gains redistributed by insurance companies to households. However, the counterpart transactions of transfers to general government of the proceeds of privatization made indirectly (through a holding company for example) have to be recorded as financial transactions in shares and other equity (F.5) and have therefore no direct impact on the level of net lending/net borrowing of the general government;
- (h) major payments in compensation for extensive damage or serious injuries not covered by insurance policies (except payments by general government or by the rest of the world described in (a)). The payments may be awarded by courts of law or settled out of court. They include payments of compensation for damage caused by major explosions, oil spillages, the side-effects of drugs, etc.;
- (i) extraordinary payments into social insurance funds made by employers (including government) or by government (as part of its social function), in so far as these payments are designed to increase the actuarial reserves of these funds. The accompanying adjustment from social insurance funds to households is also recorded as other capital transfers (D.99) (see Annex III 'Insurance', paragraph 20)<sup>[F1]</sup>;
- (j) <sup>[F3]</sup>when taxes and social contributions payable to the general government sector are recorded on the basis of assessments and declarations, the part unlikely to be collected has to be neutralised in the same accounting period. This can be done by an 'Other capital transfer' (D.99), inside the specific line D.995, between general government and the relevant sectors. This D.995 flow has to be subdivided according to the coding of the different taxes and social contributions concerned.]

4.166. Time of recording:

- (a) other capital transfers in cash are recorded when the payment is due to be made;
- (b) other capital transfers in kind are recorded when the ownership of the asset is transferred or the liability cancelled by the creditor.

4.167. In the system of accounts, other capital transfers are shown among changes in liabilities and net worth in the capital account of sectors and of the rest of the world.

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- (1) Employers' imputed social contributions include an amount equal in value to the wages and salaries which employers temporarily continue to pay in the event of the sickness, maternity, industrial injury, disability, redundancy, etc. of their employees, if that amount can be separated.
- (2) Subsidies are granted by the institutions of the European Union to units resident anywhere in the Community.
- (3) However, when a grant serves the dual purpose of financing both the amortization of the debt and the payment of interest on it, and when it is not possible to apportion it between the two elements, the whole of the grant is treated as an investment grant.
- (4) This practice differs from that of most business accounting, where interest paid is normally shown as a fixed charge similar to other costs of production in the operating account.
- (5) The borderline between taxes and purchases of services from government is defined according to the same criteria as those used in the case of payments made by enterprises: if the licences are being granted automatically on payment of the amounts due, their payment is treated as taxes. But if the government uses the issue of licences to organize some proper regulatory function (such as checking the competence, or qualifications, of the person concerned), 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 cost of providing the services.
- (6) The borderline between taxes and purchases of services from government is defined according to the same criteria as those used in the case of payments made by enterprises: if the licences are being granted automatically on payment of the amounts due, their payment is treated as taxes. But if the government uses the issue of licences to organize some proper regulatory function (such as checking the competence, or qualifications, of the person concerned), 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 cost of providing the services.
- (7) In the case of housing, payments made by public authorities to tenants in order to reduce their rents are social benefits, with the exception of special benefits paid by public authorities in their capacity as employers.
- (8) Life insurance premiums do not appear as such in the system of accounts. They are divided into: (a) premiums constituting a form of social contribution (they are paid to social insurance schemes); (b) individual life insurance premiums. The former are included under the heading actual social contributions and the latter are not treated as distributive transactions. Both categories of life insurance premiums increase the insurance technical reserves which appear in the financial account and in the balance sheet.
- (9) Life insurance claims do not appear as such in the system of accounts. They are divided into: (a) claims constituting a form of social benefits; (b) individual life insurance claims. The former are included under the heading social benefits other than social transfers in kind and the latter are not treated as distributive transactions. Both categories of life insurance claims reduce the insurance technical reserves which appear in the financial account, and in the balance sheet.
- (10) Current transfers within general government are flows internal to the general government sector, and do not appear in a consolidated account for the sector as a whole.
- (11) International organisations, in the sense used in the system, derive their authority either directly from the national States which are their members or indirectly from them through other international organisations whose members are national States.
- (12) The levies paid by resident producer units to the Institutions of the European Union are recorded in the accounts as taxes on production paid to the rest of the world; GNP based fourth own resource created by the Council Decision of 24 June 1988 on the system of the Communities' own resources is classified in D.75 Miscellaneous current transfers.
- (13) The current transfers which the Institutions of the European Union make directly to resident market producer units are shown as subsidies paid by the rest of the world.
- (14) However, capital gain taxes are shown in the accounts under the heading current taxes on income, wealth, etc.
- (15) Investment grants made by the rest of the world include those paid directly by the institutions of the European Union (e.g. certain transfers made by the European Agricultural Guidance and Guarantee Fund, EAGGF Guidance Section).

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- (16) Investment grants within general government are flows internal to the general government sector and do not appear in a consolidated account for the sector as whole.
- (17) These transfers between subsectors of general government are flows within the general government sector and do not appear in a consolidated account for the sector as a whole.

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**Changes and effects yet to be applied to :**

- Regulation revoked by [S.I. 2021/1300 Sch. 1 para. 13](#)