Chapter 13~~2~~

~~Secondary~~ Transfer Income Account

A. Overview of the ~~Secondary~~Transfer Income Account

Reference:

[~~2008~~ SNA 2025, Chapter 9~~8~~, ~~The Redistribution of~~Transfer Income Accounts.]

13.1 *The ~~secondary~~transfer income account ~~shows~~records current transfers between residents and non-residents*. Various types of current transfers are recorded in this account to show their role in the process of income distribution between the economies. Transfers may be made in cash or in kind. Capital transfers are shown in the capital account (see paragraphs [13.19–13.34 in BPM7 Ch 14]).

13.2 Whereas ~~primary~~ earned income affects national income (see paragraph [11.4 in BPM7 Ch 12] for the definition of gross national income), ~~secondary~~transfer income, together with ~~primary~~ earned income, affects gross national disposable income. Capital transfers do not affect disposable income and, hence, are recorded in the capital account.

13.3 The balance on the ~~secondary~~transfer income account presents total credits/revenues less total debits/expenditures~~, and is called balance on secondary income~~. In addition, the balance of the sum of all current account transactions can also be shown at the end of this account because it is the last account in the sequence of current accounts. The balance on all current accounts is called the current account balance, an important economic aggregate in analyzing external imbalance. The current account balance also links to the national accounts as it is equal to the gross saving~~-investment~~ less gross capital formation~~balance~~ (or net savings plus depletion less net capital formation) for the economy (see paragraphs [14.4–14.5 in BPM7 Ch [19]]).

13.4 The ~~components and~~ structure of the ~~secondary~~transfer income account ~~are~~ is shown in Table [~~12.~~13.1]. Current transfers can be further classified by institutional sectors receiving or providing the transfers. In some cases, compilers may be interested in compiling data classified by sector of provider for credits/revenues and sector of recipient for debits/expenditures. For economies that are major recipients of assistance, it would be desirable to show current and capital transfers with consistent classifications to allow them to be compared and aggregated.

Table ~~13.1. Overview of the Transfer Income Account~~

	Credits/ Revenues	Debits/ Expenditures
Balance on goods, services, and earned income		
Personal transfers		
Current taxes on income, wealth, etc.		
Social contributions		
Social benefits		
Nonlife insurance premiums less service charges		
Nonlife insurance claims		
Current international cooperation		
Miscellaneous current transfers		
Total current transfers credits/revenues and debits/expenditures		
Balance on transfer income		
Adjustment for change in pension entitlements		

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Current account balance

Current account balance (excluding reinvested earnings)

Note: This table is expository; for Standard Components, see [Annex 14].

B. Concepts and Coverage

13.5 In describing the content of the ~~secondary~~transfer income account, two important distinctions are made: (a) transfers are distinguished from other types of transactions (see paragraphs [~~12.~~13.6–~~12.~~13.11]) and (b) current transfers are distinguished from capital transfers (see paragraphs [~~12.~~13.12–~~12.~~13.15]).

1. Transactions: exchanges and transfers

13.6 As explained in paragraph [3.13], every transaction is either an exchange or a transfer. An exchange involves a provision of something of economic value in return for a corresponding item of economic value.

13.7 *A transfer is a transaction in which one institutional unit provides a good, service or asset to another unit without receiving from the latter any good, service or asset in return as a direct counterpart. ~~an entry that corresponds to the provision of a good, service, financial asset, or other nonproduced asset by an institutional unit to another institutional unit when there is no corresponding return of an item of economic value.~~* Transfers can also arise where the value provided in return for an item is ~~not economically significant or is much~~ well below ~~its~~ the value of the item. The accounting system in the ~~international accounts~~ external sector statistics requires that each party to a transaction record two entries (see paragraphs [3.26–3.31] for the description of the accounting system). When something of economic value (e.g., goods, services, or an ~~financial~~ asset) is provided without a corresponding return of an item of economic value, the corresponding entry is made as a transfer. A cash transfer consists of the payment of currency or transferable deposit by one institutional unit to another without anything supplied in return. A transfer in kind consists of either the transfer of ownership of a good or asset, other than cash, or the provision of a service, again without any corresponding return of an item of economic value. A transfer is classified as a current or capital transfer (see paragraphs [~~12.~~13.12–~~12.~~13.15]).

13.8 A unit making a transfer receives no specific quantifiable benefit in return that can be recorded as part of the same transaction. Nevertheless, certain transfers (e.g., ~~net~~ nonlife insurance premiums less service charges) may entitle the unit making the payment to some contingent future benefits. Taxes are usually used to provide certain collective and individual services that the taxpayers may be able to consume. Even in the context of taxes payable by residents, such benefits are generally uncertain or not quantifiable, and hence items such as ~~net~~ nonlife insurance premiums less service charges, and taxes other than those on products and production are treated as transfers. Taxes on products and production (that is, “taxes on production and on imports” in the SNA) are, however, treated as ~~primary~~ earned income. (See paragraphs [11.91–11.94 in BPM7 Ch 12].)

13.9 The borderline between transfers and exchanges may, in some cases, be unclear. One such case, – ~~T~~the distinction between taxes and charges for government services, is described in ~~one such case. P~~paragraphs [~~12.~~13.30] ~~and [10.180–10.181] provide the guidelines for distinguishing taxes from services~~. Another case is the distinction between personal transfers and ~~compensation~~ remuneration of employees when individuals go abroad for employment. The distinction between the recording of one or the other of these transactions is based on the nature of the transaction and how long the individuals stay in the economic territories where they are working, that is, whether they are considered residents of the economies where they are working. Similarly, a case of distinction between financial transactions and personal transfers is described in paragraph [~~12.~~13.24].

13.10 A nonprofit institution serving households (NPISH, as defined in paragraph [4.100]) may be a direct investor in a corporation. However, flows between two NPISHs are generally transfers, rather than investment, because it is considered that flows in these cases are seldom driven by commercial considerations.

13.11 Transfers do not generally arise between commercial entities. For example, provision of goods and services without an explicit charge or at understated or overstated value between institutional units in a direct investment relationship does not represent a transfer. In this instance, the corresponding entry is a transaction in direct investment equity (see paragraphs [11.101–11.102 in BPM7 Ch 12]). However, ~~net~~ nonlife insurance premiums less service charges, and nonlife insurance claims are transfers that may occur between commercial entities. Likewise, a commercial entity may be involved in the provision of current or capital transfer to another commercial entity as a compensation for damages to properties or other losses. An enterprise may also make voluntary transfers to NPISHs and other entities in the form of charitable donations.

2. Distinction between current and capital transfers

13.12 Transfers may be either current or capital. To avoid duplication, the distinction between current and capital transfers is discussed primarily in this chapter rather than in Chapter 14~~13~~, Capital Account. To distinguish current transfers from capital transfers, it is preferable to focus on the special characteristics of capital transfers.

13.13 *Capital transfers are* ~~*transfers in which the ownership of an asset (other than cash or inventories) changes from one party to another; or that oblige one or both parties to acquire or dispose of an asset (other than cash or inventories); or where a liability is forgiven by the creditor. Cash transfers involving disposals of noncash assets (other than inventories) or acquisition of noncash assets (other than inventories) are also capital transfers.*~~ *unrequited transactions, either in cash or in-kind, in which the ownership of an asset (other than cash or inventories) changes from one party to another; or that oblige one or both parties to acquire or dispose of an asset (other than cash or inventories); or where a liability is forgiven by the creditor.* A capital transfer results in a commensurate change in the stocks of assets and/or liabilities of one or both parties to the transaction without affecting the saving of either party. Capital transfers are typically large and infrequent, but ~~capital transfers~~ cannot be defined in terms of size or frequency. A transfer in kind without a charge is a capital transfer when it consists of (a) the transfer of ownership of a nonfinancial asset (other than inventories, i.e., fixed assets, valuables, or nonproduced assets) or (b) the forgiveness of a liability by a creditor or assumption of a liability when no corresponding value is received in return. However, capital equipment provided by a direct investor to its direct investment enterprise without a charge is not a capital transfer, but involves a transaction in direct investment equity. A transfer of cash ~~is a capital transfer when it~~that is linked to, or conditional on, the acquisition or disposal of a fixed asset by one or both parties to the transaction (e.g., an investment grant) is a capital transfer. Major nonrecurrent payments in compensation for accumulated losses, extensive damages or serious injuries not covered by insurance policies are also capital transfers.

13.**14** *Current transfers are unrequited transactions between two parties where one party provides a good, service or cash to the other party, with no expectation of anything of economic value in exchange. Unlike capital transfers, they do not oblige one or both parties to acquire, or dispose of, an asset (other than cash or inventories).* ~~Current transfers consist of all transfers that are not capital transfers.~~ Current transfers directly affect the level of disposable income and influence the consumption of goods or services. That is, current transfers reduce the income and consumption possibilities of the donor and increase the income and consumption possibilities of the recipient. For example, social benefits and food aid are current transfers.

13.**15** It is possible that some cash transfers may be regarded as capital by one party to the transaction and as current by the other party. A large economy that regularly makes investment grants in cash to a number of smaller economies may regard the outlays as current, even though they may be specifically intended to finance the acquisition of assets. So that a donor and a recipient do not treat the same transaction differently, a transfer should be classified as capital for both parties even if it involves the acquisition or disposal of an asset, or assets, by only one of the parties. When there is doubt about whether a transfer should be treated as current or capital, it should be treated as a current transfer. The treatment of nonlife insurance claims as current or capital is discussed in paragraphs [~~12.~~13.44–~~12.~~13.45].

3. Recording and valuation of transfers

13.16 Although no good, service, or asset is received in return from the counterpart, the recording of a transfer nevertheless must give rise to two entries for each party to the transaction. For a transfer in cash, the donor records a decrease in currency ~~or~~ and deposits and a transfer payable (i.e., a debit/expenditure entry in the transfer income account); the recipient records an increase in currency ~~or~~ and deposits and a transfer receivable (i.e., a credit/revenue entry in the transfer income account). For a provision of goods or services in kind without a charge, the donor records an export of goods or services and a transfer payable; the recipient records an import of goods or services and a transfer receivable. When a liability is forgiven, the creditor and debtor extinguish the financial asset and liability, respectively, with the corresponding entries recorded as transfers.

13.17 In general, the time of recording of transfers is determined by the time of the change of economic ownership of the resources (such as goods, services, financial assets) that are corresponding entries to transfers. Determining the time of recording for grants and other voluntary transfers can be complex because there is a wide variety of eligibility conditions that have various legal powers. In some cases, a potential transfer recipient has a legal claim when certain conditions have been satisfied, such as the prior incurrence of expenses for a specific purpose or the passage of legislation. These transfers are recorded when all requirements and conditions are satisfied. The corresponding entry to voluntary and compulsory transfers that are accrued but not yet paid is other accounts receivable or other accounts payable. In cases where the transfer recipient never has a claim on the donor, the transfer should be attributed to the time at which the cash payment is made, the asset conveyed, or liability forgiven.

13.18 Taxes and other compulsory transfers to government units should be recorded when the activities, transactions, or other events occur that create the government's claim to the taxes or other payments. The time of recording of taxes is the time at which the tax liability arises. Accordingly, the amount of taxes is determined by the amount due for payment as evidenced by tax assessments, declarations, or other instruments, such as sales invoices or customs declarations, that create liabilities in the form of obligations to pay on the part of taxpayers. If data on taxes are on a cash basis, adjustments should be made for large differences to approximate the accrual basis of recording. If a tax amnesty establishes tax obligations for previously undisclosed activities, transactions or other events, then the tax revenue should be recorded when the tax obligation is established (recording in the earned income account or in the transfer income account would depend on the nature of the tax for which the amnesty is granted). Some compulsory transfers, such as fines, penalties, and property forfeitures, are determined at a specific time. These transfers are recorded on an accrual basis when the receiving unit has an unconditional legal claim to the funds or property~~ is established~~, which may be when a court ~~renders~~provides judgment or an administrative ruling is ~~published~~made. If such judgement or ruling is subject to further appeal, then the time of recording is when the appeal is resolved. ~~If data on taxes are on a cash basis, adjustments should be made for large differences to approximate the accrual basis of recording.~~

13.19 Because a transfer is the corresponding entry to an actual resource flow or a forgiven liability, the value of the transfer equals the value of the corresponding flow. Generally, transfers in kind give rise to valuation difficulties for the actual resource flow and, accordingly, also the corresponding transfer entries. The principles for the valuation of in-kind transactions are described in paragraph [3.72].

C. Types of Current Transfers

13.20 The ~~international ~~external accounts classify the following types of current transfers:

Personal transfers

Other current transfers

(a) current taxes on income, wealth, etc.,

(b) social contributions,

(c) social benefits,

(d) ~~net~~ nonlife insurance premiums less service charges,

(e) nonlife insurance claims,

(f) current international cooperation, and

(g) miscellaneous current transfers.

These categories of current transfers are described in paragraphs [~~12.~~13.21–~~12.~~13.58] in the context of the ~~international~~ external accounts. The recording of current transfers in cash and of current transfers in kind is illustrated in Box 13.1. (If the transfers illustrated in Box 13.1 were capital transfers, they would be recorded in the capital account instead of the transfer income account.)

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Box 13.1 Examples of recording of transfers

Non-government sectors in the examples refer to financial corporations, nonfinancial corporations, households, and NPISHs.

Example 1, a current transfer in cash:

A government social security fund in Economy A makes a payment of 10 in cash to a resident in Economy B.

Although no good or service is received as a direct consequence of the transfer, the transfer must give rise to two entries in the accounts of each economy.

The recording in Economy A would be:

Transfer income account, General Government, Social benefits	10 debit/expenditure
Financial account	-10 net acquisition of financial assets

The recording in Economy B would be:

Transfer income account, non-government sectors, Social benefits	10 credit/revenue
Financial account	10 net acquisition of financial assets

Example 2, a current transfer in kind:

An enterprise producing medicines in Economy A donates some of its output (valued at 75) free of charge to a non-governmental organization resident in Economy B.

The transfer should give rise to two entries in the accounts of each economy.

The recording in Economy A would be:

Transfer income account, non-government sectors, Miscellaneous current transfers	75 debit/expenditure
Goods account	75 exports (credit/revenue)

The recording in Economy B would be:

Transfer income account, non-government sectors, Miscellaneous current transfers	75 credit/revenue
Goods account	75 imports (debit/expenditure)

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1. Personal transfers

Reference:

IMF, 2009, *International Transactions in Remittances: Guide for Compilers and Users*.

13.21 *Personal transfers consist of all current transfers in cash or in kind made or received by resident households to or from nonresident households*. Personal transfers thus include all current transfers between resident and nonresident individuals, independent of:

(a)the source of income of the sender (irrespective of whether the sender receives income from labor, entrepreneurial or property income, social benefits, and any other types of transfers; or disposes assets); and

(b)the relationship between the households (irrespective of whether they are related or unrelated individuals).

By convention, current transfers between households with regard to lotteries and other gambling are included under personal transfers (discussed in paragraph [~~12.~~13.26]).

13.23 The connection to the residence status of the person concerned is important in determining whether a personal transfer is involved. For example, in the case of workers, personal transfers include only those transfers abroad made by workers who are residents of the economy in which they are employed. Resources may be sent abroad by residents of an economy for the purpose of financing other residents of the same economy who are staying abroad (such as those sent by parents to children who are studying in other territories). These transactions should not be recorded as current transfers in the balance of payments because the parties are residents of the same economy. The expenses abroad constitute a purchase of education services in the case of students. Expenditures incurred abroad by residents staying for less than one year in foreign economic territories are generally recorded as travel (see paragraphs [10.86–10.100]).

13.24 Funds sent abroad by individuals who are resident in the economy in which they are employed, self-employed, or operating a business, for the purpose of making a deposit in his or her own account with a bank located abroad, represent a financial investment, which is recorded in the financial account, rather than as a personal transfer. But any withdrawals to provide resources to a relative or another person (without a quid pro quo) should be recorded as a personal transfer. The situation of joint accounts can arise with workers resident abroad who have joint bank accounts with relatives in their home countries. The treatment of such joint accounts is discussed in paragraph [4.145]. If the joint account emigrant workers hold in their home country is freely usable by its holders in the home country, the account may be considered to be held by residents in the home economy (liability to residents). In such a case, the deposits made to the account by the nonresident should be shown as funded by a transfer from abroad, withdrawals from the account by the nonresident would be shown as a transfer abroad, and deposits and withdrawals by residents to and from the account would be domestic transactions. Conversely, for deposits of emigrant workers in an account held in the host economy that are freely usable by relatives in the home economy, a convention can be adopted that withdrawals by relatives in the home economy would be treated as personal transfers.

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Box 13.2 Remittances

~~Remittances~~

13.27 ~~Appendix 5~~Annex 4 describes the concept of remittances for measuring and analyzing international remittances and resource flows to households and NPISHs. Three categories of remittances are defined (personal remittances, total remittances, and total remittances and transfers to NPISHs), which may be included as supplementary items, as follows:

(a) **Personal remittances.** From the perspective of the recipient economy, personal remittances are defined as:

Personal transfers receivable;

\+ ~~Compensation~~ Remuneration of employees receivable (see paragraph [12.10]);

– Taxes and social contributions payable (related to ~~compensation~~ remuneration of employees, see paragraphs [13.28 and 13.32]) ;

– Transport and travel expenditures payable by residents employed by nonresidents (as defined under business travel in paragraphs [10.91–10.93 in BPM7 Chapter 11);

\+ Capital transfers receivable from households.

(b) **Total remittances.** From the perspective of the recipient economy, total remittances are defined as

Personal remittances receivable;

\+ Social benefits receivable.

Although conceptually~~,~~ total remittances would include ~~nonlife insurance transactions (net~~ nonlife insurance premiums less service charges, and nonlife insurance claims~~)~~, these transactions are excluded on practical grounds.

(c) **Total remittances and transfers to NPISHs**. From the perspective of the recipient economy, this category is defined as:

Total remittances receivable;

\+ Current transfers receivable by NPISHs;

\+ Capital transfers receivable by NPISHs.

Current and capital transfers to NPISH~~S~~s are generally recorded under miscellaneous current transfers or other capital transfers (discussed in paragraphs [~~12~~13.53 and ~~13~~14.31])

~~13~~.~~22~~ Workers' remittances are a supplementary sub-item of personal transfers that include only *current transfers by migrants who are employed in new economies and considered residents there* (see also paragraph A4.17). ~~*are current transfers made by employees to residents of another economy*. They are included as a supplementary item.~~

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Lotteries and other gambling

13.25 The amounts paid for lottery tickets or placed in bets consist of:

(a) a service charge to the unit organizing the lottery or gambling (discussed in paragraph [10.171]); and

(b) current transfers that are payable from the gamblers to the winners and, in some cases, to charities.

The transfers are regarded as taking place directly from those participating in the lottery or gambling to the winners and charities. That is, they are not recorded as transfers to or by the unit operating the lottery or gambling. Some of the service charge at purchasers' prices may include gambling taxes, which are shown as payable by the operator, not the customers.

13.26 When nonresident households take part in gambling there may be net transfers between residents and nonresidents. In some cases, the winner of a lottery does not receive a lump sum immediately but a stream of payments over future periods. For ~~T~~this type of arrangement, ~~a~~a~~should be recorded as the receipt of the lump sum as~~ a current transfer equal to the present value of the payment stream should be recorded ~~and~~ along with the immediate purchase of an annuity. The recording of annuities is described in paragraphs [A6c.29–A6c.35].

2. Other current transfers

a. Current taxes on income, wealth, etc.

Reference:

[~~2008~~ SNA 2025, Chapter ~~8~~9, The ~~Redistribution of~~ Transfer Income Accounts; Section C, Current Taxes on Income, Wealth, etc.]

13.28 *Current taxes on income, wealth, etc. consist mainly of taxes on the incomes of households or profits of corporations and of taxes on wealth that are payable regularly every tax period (as distinct from capital taxes levied infrequently).* Current taxes on income, wealth, etc., in the ~~international accounts~~balance of payments, consist mainly of taxes levied on the income earned by nonresidents from the provision of their labor or financial assets. Taxes on capital gains arising from assets of nonresidents are also included. Taxes on wages and salaries earned by nonresident employees are recorded as payable by the nonresident employees. Taxes on income and capital gains from financial assets can be payable by individuals, corporations, nonprofit institutions, governments, and international organizations. Taxes on interest and dividends are recorded as payable by the recipients of the interest or dividends. Taxes on financial transactions (such as taxes on issue, purchase, and sale of securities) payable by nonresidents are also current transfers. (However, if such taxes have been classified as other taxes on products and production in the national accounts, by convention, they ~~may~~ should be recorded in the earned income account~~treated in the same way in the international accounts for consistency~~.) Taxes on income and wealth may be imposed by and payable directly to international organizations, such as the agencies of an economic union. Taxes on rent and ownership of land are treated as payable by the resident producers or resident notional institutional units; hence, they generally should not be recorded in the balance of payments. Inheritance taxes are treated as capital transfers (see paragraph [13.28] for the treatment of inheritance taxes). Refunds of taxes to taxpayers are treated as negative taxes; that is, the amount of taxes is reduced by tax refunds.

13.29 Any other current taxes (other than taxes on income and wealth, as explained in the preceding paragraph, and taxes on products and production that are recorded in the ~~primary~~ earned income account as explained in paragraph [11.91 in BPM7 Ch 12]) are also included in the ~~secondary~~transfer income account.

13.30 ~~Specific permission is granted by governments through issuing a license or other certificate for which a fee is demanded. A "fee" that is a tax should be distinguished from a "fee" that is a payment in return for services provided by governments~~ Governments may grant licenses, permits or certificates, which provide the recipient with the permission to use or own goods or assets or engage in certain activities. If a payment for such a license is compulsory and the license is nontransferable then this payment is generally considered a tax. Only under limited scenarios, such as when it can be demonstrated that the payment is requited and a service commensurate to the payment is consumed by the individual, is such a payment to be recorded as a sale of a service ~~(see also paragraphs [10.180–10.181] for distinction between taxes and services)~~. Licenses and permits, which are recorded as taxes, should be recorded as taxes on products or production in the earned income account or as taxes on income wealth etc. in the transfer income account. Most such permissions are recorded as current taxes on income, wealth, etc. but if an enterprise incurs the cost of the license as a result of engaging in production, then this is a tax on production and on imports (see paragraphs [**12**.91-**12**.92]). Compilers are recommended to maintain consistency with the national accounts in the recording of taxes.~~If the issue of such licenses involves little or no work on the part of government or the fee charged is clearly out of all proportion to the costs associated with the issuance of licenses, it is likely that the licenses being granted automatically on payment of the amounts due are simply a device to raise taxes, even though the government may provide some kind of certificate, or authorization, in return. However, if the government uses the issue of licenses to exercise some proper regulatory function—for example, checking the competence, or qualifications, of the person concerned, checking the efficient and safe functioning of the equipment in question, or carrying out some other form of control that it would otherwise not be obliged to do—the payments made should be treated as purchases of services from government rather than payments of taxes, unless the payments are not broadly proportional to the costs of providing the services.~~

13.31 Any fines or penalties on the late payment of taxes are included in the amount of associated taxes.

b. Social contributions

Reference:

[~~2008~~ SNA 2025, Chapter ~~9~~8, ~~The Redistribution of~~ Transfer Income Accounts; Section D, Social Insurance Schemes and Section E, Net Social Contributions.]

13.32 *Social contributions are the actual or imputed contributions ~~made by households~~ payable to social insurance schemes to make provision for social benefits to be paid*. Social insurance schemes include social security schemes (which cover the entire community or large sections of it and are imposed, controlled, and financed by government units) and employment-related schemes (including funded and unfunded pension schemes). Employer-independent schemes with a strong resemblance to similar arrangements organized by employers or government generally also qualify as social insurance schemes if separate institutional units are established that are subject to regulation or supervision similar to employer-related pension schemes and in which accumulated contributions are set aside for retirement income.

13.32a In the balance of payments, ~~S~~social contributions ~~in the international accounts~~ are recorded when a resident makes contributions to social security and other social insurance~~pension~~ schemes in another economy for his or her employment in that economy, or a~~n~~ nonresident employer makes actual or imputed contributions on behalf of the employee. (Social contributions by an employer on behalf of its employees are included in ~~compensation~~remuneration of employees; see paragraphs [11.22–11.23 in BPM7 Ch 12].) Similarly, social contributions are recorded when a nonresident makes social contributions to the resident social security and other social insurance~~pension~~ schemes or a resident employer makes actual or imputed contributions on behalf of a nonresident employee.

13.33 The calculation of the amount of social contributions varies for social security and other social insurance~~pension~~ schemes. For social contributions to social security schemes, the amount of social contributions recorded in the ~~secondary~~transfer income account includes the actual contributions payable by the employers and employees. Because the amount payable by employers is included in the ~~compensation~~remuneration of employees, the total of social contributions payable to social security schemes is recorded as a transfer payable by the employees.

13.34 The calculation of social contributions to other social insurance~~pension~~ schemes, which are related to the provision of pensions, involves contribution supplements and service charges. Contribution supplements, which represent investment income payable on pension entitlements, are described in paragraph [A6c.41], and charges for pension fund services are explained in paragraph [10.118 in BPM7 Ch 11]. Furthermore, the treatment of social contributions is designed to treat social insurance transactions simultaneously as income transactions~~distribution~~ and financial transactions.

13.35 Total ~~S~~social contributions, less service charges to pension schemes are determined as follows:

Employers' actual contributions;

\+ Employers' imputed contributions;

\+ ~~Employees'~~ Policyholders' actual contributions;

\+ Policyholders' ~~C~~contribution supplements corresponding to investment income payable by pension schemes on pension entitlements;

– Service charges payable to pension schemes.

13.36 Employers' actual and imputed contributions are rerouted through employees (for explanation of rerouting, see paragraph [3.16])~~. Contribution supplements represent investment income payable by pension schemes on pension entitlements~~. All the service charges are treated as charges payable by policyholders~~ the employees~~, because the beneficiaries are the ultimate users. For determining the contribution supplements and service charges for a group or groups of policyholders, ratios of these items to actual contributions payable from various similar sources may have to be used.

13.37 Pension entitlements represent claims of beneficiaries on the funds. The payments of social contributions into the pension schemes and the receipts of pensions by beneficiaries therefore constitute the acquisition and disposal of financial assets. In addition, they are recorded as current transfers in the ~~secondary~~transfer income account as social contributions and social benefits, respectively, so that disposable incomes of households reflect these flows. Negotiated changes in pension entitlements are current transfers (if they relate to current periods) or capital transfers (otherwise). In contrast, changes arising from revision to model assumptions are other changes in volume (see paragraph [9.24]).

13.38 In order to reconcile the treatment of pensions as current transfers with the treatment of pension entitlements as financial assets, it is necessary to introduce a~~n~~ separate adjustment item to the balance on transfer income. This adjustment item adds back total social contributions less service charges to, and subtracts pension ~~receipts~~ benefits from, the balance on ~~secondary~~transfer income. After the adjustment, the current account balance is the same as what it would have been if social contributions and pension receipts were not recorded as current transfers. This item is called “adjustment for change in pension entitlements” and is equal to:

total social contributions less service charges~~the total value of the actual social contributions payable into pension schemes~~;

\+ ~~–~~the total value of contribution supplements payable out of the property income attributed to pension fund beneficiaries;

~~– the value of the associated service charges;~~

– ~~–~~the total value of the pension~~s~~ benefits paid out as social benefits by pension schemes (see paragraph ~~12.~~13.40).

(Changes in pension entitlements arising from capital transfers are not included in this item.)

13.39 When cross-border flows of pension contributions and pension ~~receipts~~ benefits are significant, the adjustment item must be recorded in order to reconcile the current and financial accounts. For the economy of the ~~employees~~policyholders, the adjustment item is added to the balance on ~~secondary~~transfer income (a credit/revenue entry) and for the economy of the pension schemes, the opposite adjustment is needed; that is, the adjustment item is deducted from the balance on ~~secondary~~transfer ~~distribution of~~ income (a debit/expenditure entry). When cross-border flows are minor, the adjustment item may be omitted.

c. Social benefits

Reference:

[*~~2008~~ SNA 2025*, Chapter 9~~8~~, ~~The Redistribution of~~Transfer Income Accounts; Section F, Social Benefits Other Than Social Transfers in Kind.]

13.40 Social benefits *are current transfers receivable by households intended to provide for the needs that arise from certain events or circumstances, for example, sickness, unemployment, retirement, housing, education or family circumstances.* Social benefits include pension and nonpension benefits payable under social security and ~~pension~~ other social insurance schemes. ~~They include pensions and nonpension benefits regarding events or circumstances such as sickness, unemployment, housing, and education, and may be in cash or in kind.~~ Also included are social benefits payable to households by government units or NPISHs to meet the same needs as those under social insurance schemes but that are not made under a social insurance scheme. Such social assistance benefits may be in cash or in kind. Cross-border social benefits may be insignificant but can be important in economies where a significant number of residents have or had employment in other economies.

d. Nonlife insurance premiums less service charges, ~~Net premiums on nonlife insurance~~ and standardized guarantees

13.41 ~~Net nonlife insurance premiums and net premiums on standardized guarantees are described in paragraphs 12.42 and 12.43, respectively. Net n~~Nonlife insurance premiums less service charges *are* *the sum of [actual] non-life insurance (or reinsurance) premiums and premium supplements, less the insurance service charge payable by the policy holders.*~~derived from total nonlife insurance premiums and premium supplements after deducting the service charges. Only the net nonlife insurance premiums constitute current transfers~~ and are recorded in the ~~secondary~~transfer income account. The service charges constitute purchases of services by the policyholders and are recorded as insurance services. ~~Net nonlife reinsurance premiums are calculated and recorded in the same way as for the direct nonlife insurance.~~

13.42 *Nonlife insurance premiums* ~~*consist of*~~*are the actual amounts payable to the direct insurer or reinsurer to secure insurance cover for a specific event over a stated time period, as covered by a nonlife insurance (or reinsurance) policy. Nonlife insurance premium supplements consist of the investment income earned from the investment of the (nonlife) insurance technical reserves.* ~~both the gross premiums payable by policyholders to obtain insurance during the accounting period (premiums earned) and the premium supplements payable out of the investment income attributable to insurance policyholders.~~ The total of the nonlife insurance premiums and premium supplements payable ~~in this way~~ ha~~s~~ve to cover payments of service charges to the insurance enterprises for arranging the insurance and payments for the insurance itself. The way in which the service charges are calculated is explained in paragraph [10.111]. After the service charges are deducted from total nonlife insurance premiums and premium supplements, the remainder is described as ~~net~~ nonlife insurance premiums less service charges. These are the amounts available to provide cover against various events or accidents resulting in damage to goods or property or harm to persons as a result of natural or human causes—fires, floods, crashes, collisions, sinkings, theft, violence, accidents, sickness, and so forth—or against financial losses resulting from events such as sickness, unemployment, and accidents.

13.42a Hybrid insurance products are defined in [paragraph[s] 5.XX and in Annex 9]. If a hybrid product is allocated to nonlife insurance, then the full amount of premiums less service charges is recorded in the transfer income account. Conversely, if a hybrid product is allocated to life insurance, no part of premiums less service charges is recorded in the transfer income account even though the product may have some features of nonlife insurance (instead, in this case, the premiums less service charges are recorded in the financial account).

13.43 Some units, especially government units, may provide guarantees in large numbers, for small amounts, with identical conditions, and where the probability of default can be well established. These types of guarantees are called standardized guarantees. ~~against creditors defaulting in conditions that~~Standardized guarantees have the same characteristics as nonlife insurance. ~~This happens when many guarantees of the same sort are issued and it is possible to make a realistic estimate of the overall level of claims under current guarantees. In this case, t~~The fees payable (and the investment income earned on the technical provisions for calls) are treated in the same way as nonlife insurance premiums and premium supplements, and the calls under the guarantees are treated in the same way as nonlife insurance claims. Therefore, ~~net~~ premiums less service charges on standardized guarantees are derived from total premiums and premium supplements after deducting the service charges.

e. Nonlife insurance claims and calls under standardized guarantees

13.44 Nonlife insurance claims are the amounts payable in settlement of injuries or damages that result from an event covered by a nonlife insurance (or reinsurance) policy~~claims that become due during the current accounting period~~. Claims become due at the moment when the eventuality occurs that gives rise to a valid claim. They are equal to claims paid within the accounting period plus changes in the technical reserves against outstanding claims. ~~Nonlife reinsurance claims are calculated and recorded in the same way as for the direct nonlife insurance.~~

13.45 The nonlife insurance claim is treated as a transfer to the claimant that accrues at the time that the insured event occurs. Insurance claims have a mix of current and capital elements. As a convention, cross-border nonlife insurance claims are generally treated as current transfers~~, except in the cases covered in~~. In the case of major catastrophic events, some proportion of the claims may be recorded as capital transfers (see paragraph [13.24 in BPM7 Ch 14]).

13.45a The treatment of claims and benefits to policyholders on hybrid insurance products depends on the allocation of the product as either life or nonlife, similar to the treatment of net premiums on hybrid products (see paragraph [13.42a]).

13.46 Claims and calls payable under standardized guarantees and other government schemes where the payments into the scheme are treated as nonlife insurance premiums are recorded under this item in the ~~secondary~~transfer income account (see also paragraph [~~12.~~13.43]).

f. Current international cooperation

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

(a) transfers between governments that are used by the recipients to finance current expenditures, including emergency aid after natural disasters; they include transfers in kind in the form of food, clothing, blankets, medicines, and so forth;

(b) annual or other regular contributions paid by member governments to international organizations (excluding taxes payable to supranational organizations) and regular transfers made as matter of policy by the international organizations to governments (for the treatment of capital contributions, see paragraph [13.32 in BPM7 Ch 14]); and

(c) payments by governments or international organizations to cover the salaries of those technical assistance staff who are deemed to be resident in the economy in which they are working and who are in an employer-employee relationship with the host government. Also included is technical assistance supplied in kind.

Current international cooperation does not cover transfers intended for purposes of capital formation; such transfers are recorded as capital transfers. Contributions that give rise to equity are acquisitions of shares or other equity (as in paragraph [5.26]).

13.48 External aid provided by governments through a nonresident entity created to undertake fiscal functions is also considered to be current international cooperation. These transfers are described in paragraphs [8.24–8.26].

13.49 When goods and services acquired from market producers are provided to governments or other entities by international organizations, other governments, or NPISHs, without charge to the recipient, they should be valued at market prices, that is, the prices paid by the purchasers. When a transfer in kind involves goods and services produced by international organizations, other governments, or NPISHs, the valuation should be based on cost of production, consistent with the general principles for the valuation of services produced by general government and NPISHs.

13.50 Generally, funding of technical assistance has characteristics of current transfers. However, technical assistance that is tied to or part of capital projects is classified as capital transfers because investment grants are capital transfers. (See also paragraphs [13.25–13.26 in BPM7 Ch 14] concerning investment grants, which are capital transfers.)

~~**51**~~

~~Loans with concessional interest rates could be seen as providing a current transfer equal to the difference between the actual interest and the market-equivalent interest. If such a transfer were recognized, it would usually be recorded as current international cooperation, and the interest recorded would be adjusted by the same amount. However, the means of incorporating the impact within the SNA and international accounts have not fully evolved, although various alternatives have been advanced. Accordingly, until the appropriate treatment of concessional debt is agreed, information on concessional debt could be provided through supplementary information. The supplementary information should show the benefits arising from concessional debt as one-off transfers at the point of loan origination equal to the difference between the nominal value of the debt and its present value using a relevant market discount rate. (See paragraphs A2.67–A2.69 for a more detailed description of the calculation.) This option has the advantage of considering all the possible sources of transfers in debt concessionality—maturity period, grace period, and frequency of payments, as well as the interest rate—and is consistent with nominal valuation of loans. Such an approach should be used for official lending involving an intention to convey a benefit and occurrence in a noncommercial setting (usually~~

~~government-to-government). Commercial situations are different in that concessional interest rates may be used to encourage the purchase of the goods and services, and so should not be treated in the same way.~~

g. Miscellaneous current transfers

13.52 In the balance of payments, *miscellaneous current transfers include all current transfers, in cash or in kind, other than personal transfers, current taxes on income, wealth, etc.; social contributions; social benefits; net nonlife insurance premiums and claims; and current international cooperation.* ~~*Miscellaneous current transfers, in cash or in kind, include all current transfers other than those described in the previous sections of this chapter.*~~ The categories of miscellaneous current transfers between residents and nonresidents are described in paragraphs ~~12.~~13.53–~~12.~~13.58.

Current transfers to NPISHs

13.53 Current transfers to NPISHs are transfers received by resident NPISHs from nonresident institutional units in the form of membership dues, subscriptions, donations, and so forth whether made on a regular or occasional basis. Grants and donations between NPISHs are generally classified as current transfers (e.g., donations for relief works).

Other miscellaneous current transfers

Fines and penalties

13.54 *Fines and penalties are compulsory payments imposed on institutional units by courts of law or quasi-judicial bodies.* Fines and penalties are generally punitive in nature and ~~imposed on institutional units by courts of law or other government bodies are~~ are treated as miscellaneous current transfers. Fines and penalties imposed by courts of law or other government bodies that are actually intended to compensate for injury to persons, damage to property, or other losses should be considered as compensation payments (instead of fines and penalties), and would be recorded as either current or capital transfers as explained in paragraphs [13.55 and 13.56]. ~~However, e~~Early or late repayment penalties agreed as part of the original contract are not included in current transfers; they should be treated along with the associated good, or service, or income, as appropriate.

13.54a Some fines and penalties may be established in contracts of mergers and acquisitions where the contract may include contingent fines or penalties based, for instance, on profitability, or a pending lawsuit, and resulting in a payment between the buyer and seller after the initial transaction. In these cases, the fines and penalties would be interpreted as an adjustment or update of the market price of the acquired enterprise and are treated as a direct investment transaction (or a portfolio investment transaction if the buyer has less than 10 percent of the voting power), instead of a current transfer.

~~Payments of c~~Compensation payments

13.55 ~~Payments of c~~*Compensation payments 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 that are not settled as payments of nonlife insurance claims.* Payments of compensation could be either compulsory payments awarded by courts of law or settlements agreed out of court. Compensation may cover nonfulfillment of contracts, injuries to persons, damages to property, or other losses that are not covered by insurance policies. This heading covers compensation for injuries or damage caused by other institutional units. It also includes ex gratia payments made by government units or NPISHs in compensation for injuries or damages caused by natural disasters.

13.56 Major compensation payments for extensive damages (e.g., oil spillages or side effects of pharmaceutical products[, or anti-competitive behavior]) are treated as capital rather than current transfers (see also paragraph [14~~3~~.29]). ~~.~~

Nonrefundable contributions under citizenship-by-investment type programs

13.56a Some countries may offer citizenship or passports to individuals who make economic contributions to the country. Where such a program consists of a nonrefundable contribution (as opposed to an investment) by a nonresident individual to the government, nominated development funds, or possibly NPISHs, this transaction is recorded as a transfer. If the program is not intended for capital investment projects, then the transfer is treated as a current transfer. Nonrefundable contributions under citizenship-by-investment type programs are not identified separately in the balance of payments, however countries for which these programs are important can publish a supplementary item within other miscellaneous current transfers.

Other

13.57 Gifts and donations of a current nature not included elsewhere are regarded as current transfers. However, payments of membership dues or subscriptions to market nonprofit organizations serving businesses, such as chambers of commerce or trade associations, are treated as payments for services rendered and are therefore not transfers. (See also paragraphs [13.29–13.34 in BPM7 Ch 14] on other capital transfers.)

13.58 Payments to international or supranational authorities that are regarded as being compulsory, and for which nothing is provided in return, but which are not taxes, are classified as miscellaneous transfers.