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List of KEY ISSUES for Government Finance Statistics (GFS)

A task force has been set up by the IMF to look into and make recommendations on differences between national accounts and the commercial accounts in the public sector in the light of the SNA93 revision. Currently, and within the framework of SNA93 revision, five areas requiring review have been identified.

Issue No.	Issue	Description
GFS1	Government transactions with public corporations:	These issues relate to the relationship between public corporations and governments, and more generally between corporations (and quasi-corporations) and their controlling shareholders whether or not they are government [i.e. the income - revaluation boundary]. Public corporations frequently pay lump sums to government, exceeding their operating profits for the year in question (superdividends). In contrast, they can receive capital injections in cash or in kind (including via debt assumption/cancellation) with no expectation of future profits. What should be the criteria for classifying these transactions as financial or non-financial? The ESA 1995 manual on government deficit and debt as well as the GFSM 2001 provide some useful guidelines. Some of the elements that need to be discussed are: ▪ Should distributions of superdividends or lump sum payments be classified as financial transactions? Otherwise governments would be able to manipulate the timing of their revenues, irrespective of the time of the underlying event (the profit accrued); ▪ Should capital injections (generally) be booked as non-financial transactions (even though they are always net worth neutral for the corporation in question and also for government)? Prudence suggests that these transactions should be expensed because they cover past or future losses of public corporations, which have failed to be (or will not be) accrued as expenses (subsidies) in the books of government; ▪ One approach - more systematic - would be to accrue the profits and losses of all public corporations in the books of governments, hence extending to public corporations the "reinvested earnings" (D.43) treatment currently applicable in the 1993 SNA to foreign direct investment (SNA 7.119-7.122). The changes in government net worth resulting from public corporations profits and losses that currently flow via the revaluation accounts would flow via the income accounts. This corresponds to the treatment used by accountants when applying the equity method of consolidation. The same would apply to quasi-corporations; and ▪ The recording of dividends as non-financial transactions in the 1993 SNA/GFSM 2001 leads to anomalous revaluation entries at time of dividend distribution. It also risks underestimation of income in the national accounts when buybacks substitute for dividends.

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Issue No.	Issue	Description
GFS2	Privatisation / restructuring agencies and SPVs:	These issues relate to privatization agencies / Restructuring agencies / securitization, for instance, the government / financial intermediation boundary. The sectorisation of the following entities requires discussion: ▪ Ad hoc structures specialized in managing portfolios of assets or debts; ▪ Privatization agencies established to manage portfolios of assets (financial or non-financial) to be disposed of; ▪ Restructuring agencies (sometimes called "bad banks") that acquire non-performing loans or other impaired assets from banks (public or private) in distress at above the market price, allowing the latter to exhibit a satisfactory solvency ratio (Cooke ratio 3); and ▪ Special purpose vehicles (SPV) created by governments, possibly registered abroad, which borrow on the market and acquire so called "assets" from governments, such as flows of future revenue (tax).

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Issue No.	Issue	Description
GFS3	Tax revenue:	These issues relate to the recording of: **Tax credits.** OECD Government Revenue statistics and GFSM 2001 are in agreement to treat a tax credit as expense (instead of being deducted from revenue) only for amounts that are actually paid by tax authorities to the tax payer. However, due to technological developments, some governments increasingly apply automatic deductions from tax payer's bills (netting tax credits from the tax payer's obligations), actions tantamount to benefits. The source data may not allow separate recording of expenses, reducing international comparability. What would be the criteria and mechanisms for expensing tax credits? Tax allowances are also close substitutes for tax credits; **Valuation of taxes.** Taxes not expected to be paid should not be allowed to improve the government's operational results. An estimated uncollectible amount based on experience (e.g., using a "ratio" technique based on coefficients of collection observed ex post) should be deducted from the gross amount under the accrual principle ("net recording"). An alternative method allowed by Eurostat, with identical impact on the deficit, consists of recording that same amount (or the difference between accrued taxes and taxes actually collected) as a capital transfer ("gross recording"). Accountants record provisions, as a matter of prudence, against tax revenues. The 1993 SNA is imprecise as to the treatment of the uncollectible amount. The ESA 1995 was amended, by way of legal act, to derecognize the uncollectible amount but allowing the gross recording (capital transfer) option. GFSM 2001 is more prescriptive than the 1993 SNA and precludes the capital transfer option. ▪ whether this uncollectible amount should be deducted from revenue (GFSM 2001 preference) or should the option to show an expense also be recommended, as in the amended ESA 1995. ▪ whether all unpaid taxes should be treated just like uncollectible taxes or whether some unpaid taxes could transit via the other change in volume accounts. ▪ the method of valuation, including the recording of a tax item actually paid but well after the period of income; and

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Issue No.	Issue	Description
GFS3 continued		**Time of recording.** The accrual principle calls for recording taxes when the obligation to pay arises, which can be interpreted as when the economic event or activity takes place. The issue is not controversial for taxes on production. For taxes on income and wealth the issue is open to debate. Some argue that the time of the assessment is preferable for households as it would be this moment that affects their behaviour. Regarding taxes on corporations, should one also envisage negative taxes: for quarterly data or for taking account of "carry forwards"? Another issue is the criteria and recommendations, for accruing a tax (paid once a year) over the period instead of booking it at one point in time.
GFS4	Private / public / government sector delineation (including the treatment of PFI or BOOT schemes)	These issues relate to public sector and general government sectorisation boundaries, especially the notion of control and market/non-market criteria: The control criterion is essential to business accounting, as it defines the boundary for consolidation. In 1993 SNA, the notion of control, which defines the public sector boundary, is more elusively defined. Weak areas refer to special purpose vehicles (SPV), notably created in the context of Public Private Partnerships (PPP) or securitization. Another difficulty relates to how "control" is determined (including the link with the "financed" concept): for example, the sectorization of government-financed universities as units of government, non-profit institutions servicing households or market producers. Market versus non-market criteria. ▪ The notion of "economically significant price" is perceived by some as vague. Some tend to equate the government/public corporation to their legal status (is it an incorporated entity)? ▪ The ESA 1995 has established a rigid rule of 50% of costs to be covered by sales. Is a rigid rule useful? Is 50% high enough? ▪ What should be included as costs (ESA 1995 excludes interest)? ▪ What is the criterion for sale recognition: when is a payment by government a transfer or a purchase of service (the case of hospitals or schools)? Another issue is the link between the market/non-market boundary and the commercial/non-commercial boundary (quasi-fiscal operations); and The general government boundary defined by statisticians may be used by accountants.

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Issue No.	Issue	Description
GFS5	Contingent assets / guarantees / provisions / constructive obligations:	These issues relate to contingent assets, liability provisions and constructive obligations [economic asset boundary]. The economic asset boundary may be relaxed slightly to accommodate contracts which have a market value or which could be transferable. Governments sometimes provide guarantees that are likely to be called and, accordingly have a substantial market value at the time of creation; Business accounting recognizes as liabilities, obligations that, whilst not legally enforceable, are nevertheless expected to result in outflows: constructive obligations and provisions (other than on assets). For example, pension obligations may well be de facto constructive obligations, but this alone should not necessarily prevent expensing them; and The 1993 SNA does not recognize provisions (except consumption of fixed capital) because they are not interactions between units, but instead are seen as events internal to a unit. Provisions attached to economic assets of the balance sheet could be conceived as a valuation issue. But recognition of other provisions as liabilities would require finding counterpart holders of the assets - which may be more difficult.