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## Chapter 11. Secondary Distribution of Income Account

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### A. Concept and Coverage

11.1 This section will introduce the function of this account, that is, to show the contribution of transactions between residents and nonresidents to the secondary redistribution of the income account in the *1993 SNA*. (In *BPM5*, this account was labeled as “current transfers.” Note the issue of terminology raised in Chapter 10 Primary Distribution of Income Account. “Current transfers” is also used in the *1993 SNA* terminology for the components of this account, but the title “secondary redistribution of income” emphasizes transfers in their role in the process of income distribution).

11.2 The section will describe a broad definition of the flows covered in this account:

- (a) in the context of the balance of payments, the links to other accounts in the balance of payments; and,
- (b) in the context of the *1993 SNA*, the links to the other sectors of the domestic economy.

It will also note where transactions are imputed in cases of current transfers in kind. It will contrast the different economic roles and meaning of primary distribution of income with secondary distribution of income. It will note that current transfers affect disposable income and, hence, the current account balance, but capital transfers do not.

11.3 This chapter will include an illustrative presentation of the secondary distribution of income account.

## SECONDARY DISTRIBUTION OF INCOME ACCOUNT

**Table 11.1. Overview of Secondary Distribution of Income Account**

	Credits	Debits
<i>Balance on goods, services and primary income</i>		
Current taxes on income, wealth, etc.		
Social contributions		
General government		
Other		
Social benefits		
General government		
Other		
Net nonlife insurance premiums		
Nonlife insurance claims		
Current international cooperation		
Workers' remittances		
Other current transfers		
General government		
Other		
<i>Total current transfers credits and debits</i>		
<i>Balance on secondary distribution of income</i>		
<i>Current account balance</i>		

### B. Scope and Characteristics

11.4 This section will define transfers in more detail (citing *BPM5* paras. 291–294 and *1993 SNA* para. 8.27), contrasting transfers with other types of transactions.

11.5 The manual will state the distinction between current and capital transfers, that is, that capital transfers are linked to acquiring of an asset or forgiving a liability. It will then discuss the distinction between current and capital transfers in more detail, as in *BPM5* para. 295 and *1993 SNA* paras. 8.31–8.33, and give examples of the most common types of current transfers. To avoid duplication, the current/capital split will be discussed at length primarily in this chapter, with a brief introduction and cross-reference in Chapter 12 Capital Account.

11.6 The manual will set out a more detailed classification of current transfers than in *BPM5*, on the basis of the *1993 SNA*. See the illustrative presentation for details.

11.7 This section will also set out the distinction between taxes and charges for government services, which will clarify para. 300 in *BPM5*.

11.8 Different types of current transfers will be discussed:

- (a) Current taxes on income, wealth, etc. Current taxes on income and wealth will be discussed in somewhat more detail than in *BPM5* paras. 299-300, consistent with, but shorter than, *1993 SNA* paras. 8.43–8.54 and *GFSM 2001* paras. 5.54–5.59 and 5.99. This section will describe types of taxes, fees, and fines that will be included in this item. Inheritance taxes will be treated as capital transfers, following *1993 SNA* para. 8.33. The distinction between taxes and payments in return for services provided by governments will be stated, as in *1993 SNA* para. 8.45, noting that both may be called “fees.”
- (b) Social insurance contributions and benefits. This component will be defined. It will be recognized that this item may be immaterial in many cases but may be important in a few economies where a significant number of residents have or had employment in another economy. The *1993 SNA* treatment is complex because it is designed to treat social insurance scheme transactions simultaneously as income distribution and financial transactions. *BPM5* included payments associated with unfunded schemes as current transfers, but other cases as financial account transactions.
- (c) Nonlife insurance net premiums, nonlife insurance claims. The treatment of nonlife insurance services as agreed by the Advisory Experts Group in National Accounts (AEG) in its February 2004 meeting is discussed in Chapter 9 Goods and Services Account, Section C.2. The treatment of the transfer portion of nonlife insurance net premiums and claims will be consistent with the proposed treatment for the review of the *1993 SNA*. It is proposed that reinsurance net premiums and claims be treated in the same manner as nonlife insurance net premiums and claims. In *BPM5*, there were no transfers for reinsurance.
- (d) Current international cooperation. This component will be shown separately and defined as in the *1993 SNA* para. 8.92. When goods and services acquired from market producers are provided to governments or other entities by international organizations, other governments, or nonprofit institutions serving households, without charge to the recipient, they should be valued at the market prices, that is, the prices paid by the purchasers. When transfer in-kind involves goods and services produced by international organizations, other governments, or nonprofit institutions serving households, the valuation will be based on cost of production, consistent with the valuation of services produced by general government and nonprofit institutions serving households. The manual will also provide guidance on how technical assistance is treated. It will be stated that in accordance with the treatment of grants for capital projects (*BPM5 Textbook* para. 442), technical assistance that is tied to or part of capital projects is classified as capital transfers. For other technical assistance, the cost of the assistance should be shown as “other current transfers” to the

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government or other entities in the recipient territory. (There will usually be consequential imports of services, as discussed in Chapter 9 Goods and Services Account.) This rerouting is adopted in *BPM5* para. 69 and *1993 SNA* para. 14.18 (less explicitly recognized in *GFSM* para. 5.77). OECD DAC Reporting Statistical Directives will be referred to in order to distinguish between current and capital transfers.

*[Question: Is the above clarification of technical assistance appropriate? Should any further guidance be provided on the treatment of technical assistance?]*

- (e) Concessional interest rates. 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. 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. At present, the concessional element is not recognized. However, commercial situations are different in that concessional interest rates may be used to encourage the purchase of the goods, and so should not be treated in the same way.

*[Questions: Should concessional interest be recognized as a transfer? Alternatively, would a memorandum item be sufficient recognition?]*

- (f) Workers' remittances. These will be discussed, as per *BPT* paras. 430–433. The connection to the residence status of the person concerned will be highlighted, as in *BPM5* para. 302 and *BPT* para. 435. The manual will clarify borderlines between workers' remittances and other types of transactions that involve financing by workers resident abroad. The situation of joint accounts mentioned in Chapter 4 Economic Territory, Units, Institutional Sectors, and Residence can arise with workers resident abroad who have joint accounts with relatives in their home countries. In this case, a convention may be needed to identify when international transactions are made through the account.

- (g) Other transfers:

- i. Gambling. It will be noted that gambling losses and winnings, net of the service charge, will be included here.
- ii. Gifts and donations. It will be noted that gifts and donations not included elsewhere will be included here. However, it will be noted that membership dues and subscription to nonprofit institutions are to be treated as payments for services.
- iii. Subscriptions to international and regional organizations. These could be current transfers, capital transfers, services, or financial account transactions, depending on what is provided in return.

- iv. Alimony and compensation for torts and nonfulfillment of contracts will be included, as in *1993 SNA* para. 8.98. However, early or late repayment penalties agreed as part of the original contract will be included along with the associated good or service. For example, a penalty imposed by a bank for early withdrawal of a term is a fee for financial services.

11.9 The manual will note that, while standard components will show the institutional sector of recipient (for credits) and sector of provider (for debits) a full institutional sector split should be collected for other purposes. In some cases, compilers may be interested in compiling data classified by sector of provider for credits and sector of recipient for debits.

11.10 For economies that are major recipients of assistance, the manual will suggest that it would be desirable to show current and capital transfers with consistent classifications to allow them to be compared.

### **C. Timing**

11.11 The manual will describe the time of recording for current transfers, with reference to the discussion of general principles in Chapter 3 Accounting Principles.

### **D. Valuation Principles**

11.12 The valuation issues for current transfers provided in kind will be noted, with reference to the discussion of general principles in Chapter 3 Accounting Principles.

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### References

*BPM5* ch 15

*1993 SNA* ch 8

*BPT* ch 7

*GFSM* ch 5

### Changes from *BPM5*

#### (a) *Changes proposed:*

More detailed classification, taken from *1993 SNA* (para. 11.6).

#### (b) *Changes raised as an option:*

Clarification on technical assistance as a part of investment projects to be classified as capital transfers (para. 11.8(d)).

Treatment of concessional interest rates as a current transfer (para. 11.8(e)).

### Glossary

Current international cooperation

Net insurance premiums

Social contributions

Social benefits

Transfers in cash

Transfers in kind

Workers' remittances