



Proposed Recommendations Document:

1.30 Clarifications on the distinction between maintenance and capital repairs for intangible assets¹

Summary Details

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| Links to Related Guidance/Discussion/Issue Notes and Latest Manuals: SNA/M1.23/13 - Recommendations to Resolve Minor Action Points Action point A.15: Add clarifications on the distinction between maintenance and capital repairs for intangible assets Draft 2025 SNA and Draft BPM7 ² | |
| Global Consultation(s): | SNA: September 2023 |
| Discussions at the Advisory Expert Group on National Accounts (AEG) / Balance of Payments Committee (BOPCOM) Meeting(s): | AEG: March 2023 |
| Discussions at GFSAC Meeting(s): | To be determined |
| Summary of Proposed Recommendations: The proposed recommendation is to clarify the guidance in the update of the <i>GFSM 2014</i> on distinguishing between maintenance and capital repairs for intellectual property products. | |

Background and Issues

1. SNA Action point A.15 on Recommendations to Resolve Minor Action Points indicates the need for clarification of the distinction between maintenance and capital repairs for intangible assets. The general guidance on differentiating between maintenance/repairs and capital improvements has not changed (see draft 2025 SNA paras. 7.253-7.256), but the draft 2025 SNA (para. 7.257) introduces text to clarify this distinction specifically for intangible assets (expanded from previous text relating to Research & Development (R&D)). It indicates that “*where an economic activity clearly does not entail any economic benefit for its owner it is treated as intermediate consumption, otherwise it is treated as capital formation*”. The implication is that expenditure related to intangible assets (software, data and databases,

¹ Previously titled “Add clarifications on the distinction between maintenance and capital repairs for intangible assets”.

² Links are to the “white cover” versions of the 2025 SNA and BPM7. While technically still considered draft only editorial amendments will be made between these versions and the final versions.

and R&D) will generally be capital formation (transactions in nonfinancial assets) but where the expenditure only maintains the intangible asset without increasing its economic value by introducing improvements or extending its original working life then it should be treated as intermediate consumption (use of goods and services).

2. *GFSM 2014* (paras. 8.25-8.27) provides some general guidelines on the distinction between major improvements (capital formation) versus maintenance. In addition, *GFSM 2014* (para. 6.46) uses similar language to the draft *2025 SNA*, to describe the distinction, but its focus is on research and development rather than intellectual property products more broadly.

Proposed Recommendations

3. The proposed recommendation for updating the *GFSM 2014* is to clarify that the distinction between maintenance and capital repairs for research and development is equally applicable to the wider group of intellectual property products, including software, and data and databases.

Rationale for Proposed Recommendations

4. The proposed recommendations aim to harmonize the updated *GFSM* with the draft *2025 SNA* and *BPM7*, a key objective of the *GFSM 2014* update process.

Proposed Text for GFSM Update

5. Review and revise *GFSM 2014* (paras. 8.25-8.27) to ensure consistency with the draft *2025 SNA* (paras. 7.253-7.256) as needed. In addition, amend *GFSM 2014* (para. 6.46) to be aligned with the following text from the draft *2025 SNA*:

7.257 Software, data and databases and research and development is treated as capital formation except in any cases where it is clear that the activity does not entail any economic benefit for its owner in which case it is treated as intermediate consumption. Freely available research and development and other intellectual property products produced by general government and NPISHs which provide economic benefits to society at large are also treated as fixed assets.