

**GFSAC Meeting: May 13-15, 2025****Cover Page****1.24 Distinction between Taxes, Services and Other Flows***Paper: GFSAC/2025/05/2L***For Endorsement****For discussion****Global Consultation Responses:**

Do you agree with the recommendations and their incorporation into the update of the GFS manual?	Count
Yes	28
No	0
Partially	8
No Comment	0
Total	36

Global Consultation Comments:

With regard to the proposal for reporting mandatory payments for non-transferable licenses/permits as taxes. Respondents who reported that they “partially” agreed with the recommendations highlighted that this would increase the reported tax burden and may introduce a break in time series. A need to sufficiently define “mandatory” was also noted. Specific comments included:

- “Accounting standards distinguish between licenses for discretionary activities and compulsory licences that are necessary for the entity to operate. The latter are classified as taxes. If the recording by default of all payments for mandatory non-transferrable government licenses/permits as taxes includes discretionary licences this will result in divergence between accounting standards and Government Finance Statistics.”
- “With respect to mandatory permits and licenses, we support the default treatment as taxes on both conceptual and practical grounds. However, the 2025 SNA wording leaves space for interpretation. By way of example, a vehicle safety inspection – and by extension, a driving test - ensures both the safety of the driver undertaking the test/inspection and of others on the road. Simultaneously deciding how much of the charge is for the “service” element that benefits the payer directly and how proportionate that element is to the cost is not a very practical test; in fact, less practical than the 2008 SNA approach which assumed regulation was required by default and only tested the proportionality of the charge. In the same way that GFSM 2014 paragraph presently lists the



common examples of administrative fees (while allowing to classify them differently if strong arguments exist), it would be helpful for the upcoming GFSM to contain examples of common cases and/or examples of how the “sufficiently material”/ “not disproportionate” test is applied thereby illustrating the application of the 2025 SNA approach to borderline scenarios.”

Those respondents who supported the proposal noted that it better reflected the economic reality of these charges and simplified the current recording. They also appreciated the introduction of a decision tree.

With regard to the proposal for the treatment of permits to use a natural resource for an extended period of time, there was little comment other than to agree with the proposal. However, one respondent noted that:

- “We partially agree, because for point two related to payments for the use or extraction of a natural resource over an extended period, there is not jurisdiction or application identified for the subnational governments.”

and another that:

- “Regarding rents, should we mention a significant change from the point of view of the lessees in the SNA concerning the treatment of rents as a cost of production?”

With regard to the proposal regarding the rearrangement of transactions through government, only two respondents provided specific feedback which is reflected below.

- “Regarding the rearrangement of transactions, we have a strong reservation about example 1 – “Where government replaces a pre-existing scheme involving actual payments to and from government with a new scheme under which the payments, which provide a similar economic outcome, are made directly and not through government.” This reminds us of several examples where in country A taxes are deliberately not collected (revenue foregone, nonpayable tax credits – tax expenditures) from enterprises to support a strategic activity/sector and where in country A taxes are collected but subsidies are paid. Ceteris paribus, according to the GFSM prescriptions, revenues and expenses will be lower in country A, but the impact on fiscal balances (net operating balance, net lending/borrowing) will be the same.”
- “We have reservations around the breadth of the guidance on rearrangement, specifically the statement “for instance, the government may mandate that certain economic units (e.g., fossil fuel based energy suppliers) make regular payments directly to other economic units (e.g., renewable energy suppliers).” By extension, government regulations may mandate that property developers support environmental and archaeological conservation; that airlines “subsidise” the development of sustainable aviation fuel (SAF); that retailers purchase sustainable packaging for the goods they sell, and so on. We take the view that unless the fiscal aggregates are being affected – for example, where property developers are also required to contribute to the local public infrastructure / public services – there should be no rearrangement in the above cases, both for practical reasons and to preserve the meaning of the tax burden indicator.”

Questions for GFSAC:



- Do you agree that the proposal for compulsory payments to government for non-transferable licenses/permits can be adopted, with the caveats included on the need to provide further clarity on instances as to when a service element may be recognized and as to the definition of mandatory?
- Do you agree that the proposal for treating as rent the payments to use or extract a natural resource for an extended period of time can be adopted?
- Do you agree that the proposal for rearrangement of transactions through government, with the caveats included on the need to provide further clarity on the limits of rearrangement?
- Do you endorse the draft Notice of Decision?



GFS Notice of Decision

DRAFT

1.24 Distinction between Taxes, Services and Other Flows

GFS Notice of Decision:

The update to the *GFSM 2014* will include a conceptual change to no longer record payments to government for non-transferable licenses issues as part of a mandatory regulatory process as either a tax or sale of service depending on whether or not the payments are “out of proportion” but instead to record all such payments as *taxes on use of goods and on permission to use goods or perform activities* (GFS code 1145). The new guidance will include clarification on the features of a “mandatory” regulatory process and on what would constitute an “exceptional case” which would lead to recording as *sales of goods and services* (GFS code 142).¹ Text to be in accordance with that in the [2025 SNA](#) (paras. 8.82-8.83, 9.54-9.55, 9.66, 10.71, and 30.87-30.91) with additional clarifications as noted.

The update to the *GFSM 2014* will include a clarification that payments for permits to use a natural resource for an extended period of time should be recorded as *rent* (GFS code 1415). The full details will be subject to the outcome of GFSM research project 2.19 *Accounting for natural resources and their exploitation in GFS*, which considers the “split asset approach” to exhaustible natural resources.

The update to the *GFSM 2014* will include new guidance on when regulatory schemes should lead to the rearrangement of transactions through government. The new guidance will require additional clarification on the limited circumstances under which rearrangement should be followed. Text to be in accordance with that in the [2025 SNA](#) (paras. 30.170-30.171) with additional clarifications as noted.

GFS Related Documents:

GFS Proposed Recommendations Document	GFSM PR 1.24
GFS Discussion Note	Not applicable
GFS Global Consultations	March 2025
Discussions at GFSAC Meeting(s)	To be added

¹ The PR only noted that there “may be needed” additional guidance in this respect, but it was clear from the responses to the global consultation that compilers and users would value these additional clarifications.



SNA/BPM Related Documents:	
Guidance/Issue Note	SNA GN WS.14
Global Consultation(s)	SNA Consultation: March 2023
Discussions at the AEG/BOPCOM ² Meeting(s)	Joint AEG/BOPCOM: March 2023 ; October 2022 AEG: July 2022 ; May 2022

² AEG = Advisory Expert Group on National Accounts, BOPCOM = Balance of Payments Committee