Compendium of methodological clarifications — ESSPROS: EUROPEAN SYSTEM OF INTEGRATED SOCIAL PROTECTION STATISTICS

2017 edition
Introduction

Social protection systems vary considerably between countries and are continuously adapted to emerging needs by national governments. While the European System of Integrated Social Protection Statistics (ESSPROS) aims to collect comparable statistical data by enforcing a common methodology, inevitably there are cases of interventions for which the methodology does not provide clear guidance on whether or not they belong in ESSPROS and how they should be reported.

Eurostat receives numerous requests for methodological clarification from both data providers and data users and through the ESSPROS data validation process, many of which are addressed by referring to specific parts of the ESSPROS methodology. However, for cases where the methodology does not provide an immediate answer, additional in-depth analysis of the manual, the legislation and current practice is required. This often leads to the identification of potential improvements to the methodology. Such analysis and the subsequent proposals for improving the manual are reviewed by the ESSPROS Task Force and then the Working Group on Social Protection Statistics before being formally introduced into the manual.

This document provides a compendium of the analysis performed in order to give methodological clarifications, including cases where changes to the ESSPROS methodology were proposed and adopted by the Working Group on Social Protection Statistics. Each chapter of this document is dedicated to a specific clarification and follows the same structure with five sections:

**Summary:** Basic overview of the issue, analysis performed and subsequent conclusions

**Problem statement:** Details of the issue under consideration

**Analysis:** In depth analysis of the issue and review of relevant paragraphs of the manual and legislation are supplemented, where relevant, with a review of practices in other data collections (e.g. national accounts, …etc.)

**Conclusions:** Summarises the approach agreed upon by the ESSPROS Task Force and/or Working group and identifies any necessary changes to the ESSPROS Manual and legislation

**Examples:** Identifies practical example cases in countries participating in ESSPROS.
Content

Introduction .................................................................................................................................3

1. Payable Tax Credits ...........................................................................................................8
   1.1. Summary .........................................................................................................................8
   1.2. Problem statement ..........................................................................................................8
   1.3. Analysis ..........................................................................................................................9
       1.3.1. General background ...............................................................................................9
       1.3.2. What are payable tax credits? ...............................................................................10
       1.3.3. Are payable tax credits within the scope of social protection? ............................10
       1.3.4. Are payable tax credits ‘direct’ interventions to households? ...............................11
       1.3.5. Are payable tax credits distributive transactions? .................................................11
       1.3.6. Can payable tax credits be considered part of the accounts of a social protection scheme? ..........................................................11
       1.3.7. Treatment of payable tax credits in ESSPROS .....................................................12
               Treatment prescribed in the ESSPROS manual and user guidelines ..................12
               Legal references ......................................................................................................12
               Treatment in practice ..............................................................................................13
       1.3.8. New treatment of payable tax credits in National accounts .................................13
   1.4. Conclusions ..................................................................................................................14
       1.4.1 Main conclusions .....................................................................................................14
       1.4.2 Recommended modifications in the ESSPROS Manual .......................................14
       1.4.3 Recommended modifications to the ESSPROS regulation(s) ...............................18
   1.5. Examples ......................................................................................................................18

2. Collective services .............................................................................................................20
   2.1. Summary ......................................................................................................................20
   2.2. Problem statement ......................................................................................................20
   2.3. Analysis .......................................................................................................................20
       2.3.1 Collective services in ESSPROS ...........................................................................20
       2.3.2 Note on COFOG (Classification of Functions of Government) ..........................22
   2.4. Conclusions .................................................................................................................23
       2.4.1 Main conclusions ...................................................................................................23
       2.4.2 Recommended modifications in the ESSPROS Manual/legislation ....................23
   2.5. Examples ......................................................................................................................24
       2.5.1 Citizens Information Board, Ireland ......................................................................24

3. Definition of means-tested benefits .................................................................................25
   3.1. Summary ......................................................................................................................25
   3.2. Problem statement ......................................................................................................25
   3.3. Analysis .......................................................................................................................26
3.4. Conclusions........................................................................................................................................28
  3.4.1 Main conclusions .........................................................................................................................28
  3.4.2 Recommended modifications in the ESSPROS Manual/legislation ............................................28

3.5. Examples ...........................................................................................................................................29
  3.5.1 Means-tested social benefits, Italy ..............................................................................................29
  3.5.2 Means-tested social benefits, Romania .......................................................................................29

4. Withheld taxes and withheld social contributions ............................................................................... 30
  4.1. Summary ........................................................................................................................................30
  4.2. Problem statement .........................................................................................................................30
  4.3. Analysis ..........................................................................................................................................31
  4.4. Conclusions ...................................................................................................................................33
    4.4.1 Main conclusions .......................................................................................................................33
    4.4.2 Recommended modifications in the ESSPROS Manual/legislation ............................................33
  4.5. Examples .......................................................................................................................................35
    4.5.1 Pensioners Solidarity Contribution, Greece ..............................................................................35
    4.5.2 Contributions associated with unemployment benefits, Spain ..............................................36

5. Social contributions: Ensuring consistency between the Core system and the Net module ............... 37
  5.1. Summary .......................................................................................................................................37
  5.2. Problem statement .......................................................................................................................37
  5.3. Analysis ..........................................................................................................................................37
    5.3.1 Social contributions paid by pensioners and other persons (2123000) ....................................38
    5.3.2 Average itemised social contribution rates (AISCR) ...............................................................38
    5.3.3 Comparing the data ....................................................................................................................39
    5.3.4 Plausibility checks ......................................................................................................................41
  5.4. Conclusions ...................................................................................................................................42
    5.4.1 Main conclusions .......................................................................................................................42
  5.5. Examples .......................................................................................................................................42
    5.5.1 Latvia .......................................................................................................................................42
        Social contributions paid by pensioners and other persons (2123000) in the Core system ..........43
        Social contributions inferred by applying the AISCRs in the Net module ....................................43
        Applying the plausibility check and investigation by Latvia .........................................................44

6. Capital transfers ...................................................................................................................................45
  6.1. Summary .......................................................................................................................................45
7. Benefits and recipients above/below the standard retirement age ........................................ 60
    7.1. Summary ............................................................................................................. 60
    7.2. Problem statement .............................................................................................. 60
    7.3. Analysis ............................................................................................................. 61
        7.3.1 Purpose of establishing the retirement age for ESSPROS ......................... 61
        7.3.2 Guidance in the ESSPROS Manual and user guidelines .......................... 61
        7.3.3 Possible improvements to the guidance ....................................................... 63
    7.4. Conclusions ....................................................................................................... 65
        7.4.1 Main conclusions ......................................................................................... 65
        7.4.2 Recommended modifications in the ESSPROS Manual ................................. 65
            Part 2 ............................................................................................................. 65
            APPENDIX I: The ESSPROS questionnaire detailed classification .................. 67
            APPENDIX III: Methodology of the module on pension beneficiaries ............ 67
        7.4.3 Recommended modifications to the ESSPROS regulation(s) ....................... 67

8. Re-routed social contributions ..................................................................................... 68
    8.1. Summary ............................................................................................................. 68
    8.2. Problem statement .............................................................................................. 68
    8.3. Analysis ............................................................................................................. 69
        8.3.1 Re-routed social contributions .................................................................... 69
        8.3.2 Treatment of type ii re-routed social contributions .................................... 70
        8.3.3 Breakdown of expenditure on re-routed social contributions by function .... 70
    8.4. Conclusions ....................................................................................................... 71
8.4.1 Main conclusions ..............................................................................................................71
8.4.2 Recommended modifications in the ESSPROS Manual ..............................................72
  Treatment of type ii of re-routed social contributions .........................................................72
  Treatment of re-routed social contributions on the expenditure side ..................................72
8.4.3 Recommended modifications to the ESSPROS regulation(s) .....................................72
1.1. Summary

The use of tax systems to deliver social benefits is increasing. In particular, through the use of ‘payable tax credits’ which are a form of tax relief wherein the value of the relief granted is payable to individuals/households irrespective of the amount of tax due. Payable tax credits (PTCs) can be granted, and paid in cash, to people with no tax liability and thereby represent an alternative means of delivering social protection benefits.

The 2012 edition of the ESSPROS Manual and user guidelines\(^1\) did not offer any explicit guidance on the treatment of payable tax credits (PTCs) in the ESSPROS Core system. As a result, there has been differential treatment of benefits delivered as PTCs amongst the countries that have introduced them. Some countries have included the relevant amounts — either wholly or partially — in the ESSPROS Core system, while others have not.

Following in-depth investigation into the issue, the Working Group on Social Protection Statistics agreed that ESSPROS should follow the approach of national accounts (ESA 2010) — which treats the total value of PTCs as expenditure — and that the ESSPROS Manual should be adapted to specify the following treatment:

- The full value of PTCs delivering social benefits should be reported in the Core System under one or more separate schemes
- Information on relevant PTCs should be reported in the Qualitative Information
- The impact of PTCs included in the Core system should be excluded from the calculation of the AITRs/AISCRs in the net module

Recommendations for the necessary changes to the 2012 edition of the ESSPROS Manual were made accordingly. No changes are needed to the any of the ESSPROS regulations.

1.2. Problem statement

Extensive research on the treatment of payable tax credits (PTCs) in the ESSPROS system was carried out between 2011 and 2014. A compendium of the results\(^2\) and an in-depth review of the relevant methodological rules and guidelines\(^3\) were then presented to the Working Group in March 2015.

The ESSPROS Manual and user guidelines – 2012 edition did not explicitly include or exclude payable tax


\(^2\) See [DOC SP-2015-09](#)

\(^3\) See [DOC SP-2015-10](#)
credits from the ESSPROS Core system and, as a result, countries that provide social benefits through PTCs have adopted different approaches to their reporting.

Until 2015, national accounts data were compiled on the basis of SNA 1993 and the European equivalent ESA 1995, which did not provide any guidelines on the treatment of tax credits. However, the new version ESA 2010(1), which was adopted following SNA 2008, advises that payable tax credits should be considered akin to cash transfers and that the total value of such credits should be treated as government expenditure.

There is strong interest to reinforce the position of ESSPROS as a satellite account of national accounts and to clarify the links between the methodologies of the two statistical systems. The provision of explicit guidance on payable tax credits in the ESSPROS Manual, in line with that in national accounts, will help to strengthen the coherence between the two systems.

1.3. Analysis

1.3.1. General background

Since 1996, the European System of Social PROtection statistics (ESSPROS) has been defined to include two components: The Core system and the modules.

The Core system covers data on social protection expenditure and receipts using concepts, definitions and accounting rules that are largely harmonised with those of national accounts. The concept of modules was introduced to provide the flexibility to collect data beyond the scope of the core system and to extend ESSPROS (‘Full ESSPROS’) without adjusting the boundaries of the core system and impacting its links with national accounts.

The Core system and the modules share the definition of social protection as defined in the ESSPROS Manual(2) (Part I, § 16) and in Regulation 458/2007 (article 2(b)). The ESSPROS Manual (Part I, §34) applies three main restrictions to the Core system compared to the full ESSPROS system:

‘Firstly, as stated in paragraph 18, the Core system deals only with social protection given in the form of cash payments, reimbursements and directly provided goods and services to households and individuals. Secondly, the statistical description is confined to receipts and expenditures of social protection schemes. Finally, the Core takes only distributive transactions into account.’

This implies that interventions that are consistent with the definition of social protection (and thus part of the ‘full ESSPROS’ system) but which do not comply with these three conditions cannot be part of the Core system but may be included in additional ESSPROS modules.

The first condition is probably the most difficult to check when analysing possible borderline cases. However, two relevant guidelines were provided in the ESSPROS Manual 1996:

(1) See http://ec.europa.eu/eurostat/web/esa-2010
(2) For the sake of simplicity, in this document reference is always made to ‘ESSPROS Manual and user Guidelines – 2012 edition’
In §6 ‘the extent to which social benefits are provided in the form of tax rebates or tax reductions’ was identified as among a list of examples of themes for possible modules. This implies that interventions in the form of ‘fiscal benefits’ (as opposed to ‘cash payments, reimbursements and goods and services directly provided to protected people’) should be excluded from the Core system.

At the end of §13 it stated that ‘preferential tax rates or tax rebates which are primarily directed at the production side of the economy but which indirectly protect households, such as wage subsidies paid to employers to encourage the recruitment of long-term unemployed and similar types of intervention, may give rise in future to supplementary ESSPROS modules.’ This indicates that indirect interventions such as subsidies or fiscal reductions to employers which indirectly protect households should be excluded from the Core system.

1.3.2. What are payable tax credits?

Tax credits are a form of tax relief — i.e. a mechanism to reduce the amount of tax ultimately paid by a tax unit. Whilst other forms of tax relief such as allowances, exemptions or deductions are applied to the tax base in order to reduce the amount of income that is subject to taxation and reduced tax rates impact the calculation of the tax liability from the tax base, tax credits are amounts subtracted from the tax liability (i.e. the amount of tax due). There are two forms of tax credit:

- **Non-payable tax credits**, also known as wastable or less often as non-refundable tax credits, are limited in value to the value of the tax liability. As such, non-payable tax credits can only ever be granted to taxpayers with a non-zero tax liability.

- **Payable tax credits**, also known as non-wastable or refundable tax credits, are not limited and can exceed the value of any tax liability, including a liability of zero, and may therefore be granted to non-taxpayers. The amount of any payable tax credit that exceeds the tax liability is paid directly to the beneficiary in cash. In some cases, such credits may even be paid fully in cash (in these cases the original tax liability, if any, will have to be paid in full by the tax-payer).

Non-payable tax credits are a means of reducing the amount of taxes paid and may, therefore, be considered equivalent to a negative tax (reduction in government revenue) rather than a positive cash transfer (government expenditure). As a consequence, non-payable tax credits (together with tax allowances, exemptions, deductions and reduced tax rates) have characteristics that qualify them as ‘fiscal benefits’. In contrast, payable tax credits have two components — a cash component and a fiscal component. The cash component clearly has the characteristics of a cash transfer (government expenditure), while the fiscal component has the characteristics of a fiscal benefit.

Sections 1.3.3 to 1.3.6 of this document consider whether payable tax credits adhere to the criteria for an ‘intervention’ that can be included in the Core system (see section 1.1) then sections 1.3.7 and 1.3.8 consider whether payable tax credits should be considered a cash payment (and therefore be included in the Core system) or a fiscal benefit (and therefore be excluded from the Core system).

1.3.3. Are payable tax credits within the scope of social protection?

A payable tax credit may or may not serve to provide social protection. However, this is also the case for other forms of interventions from public or private bodies.

Any form of intervention (cash payments, reimbursements, goods and services directly provided, payable tax credits, non-payable tax credits, other forms of tax break) has to conform to the general definition of social protection to be included in the ESSPROS system (see section 1.3.1 above).
This approach is further clarified in Regulation 458/2007:

- Article 2 (d) ‘Social protection benefits’: **transfers, in cash or in kind, by social protection schemes to households and individuals to relieve them of the burden of one or more of the defined risks or needs**
- Article 2 (e) ‘Fiscal benefits’: social protection provided in the form of tax breaks that would be defined as social protection benefits if they were provided in cash, (...).

### 1.3.4. Are payable tax credits ‘direct’ interventions to households?

Payable tax credits may be granted to households or to units belonging to other sectors of the economy (e.g. corporations). Payable tax credits granted to non-household institutional units are not included in the Core system even if their intention is to ‘indirectly’ protect households.

### 1.3.5. Are payable tax credits distributive transactions?

**ESA 2010** provides the definitions for the categories of transactions used in national accounts. Those for distributive transactions are defined in chapter 4.

If payable tax credits granted to households for the purpose of social protection are considered a cash transfer (and thus ‘cash social protection benefits’) in ESSPROS then they should be classified in national accounts as ‘social benefits other than transfers in kind’ (D.62).

If payable tax credits granted to households for the purpose of social protection are considered ‘fiscal benefits’ in ESSPROS then they would be classified in national accounts as (a negative component of) ‘current taxes on income, wealth, etc.’ (D.5).

Both D.62 and D.5 are distributive transactions thus a payable tax credit can be considered a distributive transaction.

### 1.3.6. Can payable tax credits be considered part of the accounts of a social protection scheme?

Article 2(c) of Regulation 458/2007 defines a social protection scheme as: ‘a distinct body of rules, supported by one or more institutional units, governing the provision of social protection benefits and their financing.’ This is further clarified in the ESSPROS Manual, Part I, section 4.1.

In the case of payable tax credits the ‘distinct body of rules’ that defines the scheme would be the rules in tax legislation that define the payable tax credits. The institutional unit managing this scheme would probably be the Ministry of Finance or other Tax Authority, in most cases.

The definition of a scheme is further clarified in the ESSPROS Manual, Part I, section 4.1, and more specifically in §42: ‘(…) it must be possible to draw up a separate account of receipts (…)’.

General government contributions would probably be the main type (or only type of) receipts of this scheme.
1.3.7. Treatment of payable tax credits in ESSPROS

TREATMENT PRESCRIBED IN THE ESSPROS MANUAL AND USER GUIDELINES

The ESSPROS Manual and user Guidelines – 2012 edition(6) did not explicitly include or exclude payable tax credits from the Core system. Indeed, the issue of whether or not to report social protection benefits provided in this way is not directly addressed.

§93 of Part I of the manual informs that ‘fiscal benefits’ are excluded: ‘Finally, government may provide social protection through other channels (such as by granting fiscal benefits and paying subsidies to market producers), but these are not recorded in the Core system of the ESSPROS.’ However, there is no definition of fiscal benefits or clarification as to whether a payable tax credit (at least when issued in cash) should be considered as a fiscal benefit or as a cash benefit.

In fact, a definition of fiscal benefits is only provided in Appendix IV on the net module: ‘Fiscal benefits are social protection provided in the form of tax breaks that would be defined as social protection benefits if they were provided in cash, excluding tax breaks promoting the provision of social protection or promoting private insurance plans’. This is the same definition used in the Regulation 458/2007 (article 2(e)) and it effectively defines fiscal benefits to be non-cash benefits (i.e. exemptions or reductions to amounts due) and therefore implies that payable tax credits issued in cash are not fiscal benefits.

Indeed, this is reiterated and further clarified in §63 of Appendix IV on the Net module which implies that payable tax credits paid in cash should be included in the Core: ‘In the case that a social benefit has a cash part and a fiscal part then it should be treated as two separate benefits with the cash part included in the gross benefits and the fiscal part treated as any other fiscal benefit’.

Then Appendix VII detailing the possible types of disbursement begins with ‘1. The Government pays a sum of money to households to relieve them from the burden of a social risk or need’ which should be treated as cash benefits (or in kind if reimbursement of costs). In the case of payable tax credits that are always paid in cash and are not directly linked to tax liabilities (as is the case, for example, in the UK, where the amounts due are calculated in advance based on anticipated income during the year) then it is reasonable that people should interpret them to fall under this category of cash benefits — and therefore be reported in the Core system — rather than consider them as ‘6. The Government allows reductions or rebates on taxes or contributions to social security funds’ which the manual states should not be included in the Core.

Ultimately, there was nothing in the manual that precluded payable tax credits issued in cash from being treated as ‘cash payments to protected people’ as per §18 of Part I, which gives further explanation to the general definition of social protection. On balance, therefore, it would seem that the methodology supported the inclusion of payable tax credits disbursed in cash and the exclusion of payable tax credits provided through reduced taxation from the Core system.

LEGAL REFERENCES

The ESSPROS regulation 458/2007 does not explicitly include or exclude payable tax credits from the Core system. In terms of articles relevant to payable tax credits it includes the following articles:

- Article 2 (d) ‘Social protection benefits’: transfers, in cash or in kind, by social protection schemes to households and individuals to relieve them of the burden of one or more of the defined risks or needs
- Article 2 (e) ‘Fiscal benefits’: social protection provided in the form of tax breaks that would be defined as social protection benefits if they were provided in cash, excluding tax breaks promoting the

provision of social protection or promoting private insurance plans.

As in the case of the ESSPROS Manual and user guidelines, payable tax credits may be intended to relieve households and individuals of the burden of a defined set of risks or needs that may give rise to social protection and any part of such credits paid in cash may then be considered a social protection benefit as defined in article 2(d). However, any fiscal part may be considered a fiscal benefit as defined in article 2(e).

However, article 3 of the Regulation gives guidance on the scope of the Core system (article 3(1)) and the modules (article 3(2)) which provide some indication of where payable tax credits may be reported.

It indicates that the Core system should include the financial flows (expenditure and receipts) of social protection schemes, while the net benefit module should include other financial flows that are not included in the Core system. Thus, if a financial flow qualifies as expenditure of a social protection scheme, then it should be included in the Core system (and not in the Net benefit module). As a consequence, if payable tax credits provided through reduced taxation are considered as expenditure of a social protection scheme, then they would be included in the Core system.

This suggests that the interpretation given by 2012 Manual in §63 of Appendix IV (‘payable tax credits provided through reduced taxation are excluded from the Core system’) was not the only interpretation permitted by the Regulation 458/2007.

TREATMENT IN PRACTICE

Consultation of the Working Group between 2011 and 2014 revealed that payable tax credits that can be considered as social benefits exist in many countries. However, the way they are reported in the ESSPROS Core system varies. While some include the full value of payable tax credits (both the cash part and the fiscal part), some include only the cash part of the payable tax credits (excluding the fiscal part) and some exclude payable tax credits altogether.

This lack of consistency is a result of a lack of clear guidance in the section of the ESSPROS Manual 2012 dedicated to the Core system. Indeed guidance on whether or not to include payable tax credits in the Core system is only given in the last section (‘3.4.3 further clarifications’) of Appendix IV, which is dedicated to the net benefits (restricted approach) module. According to the philosophy of article 3 of Regulation 458/2007 the opposite approach would be expected: that Parts I and II of the Manual should make clear what is included (or not) in the Core system while Appendix IV should deal only with the treatment of the residual (non-Core system) transactions.

The lack of clear guidance in the manual 2012 resulted in inconsistencies in reporting which impacted on the comparability and quality of the ESSPROS data.

1.3.8. New treatment of payable tax credits in National accounts

ESSPROS was originally conceived as a possible satellite account of national accounts and accordingly there are numerous links between the methodologies of the two statistical systems, but also some differences. There is, however, increasing interest to reinforce the links between the two systems.

( Article 3(1): ‘the statistics related to the ESSPROS core system shall cover the financial flows on social protection expenditure and receipts. These data shall be transmitted at social protection scheme level. (…)’. Article 3(2): ‘In addition to the ESSPROS core system, modules covering supplementary statistical information on pension beneficiaries and net social protection benefits shall be added’.

(See DOC SP-2015-09)
Until recently, national accounts data was compiled on the basis of SNA 1993 and the European equivalent ESA 1995. Neither of these documents provided any guidelines on the treatment of tax credits. However, the issue has been addressed in SNA 2008 and the European equivalent ESA 2010\(^9\).

The latest revisions of the ESA consider payable tax credits as akin to cash transfers and therefore treat the total value of such credits as government expenditure. This treatment requires that tax revenues are recorded as the total tax liability before the application of payable tax credits (see §20.167-20.168 of ESA 2010). Adopting the same approach in ESSPROS would require payable tax credits for social protection purposes to be included, in full, in the ESSPROS Core expenditure data, rather than just the part paid in cash.

This further implies that the effect of PTCs in reducing the amount of tax paid will have to be excluded from the calculation of the AITRs/AISCRs in the net restricted approach module to prevent double-counting of the benefit. With the full value of PTCs included in the Core system the net module should record the rates of tax applied to cash benefits before the application of PTCs in order to avoid counting again the value of any reduced taxation of benefits. The scope of any proposed net enlarged approach would also have to be adjusted accordingly.

This approach would be consistent with Regulation 458/2007.

### 1.4. Conclusions

#### 1.4.1 Main conclusions

The ESSPROS Manual and user Guidelines – 2012 edition\(^10\) did not explicitly advise on the treatment of social benefits delivered in the form of payable tax credits (PTCs). Consequently, countries have adopted different approaches to their reporting. The 2016 Working Group on Social Protection Statistics agreed that ESSPROS should align with the approach of national accounts (ESA 2010) in considering the total value of PTCs as expenditure and that the ESSPROS Manual should therefore be adjusted to adopt the following treatment:

- The full value of PTCs delivering social benefits should be reported in the Core System under one or more separate schemes
- Information on relevant PTCs should be reported in the Qualitative Information
- The impact of PTCs included in the Core system should be excluded from the calculation of the AITRs/AISCRs in the net module

Recommendations for modifications to the manual are documented accordingly below. There appears to be no need to adjust any of the ESSPROS regulations.

#### 1.4.2 Recommended modifications in the ESSPROS Manual

Amendments to the ESSPROS Manual were recommended as listed below (changes are shown in red).

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Note that guidelines on classification of PTCs were not necessary. PTCs should be treated as any other benefits so the existing classifications in the manual should be applied.

**Part I:**

1. **Amendment to §93:**

   §93 The sub-sector Central government (ref. 121) covers all general government institutional units of type (i) above whose authority extends over a whole national territory and all units of type (ii) they control and finance.

   The sub-sector State and local government (ref. 122) covers all general government institutional units of type (i) mentioned above whose authority is restricted to a part of the national territory and all units of type (ii) they control and finance. State (regional) governments occur in countries with federal constitutions such as Belgium, Germany, and Austria.

   The sub-sector Social security funds (ref. 123) combines all general government units of type (iii) irrespective of the geographical area in which they are active.  

   Within the framework of social policy, general government usually runs a variety of contributory and non-contributory schemes. It may also grant current and capital transfers to other institutional units, in particular non-profit institutions, to finance and support the social protection schemes they administer. Government secures benefits for public servants and its other employees by paying actual employers' social contributions.

   Normally, it will also provide certain social benefits directly to its employees.

   Finally, government may provide social protection through other channels (such as by granting fiscal benefits and paying subsidies to market producers), but with the exception of payable tax credits (see §112A) these are not recorded in the Core system of the ESSPROS.

2. **Add two new paragraphs after §112:**

   §112bis **Cash benefits include payable tax credits, which may also be known as non-wastable or refundable tax credits. Payable tax credits are benefits delivered through the fiscal system that are paid irrespective of any tax liability and may therefore be granted to non-taxpayers. The part of any payable tax credit in excess of any tax liability is always paid directly to the beneficiary in cash. The part that offsets any tax liability may also be paid directly in cash or received as a fiscal benefit — i.e. reduced liability to pay tax.**

   §112ter **Irrespective of the delivery method, the full value of a payable tax credit (cash and fiscal parts) is treated as a cash benefit in ESSPROS. The only exception is in the case that the tax credit is provided to reimburse the recipient in whole or in part for certified expenditure, when the full value of the credit is treated together with other forms of reimbursement as a benefit in kind (see §115A). The treatment of payable tax credits in ESSPROS is consistent with the approach applied in national accounts where payable tax credits are treated as government expenditure (and not as reduced tax revenues).**

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(*) The ESSPROS does not define the concept of 'social security scheme'. Social security funds are institutional units that may run schemes with widely diverging characteristics.
Part II:

3. Replace existing §79C with the following:

§79C Housing benefits may be provided through the fiscal system using tax breaks. These measures are not included in the ESSPROS Core system unless they take the form of payable tax credits. As housing is considered a reimbursement for a certified expenditure (see §76) any payable tax credits that meet the risk/need of housing are to be classified as benefits in kind (see §112B).

Appendix IV:

4. Amendment to §9:

§9 The second element — fiscal benefits — potentially enlarges the scope of the net benefits module compared to the Core system because it includes the value of social benefits implemented solely through the fiscal system, which are not included in the Core system (with the exception of payable tax credits). Fiscal benefits reduce the amount of taxes and/or social contributions paid on all forms of income (e.g. from employment) and therefore increase the disposable income of beneficiaries in addition to the social benefits recorded in the Core system. Moreover, fiscal benefits may accrue to persons who receive no social benefits paid in cash or in kind who are therefore not members of the population of benefit recipients covered by the Core system. Adding the value of fiscal benefits to the value of net benefits according to the restricted approach is known as the ‘enlarged’ approach to measuring net benefits(12). The two approaches can be summarised as follows (13).

5. Add a new paragraph after §19:

§19bis Taxes and social contributions in the net benefits module should not take into account the reduction in taxation provided by payable tax credits reported in the ESSPROS Core System, to do so would introduce double counting.

6. Amendment to §22:

§22 The value of taxes and social contributions to be taken into account should always be the final liability, taking into account any post year-end adjustments and, where relevant, the impact of any fiscal benefits (excluding payable tax credits reported in the ESSPROS Core System) as they apply to liabilities derived from social benefits. In the case that this is not possible, residual fiscal benefits may be reported as complementary amounts (see below).

7. Replace existing §27 with the following:

§27 A tax break is an advantage granted to fiscal units in the form of a total or partial reduction in the compulsory levies applied by general government. Tax breaks can take the form of a tax allowance, exemption, or deduction — which is subtracted from the tax base; of a reduced tax rate.

(12) Note that part of the value of fiscal benefits is in fact included in the restricted approach since any relief on the levies paid on income from social benefits will be accounted for in the actual value of taxes and social contributions deducted from the gross benefits. See the section on residual fiscal benefits.

(13) Both definitions are given for matter of clarification. According to the decision taken by Member States, the approach to be used for compiling net social protection benefits is the restricted approach. The enlarged approach is at an experimental stage only.
— which cuts the tax liability derived from the tax base; or of a tax credit — which is subtracted directly from the tax liability otherwise due by the beneficiary household or corporation.

There are two forms of tax credit:

- **Non-payable tax credits**, also known as wastable or less often as non-refundable tax credits, are limited in value to the value of the tax liability. As such, non-payable tax credits can only ever be granted to taxpayers with a non-zero tax liability.

- **Payable tax credits**, also known as non-wastable or refundable tax credits, are not limited and can exceed the value of any tax liability, including a liability of zero, and may therefore be granted to non-taxpayers. The amount of any payable tax credit that exceeds the tax liability is paid directly to the beneficiary in cash. In some cases, such credits may even be paid fully in cash.

Fiscal benefits in the form of payable tax credits are, as per §112A and 112B in Part 1, included in full in the ESSPROS Core System while all other forms of fiscal benefit are excluded from the Core System and dealt with in the Net modules (the existing restricted approach module and the planned enlarged approach module).

8. Add a new paragraph after §30:

§30bis Fiscal benefits in the form of payable tax credits are always outside the scope of the restricted approach as these are included in the ESSPROS Core System. This means that their impact should not be taken into account in the taxes and social contributions paid on cash benefits by recipients or in residual fiscal benefits.

9. Amendment to §56:

§56 While fiscal benefits in the form of payable tax credits are reported in full in the ESSPROS Core System, the major part of fiscal benefits belongs only to the enlarged approach to measuring net social protection benefits (paragraph 9). In the restricted approach, the part of the total value of fiscal benefits that pertains to reduced liabilities on social benefits should normally be taken into account in the levies calculated from AITRs and AISCRs. However, when this is not the case, any further amounts accruing to recipients as a result of reduced liabilities on benefits can be reported as residual fiscal benefits. Amounts reported are then added to the net value after deduction of levies to give a final value of net benefits.

10. Amendment to §58:

§58 The calculation of residual fiscal benefits shall always be limited to the portion of fiscal benefits (excluding payable tax credits) that is lowering the liability to taxes or social contributions paid on social protection benefits.

11. Remove §63 and set existing §64 to §63
12. Add a new paragraph §64:

§64 Fiscal benefits in the form of payable tax credits are always outside the scope of the restricted approach as these are included in the ESSPROS Core System. However, it may not always be possible to exclude their impact from the calculation of the AITR/AISCR. Where this is the case negative amounts may be reported as residual fiscal benefits in order to correct for this and avoid double counting of payable tax credits between the restricted approach and the ESSPROS Core System.

Appendix VII:

13. Replace the final paragraph (item 6) with the following:

Fiscal benefits (i.e. tax breaks granted to households for social protection purposes) in the form of payable tax credits are recorded as social benefits in the Core system.

Other reductions or relief from taxes or social contributions payable on income from social benefits, whether granted for social protection purposes or not, are taken into account in the ESSPROS module on net social protection benefits (restricted approach).

The impact of fiscal benefits on non-benefit income is not currently recorded in ESSPROS. Nor is relief from indirect taxation granted for social protection purposes. In the future, both might be included in an additional module on net social protection benefits (enlarged approach).

1.4.3 **Recommended modifications to the ESSPROS regulation(s)**

The ESSPROS regulation does not explicitly deal with the inclusion or exclusion or the treatment of payable tax credits in the Core system. Such methodological details are left to the ESSPROS Manual. The legislation is intended to provide the very basics of the methodology and should not be used in isolation from the manual. The current legislation is generalised but not inconsistent with the approach to be adopted for payable tax credits. Any further specifications regarding payable tax credits constitute additional clarification / guidance on a very specific form of social protection. It would therefore be inappropriate to include an explicit statement about their treatment in the regulations. For this reason, there appears to be no real need to revise the legislation.

1.5. **Examples**

Some examples of payable tax credits reported to ESSPROS include:

**Belgium**

Three payable tax credits granted for a social purpose are reported to exist in Belgium:
- A refundable tax credit on low income from professional activities (Crédit d'impôt pour faible revenus professionnels) was introduced in 2001;
- A refundable tax credit for dependent children (Crédit d'impôt pour enfants à charge) was introduced in 2002;
- A refundable tax credit for low income workers (Crédit d'impôt pour travailleurs à bas salaire) was introduced in 2011.

Germany
Three payable tax credits granted for a social purpose are reported to exist in Germany:
- A tax credit related to the family compensation system (1. child benefits) was introduced in 1996;
- A tax credit related to the family compensation system (2. child tax credits) was introduced in 1996 and further developed in 2002.
- A tax credit related to the family compensation system (3. child bonus) was in force only in 2009.

France
Three payable tax credits granted for a social purpose are reported to currently exist in France:
- The tax credit for low income workers (Prime pour l'emploi en faveur des contribuables modestes déclarant des revenus d'activité) was introduced in 2001 and remained in force until 2015;
- The « Crédit d'impôt pour frais de garde des enfants âgés de moins de 6 ans » was introduced as a tax reduction in 1988 and transformed into a tax credit in 2006;
A tax credit related to invalidity and old-age (Crédit d'impôt pour dépenses d'équipements de l'habitation principale en faveur de l'aide aux personnes) was introduced in 2005

Austria
Three payable tax credits granted for a social purpose are reported to exist in Austria:
- A tax credits for children (‘Kinderabsetzbeträge’) was introduced in 1994;
- the Sole earner’s tax credit and the Single parent's tax credit (‘Alleinverdiener- und Alleinerzieherabsetzbetrag’) turned from non-payable tax credits to payable tax credits 1994;
- the Employee’s tax credit (‘Arbeitnehmerabsetzbetrag’) became a payable tax credit 1994.

A complete list of payable tax credits included in ESSPROS gross social benefits is published on Eurostat web site:
2.1. Summary

Collective services are outside the scope of ESSPROS. However, the guidelines in the ESSPROS Manual and user guidelines – 2012 edition(1) dealing with this issue (§100 of part 1) were not clearly presented. The ESSPROS Task Force of November 2015 agreed that changes to Part 1 of the ESSPROS Manual would be welcome to clarify the treatment of collective services in ESSPROS and ensure consistent interpretation and application of the relevant guidelines.

2.2. Problem statement

The main body of the ESSPROS 2012 manual and user guidelines did not define the terms ‘collective services’ and ‘individual goods and services’ or explicitly differentiate their treatment. The specific reference to collective services appears in appendix VII of the manual on ‘The classification of various government disbursements’ which states ‘Collective services, not recorded in the ESSPROS’.

Indeed, two data providers raised queries about the treatment of collective services during 2014-2015 thereby demonstrating that the existing guidelines on this issue were not clearly presented and could have been improved.

2.3. Analysis

2.3.1  Collective services in ESSPROS

Although not defined in the ESSPROS 2012 manual and user guidelines, the term ‘collective services’ and its counterpart ‘individual goods and services’ are defined in national accounts (ESA 2010) as follows:

3.101  Definition: goods and services for individual consumption (‘individual goods and services’) are goods and services acquired by a household and used to satisfy the needs and wants of members of that household. Individual goods and services have the following characteristics:

(a) it is possible to observe and record the acquisition of the goods and services by an individual household or member thereof and also the time at which the acquisition took place;

(b) the household has agreed to the provision of the goods and services and takes the action necessary to consume the goods and services, for example by attending a school or clinic;

(c) the goods and services are such that their acquisition by one household or person, or by a group of persons, precludes its acquisition by other households or persons.

3.102 Definition: collective services are services for collective consumption that are provided simultaneously to all members of the community or all members of a particular section of the community, such as all households living in a particular region. Collective services have the following characteristics:

(a) they can be delivered simultaneously to every member of the community or to particular sections of the community, such as those in a particular region or locality;

(b) the use of such services is usually passive and does not require the agreement or active participation of all the individuals concerned;

(c) the provision of a collective service to one individual does not reduce the amount available to other in the same

The general treatment of collective services was also not explicitly laid out in the main body of the ESSPROS Manual although some examples described the treatment of specific cases. Indeed, §18 in part I, which sets out the forms of benefits that are within the scope of ESSPROS, made no reference to either collective or individual services. However, §100 of part I defines social benefits in a way that implies that collective services must be excluded:

§100 In the Core system, social benefits refer exclusively to cash payments, reimbursements and directly provided goods and services. These are all direct benefits in the sense that they are advantages that imply an equivalent rise in the (adjusted) disposable income of the beneficiaries.

Transfers in cash and transfers in kind of individual goods and services both imply an equivalent rise in the disposable income of beneficiaries. Collective services are not received by specific individuals and are recorded as collective consumption expenditure in national accounts. Therefore they do not imply any rise in the income of beneficiaries. Collective services therefore fail to meet the requirements laid out in §100 of part I and are outside the scope of ESSPROS.

Some examples in the manual explicitly exclude certain collective services:

- §124 of part I gives an example of the costs to be taken into account in the valuation of benefits in kind. This states that ‘the salaries of doctors and nurses of State hospitals are included, but the salaries of personnel in the Ministry of Health are excluded because they produce collective rather than individual services.’

- §11 of part II gives an example of where collective services are excluded from the sickness function: ‘Only preventive measures through which an individual benefit (for example, a medical check-up) is provided to a protected person or household fall under the Sickness function and in general
within the scope of ESSPROS. Preventive campaigns to alert the general public to health hazards (for example, smoking, alcohol or drug abuse) are not recorded by the ESSPROS.’

However, the only statement that explicitly refers to the treatment of collective services in general appears in appendix VII of the manual on ‘The classification of various government disbursements’ which states ‘Collective services, not recorded in the ESSPROS’.

2.3.2 Note on COFOG (Classification of Functions of Government)

A distinction between individual services and collective services is used to distinguish between different functions of government (COFOG) in the government finance statistics (GFS). COFOG provides a three tier classification system to describe the purpose for which expenditure transactions are undertaken. These tiers are referred to as Divisions, Groups, and Classes respectively, and are defined in the COFOG 2011 manual(15). The classification by group separates expenditure related to individual services from those related to collective services (see COFOG Manual, Section 3.5.2, p37-38). Only government expenditure falling within the COFOG divisions ‘health’ and ‘social protection’ under groups defined as individual services are expected to be reported in ESSPROS — namely COFOG 7.1-7.4 and 10.1-10.7 (see Table 1).

Table 1: Individual and collective services in COFOG division 7 and 10

<table>
<thead>
<tr>
<th>1 Digit Division / 2 Digit Group</th>
<th>Individual services</th>
<th>Collective services</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>7. Health</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7.1 - Medical products, appliances and equipment</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>7.2 - Outpatient services</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>7.3 - Hospital services</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>7.4 - Public health services</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>7.5 - R&amp;D Health</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>7.6 - Health n.e.c.</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td><strong>10. Social protection</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10.1 - Sickness and disability</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>10.2 - Old age</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>10.3 - Survivors</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>10.4 - Family and children</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>10.5 - Unemployment</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>10.6 - Housing</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>10.7 - Social exclusion n.e.c.</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>10.8 - R&amp;D Social protection</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>10.9 - Social protection n.e.c.</td>
<td></td>
<td>X</td>
</tr>
</tbody>
</table>

2.4. Conclusions

2.4.1 Main conclusions

The 2012 edition of the ESSPROS Manual and user guidelines did not provide adequately clear guidance on the treatment of collective services. The ESSPROS Task Force of November 2015 discussed the issues laid out in the above analysis and concluded that the current methodology rules out collective services and that an explicit statement to this effect should be added to the manual.

2.4.2 Recommended modifications in the ESSPROS Manual/legislation

It was proposed that the following paragraph should have been added after §100 of part I to define collective services and inform that they do not form part of the social benefits to be recorded in ESSPROS:

§100bis Collective services are services for collective consumption that are provided simultaneously to all members of the community or all members of a particular section of the community (e.g. all
households living in a particular region). In ESSPROS social benefits refers only to goods and services for individual consumption and therefore excludes collective services.

No changes to the ESSPROS legislation are required.

2.5. Examples

2.5.1 Citizens Information Board, Ireland

In Ireland the Department of Social Protection (DSP) provides a grant to the Citizens Information Board. In 2011 this amounted to EUR 45 million.

The ‘Citizens Information Board’ is a government run service which provides information, advice and advocacy on a broad range of public and social services in Ireland. It also funds and supports the Money Advice and Budgeting Service (MABS) and the National Advocacy Service for People with Disabilities (http://www.citizensinformation.ie/en/about_citizens_information.html). The advice it provides is wide ranging so that advice in relation to social protection only constitutes a small part of the service. Advice is provided through the organisations website, via telephone and from local centres. It therefore appears to be provided simultaneously to the general public and is not targeted at specific groups of individuals or households.

On this basis the ‘Citizens Information Board’ can be identified as a collective service as defined in §3.102 of ESA 2010 that is not provided directly to protected persons. It therefore should be considered outside the scope of ESSPROS. There may be a small part of the service which does not constitute a collective service and which is provided directly to specific beneficiaries. However, it is safe to assume that this is insignificant and identifying the expenditure corresponding to this would not be feasible so for practical reasons it is better to exclude it.
3.1. Summary

The ESSPROS Manual and user guidelines (2012 edition)\(^{(16)}\) provided a definition of *means-tested social benefits* but in doing so used some terms/phrases that are potentially open to different interpretations. Two points warranted further clarification to ensure consistent application of the guidelines: (1) the meaning of implicit conditionality alluded to in the definition and (2) whether the conditionality based on income/wealth applies only to entitlement or also to calculation of the amount of benefit.

The ESSPROS Task Force in November 2015 agreed that appropriate clarifications should have been added to Part 1 of the ESSPROS Manual and recommendations were made accordingly.

3.2. Problem statement

A definition of means-tested social benefits is provided in §117 of Part 1 of the ESSPROS Manual – 2012 edition:

§117  *Means-tested social benefits* are social benefits which are explicitly or implicitly conditional on the beneficiary's income and/or wealth falling below a specified level.

This refers to explicit or implicit conditionality based on the beneficiaries' income/wealth but the ESSPROS Manual offered no further guidance on how to interpret this.

Further, the definition was open to interpretation as to which types of means-testing were covered. The reference to conditions based on 'a specified level', which §117A clarifies may vary by benefit, by scheme or according to family composition, tended to imply that the ESSPROS definition refers only to conditions dealing with entitlement, rather than also to conditions determining the amount of benefit:

§117A This specified level is not necessarily uniquely defined at the national level; it may change from scheme to scheme and may even differ between various types of benefit provided by a single scheme. Usually, the specified level takes account of the beneficiary's family composition.

However, it was not clear if this implied that means-tested benefits were conditional only on entitlement or if conditions determining both entitlement and amount were covered. Finally, it was also not explicit that conditions determining only the amount of benefit were excluded from the concept.

3.3. Analysis

3.3.1 Implicit vs explicit means-testing

§117 referred to explicit or implicit conditionality based on the beneficiaries' income/wealth but the 2012 ESSPROS Manual offered no further guidance on how to interpret this. Logically, explicit conditionality can be understood to mean that the rules associated with a benefit include conditions that specifically refer to a beneficiaries’ income/wealth and restrict access to the benefit on this basis. Implicit conditionality is less clear but can reasonably be understood to refer to cases where the rules on access to a benefit include conditions that do not directly reference a beneficiary’s income/wealth but either reference situations that imply previous testing of income/wealth (e.g. the benefit is only available to persons already in receipt of another means-tested benefit such as income support) or reference characteristics of the individual that may be considered a proxy for income/wealth (e.g. homelessness or refugee status).

3.3.2 Entitlement, amount or both

As noted in a 2013 review of means-testing undertaken in the context of the MISSOC database, a broad interpretation of means-testing encompasses conditions that affect either entitlement to a benefit or the amount of benefit or both. These are combined in three types of income/wealth-related rules associated with social benefits:

1. Income/wealth is used to determine only entitlement: Eligible persons with an income/wealth above a certain threshold are not entitled to receive any benefits.

   An example is the ‘monthly allowance for a child’ (Месечна добавка за дете) in Bulgaria (scheme 12 – 1152113). Entitlement is dependent on the average monthly income of the family for the last 12 months being less than or equal to a specific income level defined in the annual state budget. The amount paid is a flat-rate dependent on the number of qualifying children in the family.

14. Income/wealth is used to determine entitlement and amount: The amount of benefit received is degressively linked to income/wealth and tapered to zero — i.e. eligible persons with income/wealth above a certain threshold have no entitlement.

   An example is the child allowance (barnabætur) in Iceland (scheme 3 – 1152113). The qualitative information informs that ‘where a couple’s annual income (in 2010) exceeds ISK 3 600 000 (€ 22 398) and that of a single parent ISK 1 800 000 (€ 11 199) the allowance will be reduced by 3 per cent of the earnings exceeding the maximum amount for one child, 5 per cent for two children and 7 per cent for three or more children between 0 and 18 years.’ Clearly this information is out of date and the July 2015 update of MISSOC indicates that the thresholds have been increased and the rate of reduction increased to 4 % (and 6 %/8 %). Irrespective of this, the point is that if the parents’ income is high enough the value of the reduction will match or exceed the value of the benefit so that there is no entitlement. Although it is not explicitly defined in this case, this effectively equates to an income threshold for entitlement.

15. Income/wealth is used to determine only the amount of benefit received: The amount of benefit

(17) http://www.missoc.org/INFORMATIONBASE/OTHEROUTPUTS/ANALYSIS/2013/MISSOC%20Analysis%202013_1%20EN.pdf
Definition of means-tested benefits

A limited review of family/child allowances reported in ESSPROS found that benefits using only the first two types appeared to have been reported as means-tested benefits in ESSPROS, though the information available to make this assessment was limited as the qualitative information often failed to describe the type of means-testing applied to specific benefits in detail. Moreover, what was not entirely clear is whether countries reporting means-tested benefits based on entitlement only (type 1) might also report as non-means tested benefits that have amount related conditions (types 2 and 3). Although the qualitative information related to non-means tested family/child allowances did not include any obvious reference to conditions regarding either entitlement (to be expected) or amount, it was possible that such conditions existed but were not considered relevant.
3.4. Conclusions

3.4.1 Main conclusions

The definition of means-tested social benefits provided in §117 of Part 1 of the 2012 edition of the ESSPROS Manual and user guidelines \(^{(18)}\) did not provide adequate clarification of (1) the meaning of implicit conditionality and (2) whether the conditionality based on income/wealth applies only to entitlement or also to calculation of the amount of benefit.

The ESSPROS Task Force of November 2015 discussed the issues laid out in the above analysis and concluded the following:

- **Explicit and implicit conditionality**: The Task Force agreed with the interpretation of explicit and implicit conditionality presented and that it would be useful to clarify the meaning of implicit means-testing in the guidelines.

- **Types of means-testing covered**: The Task Force agreed that means-tested benefits should be limited to those of type 1 and type 2 as entitlement is the key to the definition. The guidelines need to be improved to ensure that this is clear. Type 3 should not be considered as means-tested benefits in ESSPROS. Indeed, the incidence of type 3 benefits is so high that considering this to be means-testing would completely devalue the distinction. For example, in France all family/children benefits would be means-tested benefits if the definition also covered type 3.

3.4.2 Recommended modifications in the ESSPROS Manual/legislation

Based on the conclusions of the consultation with the ESSPROS Task Force, the 2012 ESSPROS Manual should have been adjusted in order to clarify the definition of means-testing. The definition provided in §117 is used in 1.3.2.3 of Commission regulation (EC) No 10/2008 so that changing this paragraph would also require a change in the legislation. To avoid this, it was proposed to add the following paragraphs to section 7.3 of part 1 the ESSPROS Manual:

\[\text{§117bis Means-tested social benefits refer to benefits where entitlement is explicitly or implicitly conditional on the beneficiary’s income/wealth. This covers cases where income/wealth is used to determine (1) only entitlement or (2) both entitlement and amount. The latter case refers to a benefit that is degressively linked to income/wealth and reduced to zero as income rises, the point at which the amount tapers to zero being the level of income/wealth at which there is no entitlement. Benefits where income/wealth is used to determine only the amount of benefit received (i.e. degressively linked to income/wealth but only to a certain minimum level so that there is always some entitlement) are not considered to be means-tested.}\]

\[\text{§117ter Implicit conditionality in the case of means-tested benefits refers to rules do not directly reference a beneficiary’s income/wealth but either reference situations that imply previous testing of income/wealth (e.g. the benefit is only available to persons already in receipt of another means-tested benefit such as income support) or reference characteristics of the individual that may be considered a proxy for income/wealth (e.g. homelessness or refugee status).}\]

\(^{(18)} \) http://ec.europa.eu/eurostat/web/products-manuals-and-guidelines/-/KS-RA-12-014
3.5. Examples

3.5.1 Means-tested social benefits, Italy

Italy noted that whilst §117 appears to imply that benefits should only be considered as means-tested if the income/wealth of the beneficiary is below a specific threshold (i.e. income/wealth affects entitlement) this was not the case for all benefits classified as means-tested in Italy as in some cases income/wealth affects only the amount of benefit received (i.e. there is always some minimum entitlement). It was this observation that prompted Eurostat to review the definition of means-tested benefits, culminating in the recommendations detailed in section 3.4 above, which should now be applied by all countries.

3.5.2 Means-tested social benefits, Romania

In Romania examples of means-tested benefits are:

- Allowance for family support (scheme 31) that is an allowance granted depending on the number of family members and their income
- The guaranteed minimum income (scheme 26), where both the social aid and the aid for heating are granted depending on the number of family members and their income.
4 Withheld taxes and withheld social contributions

4.1. Summary

The 2012 edition of the ESSPROS Manual and user guidelines\(^{(19)}\) did not clearly distinguish transactions performed by schemes on their own behalf for the benefit of their beneficiaries from transactions performed by schemes on behalf of their beneficiaries. As a result it did not provide adequate clarification of the treatment of withheld social contributions and how these are distinguished from re-routed contributions. The ESSPROS Task Force in November 2015 agreed that changes to Part 1 and Appendix IV of the ESSPROS Manual were needed to clarify references to re-routed contributions and to taxes and social contributions withheld at source.

4.2. Problem statement

Re-routed social contributions are defined in §82 and §104 of Part 1 of the ESSPROS Manual – 2012 edition as ‘payments that a social protection scheme makes to another scheme in order to maintain or accrue the rights of its protected people to social protection from the recipient scheme.’ This should be interpreted as payments made by the scheme on its own behalf for the benefit of its beneficiaries (i.e. payments that are a liability of the scheme and not the protected persons), which corresponds to the concept of re-routing.

However, §82 and §82B use the term ‘on behalf of’ suggesting that social contributions payable by the protected persons, withheld at source by the scheme and transferred to the recipient scheme on behalf of the beneficiaries (i.e. payments that are a liability of the protected persons and not the scheme), could also be recorded as re-routed social contributions. In other words, according to the 2012 ESSPROS Manual, codes 31 (in both the expenditure and the receipts side of the ESSPROS accounts\(^{(20)}\) could be interpreted as including not only re-routed social contributions (liability of the scheme) but also social contributions withheld at source by the scheme paying out the benefits and transferred to a recipient scheme on behalf of the protected persons (liability of the protected persons).

This implied that withheld social contributions could potentially be recorded under two different codes in the receipts side of the ESSPROS accounts of the recipient scheme (see Table C in Part 1 of the ESSPROS Manual 2012):

- code 123: ‘social contributions by pensioners and other protected persons’ (see §75A)
- code 31: ‘social contributions re-routed from other schemes’ (see §82B (ii))

\(^{(19)}\) \url{http://ec.europa.eu/eurostat/web/products-manuals-and-guidelines/-/KS-RA-12-014}

Further, they could be recorded under two different codes in the expenditure side of the ESSPROS accounts of the scheme paying out the benefits (see Table E in Part 1 of the ESSPROS Manual 2012):

- code 1: ‘social benefits’ (see §129)
- code 31: ‘social contributions re-routed to other schemes’ (see §82B (i)).

Another implication of this was that in order to ensure consistent treatment between taxes and social contributions withheld at source, withheld taxes may be recorded under two different codes in the expenditure side of the ESSPROS accounts of the scheme paying out the benefits (see Table E in Part 1 of the ESSPROS Manual 2012):

- code 1: ‘social benefits’ (see §129)
- code 42: ‘other’ (see §108)

Further, Appendix IV of the 2012 ESSPROS Manual (‘Methodology of the module on net social protection benefits (restricted approach)’) provided the following guidance under §24-25:

§24 Withholding taxes are taxes due on income from social benefits that are calculated in advance of payment, withheld by the payment authority and paid directly to the tax authority on behalf of the recipient. Withholding taxes should not be taken into account when calculating taxes paid on social benefits in the case they are not included in the gross amount paid to the recipient, which is effectively already net of these taxes. In this case to include withholding taxes in the net module would introduce a double counting.

§25 The same applies to re-routed social contributions, which are not included in gross benefits paid to recipients but transferred directly to the appropriate social protection scheme.

The wording of §24 ‘… in the case they are not included …’ appeared to imply that the treatment of withheld taxes was not clearly defined in the Core System — they may or may not be included in gross benefits reported in the Core System. This was not ideal and a single approach should have been made clear in the Core system and reiterated in Appendix IV.

4.3. Analysis

§129 in Part 1 of the ESSPROS Manual – 2012 edition states that ‘the Core system records social benefits without any deduction of taxes and other obligatory levies payable on benefits by beneficiaries.’ This paragraph makes clear that in the Core System, social benefits received by individuals or households should include the value of any obligatory levies (taxes and social contributions) that the beneficiaries are liable to pay on the benefits. This is consistent with the application of the ‘gross recording principle’ in the Core System (ESSPROS Manual 2012, Part 1, §135).

Indeed, it is not the role of the Core System but of the net benefit module (restricted approach) to quantify the ultimate value of the benefits receivable by individuals or households, after the deduction of obligatory levies payable on social benefits by beneficiaries (ESSPROS Manual 2012, Appendix IV, §4). This is achieved by calculating appropriate average itemised tax rates (AITRs) and average itemised social contribution rates (AISCRs) which are applied to the gross value of each social benefit to derive their net value (ESSPROS Manual 2012, Appendix IV, §38).

The provision of §129 is absolute, i.e. without any exception. This means that §129 refers not only to the obligatory levies payable on benefits on their own behalf by beneficiaries but also to obligatory levies payable by beneficiaries and withheld at source by the scheme and transferred to a corresponding collection authority (e.g. tax office, social protection scheme…etc.) on behalf of the beneficiaries.
This interpretation is also confirmed by §75A in Part 1 of the ESSPROS Manual 2012 (‘Social contributions paid by protected persons may be deducted at source from pay-rolls or collected separately. …’). This paragraph has an explanatory role and does not seem to point to an exceptional treatment of social contributions deducted at source as opposed to social contributions ‘separately’ payable by households on their own behalf. If a different treatment was intended then this would have been expressed here.

This interpretation was further confirmed when §20.160 of ESA 2010 was considered. It clarifies that the procedure of withholding taxes at source does not modify the legal and economic reality of the transaction — i.e. these taxes are payable by beneficiaries (and not by the scheme).

For the sake of completeness, it is useful to also consider obligatory levies paid by the scheme on its own behalf. Here a distinction needs to be made between re-routed social contributions and other obligatory levies paid by the scheme on its own behalf. Generally, obligatory levies payable by the scheme on its own behalf have to be classified under expenditure item 42 ‘Other’ (ESSPROS Manual 2012, Part 1, §108). Exceptionally, social contributions payable by the scheme on its own behalf for the benefit of its beneficiaries are defined as ‘re-routed social contributions’ and therefore reported under a separate sub-category of scheme expenditure (ESSPROS Manual 2012, Part 1, §104). Here, the crucial point that differentiates re-routed social contributions (§104) from social contributions withheld at source (§75A) is that re-routed contributions are a liability of the scheme and not the protected person, they do not constitute part of the gross value of the benefit due and are instead paid by the scheme on its own behalf, in addition to the benefit due to the beneficiary.

Note that this additional payment (re-routed social contributions) is made by the scheme for the benefit of its beneficiaries, in the same way that employers social contributions are payments made by the employer on its own behalf (liability of the employer) for the benefit of its employees. This parallel is reinforced by the use of the concept of ‘re-routing’ for both types of transactions (see §1.74 of ESA 2010) (21).

Overall the treatment intended by the ESSPROS Manual – 2012 edition can be summarised as shown in Table 2.

Table 2 - Treatment of taxes and social contributions paid by social protection schemes

<table>
<thead>
<tr>
<th>Type of levy</th>
<th>Liability</th>
<th>Expenditure</th>
<th>Receipts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxes</td>
<td>Protected person</td>
<td>Social benefit expenditure of the scheme that withholds the levies.</td>
<td>N/A</td>
</tr>
<tr>
<td>Taxes</td>
<td>Scheme</td>
<td>Other expenditure of the scheme liable to pay the levies.</td>
<td>N/A</td>
</tr>
<tr>
<td>Social contributions</td>
<td>Protected person</td>
<td>Social benefit expenditure of the scheme that withholds the levies.</td>
<td>Social contribution receipts of the scheme receiving the contributions.</td>
</tr>
<tr>
<td>Social contributions</td>
<td>Scheme</td>
<td>Re-routed contributions expenditure of the scheme liable to pay the levies.</td>
<td>Re-routed contribution receipts of the scheme receiving the contributions.</td>
</tr>
</tbody>
</table>

(21) The re-routing technique is used in national accounts to bring out the economic substance of a transaction beyond its legal reality. For example, when the employer has to pay employers social contributions to a scheme, the employer is legally liable, while the employees have no legal role in this transaction; however, in economic terms, the employees are indeed the only beneficiaries of the transaction.
4.4. Conclusions

4.4.1 Main conclusions

The 2012 ESSPROS Manual did not clearly distinguish transactions performed by schemes on their own behalf for the benefit of their beneficiaries from transactions performed by schemes on behalf of their beneficiaries. As a result it did not provide adequate clarification of the treatment of withheld social contributions and how these are distinguished from re-routed contributions. This means that the methodology left open the possibility of two different ways of reporting withheld social contributions.

An in depth analysis of the issue suggested that the correct approach should be that presented in Table 2 in section 4.3. The ESSPROS Task force of November 2015 agreed with this analysis and supported draft proposals to modify the 2012 ESSPROS Manual presented at the meeting.

4.4.2 Recommended modifications in the ESSPROS Manual/legislation

The ESSPROS Task Force in November 2015 agreed to the following proposals to modify the manual:

1. Amendments to Part 1 of the ESSPROS Manual to clarify existing paragraphs by systematically using the expression ‘payable by ENTITY A (on its own behalf) to ENTITY C, for the benefit of ENTITY B’ when defining ‘re-routed transactions’ and the expression ‘payable (by ENTITY B and withheld at source) by ENTITY A (and transferred) to ENTITY C on behalf of ENTITY B’ when defining ‘taxes and social contributions withheld at source’.

2. Amendments to Appendix IV of the ESSPROS Manual to rephrase §24 and § 25 so that it is fully consistent with the suggested treatment in the Core System. Specifically, it should be clear in the Net module methodology that the Core System records withheld taxes and social contributions as part of social benefits and, as a consequence, the AITRs and AISCRs in the Net module should take into account the effect of withheld taxes and social contributions.

On this basis, the following amendments to the ESSPROS Manual were proposed (changes compared to the 2012 manual are shown in red):

Part 1:

§75bis Social contributions which are the liability of the protected persons but withheld at source by the social protection scheme and transferred to other social protection schemes on behalf of protected persons are recorded as social contributions paid by protected persons in the ESSPROS data on receipts of the recipient scheme.

§82 Re-routed social contributions are payments that a social protection scheme makes on its own behalf to another scheme in order to maintain or accrue the rights of its protected people to social protection from the recipient scheme. Even if such payments only involve one transaction from one scheme to another, the ESSPROS records the following two flows of equal value:

1. in the expenditure of the paying scheme, the amount of transfers to other schemes made on its own behalf for the benefit of protected people (Social contributions re-routed to other
2. in the receipts of the recipient scheme, social contributions paid by the paying schemes on their own behalf for the benefit of protected people (Social contributions re-routed from other schemes ref. 31).

§82B In practice, the following two cases fall within this category:

1. social contributions that social protection schemes pay on their own behalf for the benefit of their beneficiaries to other social protection schemes. For example, when an unemployment benefit scheme pays social contributions to the sickness scheme on behalf of its beneficiaries;

2. the transfer of funds relating to an insured person moving from one scheme to another. In the United Kingdom, payments of this type occur when an insured person decides to opt out of SERPS and out of their Occupational pension plan in order to set up an Appropriate Personal Pension Plan. In this case, the National Insurance Fund transfers his/her social contributions to the selected Plan.

§82bis Social contributions which are the liability of the protected persons but are withheld at source by the social protection scheme and transferred to other social protection schemes on behalf of protected persons are recorded in the ESSPROS data on receipts as social contributions paid by protected persons (see paragraph 75bis) and not as re-routed social contributions.

§83A Transfers from/to other schemes exclude:

1. payments for delivery of goods or services (there is a quid pro quo);

2. the transfer of funds relating to an insured person moving from one scheme to another (this is recorded as Social contributions re-routed from other schemes, see paragraph 82);

3. social contributions that social protection schemes pay on their own behalf for the benefit of their beneficiaries to other social protection schemes. These payments are treated analogous to case (ii) as Social contributions re-routed from other schemes;

4. payments made by the government acting in its capacity of public authority rather than as an administrator of social protection schemes. Such payments are classified as General government contributions;

5. payments between schemes as a consequence of transactions carried out by one scheme on behalf of the other, for example, when a lower government scheme acts as an intermediary for a central government scheme. These payments are not shown, because the ESSPROS only records transactions in the accounts of the principal transactors. See paragraphs 137 to 139;

6. unrequited payments that resident social protection schemes receive from/pay to non-resident schemes. As the latter belong to the sector Rest of the World (see chapter 9), which is defined as a grouping of units without any characteristic functions and resources, they are not identified separately. The payments in question will therefore be classified as Other receipts.

§104 Re-routed social contributions are payments that a social protection scheme makes on its own behalf to another scheme in order to maintain or accrue the rights of its protected people to social protection from the recipient scheme. For a more detailed explanation, see paragraph 82.

§129 The Core system records social benefits without any deduction of taxes and other obligatory levies payable on benefits by beneficiaries.
§129bis Taxes and social contributions which are the liability of the protected persons but withheld at source by the social protection scheme and transferred to other social protection schemes on behalf of protected persons are recorded as part of expenditure on social benefits of the scheme that withholds the taxes and contributions.

Appendix IV:
§24 Withheld taxes and social contributions are taxes and social contributions due on income from social benefits that are calculated in advance of payment, withheld by the payment authority and paid directly to the tax collection authority (either tax authority or another social protection scheme) on behalf of the recipient. Withheld taxes and social contributions are included in the gross benefits paid to recipients reported in the Core System and should therefore be taken into account when calculating taxes and social contributions paid on social benefits, in the case they are not included in the gross amount paid to the recipient, which is effectively already net of these taxes. In this case to include withholding taxes in the net module would therefore introduce a double counting.

§25 The same applies to Re-routed social contributions, which are not included in gross benefits paid to recipients reported in the Core System but transferred directly to the appropriate social protection scheme, should not be taken into account when calculating taxes and social contributions paid on social benefits.

No modifications to the legislation are required to support these changes.

4.5. Examples

4.5.1 Pensioners Solidarity Contribution, Greece

The issue concerning the treatment of withheld taxes and social contributions was originally raised as a result of discussions of how to treat a special case in Greece.

In Greece, Act No. 3863/2010 introduced a Pensioners Solidarity Contribution (PSC) payable on all pensions of €1,400 or more from 1st August 2010 in order to fund deficits across the pension system. The tiered contribution rates set in the original act were increased a year later in Act No. 3986/2011. The amounts due, which represent a liability of the beneficiary, are withheld at source from the gross amount of pensions and transferred directly by the pension scheme to the state insurance fund for intergenerational solidarity (ΑΚΑΓΕ) established in 2008 by Law 3655/2008. This contribution is part of the gross amount of pensions and therefore does not result in a reduction in the burden of pension expenditure for the pension schemes.

For the purpose of compiling national accounts, analysis concluded that the PSC is not a ‘social contribution’ but a tax payable on income (pensions) by beneficiaries (pensioners). Indeed, first of all, the payment does not give any right to future social security benefits and, as a consequence, cannot be considered as a ‘social contribution’. Second, the tax is not payable by the scheme, since it does not reduce the amount of the ‘gross pensions’ payable by the scheme to the beneficiaries. Finally, the ΑΚΑΓΕ is not to be considered as a social security scheme and should be classified as a Central Government unit.

Eurostat therefore recommended that Greece record gross pensions (i.e. including the PSC) as ‘social benefits other than social transfers in kind’ (D.62) payable to households. The ‘contribution’ (PSC) is then recorded as a tax on income (D.51) payable by households to Central Government.
The suggested treatment of PSC in ESSPROS mirrors the treatment suggested in national accounts. The PSCs paid to AKATΕ do not seem to serve as a means to secure individual entitlement to social benefits and cannot be interpreted as social contributions according to the definition provided in §79A of Part 1 of the ESSPROS Manual 2012. On this basis, they constitute either ‘taxes’ or ‘other obligatory levies’ payable on benefits by beneficiaries (using the terminology of §129 of part 1 of the ESSPROS Manual 2012) and should be reported as part of the gross benefits in the ESSPROS Core System and taken into account in the AITR applied in the ESSPROS net social protection benefits module.

4.5.2 Contributions associated with unemployment benefits, Spain

In Spain the Public Employment Service (SEPE) pays social security contributions associated with the unemployed while they receive unemployment benefits to secure entitlement to social benefits. These include two types of social contributions:

- Social contributions that are a liability of the unemployed person but which are withheld by SEPE to be transferred to the Social Security fund on their behalf.
- Social contributions that are the liability of the scheme which are re-routed by SEPE to the Social Security fund. These are similar in nature to employer contributions.

The recent review of the ESSPROS Manual 2012 and the changes to the ESSPROS Manual detailed above made clear that in the ESSPROS Core system:

- Social contributions that are a liability of the unemployed person but which are withheld by SEPE should be reported as part of the unemployment benefit expenditure of the scheme that withholds the levies and as social contribution receipts of the scheme receiving the contributions.
- Social contributions that are the liability of the scheme which are re-routed by SEPE should be reported as re-routed contributions expenditure of the scheme liable to pay the levies and as re-routed contribution receipts of the scheme receiving the contributions.

Further, the AISCER applied to unemployment benefits in the ESSPROS module on net social benefits should take into account the contributions withheld by SEPE.
5.1. Summary

The receipts side of ESSPROS Core System includes a classification for social contributions paid by pensioners and other persons (2123000). This data is a partial counterpart to the social contributions inferred by applying the average itemised social contribution rates (AISCRs) reported in the ESSPROS Net module to the ESSPROS Core system data on gross social benefits.

An assessment of this correspondence was presented to the 2017 Working Group on Social Protection Statistics (see DOC SP-2015-06_Annex 5). In follow-up, Eurostat assisted Latvia in a practical exercise to assess the differences between the reported receipts and inferred contributions in their national data.

While there is no way to systematically cross-check the data to clearly identify potential issues in one or other element, comparison of the reported receipts and inferred contributions can be a useful indication of plausibility. This chapter provides guidance on the correspondence in the data and how it can be used to assess plausibility.

5.2. Problem statement

The classification social contributions paid by pensioners and other persons (2123000) in the receipts side of ESSPROS Core System should have at least a partial counterpart in the social contributions inferred by applying the AISCRs reported in the ESSPROS Net module to relevant gross social benefits. However, the extent to which the two figures should be aligned is not immediately clear. A review of the ESSPROS methodology and data was therefore undertaken in order to assess whether a comparison of the data would be feasible and meaningful, and to clarify what issues might need to be taken into account.

5.3. Analysis

The analysis presented below first reviews the methodological specifications for social contributions paid by pensioners and other persons (2123000) and for the average itemised social contribution rates (AISCR). It then uses this to evaluate the extent to which data for the latter can be compared to the value of social contributions derived by applying the former to data on gross benefit expenditure. Lastly, on the basis of this analysis, a guide to evaluating the plausibility of the data is presented.
5.3.1 Social contributions paid by pensioners and other persons (2123000)

Social contributions (2100000) are defined in part 1, §70 of the 2016 ESSPROS Manual as ‘costs incurred by employers on behalf of their employees or by protected persons to secure entitlement to social benefits’.

Social contributions paid by pensioners and other persons (2123000) are a detailed sub-category of social contributions paid by protected persons and are defined in §75-76 and §76A:

§75 Social contributions paid by protected persons (ref. 12) are payments made by individuals and households to social protection schemes in order to obtain or keep the right to receive social benefits.

§76 Social contributions paid by protected persons are broken down by category into:

1. (i) Social contributions paid by Employees (ref. 121);
2. (ii) Social contributions paid by Self-employed persons (ref. 122);
3. (iii) Social contributions paid by Pensioners and other persons (ref. 123).

§76A These categories refer to the circumstances in which a person contributes to the social protection scheme and not to the person’s wider circumstances. For instance, someone receiving an old age pension may still pay employees’ social contributions (ref. 121) through a full-time or part-time job.

Social contributions paid by pensioners and other persons (2123000) therefore covers all social contributions paid by protected persons (both directly and withheld at source by a third party) except those paid in relation to income from employment (as an employee or self-employed). This includes:

- **Compulsory social contributions** paid as a result of receiving **social benefits** with the exception of those associated with the receipt of **employment-related social benefits** stemming from an ongoing employer-employee relationship, particularly those benefits intended as wage replacements such as paid sick leave and maternity leave, which may instead be reported under **social contributions paid by employees** (2121000).

- **Compulsory social contributions** paid as a result of receiving income **other** than that from employment or social benefits.

- **Compulsory social contributions** paid as a result of other factors unrelated to income.

- **Voluntary social contributions** made by a protected person on their own initiative.

§76A specifically notes that contributions paid by an individual (protected person) may need to be split between the sub-categories of social contributions paid by protected persons if they derive from multiple sources of income (work and other).

5.3.2 Average itemised social contribution rates (AISCR)

Appendix IV of the 2016 ESSPROS Manual, §15, states that ‘the net benefits module (restricted approach) determines the final net value of social benefits by deducting from gross social benefits the part of the combined value of two forms of obligatory levy applied by general government to the income of fiscal units that relates to liable cash social benefits:

1. Taxes on income
2. Social contributions’

Further, §17 and §18 clarify that social contributions in the net benefits module refer only to **compulsory social contributions paid by protected persons** as defined in part 1, §75 of the 2016 ESSPROS Manual.
Social contributions (shown above) and therefore that voluntary contributions are not included.

Social contributions are taken into account in the net module via the **average itemised social contribution rates (AISCR)** which are defined in §40 as follows:

§40 ‘The AISCR for a benefit (or group of benefits) is defined as the sum of social contributions paid on that benefit by recipients, divided by the total income from that benefit (i.e. gross benefits received). A social benefit that is not liable to social contributions will always have an AISCR of zero.’

AISCRs can be applied to any detailed cash benefit classification.

### 5.3.3 Comparing the data

The methodological specifications imply limited scope to directly compare data on **social contributions paid by pensioners and other persons (2123000)** in the Core system with the social contributions inferred by applying the **average itemised social contribution rates (AISCRs)** in the net module because of potential differences in both directions:

- ‘**Social contributions paid by pensioners and other persons**’ (2123000) excludes contributions paid on employment-related benefits which are included in AISCRs.
- ‘**Social contributions paid by pensioners and other persons**’ (2123000) includes voluntary contributions which are excluded from AISCRs.
- ‘**Social contributions paid by pensioners and other persons**’ (2123000) includes social contributions paid as a result of receiving income other than that from employment or social benefits, or paid as a result of other factors unrelated to income. These, which are excluded from AISCRs, seem unlikely to occur in practice and are thus expected to be negligible.

In order to be able to make any reliable comparison it would be necessary to split data in the net module and isolate AISCRs related to benefits that are not employment-related. If this can be achieved then, in case of at least one non-zero AISCR, **social contributions paid by pensioners and other persons (2123000)** should be positive. Note, however, that the inverse would not hold because **social contributions paid by pensioners and other persons** (2123000) could be non-zero due to voluntary contributions or other compulsory contributions (not based on income from employment or social benefits) even if all AISCRs are zero. Moreover, at present there is no clear way to isolate benefits based on their links to employment.

Overall, an automated validation rule to systematically compare data on **social contributions paid by pensioners and other persons** (2123000) in the Core system with the social contributions inferred by applying the AISCRs in the Net module to gross social benefits does not seem viable. Indeed, if the value of social contributions deducted from gross benefits using the AISCRs in the Net module is compared with **social contributions paid by pensioners and other persons** (2123000) important differences in both directions can be observed (see Table 3). In order to assess these differences, it would be necessary to know what each country reports under **social contributions paid by pensioners and other persons** (2123000).
Table 3 – Contributions in Net module and Core system, 2013

<table>
<thead>
<tr>
<th></th>
<th>INDEX</th>
<th>NET Module</th>
<th>Core System</th>
<th>Higher value</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(Sum across detailed cash benefits of Gross * AISCR/100)</td>
<td>(2123000)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>BE</td>
<td>1,193.4</td>
<td>1,460.5</td>
<td>Core</td>
<td></td>
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<tr>
<td>BG</td>
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<td>NET</td>
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<tr>
<td>CZ</td>
<td>1,066.2</td>
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<td>0.0</td>
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<td>DE</td>
<td>45,168.4</td>
<td>50,358.7</td>
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5.3.4 Plausibility checks

The theoretical differences observed imply that plausibility checks could be applied in case of large differences in order to verify that there are no issues in the data.

For instance, if social contributions paid as a result of receiving income other than that from employment or social benefits or paid as a result of other factors unrelated to income are assumed to be negligible then, in theory, social contributions inferred by the application of AISCRs to gross social benefits should be higher than social contributions paid by pensioners and other persons (2123000) in countries where compulsory contributions on employment-related social benefits exceed voluntary social contributions and lower in the reverse case.

On this basis, countries for which there are particularly significant differences in the actual and inferred contributions could be asked to confirm that the difference observed provides a plausible reflection of the situation in their countries. For example, the current data for France imply relatively high levels of voluntary social contributions while those for Hungary imply relatively high levels of compulsory contributions on employment-related social benefits.

Adding possible practical reasons to the theoretical reasons, the following scenarios could potentially explain, in general, why social contributions paid by pensioners and other persons (2123000) may be higher than social contributions inferred by applying the average itemised contribution rates (AISCRs) to gross social benefits:

1. A high level of voluntary contributions (covered only in the Core system data but not in the AISCRs in the Net module) exceeding the level of contributions paid in relation to income from employment-related benefits (covered in the AISCRs in the Net module).
2. Compulsory social contributions paid as a result of receiving income other than that from employment or social benefits or paid as a result of other factors unrelated to income are reported in the Core System. These are not covered in the contributions derived by applying the AISCRs in the Net module to gross expenditure on social benefits.
3. AISCRs are missing or under estimated because compulsory contributions paid directly to the collection authority by beneficiaries of social protection as a result of the income they receive from social benefits have not been taken into account while these are correctly reported in the Core system.
4. AISCRs are missing or under estimated because compulsory contributions withheld at source by the organisation responsible for disbursing social benefits have not been taken into account while these are correctly reported in the Core system.
5. Re-routed contributions have been mistakenly included under social contributions paid by pensioners and other persons (2123000) in the Core system and correctly excluded from the AISCRs in the Net module.
6. Social contributions paid by employees on their work income have been mistakenly reported under social contributions paid by pensioners and other persons (2123000) but those associated with non-benefit income are correctly excluded from the AISCRs in the Net module.
7. Gross expenditure in the ESSPROS Core system for benefits with AISCRs exclude either withheld contributions or some expenditure on benefits paid to beneficiaries which is subject to social contributions paid directly by beneficiaries.
8. Other mistake in the data for social contributions paid by pensioners and other persons (2123000) or the calculation of the AISCRs.

Similarly, the following scenarios could potentially explain, in general, why social contributions inferred by applying the average itemised contribution rates (AISCRs) to gross social benefits may be higher than social contributions paid by pensioners and other persons (2123000):
in the AISCRs in the Net module) exceeding the level of voluntary contributions (covered only in the Core system data but not in the AISCRs in the Net module).

2. The social contributions paid by pensioners and other persons (2123000) are under estimated because compulsory contributions paid directly to the collection authority by beneficiaries of social protection as a result of the income they receive from social benefits have not been taken into account while these are correctly taken into account in the AISCRs in the Net module.

3. The social contributions paid by pensioners and other persons (2123000) are under estimated because compulsory contributions withheld at source by the organisation responsible for disbursing social benefits have not been taken into account while these are correctly reported in the AISCRs in the Net module.

4. Re-routed contributions have been mistakenly taken into account in the AISCRs in the Net module and correctly excluded from social contributions paid by pensioners and other persons (2123000) in the Core system.

5. Social contributions paid by employees on their work income have been mistakenly taken into account in the AISCRs in the Net module but are correctly excluded from social contributions paid by pensioners and other persons (2123000) in the Core system.

6. Employers social contributions have been mistakenly taken into account in the AISCRs in the Net module but are correctly excluded from social contributions paid by pensioners and other persons (2123000) in the Core system.

7. Gross expenditure in the ESSPROS Core system for benefits with AISCRs include some expenditure which is not subject to social contributions paid directly by beneficiaries but this has not been factored into the calculation of the AISCR.

8. Other mistake in the data for social contributions paid by pensioners and other persons (2123000) or the calculation of the AISCRs.

5.4. Conclusions

5.4.1 Main conclusions

The classification for social contributions paid by pensioners and other persons (2123000) on the receipts side of ESSPROS Core System is a partial counterpart to the social contributions inferred by applying the AISCRs reported in the ESSPROS Net module to relevant gross social benefits. While there is no way to systematically cross-check the data to clearly identify potential issues in one or other element, comparison of the reported receipts and inferred contributions can be a useful indication of plausibility.

With this in mind, a plausibility check has been devised. This makes use of list of reasons (both theoretical and practical) to explain, in general, why social contributions paid by pensioners and other persons (2123000) and social contributions inferred by applying AISCRs to gross social benefits may differ. The aim of this check is to assist countries in identifying the real reason(s) for differences and whether these result from issues in the data. It is recommended that all countries in which significant differences are observed apply this plausibility check to identify the reason for them and ensure that they are not due to errors in the data.

5.5. Examples
In the Latvian data, social contributions paid by pensioners and other persons (2123000) reported in the ESSPROS Core system amount to 39.7 million Euro in 2013 while the value of social contributions paid on social benefits received by this group, inferred by applying the average itemised contribution rates (AISCRs) in the Net module to the relevant gross benefits, is just 7.8 million Euro. Voluntary contributions are thought to be negligible so the data in the Core system and in the Net module were reviewed in detail to try and identify what is causing such a difference.

**SOCIAL CONTRIBUTIONS PAID BY PENSIONERS AND OTHER PERSONS (2123000) IN THE CORE SYSTEM**

The detailed data by scheme for social contributions paid by pensioners and other persons (2123000) in the receipts side of the Core system are presented in Table 4. This shows that such contributions represent just 6.5% of social contribution paid by protected persons (2120000) and the majority of these (78.6%) are associated with the receipts of scheme 23 (State pension insurance [Valsts pensiju apdrošināšana (VPA)]).

<table>
<thead>
<tr>
<th>Scheme Code</th>
<th>AISCR</th>
<th>Gross expenditure (million EURO)</th>
<th>Contributions (million EURO)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2120000</td>
<td>11.0</td>
<td>3.9</td>
<td>0.4</td>
</tr>
<tr>
<td>2121000</td>
<td>10.4</td>
<td>19.4</td>
<td>2.0</td>
</tr>
<tr>
<td>2121005</td>
<td>11.0</td>
<td>48.7</td>
<td>5.4</td>
</tr>
</tbody>
</table>

| Total       |       | 7.8                              |                              |

There are no footnotes associated with these data but the quality report for the Core system informs that the breakdown of social contributions (2100000) by scheme for schemes financed from state special budgets (schemes 3, 6, 10, 11, 15, 23, 24 and 25) is missing so aggregate data for social contributions by protected persons (2120000) are split across schemes according to the proportion of benefit expenditure in each.

There is therefore no evidence to suggest that there are known issues which result in over or underestimation of the total social contributions paid by pensioners and other persons (2123000) at all scheme level. However, the distribution between schemes is estimated.

**SOCIAL CONTRIBUTIONS INFERRED BY APPLYING THE AISCRS IN THE NET MODULE**

The detailed data by scheme for the benefits with a non-zero AISCR in the Net module are presented in Table 5. There are just three cases.

<table>
<thead>
<tr>
<th>Scheme Code</th>
<th>A1S1CR</th>
<th>Gross expenditure (million EURO)</th>
<th>Contributions (million EURO)</th>
</tr>
</thead>
<tbody>
<tr>
<td>10</td>
<td>1161122</td>
<td>11.0</td>
<td>3.9</td>
</tr>
<tr>
<td>10</td>
<td>1161123</td>
<td>10.4</td>
<td>19.4</td>
</tr>
<tr>
<td>15</td>
<td>1111121</td>
<td>11.0</td>
<td>48.7</td>
</tr>
</tbody>
</table>

| Total       |       | 7.8                              |                              |
The benefits which have an AISCR applied are the following according to the qualitative information:

- **Scheme 10: Passive employment policy** [Pāsīvā nodarbinātības politika (PNP)]:
  - 1161122: Severance Pay [Atlaišanas pabalsts]
  - 1161123: Satisfaction of employee’s claims from the employee claims guarantee fund [Darbinieku prasījumu apmierināšana no darbinieku prasījumu garantiju fondu] + Severance Pay (in all other cases set by the Labour Law) [Atlaišanas pabalsts (visos citos gadījumos saskaņā ar Darba likumu)].

- **Note:** only Severance Pay (in all other cases set by the Labour Law) is subject to social contributions.

- **Scheme 15: Disability pensions and sickness benefits** [Invaliditātes pensijas un slimības pabalsti (IPSP)]:
  - 1111121: Sick leave payment by the employer [Slimības pabalsts vispārējā gadījumā (no darba devēja līdzekļiem)]

There are no footnotes associated with these data but the quality report for the Net module informs that the AISCRs applied to these benefits correspond to the typical social contribution rate for employees (11%). In the case of scheme 10 – 1161123 the rate is slightly lower because the classification also includes a relatively small proportion of benefits which are not subject to social contributions and adjustments are made accordingly. As the benefits subject to social contributions (severance pay and sick leave payment by the employer) are both employment related, this method seems reasonable.

**APPLYING THE PLAUΣIBILITY CHECK AND INVESTIGATION BY LATVIA.**

In the case that applies here — e.g. social contributions paid by pensioners and other persons (2123000) are higher than social contributions inferred by applying the average itemised contribution rates (AISCRs) — the plausibility check identified in 0 proposes 8 possible explanations.

The first in the list could already be ruled out in the case of Latvia as the delegate previously informed that voluntary contributions are negligible. Further, the benefits with an AISCR applied all appear to be employment related and therefore the contributions concerned could potentially be excluded from social contributions paid by pensioners and other persons (2123000).

The method used and the AISCRs that have been applied seem reasonable, suggesting that either there are some benefits subject to social contributions that do not have AISCR applied in the Net module or there is an issue in the data for social contributions paid by pensioners and other persons (2123000) in the Core system.

Indeed, further consultation with the Latvian delegate revealed that social contributions paid by pensioners and other persons (2123000) for schemes 3, 6, 15, 23, 24 and 25 actually covered compulsory social contributions related to income from employment. This approach was applied because pension beneficiaries may still work while receiving a pension. For example, at the start of 2013 12.6 % of old age pension beneficiaries still worked while receiving an old age pension. However, on the basis of §76A, the social contributions which are currently reported under item social contributions paid by pensioners and other persons (2123000) should actually be reported under social contributions paid by employees (2121000). The data will be reviewed accordingly.
6.1. Summary

Capital transfers are a form of distributive transaction defined in national accounts that involve the acquisition or disposal of an asset, or assets, by at least one of the parties to the transaction. In certain circumstances, such transactions may be recorded as receipts and expenditures of social protection schemes in ESSPROS Core system.

The 2016 edition of the ESSPROS Manual and user guidelines(22) acknowledges this possibility but does not offer systematic guidance on what cases might be covered. As a result, the extent to which capital transfers should, in theory, be reported in ESSPROS, and whether they have been included in practice is unclear.

Work undertaken in 2014 to clarify the links between ESSPROS and National Accounts opened discussion of whether capital transfers are covered in ESSPROS, where they should be (or are) reported and how. Indeed, an understanding of where capital transfers are reported in the ESSPROS data is needed to compare data from ESSPROS with data on social contributions and social benefits (D.6) from national accounts as the latter specifically exclude capital transfers, which are reported under a separate dedicated classification (D.9).

Extensive research on the treatment of capital transfers in the ESSPROS system was carried out in 2015 and 2016, with a review of the relevant methodological rules and guidelines and current practices among countries presented to the Task Force in 2015(23) and 2016(24) and to the Working Group in 2016(25).

As a result of this work, it is now clear where capital transfers may, in theory, be reported in ESSPROS. Recommendations for the changes to the ESSPROS Manual in order to improve the guidance on capital transfers are made accordingly. Note that these imply no changes to the actual approach adopted by ESSPROS, just a clarification, and no changes are needed to any of the ESSPROS regulations.

6.2. Problem statement

ESSPROS records receipts and expenditures of social protection schemes in the form of ‘distributive transactions, whether current or capital’ and ‘administration costs charged to the scheme’ (§36, Part 1, ESSPROS Manual 201622). This implies that capital transfers fall within the scope of the transactions covered by ESSPROS, a notion supported by specific reference to them in various parts of the manual.

(23) See DOC SP-TF-2015-02.2
(24) See DOC SP-TF-2016-04.1
(25) See DOC SP-2016-09.3
In practice, however, the ESSPROS Manual provides no systematic guidance as to which ESSPROS transactions might take the form of a capital transfer so that it is not clear as to where capital transfer might actually be included in ESSPROS. Further, the little guidance that is provided on capital transfers is unclear and open to misinterpretation. Indeed, consultation with data providers demonstrated that there are different interpretations across countries and that further instruction on the issue is needed to ensure consistent reporting.

6.3. Analysis

The analysis below gives an overview of the methodological specifications related to capital transfers and their coverage in ESSPROS and reviews how they are currently reported in the data.

6.3.1 Capital transfers: definition and treatment in national accounts

DEFINITION OF CAPITAL TRANSFERS

The ESSPROS Manual defines capital transfers as transfers which ‘involve the acquisition or disposal of an asset, or assets, by at least one of the parties to the transaction’ (ESSPROS, Part 1, section 5.2, footnote to §77B). In fact, this definition is taken directly from national accounts, the latest version of which (ESA 2010(26), §4.145) defines capital transfers (D.9) as follows:

‘capital transfers require the acquisition or disposal of an asset, or assets, by at least one of the parties to the transaction. Whether made in cash or in kind, they result in a commensurate change in the financial, or non-financial, assets shown in the balance sheets of one or both parties to the transaction.’

The category of capital transfers in national accounts (D.9) includes three sub-categories:

- **Capital taxes** (D.91) refer to exceptional taxes on assets owned or transferred. An example that is potentially relevant to ESSPROS could be a one-off tax on property assets owned and put at the disposal of a scheme by the institutional unit supporting it (27) — e.g. a tax on the increase in value of land or property affected by changes in land use or planning regulations.

- **Investment grants** (D.92) refer to transfers to finance the acquisition of fixed assets (buildings, transport equipment, machinery, etc.). For example, money transferred to a social housing organisation to facilitate purchase of additional accommodation is a capital transfer in cash.

- **Other capital transfers** (D.99) refer to redistribution of savings or wealth. Examples include transfers to cover accumulated or exceptional losses and transfers made to compensate for the impact of a natural disaster.

TREATMENT OF CAPITAL TRANSFERS

Chapter 4 of ESA 2010 (§4.01) defines distributive transactions as ‘transactions whereby the value added generated by production is distributed to labour, capital and government, and transactions redistributing income and wealth’ and notes that ‘a distinction is drawn between current and capital transfers, with capital transfers redistributing saving or wealth, rather than income.’

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(27) Note that ‘asset ownership’ is typically a characteristic of an ‘institutional unit’ (see ESSPROS manual Part 1, §88 or ESA 2010 §2.12). It is debatable whether a scheme as defined in ESSPROS (as opposed to the institutional unit(s) that support(s) it) — see ESSPROS Manual, Part 1, § 42 and 43) — can be interpreted as an ‘entity’ having the legal power to own assets in its own right. In the ESSPROS manual there are various clarifications of the distinction or relationship between the concepts of scheme and institutional unit: see for example Part 1 §85 (“credited to the scheme by the institutional unit that runs it”), §86 (“such payments are receipts of the institutional unit … and not of social protection schemes”), §107 (“putting the … asset at the disposal of the scheme via the institutional unit supporting it”). For this reason, the term ‘assets owned and put at the disposal of the scheme by the institutional unit supporting it’ is used instead of simply ‘assets owned by a scheme’. 
Social contributions and benefits (D.6) and capital transfers (D.9) are then defined as separate categories of distributive transaction so that by definition in national accounts capital transfers cannot be part of social contributions and benefits. Indeed, social benefits include only ‘current and lump-sum transfers’ (§4.85)\(^{(28)}\).

6.3.2 Capital transfers in ESSPROS: Methodology

The ESSPROS Core system covers distributive transactions only and excludes production activities, financial transactions and stock accounts. In national accounts, distributive transactions can be current or capital and are classified under separate headings. On the contrary, this distinction does not exist in the ESSPROS Core system. As a consequence, distributive transactions classified in national accounts as capital transfers can appear under the various ESSPROS classification items, both receipts and expenditures.

In defining the scope of the ESSPROS Core system, §36 in part 1 of the ESSPROS Manual and user guidelines is clear that capital transfers are included in the receipts and expenditure to be recorded:

‘The Core system records receipts and expenditures of social protection schemes, but only in the form of:

1. distributive transactions, whether current or capital;
2. administration costs charged to the scheme.’

The next section examines the detailed ESSPROS methodology for receipts and expenditure to understand in practice where these might be recorded and how.

CAPITAL TRANSFERS AND RECEIPTS

ESSPROS recognises four main types of receipt (ESSPROS, part 1, Table C):

- **Social contributions** (2100000). As a general rule, in national accounts capital transfers are distinguished from social contributions which are transactions intended to secure individual entitlement to benefits. Some capital transfers can however be interpreted as maintaining/improving the capacity of the scheme to deliver benefits though do not affect the entitlement of protected persons.

In particular, the case of capital transfer defined in ESA 2010 §4.165 (i) is relevant for social protection: ‘extraordinary payments into social insurance funds made by employers (including government) or by government (as part of its social function), in so far as these payments are designed to increase the actuarial reserves of these funds. The accompanying adjustment from social insurance funds to households is also recorded as other capital transfers’. While the case of such extraordinary payments made by government as part of its social function is treated by the ESSPROS Manual in §77A under government contributions (see below), extraordinary payments of the same nature but made by employers are not mentioned under the schemes’ receipts. The ESSPROS task force has discussed a national case of this type\(^{(29)}\) and concluded that these extraordinary payments should be treated as social contributions in ESSPROS.

Another case identified by the task force regards contributions unlikely to be collected. In national accounts, when the general government accounts record contributions unlikely to be collected under receipts (due, for example, to the use of data from tax declarations rather than actual receipts), a capital transfer (D.99) of the same amount from government to the relevant sectors

\(^{(28)}\) This is also mentioned in ESA 2010 manual in §22.120 with regards to data on social benefits and how it compared to data in ESSPROS.

\(^{(29)}\) In Switzerland, if a pension fund records an exceptional negative balance (or is expected to do so), the pension fund can demand that employers pay restructuring contributions (Sanierungsbeträge – Arbeitgeber) and one-off contributions (Einmaleinlagen und Einkaufssummen – Arbeitgeber) in order to restore (respectively secure) the financial balance.

Switzerland also presented to the task force the case of voluntary lump-sum contributions where insured persons can purchase additional regulatory benefits through a one-off lump sum contribution (Einmaleinlagen und Einkaufssummen – Arbeitnehmer) to the pension fund. Such purchases are relatively common (because the payments are tax deductible) and their value can be considerable. It was concluded that in ESSPROS they fall under social contributions. In the Swiss national accounts these contributions are also recorded as a capital transfer.
has to be recorded to compensate for this (ESA 2010, §4.95). At present, there is no guideline requiring the application of this approach in ESSPROS. However, if there were, it would certainly require that the amount for this type of capital transfer be recorded as a negative component under social contributions.

- **General government contributions** (2200000). The ESSPROS Manual notes that general government contributions may include both current and capital transfers (ESSPROS, Part 1, section 5.2, §77B). Such contributions may include payments to cover deficits of a scheme or payments to increase actuarial reserves (§77A mentioned above), both of which are recognised as forms of other capital transfer (D.99) in national accounts.

  However, §77B specifies that only transfers received by institutional units in their capacity as administrators of social protection schemes are included in ESSPROS. Appendix VII of the ESSPROS Manual, which deals with the classification of types of government disbursement, notes that government payments (to market producers, other government institutions or non-profit institutions serving households) ‘to finance capital formation and granted to institutional units whether or not they are running social protection schemes’, which are covered as investment grants (D.92) in national accounts, are excluded from ESSPROS (§4(vi) & §5(iii)). This reflects the general principle that ESSPROS deals with the accounts of schemes, not of institutional units.

  The example given in §77B aims to demonstrate that investment grants are to be included when they are granted to social protection schemes: ‘investment grants specifically for social housing associations are included, but investment grants on construction in general are excluded’.

  However, the wording of the example is perhaps open to misinterpretation and a more explicit wording could be proposed
text

  The example of social housing is taken up again in the ESSPROS Manual under §127 (part 1), in the part on accounting conventions and valuation principles. When social housing schemes or similar schemes are financed solely by the government, the ESSPROS Manual recommends that the benefits in kind they provide are valued on the basis of the actual government transfers rather than as the sum of costs incurred by the institutional unit for their production and supply to the beneficiaries. Footnote 19 to §127 illustrates with an example that the total value of a capital transfer received by the scheme should be spread across a number of years, with only a fraction of it entering in the estimated value of the benefits for any given year. This can be seen as a simplified form of amortisation of the sum received as capital transfer.

  In addition, concerning general government contributions, §77D in part 1 of the ESSPROS Manual also considers the case of a capital transfer from the scheme to general government, such as withdrawals from the scheme’s reserves. These must be treated in ESSPROS as negative general government contributions.

  Another case of national accounts capital transfer to be recorded under general government contributions emerges in connection with Transfers from other schemes (Part 1, §82 ii). The transfer of funds between schemes consists in a transfer of social protection rights in exchange for cash or of other financial assets. When the two sides of the transaction are unbalanced, a capital transfer is recorded for the amount corresponding to the difference (see ESA 2010, §17.179). In practice, this case is observed when the general government takes over social protection entitlements of beneficiaries from employers’ schemes that are outside the general government sector, and receives a counterpart financial transaction of lower value. The difference is recorded in national accounts as a capital transfer from government to the employer concerned. In ESSPROS it should be recorded under general government contributions to the scheme to which the rights are transferred.

  Finally, capital taxes can be earmarked to finance social protection schemes. In this case, they should be recorded as general government contributions under the sub-classification earmarked

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(26) See footnote 27.
taxes, which is defined to include ‘all kind of taxes’ (see Part 1, §79C).

- **Transfers from other schemes** (2300000). Here ESSPROS identifies two sub-categories of receipt. It seems clear that in general social contributions re-routed from other schemes (2310000) cannot include transactions in the form of capital transfers for the same general reason as for social contributions above. Further, recent work of the Task Force and the Working Group clarifies that funds transferred between schemes when a beneficiary changes provider (Part 1, §82B (ii)) are not distributive transactions\(^{(1)}\), which also implies they cannot be capital transfers.

Finally, other transfers from other schemes (2320000) includes capital transfers and the case of a transfer from one scheme to reduce the deficit of another (Part 1, §83) is given as an example (other capital transfer, D.99, in national accounts). Further, there is the possibility that one scheme may provide an investment grant to another, even if this seems unlikely in practice.

- **Other receipts** (2400000). At the top level, other receipts are defined as ‘miscellaneous current receipts of social protection schemes’ (Part 1, §84) thereby apparently ruling out the inclusion of capital transfers. However, the definition of the final sub-category of other receipts — other (2420000) — includes ‘proceeds of collections (mainly gifts from households), net proceeds from private lotteries, claims on insurance companies and large gifts such as legacies from the private sector’ (Part 1, §86). From this list, at least the example of legacies is clearly mentioned as a category of other capital transfer (D.99 in national accounts (ESA 2010, §4.165(e)). It would seem, therefore that the inclusion of this type of capital transfer is foreseen even if the use of the term ‘current receipts’ at the higher level is not helpful in this respect.

**Summary: receipts**

In sum, application of the main body of the ESSPROS Manual allows for receipts in the form of capital transfers to be recorded in all four categories or sub-categories of receipts. Those in the form of other capital transfers (D.99 in national accounts) can be included under all types of receipts, while capital taxes (D.91) are possible only under government contributions. Investment grants (D.92) are possible under government contributions and transfers from other schemes, though the latter case is likely to be rare. However, the circumstances under which investment grants can be included would benefit from a clearer presentation (ESSPROS Manual Part 1, §77B and Appendix VII), in particular to emphasise the need to differentiate between the scheme and institutional unit as grantee.

<table>
<thead>
<tr>
<th>Type of receipt</th>
<th>Type of capital transfer</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Capital taxes (D.91)</td>
</tr>
<tr>
<td>Social contributions</td>
<td>✗</td>
</tr>
<tr>
<td>General government contributions</td>
<td>✗</td>
</tr>
<tr>
<td>Transfers from other schemes</td>
<td>✗</td>
</tr>
<tr>
<td>Other receipts</td>
<td>✗</td>
</tr>
</tbody>
</table>

\(^{(1)}\) Note that this is the counterpart to transfers to other schemes (1300000).

\(^{(2)}\) This aspect is treated in Chapter 8 on ‘Re-routed social contributions’.
CAPITAL TRANSFERS AND EXPENDITURE

ESSPROS recognises four main types of expenditure (ESSPROS, part 1, Table E):

- **Social benefits** (1100000) are transfers, in cash or in kind, to individuals or households in order to relieve the burden of one or more risks/needs. Appendix VI, which deals exclusively with differences between ESSPROS and national accounts, indicates that social benefits in ESSPROS may include benefits in the form of capital transfers(33):

  ‘(ii) the ESSPROS definition of social benefits covers both current and capital transfers; the national accounts definition refers to current transfers only;’

This difference is also mentioned in the ESA 2010 manual under §22.120.

However, in practice there seem to be very limited cases of capital transfers to be included under social benefits and the ESSPROS Manual provides no clear examples.

In the case of the housing function, which is the only obvious place in which a scheme might finance an asset owned by a protected person, §79 (ESSPROS, part 2) explicitly rules this out: ‘*All capital transfers (investment grants) are excluded.*’

One possible case of a capital transfer to be recorded under social benefits could be in case of natural disaster when the government provides alternative housing or funds to build new housing to replace lost stock, though there is a question as to whether such transfers would occur within the scope of a social protection scheme with a clear set of rules regarding the provision and financing of such benefits (§42, ESSPROS, part 1). Indeed, ad hoc support is explicitly ruled out in part 2 of the ESSPROS Manual where §80 reiterates some of the borderlines of ESSPROS in order to delimit the social exclusion function. In particular, it notes that ad-hoc or incidental types of support including ‘humanitarian aid and emergency relief in the event of natural disasters’ are by convention excluded. On the other hand, this does not preclude such support being delivered as social benefits through a scheme that is established specifically (and so including regular management and accounting) to provide relief in case of natural disasters. This is also consistent with ESA 2010, §4.165(a), which classifies under Other capital transfers (D.99) ‘payments to the owners of capital goods destroyed or damaged by acts of war, other political events or natural disasters’.

The category of other capital transfers in national accounts (D.99) could offer other cases with potential relevance to the ESSPROS category of social benefits. In particular, the cancellation of debt (ESA 2010, §4.165(f)) may warrant further consideration. Indeed, §85C (ESSPROS Manual, part 2) specifically recognises cancellation of debt as a social benefit. However, it also notes that simply writing off a debt is not:

‘Cancellation of debt with the scheme’s consent is also classified as a social benefit in ESSPROS, however simple recognition by the scheme that a financial claim on a debtor household can no longer be collected due to bankruptcy or similar circumstance does not qualify as a social benefit.’

This clarification follows national accounts methodology which says that ‘The unilateral repudiation of debt by a debtor is also not a transaction and is not recorded.’ (ESA 2010 §4.165(f)). A specific case of cancellation of debt by general government for social protection reasons — to be treated as social benefit — is mentioned in Appendix VII, §3(i): the government makes a loan to households and subsequently cancels out the outstanding debt. Otherwise, the ESSPROS category of social benefits deals exclusively with transfers to protected persons. In order for a cancelled debt to be recorded as a social benefit it must, therefore, be a debt owed by a protected person to the scheme. Hence, the practical relevance of this category appears limited.

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(33) In national accounts, capital transfers (D.9) is a separate classification from that on social contributions and social benefits (D.6) thus capital transfers can only be reported in the former. The fact that a paragraph highlighting differences between ESSPROS and national accounts refers only to social benefits seems to suggest that there should be no difference for social contributions. However, analysis in section 6.3 suggests that there can be differences.
Another case that could fall within the sub-category are compensatory transactions deriving from court decisions related to past benefits payments. For example, if a government passes legislation to reduce the amounts of pension benefits and this is later ruled illegal/invalid by a court decision, the compensation paid by the scheme to pensioners to compensate for the amounts not received while the legislation was in force are other capital transfers (D.99) in national accounts and should be reported as social benefits (1100000) in ESSPROS.

On balance, therefore, the ESSPROS Manual would appear to support the possibility that social benefits take the form of capital transfers only in a limited number of cases such as the compensation for the impact of natural disaster by a social protection scheme (i.e. with a regular management and accounting, aimed at the provision of individual services), the compensation resulting from court decisions related to past benefits, and the case of debt cancellation.

- **Administration costs** (1200000) cover the costs of managing and administering a scheme, including general overheads. Here it is difficult to see where any capital transfer linked to the acquisition or disposal of an asset could be considered as administration costs and there are no examples in national accounts to change this view. Further, guidelines on valuation of administration costs are clear that costs cover only ‘… intermediate consumption, compensation of employees, consumption of fixed capital...’ (ESSPROS, Part 1, §130), which rules out the inclusion of capital transfers.

- **Transfers to other schemes** (1300000). This category of expenditure is the direct counterpart of transfers from other schemes (2300000) on the receipts side. Consequently, the same arguments apply to the two subcategories: capital transfers cannot appear in re-routed social contributions (1310000) but they may be clearly included in other transfers to other schemes (1320000). For example, a transfer made by one scheme to reduce the deficit of another (ESSPROS, part 1, §105) and, potentially, the case of one scheme providing an investment grant to another.

- **Other expenditure** (1400000). This category of expenditure includes the sub-categories of property income (1410000) and other (1420000). It is clear that capital transfers are not relevant to the former with §107 (ESSPROS, part 1) explaining that property income usually refers to interest payable by schemes in respect of loans. There is, however, some scope for capital transfers in relation to the sub-category of other, §108 (ESSPROS, part 1) making specific reference to the ‘payment of taxes on income and wealth’. Although most taxes on income or wealth are part of a separate category of current distributive transactions in national accounts (D.5), some capital taxes (D.91) may be relevant. For example, the type of exceptional levies described in §4.149(b) of ESA 2010 could arise in the case of institutional units managing schemes that have invested in land: ‘occasional and exceptional levies on assets or net worth owned by institutional units. These include betterment levies, that is taxes on the increase in the value of agricultural land due to planning permission to develop the land for commercial or residential purposes.’ It should be clear, however, that whilst regular taxes on capital gains may be part of the ESSPROS category of other expenditure they are not capital taxes.

**Summary: expenditure**

In sum, the ESSPROS Manual would appear to support the inclusion of expenditures in the form of capital transfers under the categories of social benefits, other transfers between schemes and other expenditure but not as administration costs. There would appear to be no basis for reporting investment grants (D.92) as expenditure except as a transfer between schemes, even if this seems unlikely in practice. Indeed, further clarification of this in the manual is needed as it is a common point of misunderstanding.
Table 7 – Capital transfers in ESSPROS expenditure: summary

<table>
<thead>
<tr>
<th>Type of expenditure</th>
<th>Type of capital transfer</th>
<th>Capital taxes (D.91)</th>
<th>Investment grants (D.92)</th>
<th>Other capital transfers (D.99)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social benefits</td>
<td></td>
<td>×</td>
<td>×</td>
<td>✓</td>
</tr>
<tr>
<td>Administration costs</td>
<td></td>
<td>×</td>
<td>✓</td>
<td>×</td>
</tr>
<tr>
<td>Transfers to other schemes</td>
<td></td>
<td>×</td>
<td>✓ (✓)</td>
<td>✓</td>
</tr>
<tr>
<td>Other expenditure</td>
<td></td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>

RECORDING CAPITAL TRANSFERS

The analysis above has identified the possibility for capital transfers to be included in the receipts and expenditure of ESSPROS as summarised in Table 6 and Table 7 above. The types of capital transfer that have thus far been identified by the Task force, also based on the replies from countries to specific questionnaires, are:

- payments to cover deficits of a scheme;
- payments to increase actuarial reserves;
- legacies and gifts;
- capital taxes;
- compensation resulting from court decisions related to past benefits payments;
- compensation for natural disaster;
- and (possibly) cancellation of debt.

In general, the relevant transfers will be lump-sum cash, though transfers in kind are also possible (e.g. property legacy).

By definition (ESA 2010, §4.145), capital transfers result in a change in the financial or non-financial assets of one or both parties to the transaction. Their values should be recorded accordingly in ESSPROS. Generally, this means the full value of the transfer should be recorded. On the other hand, when assets received through a capital transfer are used to deliver social benefits over a number of accounting periods then only the amortisation costs of the asset should be part of the value of the benefit(34).

6.3.3 ESSPROS and capital transfers: In practice

In February 2015, Eurostat circulated a questionnaire to the Working Group to collect information on the implications of the methodological changes introduced by the adoption of ESA 2010 on the data for ESSPROS. This included a specific question asking delegates about capital transfers — ‘Do you include any capital transfers in the ESSPROS data on social benefits? Do you include capital transfers elsewhere in the ESSPROS data?’ 30 of the 33 ESSPROS countries participating in the ESSPROS data collections provided a reply to the questionnaire of which 19 replied to the question on capital transfers(35).

Responses to this question appeared to demonstrate some uncertainty amongst providers about what constitutes a capital transfer. Indeed, the ESSPROS Manual does not give a clear definition and no

(34) See §127 (ii) (ESSPROS, part 1) and the accompanying footnote 19. The paragraph is essentially about the valuation of benefits in kind financed by government transfers and recommends a specific valuation in relation to the value of the transfer as a proxy of the normal principles for valuing benefits in kind (as included in ESSPROS, part 1, § 124).

(35) BE, CZ, DE, ES, FR, IT, LV, LT, HU, MT, NL, AT, PT, RO, SI, SK, SE, CH and NO
additional guidance was provided at the time of the consultation. Consequently, a second consultation was conducted using an extended questionnaire in June 2016 after the 2016 Working Group. A total of 24 countries replied to this consultation. Overall, of the 9 countries that did not reply, only 6 also failed to respond to the question on capital transfers in the 2015 questionnaire so that no information is available for these (DK, EE, IE, EL, PL and IS).

Results for 27 countries (24 recent responses plus 3 previous responses) are summarised in Table 8. Ten countries report currently including capital transfers in ESSPROS (BG, DE, HR, CY, LU, HU, MT, PT, RS and CH) while three (BE, NL, IT) either included capital transfers in the past or acknowledge that some may be included in the future.

<table>
<thead>
<tr>
<th>Type of capital transfer</th>
<th>Type of receipt</th>
<th>Type of expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital taxes (D.91)</td>
<td>Social contributions</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>General government contributions</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Transfers from other schemes</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Other receipts</td>
<td>-</td>
</tr>
<tr>
<td>Investment grants (D.92)</td>
<td>BG, LU, CH (3)</td>
<td>DE, LU, MT, RS (4)</td>
</tr>
<tr>
<td>Other capital transfers (D.99)</td>
<td>HR, CY, CH (3)</td>
<td>DE, CY, CH (3)</td>
</tr>
<tr>
<td></td>
<td>BG, HR, HU (3)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>BG, PT, CH (3)</td>
<td></td>
</tr>
</tbody>
</table>

The results are, for the large part, consistent with expectations in that capital transfers of different types (D.91, D.92 or D.99) are, in practice, reported under ESSPROS classifications consistent with the theoretical mapping. There is, however, one key inconsistency. A number of countries informed that they currently report investment grants (D.92) as expenditure on social benefits. For these cases, bilateral discussion is needed to reaffirm whether investment grants (D.92) are really reported as a lump sum or whether amortisation has been applied in the valuation of a benefit. There is no clear evidence that investment grants (D.92) can be directly reported as expenditure on social benefits. For example, some of the cases concerned include investment grants for housing associations to construct housing which appear to be explicitly ruled out by §79. A second minor inconsistency is that one country (Bulgaria) informed that they currently report investment grants (D.92) as other receipts. Again, further bilateral discussion is needed to investigate this.

(36) BE, BG, CZ, DE, HR, IT, CY, LV, LT, LU, HU, MT, NL, AT, PT, RO, SK, FI, SE, UK, TR, RS, CH and NO
6.4. Conclusions

6.4.1 Main conclusions

In defining the scope of the Core system, the ESSPROS Manual clearly indicates that both current and capital transfers are included in the receipts and expenditures of social protection schemes (Part 1, §36). National accounts identifies three types of capital transfers: capital taxes (D.91), investment grants (D.92) and other capital transfers (D.99). In ESSPROS, capital taxes may occur in receipts under general government contributions in the form of earmarked taxes (item 21) and in expenditures under other (item 42). Investment grants may occur in receipts (§77B) as general government contributions and (potentially, but less likely) as transfers from other schemes on both sides of the accounts. The majority of capital transfers relevant to ESSPROS will therefore be other capital transfers. These may include transfers to reduce accumulated losses or to increase actuarial reserves, compensation to owners of capital goods damaged by natural disasters, compensation resulting from court decisions related to past transactions and legacies or gifts or similar. Debt cancellation remains a further possibility but it is rare to encounter this in practice given that unilateral write-off of debt is explicitly excluded (in national accounts as well as ESSPROS).

Evidence of current practice demonstrates that some lack of clarity exists amongst data providers. Some amounts currently recorded in ESSPROS would appear to be out of scope, specifically investment grants reported as expenditure on social benefits. Further bilateral discussion is needed with the countries concerned to resolve these issues.

The ESSPROS Manual does not treat capital transfers systematically and the lack of clarity in this respect causes some uncertainty amongst users, which is not helped by some ambiguous paragraphs. The manual should be revised to clearly define capital transfers, the types that can be included (with clear examples) and where.

6.4.2 Recommended modifications in the ESSPROS Manual

Amendments to the ESSPROS Manual are recommended as listed below (changes are shown in red). Note that none of the changes proposed impact the approach adopted by ESSPROS regarding capital transfers, they simply seek to clarify it.

Note that the proposals for §82 and §83 (ii) below reflect changes to the current text of the manual required in relation to the issue of capital transfers only. Further changes to these paragraphs are also proposed in relation to the treatment of re-routed social contributions in the document for item 8.5. The final result will, subject to the decisions of the Working Group, therefore be a combination of these proposals.

PART 1

§36 Part 1 is clear that both current and capital transfers are included in ESSPROS. There is no need to adjust this but a general paragraph to define capital transfers and clarify their coverage in ESSPROS should be added after this to provide more explicit guidance. This should be consistent with ESA 2010.

§36A Capital transfers require the acquisition or disposal of an asset, or assets, by at least one of the parties to the transaction. Whether made in cash or in kind, they result in a commensurate change in the financial, or non-financial, assets shown in the balance sheets of one or both parties to the
Capital transfers is a concept used in national accounts, which can be sub-divided into three sub-categories:

- **Capital taxes** refer to exceptional taxes on assets owned or transferred. An example that is potentially relevant to ESSPROS could be a one-off tax on property assets owned and put at the disposal of a scheme by the institutional unit supporting it — e.g. a tax on the increase in value of land or property affected by changes in land use or planning regulations.

- **Investment grants** refer to transfers to finance the acquisition of fixed assets (buildings, transport equipment, machinery, etc.). For example, money transferred to a social housing organisation to facilitate purchase of additional accommodation is a capital transfer in cash.

- **Other capital transfers** refer to redistribution of savings or wealth. Examples include transfers to cover accumulated or exceptional losses and transfers made to compensate for the impact of a natural disaster.

ESSPROS includes transactions that fulfil the definition of a capital transfer (and fall within any of the sub-categories identified above) where these also meet the definitions of the types of expenditure and receipts of social protection schemes laid out in this manual.

It is important to note that, in general, ownership of assets is associated with the institutional units running a social protection scheme rather than the scheme in its own right. ESSPROS only covers capital transfers that relate to assets put at the disposal of the scheme by the institutional units running them — i.e. those granted specifically for the purpose to finance or provide social protection.

§77A to be adjusted to clearly indicate that the transactions referred to are capital transfers.

§77A Class (i) includes, for instance, government expenditure on government-controlled schemes that guarantees a certain minimum income to all residents of the country in question and the cost of providing goods and services to indigent households as a matter of public assistance.

Class (ii) includes, among others, unrequited payments made by government to government and not government-controlled social protection schemes to contribute to the cost of benefits provided by these schemes, supporting their administration costs or covering deficits incurred over current or previous accounting periods. Also included here are capital transfers in the form of extraordinary payments by government designed to increase the actuarial reserves of social protection schemes and the proceeds of lotteries which government puts to their use.

§77B to be adjusted to replace the footnote with a reference to §36A and provide extra clarification.

§77B Both current and capital transfers are included (see §36A). A clear distinction should be made between transfers that institutional units running a scheme receive in their capacity of administrators of social protection schemes and transfers which they receive in other capacities.

While the former are recorded as general government contributions, the latter are not recorded at all in the ESSPROS, as they are not expressly granted to finance social protection. The former result in assets owned and made available to the scheme by the institutional units, meaning that they are granted specifically to finance social protection and are thus recorded as general government contributions. The latter result in assets owned but not made available to the scheme by the institutional units and are thus not recorded in ESSPROS. For example, investment grants provided to an institutional unit specifically for the purpose of delivering social housing through a social protection scheme associations are included, but investment grants on provided to an institutional unit for the purpose of construction in general are excluded.

§77D, §82B, §83, §83A and, §86 to be adjusted to clearly indicate the transactions referred to are capital transfers(37).

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(37) Concerning the treatment of transfer of funds between schemes linked to an insured person moving from one scheme to another, see
§77D If, for budgetary reasons, the government takes money out of the reserves of government-controlled social protection schemes, the relative amount of this capital transfer is accounted as negative General government contributions for those schemes.

§82B In practice, the following two cases fall within this category:

(i) social contributions that social protection schemes pay on their own behalf for the benefit of their beneficiaries to other social protection schemes. For example, when an unemployment benefit scheme pays social contributions to the sickness scheme for the benefit of its beneficiaries;

(ii) the transfer associated with the movement of funds linked relating to an insured person moving switching from one scheme to another. For example, in the United Kingdom, payments of this type occur when an insured person decides to opt out of SERPS and out of their Occupational pension plan in order to set up an Appropriate Personal Pension Plan. In this case, the National Insurance Fund transfers his/her social contributions to the selected Plan.

§83 Other transfers from other schemes (ref. 32)

An example of other transfers from other schemes is contributions in the form of a capital transfer made by one scheme to reduce the deficit of another.

§83A Transfers from/to other schemes exclude:

(i) payments for delivery of goods or services (there is a quid pro quo);

(ii) the transfer associated with the movement of funds linked relating to an insured person moving switching from one scheme to another. This is recorded as Social contributions re-routed from other schemes (see paragraph 82);

(iii) social contributions that social protection schemes pay on their own behalf for the benefit of their beneficiaries to other social protection schemes. These payments are treated analogous to case (ii) as Social contributions re-routed from other schemes;

(iv) payments made by the government acting in its capacity as an administrator of social protection schemes. Such payments are classified as General government contributions;

(v) payments between schemes as a consequence of transactions carried out by one scheme on behalf of the other. For example, when a lower government scheme acts as an intermediary for a central government scheme. These payments are not shown, because the ESSPROS only records transactions in the accounts of the principal transactors. See paragraphs 137 to 139;

(vi) unrequited payments that resident social protection schemes receive from/pay to non-resident schemes. As the latter belong to the sector Rest of the World (see chapter 9), which is defined as a grouping of units without any characteristic functions and resources, they are not identified separately. The payments in question will therefore be classified as Other receipts.

Remove term ‘current’ from the definition of other receipts to avoid conflict with §86 which indicates that the sub-category other includes capital transfers and adjust §86 to clearly indicate that certain transactions referred to are capital transfers.

§84 Other receipts (ref. 4) means miscellaneous current receipts of social protection schemes. They are broken down into receipts of property income and other.

§86 The category Other (ref. 42) groups miscellaneous receipts not otherwise attributable, such as proceeds of collections (mainly gifts from households), net proceeds from private lotteries, claims on insurance companies and large gifts such as legacies in the form of capital transfers from the private sector.

Chapter 8 on ‘Re-routed social contributions’.
§105 to be adjusted to clearly indicate the transactions referred to are capital transfers and ensure consistency with counterpart §83.

§105 Other transfers to other schemes

An example of other transfers payable to other schemes is the transfer of funds (capital transfer) made by one scheme to reduce the deficit of another.

§127 to be adjusted to provide further clarity the appropriate use of capital transfers in the valuation of benefits and make clear that this does not imply capital transfers are to be included as expenditure on social benefits. Further example in footnote 19 to be replaced with examples in the main body of the text.

§127 If retirement homes, social housing corporations and similar are financed solely by the government, it would be more convenient to estimate the value of these services on the basis of the actual government transfers to the scheme providing them, rather than according to the principles above. In this case this approach is applied, the following two conditions must be observed:

(i) only that part of the government transfer that applies to the is used as actual social benefits should be taken into account, excluding any contributions towards other expenditure of the scheme in the form of administration costs, transfers to other schemes or other expenditure.

For example, if the government contributes a lump sum to allow a scheme to provide vocational training to unemployed for a single year and this amount includes amounts to be used for the administration of the training as well as the actual costs of the training programmes then the amount intended for the administration costs should be deducted when estimating the value of the vocational training to be reported as benefits in kind.

3. (ii) where transfers are intended to cover expenditure on benefits spanning several accounting periods, amortisation should be applied to distribute it across the time span periods during which the benefits are provided must be taken into account.

4. For example, if the government makes contributions in the shape of a substantial lumpsum to allow a scheme to invest in its real estate and enable it to provide social housing during multiple reference periods (capital transfer in the form of an investment grant to be treated as government contribution), its this amount should be allotted distributed between to the number of individual each of the accounting periods during which the social housing funded by the transfer benefits is are provided using amortisation. This will provide a more accurate reflection of the market price of the housing services provided during the applicable accounting periods. (19)

(19) For example, a social housing corporation annually receives 210 units from government, of which 10 units are a contribution to administration costs, and also received, a few years previously, a single capital transfer of 1000 units, allowing rents charged to be reduced over a period of 10 years. In this case, the benefits in kind provided by the social housing corporation over a single year can be approximated as \(210 - 10\) + \(1000/(10 - 200 + 100) = 300\) units.

PART 2

§79 and §79B to be adjusted to provide better clarity

§79 Benefit to owner-occupiers: a means-tested transfer by a public authority to owner-occupiers to alleviate their current housing costs; in practice this often relates to help with paying mortgages and/or interest. All capital transfers (in particular investment grants) are excluded.

§79B In principle, social housing benefit should be calculated as the difference between the theoretical commercial rent and the actual rent paid by the tenant. However, this is difficult to estimate, because commercial rent depends on many factors, such as location of the social housing unit, year of construction, type of contract and so on. As a practical alternative, the value of the benefit can be taken as equal to estimated on the basis of the government’s contributions to the scheme
6.4.3 **Recommended modifications to the ESSPROS regulation(s)**

The legislation makes no reference to capital transfers or any of the paragraphs earmarked for amendments above therefore no adjustments are necessary.

**6.5. Examples**

Table 9 provide a number of specific detailed examples of capital transfers that are reported in ESSPROS based on the information gathered during consultations conducted in 2015 and 2016.
### Table 9 – Examples of capital transfers reported in ESSPROS

<table>
<thead>
<tr>
<th>Capital transfers reported in ESSPROS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>HR</strong></td>
</tr>
<tr>
<td>1. If a person is obliged by law or voluntarily changes their pension scheme, withdrawing funds from scheme 11 (II. Pillar pension insurance) and transfers them to scheme 2 (I. pillar pension insurance), their accumulated contributions are transferred between the schemes. In national accounts these are recorded as other capital transfers (D.99). In ESSPROS these are reported as social contributions rerouted to other schemes in the expenditure of scheme 11 and as social contributions rerouted from other schemes in the receipts of scheme 2.</td>
</tr>
<tr>
<td>2. The government grants scheme 6 small amounts each year (&lt;1 % of the scheme’s total receipts) to spend on improving and increasing the capacity of social welfare homes. In national accounts these are recorded as investment grants (D.92). In ESSPROS these are reported in the receipts of scheme 6 as general government contributions. Further, these are also used in the estimates for expenditure of the same scheme for social benefits associated with accommodation in the Disability, Old-age and Family/Children functions (items 1121201, 1131201 and 1151202). Here the value of the investment grant is used as part of the estimate of the cost of providing social welfare homes. Amortisation should be applied but in this case the fact that grants are received each year suggests that it would not impact on the estimate.</td>
</tr>
<tr>
<td><strong>IT</strong></td>
</tr>
<tr>
<td>1. The Constitutional Court’s decision of April 2015 invalidated a 2011 article suspending pension indexation in 2012 and 2013 for pensions three times higher than the minimum pension. As a result, the government was required to pay pensioners the amounts that they had not received as a result of the suspension. In national accounts this expenditure is recorded as other capital transfers (D.99). In ESSPROS these would seem to fall under social benefits.</td>
</tr>
<tr>
<td><strong>CH</strong></td>
</tr>
<tr>
<td>1. If a pension fund records an exceptional negative balance (or is expected to do so), the pension fund can demand that employers pay restructuring contributions (Sanierungsbeiträge – Arbeitgeber) and one-off contributions (Einnahmeinlagen und Einkaufssummen – Arbeitgeber) in order to restore (respectively secure) the financial balance. In national accounts these are recorded as other capital transfers (D.99) but in ESSPROS these would seem to fall under social contributions.</td>
</tr>
<tr>
<td>2. An insured persons can purchase additional regulatory benefits through a one-off lump sum contribution (Einnahmeinlagen und Einkaufssummen – Arbeitnehmer) to the pension fund. Such purchases are relatively common because the payments are tax deductible. These extra contributions can be considerable. In national accounts these are recorded as other capital transfers (D.99) but in ESSPROS these would seem to fall under social contributions.</td>
</tr>
</tbody>
</table>
7 Benefits and recipients above/below the standard retirement age

7.1. Summary

The ESSPROS Manual and user guidelines restrict the scope of particular types of benefits based on the age of recipients (either above or below the standard/legal retirement age). In the case that such a restriction is not applied by default due to the eligibility criteria governing access to a benefit, the ESSPROS rules mean that countries may be required to split data according to the age of recipients in order to correctly allocate the expenditure to detailed benefit types. The purpose of these requirements, as noted in §43E of Part 2 of the ESSPROS Manual, is to facilitate comparison between countries despite potentially important differences in the way that old age, disability, and survivors’ benefits form part of a coherent set of benefits and the internal borderlinesthat exist between them in national systems.

Work on related methodological clarifications in 2014, subsequent investigations, and discussions at the Task Force meetings in 2015(38) and 2016(39) and Working Group in 2016(40) have revealed that the 2012 edition of the ESSPROS Manual and user guidelines(41) (and also the 2016 update(42)) are insufficient to support a clear and unambiguous interpretation of what benefit types are affected by this convention and how it should be applied, as a result of which, procedures are being applied inconsistently across countries. In particular, the guidance on how to identify the retirement age to be used when splitting data according to the age of recipients is not possible to apply in some countries and to certain types of benefit. Further, it has become apparent that key guidance on identifying the retirement age needs to be addressed before other associated issues can be resolved. Accordingly, the 2016 Working Group on Social Protection Statistics agreed revised specifications for establishing the retirement age.

This document summarises the issue and solutions found and makes recommendations for the necessary changes to the ESSPROS Manual and regulations.

7.2. Problem statement

The 2016 edition of the ESSPROS Manual and user guidelines does not support a clear and unambiguous interpretation of how to identify the retirement age to be used when splitting data according to the age of recipients. Further, the existing guidelines appear to be impossible to apply in certain circumstances — that is when (1) there is no legal/standard retirement age applied across schemes and (2) there is no standard retirement age for a scheme. Ultimately this means that data are not reported in a consistent manner.

(38) See DOC_SP-TF-2015-03.1
(39) See DOC_SP-TF-2016-03.1
(40) See DOC SP-2016-9.6
(41) See http://ec.europa.eu/eurostat/web/products-manuals-and-guidelines/-/KS-RA-12-014
7.3. Analysis

7.3.1 Purpose of establishing the retirement age for ESSPROS

Before looking in detail at the guidance on how to establish the retirement age it is first important to understand the role that the retirement age plays in the production of ESSPROS statistics.

In each country, certain social benefits form a national pension system in which each benefit plays a specific role to address a particular risk/need and circumstances, thus targeting different parts of the population. The boundaries between benefits within national systems, and thus the scope of different forms of benefit, vary between countries.

Pension systems in some countries make a clear distinction between those intended for persons expected to remain active in the labour market (though to different extents) and those intended for persons expected to be fully retired for age related reasons, with the possible exception of survivors‘ pensions based on derived rights. However, this is not always the case. The most notable example of this is the disability pension. In one country, a disability pension may be paid to all disabled up until they are eligible for retirement, after which the disability pension ceases and they receive instead an old age pension. This is essentially an administrative reclassification of the benefits. In another country, a disability pension may be paid to all disabled irrespective of age, with no possibility of a transfer to an old age pension. In these circumstances the disability pension effectively acts as an old age pension for recipients over the retirement age.

If ESSPROS allowed countries to report pension benefits according only to their general overarching purpose — i.e. all disability pensions are disability irrespective of age of the recipient — then this would lead to important differences in expenditure by function between countries even if the protection provided is, in practice, the same. In an attempt to facilitate comparability in the functional breakdown of expenditure across countries, ESSPROS therefore requires countries to establish a legal/standard retirement age which can be used to split expenditure on pensions paid to people both above and below this age and to reclassify, by convention, those above it as old age pension for recipients over the retirement age.

7.3.2 Guidance in the ESSPROS Manual and user guidelines

The definition of the legal and standard retirement age is given in §43 of Part 2 of the 2016 edition of the ESSPROS Manual and user guidelines as follows:

§43 The legal retirement age for old age benefits means the age at which old age benefits become payable, if laid down legislation or by contract. This age can vary both between countries and within Member States, depending on the sector of activity, occupation, gender and so on.

When no legal retirement age exists, a standard retirement age is to be used, which means the retirement age offered by the scheme that paid the pension to the beneficiary.

§43A to §43F provide further guidance. Most notably, §43A notes that the list of schemes adopted should allow ‘a legal retirement age to be applied or a standard retirement age to be defined at the scheme level.’

(4) Word missing from the manual.
This suggests that the organisation of schemes can impact the standard retirement age established at scheme level, though no guidance is offered on how to achieve this.

However, as illustrated in Figure 1, the specification that anticipated old age pensions, disability pensions, and early retirement benefits (both in case of reduced capacity to work and for labour market reasons) are paid only to those below the legal/standard retirement age (see §24, §25, §36A and §67) is not possible to apply if (1) there is no legal retirement age applied across schemes and (2) there is no legal or standard retirement age applied by the scheme.

Indeed, where a single legal retirement age is not applicable across all schemes there can be complications in distinguishing anticipated pensions. In the case of a scheme providing several types of old age pension, including both old age and anticipated pensions, there is likely to be a clearly identifiable standard retirement age so that differentiation between the different types of pension is relatively straightforward. However, in the case of a scheme which only provides a disability pension there may be no clearly identifiable standard retirement age. It would therefore be unclear how it should be reported in ESSPROS (indeed §24 of part 2 would impossible to apply in this case). Only when such a scheme is viewed in the context of pensions provided by other schemes may it become clear whether the pensions should be split by age and what reference age to use when doing so. Further, this issue may also extend to any other type of benefit where the manual prescribes a split based on the retirement age - anticipated old age pension, early retirement benefits in case of reduced ability to work, care allowances, etc.

Figure 1 - Determining the ‘reference retirement age’ of a scheme (guidance in the current manual)

Further, in many countries it is unworkable to use the statutory retirement age as there are legal ages fixed for each scheme and age thresholds may vary through time (e.g. linked to increasing life expectancy) and between different groups of beneficiaries. As shown above, the guidance does not provide a clear alternative where there is no workable legal/standard retirement age. In such cases, the distinction between pensions paid to those above or below the retirement age can only be established when the scheme is considered in the context of other schemes. For these reasons, some countries, such as Italy, use a set age of 65 to split disability benefits provided to those above and below the retirement age even though there is no mention of this age in legislation.

On this basis, it is worth considering possible changes to the ESSPROS guidelines for determining the age of retirement. In order to encourage the use of breakdowns by age, the process should be as simple as possible, but at the same time provide a sound basis to ensure a meaningful split.

Further, there are several areas where clarification and further work is needed:
• **Laid down *by contract***: §43 informs that the legal retirement age may be laid down by contract, although it is unclear from this paragraph what this actually means. The legal retirement age of a scheme forms part of the body of rules that define a scheme, which (according to §42, part 1) can take the form of *‘laws, regulations, contracts’* or *‘de facto […] administrative practices’*. The phrase ‘by contract’ thus appears to refer either to collective contracts, such as sectoral agreements, or contracts between the employer and the employee.

• **Existence of multiple legal retirement ages**: Whether there should be a more specific range of circumstances in which the legal retirement age can vary may needs to be considered. In some countries, a legal retirement age may be set for disabled so that they are allowed to retire at an earlier age than the rest of the population.

• **Procedure when no legal/standard retirement age exits**: As illustrated in the above decision tree, there is currently no instruction on the procedure to follow in cases where there is no generally applicable legal retirement age and no legal or standard retirement age at scheme level. Some guidance is necessary for clearly differentiating anticipated old age pensions, disability pensions, and early retirement benefits for both reasons from old age pensions.

7.3.3 Possible improvements to the guidance

In order to address the issues illustrated above, Eurostat proposes to replace the current concept of the ‘legal/standard retirement age’ with a more general concept of the ‘reference retirement age’ based on the solution shown in Figure 2. The Working Group on Social Protection Statistics was consulted by written procedure in February 2017 and, according to the comments expressed(44), agreed with this proposal.

(44) Comments received from BE, BG, IE, LT, LV, PT, SK and NO.
**Figure 2 - Proposal for determining the reference retirement age of a scheme**

- **Does the scheme providing the pension specify a standard retirement age or multiple standard retirement ages?**
  - Yes: Reference retirement age to be applied is the standard retirement age set by the scheme. (1) (2)
  - No
    - **Is there a generally applicable legal retirement age or multiple legal retirement ages in the country?**
      - Yes: Reference retirement age to be applied is the generally applicable legal retirement age in the country. (1) (2)
      - No
        - **Is there one or more particularly important scheme(s) in the national pension system which can be considered representative of the system as a whole (i.e. scheme(s) of reference) and for which there is either a single standard retirement age or multiple standard retirement ages that can be used to define a representative standard retirement age for the country as a whole?**
          - Yes: Where there is a single scheme of reference, the reference retirement age to be applied is the standard retirement age(s) set by the scheme of reference. (1) (2)
          - No
            - **Is there a set retirement age or a conceptual proxy used in national statistics?**
              - Yes: Reference retirement age to be applied is the retirement age applied in national statistics. For example, this could be the age used in demographic statistics for identifying the start of the old aged cohort of the population (or the age at which people are no longer considered part of the working-age population).
              - No

**Notes:**

1. There may be multiple legal/standard retirement ages when the law/scheme sets different ages for different groups of individuals (i.e. according to sector of activity, occupation, gender and so on).
2. In the case of multiple legal/standard retirement ages sets for different group of individuals (see note 1) a split according to all reference ages should be applied where possible. However, where this is not possible/practical, a pragmatic solution taking into account the information on various legal/standard retirement ages may be applied. For example, an average of the legal/standard ages may be one option to be considered.
3. In the case a retirement age interval is defined instead of a single age, or the retirement age is variable over the reference period, a split according to the specifically applicable retirement ages should be applied where possible. However, where this is not possible/practical the retirement age to be applied can be set to a specific age (between the limits of the age interval or an appropriate average between the applicable retirement ages during the reference period) which is the most representative of the national situation.
7.4. Conclusions

7.4.1 Main conclusions

The 2016 edition of the ESSPROS Manual and user guidelines does not support a clear and unambiguous interpretation of how to identify the retirement age to be used when breaking down data according to the age of recipients. Further, the existing guidelines appear to be impossible to apply in certain circumstances. In order to address these issues, a solution has been agreed by the Working Group on Social Protection Statistics in order to provide clear and comprehensive guidance that can be applied in all situations. A series of changes to the guidelines and regulations are proposed in order to implement this solution.

7.4.2 Recommended modifications in the ESSPROS Manual

Amendments to the ESSPROS Manual are recommended as listed below (changes are shown in red).

PART 2

The key change is to replace §43 of part 2 of the manual with the following text, revise §43A and rename the heading for section 4.2.3 to ‘Reference retirement age for old age benefits’.

§43 The reference retirement age refers to the age at which the right to receive an old age pension (see § 35 of part 2) is granted. This is a fundamental concept for the definition of the Old age function (see §33 of part 2).

Determining the reference retirement age for a scheme is not always straightforward and the method used is liable to vary depending on how retirement ages are set in the national pension system. In order to understand how this should be determined, first the following definitions need to be laid out.

Legal retirement age: age at which old age pensions become payable according to the national legislation.

Standard retirement age: age at which the pension provided by the scheme becomes payable according to the rules of the scheme (see § 44 of part 1).

Scheme(s) of reference: Important scheme(s) in the national pension system which can be considered representative of the system as a whole and for which there is either a single standard retirement age or multiple standard retirement ages that can be used to define representative retirement age(s) for the country as a whole.

The reference retirement age should be set according to the best available option from the following list (in descending order of accuracy):

Standard retirement age(s) set by the scheme

Generally applicable legal retirement age(s) in the country

Standard retirement age(s) set by the scheme of reference or combination of the standard retirement ages set by the schemes of reference

Retirement age applied in national statistics. For example, this could be the age used in demographic statistics for identifying the start of the old aged cohort of the population (or the age at which people are no longer considered part of the working-age population).

(45) The use of the term ‘retirement’ doesn’t imply that the beneficiary must be retired from work to become entitled to an old age pension.
Retirement age applied in international/European statistics. For example, European demographic statistics currently use 65 to define the old aged cohort of the population (the age at which people are no longer considered part of the working-age population which is defined as 20-64 in EU2020 indicators).

The reference retirement age should never be set to the average observed retirement age as this will be influenced by individuals who retire early or continue to work after becoming eligible for retirement.

§43A It is not always possible to establish a single legal/standard retirement age for each country. There may be multiple legal/standard retirement ages when the law/scheme sets different ages for different groups of individuals (i.e. according to sector of activity, occupation, gender and so on). In such cases a split using the reference age applicable to each group of recipients should be applied where possible. However, where this is not possible/practical, a pragmatic solution may be applied, for example taking into account the various legal/standard retirement ages and the distribution of recipients amongst the groups to which different ages apply.

There may also be cases where a retirement age interval is defined instead of a single age, or the retirement age is variable over the reference period. In such situations, a split according to the specifically applicable retirement ages should be applied where possible. However, where this is not possible/practical the retirement age to be applied can be set to a specific age (between the limits of the age interval or an appropriate average between the applicable retirement ages during the reference period) which is most representative of the national situation.

For example, in many countries the standard retirement age for women is lower than that for men, even if it is progressively being brought into line with the latter. The standard retirement age for the self-employed is sometimes higher than that for employees, or, vice versa, civil servants can, in some countries, retire earlier. The definition of schemes (scheme list) should allow a legal retirement age to be applied or a standard retirement age to be defined at the scheme level. It has to be kept in mind that the standard retirement age is not an average retirement age.

Difficulties appear, if transitional periods exist or an age frame for retirement is offered to the protected persons (between 63 and 67 in Finland for example). In these cases a standard retirement age has to be defined with the aim of identifying properly the pensions that should be recorded under the item anticipated old age pension.

In The Netherlands, on the other hand, it is possible to work until 67 years and to receive a higher pension.

Consequently, the breakdown between ‘old age pension’ and ‘anticipated old age pension’ and ‘partial retirement pension’ is based on accurately establishing a reference retirement age not easy to provide. As a result, the comparability of data between countries may be limited in some cases. Could be not comparable from country to country.

Replace the term ‘standard/legal retirement age’ with ‘reference retirement age’ in §6 improve consistency with revised §43.

§6 An important concept to distinguish clearly between the old-age function and others is the concept of a standard/legal reference retirement age. Old age benefits are generally granted to beneficiaries above the standard/legal reference retirement age. Disability is then limited to the integration into the workforce and early retirement benefits are only benefits paid to recipients below the standard/legal reference retirement age. The specific reference age is mostly usually defined for each scheme separately according to the standard retirement age set by the scheme, the legal retirement age of the country or, in a few cases, the standard retirement age set by a scheme or schemes of reference. See §43 for further details, determined by a reference scheme.

APPENDIX I: THE ESSPROS QUESTIONNAIRE DETAILED CLASSIFICATION

Replace ‘standard retirement age’ with ‘reference retirement age’ in section on survivors’ function. Changes to the questionnaire template will also be required.

APPENDIX III: METHODOLOGY OF THE MODULE ON PENSION BENEFICIARIES

Adjust terminology and remove references to Commission Regulation in §16 and §25.

§16 At ‘scheme’ level, figures for the ‘Total’ (Men and Women) column are compulsory just for those items, out of the 14 (categories and subcategories), treated by that particular scheme.

For any scheme, qualitative information has to be provided with respect to:

(a) **Legal or standard Reference retirement age by gender.**

A legal/standard reference retirement age by gender must be indicated for each scheme providing old-age benefits according to the definitions given in the Commission Regulation (EC) No 10/2008. Further on this in paragraph section 4.1;

(b) **Reference date / mode of calculation.**

Under Annex II, point 2 of the EP and Council Regulation 458/2007 Data provision is established with reference to the end of the calendar year. This figure refers to the number of beneficiaries on 31 December/1 January. Further on this in paragraph 4.

§25 **The concepts of a reference legal and standard retirement age, defined in the Commission Regulation (EC) No 10/2008, Annex I, are necessary, as stated in the Part 2 of Manual, to distinguish clearly between the old-age functions and other functions.**

Replace ‘legal retirement age’, ‘standard retirement age’, ‘legal/standard retirement age’ or ‘legal or standard retirement age’ or ‘legal/standard age’ with ‘reference retirement age’ in §19, §24, §26, §45 and §45A and in the example in section 6A.

Rename section 4.1 to ‘Reference retirement age’.

7.4.3 **Recommended modifications to the ESSPROS regulation(s)**

Amendments to the ESSPROS regulations are recommended as listed below (changes are shown in red).

**COMMISSION REGULATION (EC) NO 10/2008**


Replace §2.2 with the following.

§2.2 **The reference retirement age should be set according to either the standard retirement age(s) set by the scheme, the generally applicable legal retirement age(s), the standard retirement age(s) set by the scheme of reference or a combination of the standard retirement ages set by the schemes of reference, the retirement age applied in national statistics or the retirement age applied in international/European statistics.**
8 Re-routed social contributions

8.1. Summary

In ESSPROS re-routed social contributions are transactions that represent actual economic flows between social protection schemes whereby one scheme makes payments on its own behalf to another scheme in order to maintain or accrue the rights of its protected people to social protection from the recipient scheme.

The distinction between re-routed and withheld social contributions, which are a liability of protected person and not the scheme, was discussed by the ESSPROS Task Force in 2015 (see DOC SP-TF-2015-03.4) and led to a number of clarifying amendments to the ESSPROS Manual being agreed by the 2016 Working Group on Social Protection Statistics (see DOC SP-2016-9.9) and then published in the 2016 edition of the ESSPROS Manual and user guidelines. However, further analysis of the actual treatment of re-routed social contributions in the ESSPROS Core system identified a number of additional issues that were discussed by the Task Force in 2016 (see DOC SP-TF-2016-04.4).

The Task Force was in full agreement on two points. Firstly, that the second type of re-routed contributions defined in the ESSPROS Manual (see § 82 in part 1) are in fact financial transactions and therefore outside the scope of ESSPROS (see §36 in part 1). Secondly, that the clarification is needed regarding the functional classification of re-routed social contributions on the expenditure side of the ESSPROS accounts. The ESSPROS quantitative questionnaire requires a breakdown of re-routed social contributions by function but the ESSPROS Manual provides no guidance on how to complete it. As a result, countries are applying different interpretations and the comparability of the data is compromised. Recommendations for the necessary changes to the ESSPROS Manual are made accordingly. No changes are needed to any of the ESSPROS regulations.

8.2. Problem statement

Analysis of the treatment of re-routed social contributions in the ESSPROS Core system presented to the Task Force in 2016 (see DOC SP-TF-2016-04.4) identified two clear issues in the 2012 edition of the ESSPROS Manual and user guidelines:

1. The second type of re-routed contributions defined in §82B in part 1 is inconsistent with both the definition of ‘re-routed contributions’ adopted in ESSPROS (§82) and the requirement that the ESSPROS Core system only covers distributive transactions and administrative costs (§36, part 1).
2. The reporting of the breakdown of expenditure on re-routed contributions by function is inconsistent across countries as a result of a lack of clear guidance.

(*) See http://ec.europa.eu/eurostat/web/products-manuals-and-guidelines/-/KS-RA-12-014
These issues also exist in the 2016 edition of the ESSPROS Manual and user guidelines(47).

8.3. Analysis

8.3.1 Re-routed social contributions

Transfers between schemes are defined in the 2016 edition of the ESSPROS Manual and user guidelines as ‘unrequited payments received from (receipts side)/made to (expenditure side) other social protection schemes’ (see §81 and §103 of part 1). ESSPROS records two flows of equal value, one in the expenditure of the paying scheme and one in the receipts of the recipient scheme. These flows are split between:

- **Re-routed social contributions**: ‘payments that a social protection scheme makes on its own behalf to another scheme in order to maintain or accrue the rights of its protected people to social protection from the recipient scheme.’ (see §82 on the receipts side and §104 on the expenditure side).

- **Other transfers to/from other schemes**: ‘An example of other transfers from other schemes is contributions made by one scheme to reduce the deficit of another’ (see §83 and §105).

Re-routed social contributions include two main categories (see §82B):

1. Social contributions that social protection schemes pay on their own behalf for the benefit of their beneficiaries to other social protection schemes. For example, when an unemployment benefit scheme pays social contributions to the sickness scheme for the benefit of its beneficiaries;
2. The transfer of funds relating to an insured person moving from one scheme to another. In the United Kingdom, payments of this type occur when an insured person decides to opt out of SERPS and out of their Occupational pension plan in order to set up an Appropriate Personal Pension Plan. In this case, the National Insurance Fund transfers his/her social contributions to the selected Plan.

The distinction between re-routed contributions, defined above, and withheld contributions is not based on the actual transactions that take place. In practice, re-routed social contributions and social contributions payable by protected persons and withheld by the paying scheme are both paid directly by the paying scheme to the recipient scheme. The distinction is instead made only from the legal perspective of who is liable to pay the contributions. In the case of re-routed contributions, the liability is that of the scheme which pays the contributions on its own behalf, for the benefit of its beneficiaries. In the case of withheld contributions, the liability is that of the protected persons receiving benefits and the scheme pays these contributions on their behalf. The methodological basis for this distinction can be found in the ESSPROS 2016 manual §137 in part 1 section 8.6 on ‘Recognising the principal party’ as well as in ESA 2010 § 1.78.

From a legal perspective, therefore, the denomination ‘re-routed social contributions’ seems at odds with the transactions it covers since re-routed social contributions are, in both a practical and legal sense, transactions between the paying scheme and the recipient scheme without any third-party involvement (as opposed to withheld contributions where the transaction is performed on behalf of the beneficiary/protected person). However, from an economic perspective the protected person remains the beneficiary of the transaction and, on this basis, can be seen as a third party. The current denomination is thus useful to reflect the intended treatment of the transactions in ESSPROS, which is to reflect their economic substance.

In national accounts, the technique of re-routing is recommended to bring out the economic substance of a transaction beyond its legal reality (ESA 2010 §1.73-1.75). An example is employers’ social contributions(48), which are recorded twice in national accounts — firstly as a transaction from the employer...
to their employees and, secondly, as a transaction of equal value from the employees to the social protection scheme — instead of recording the actual transactions from employers to social protection scheme.

In the case of a scheme paying social contributions to another scheme for the benefit of its beneficiaries or protected persons, the re-routing approach would imply recording two imputed transactions (instead of the one reflecting the legal reality). Firstly, a transaction from the paying scheme to its beneficiaries, which may be considered a form of ‘para-benefit’ additional to social benefits and, secondly, a transaction of the same amount from the beneficiary to the receiving scheme, which may be considered a form of ‘para-social contribution’. There is clear evidence that this treatment was intended in ESSPROS according to the 1996 version of the manual, which required re-routed social contributions to be reported as a sub-classification of social benefits paid by the scheme to beneficiaries (who belong in the ‘households’ sector) and then as a sub-classification of social contributions received by the recipient scheme. Indeed, the current ESSPROS questionnaire maintains a feature that shows that the re-routing treatment is still intended to be applied in that the questionnaire only allows the reporting of re-routed social contributions in the receipts (of the receiving scheme) originating from ‘households’ and not the sector of origin of the institutional unit supporting the paying scheme.

In contrast with the actual transaction they replace, the imputed transactions (‘re-routed’) do not ‘occur’ between schemes, but between schemes and households (protected persons). As a result, there are doubts about whether ‘re-routed social contributions’ should be recorded as a sub-item of ‘transfers between schemes’(49).

8.3.2 Treatment of type ii re-routed social contributions

The above analysis seems to indicate that the second type of re-routed social contributions identified in §82B in part 1 — e.g. ‘transfers of funds relating to an insured person moving from one scheme to another’ — do not adhere to the definition of ‘re-routed social contributions’ because the paying scheme does not transfer the funds to the receiving scheme on its own behalf but on behalf of the protected person, to whom the funds legally belong and who decides ‘moving from one scheme to another’.

This raises the question about how/if these transactions should be reported in ESSPROS. Indeed, it is questionable whether they comply with the definition of distributive transactions and thus the requirement in §36 of part 1 of the ESSPROS Manual that the ESSPROS Core system only covers distributive transactions and administrative costs.

Distributive transactions are defined in ESA 2010 (§4.01) as ‘transactions whereby the value added generated by production is distributed to labour, capital and government, and transactions redistributing income and wealth’. Transactions that simply move funds and the associated pre-existing liability (to provide social protection) from one scheme to another therefore cannot be considered distributive transactions. Rather, they are financial transactions (see ESA 2010 §5.01). There is no net change in either the funds available or the liability to deliver social protection. This type of transaction between schemes is therefore outside the scope of the ESSPROS Core system. The definition of re-routed social contributions in §82B in part 1 should be amended accordingly.

However, the Task Force noted the possibility to keep recording these transactions in ESSPROS, but separately from the Core System.

8.3.3 Breakdown of expenditure on re-routed social contributions by function

The quantitative questionnaire for the ESSPROS Core system requires expenditure on re-routed social contributions outside the item ‘transfers between schemes’. Further reflection may be necessary.

(49) This topic has been discussed in the Task Force in 2016, which at the time was not convinced of the need to re-classify the routed social contributions outside the item ‘transfers between schemes’. Further reflection may be necessary.
contributions transferred to other schemes to be broken down by function. However, there is no reference to this in the ESSPROS Manual, nor any guidance on how this breakdown should be applied.

The data currently available indicate that some countries complete this breakdown based on the function of the qualifying benefit (e.g. in Spain, contributions paid by the unemployment scheme for the benefit of persons receiving an unemployment benefit are reported in the unemployment function, see SP-TF-2016-04.4-Annex 1) while others complete this breakdown on the basis of the final purpose of the contributions (e.g. in Serbia contributions for sickness/health care paid by the unemployment scheme for the benefit of persons receiving an unemployment benefit are recorded under sickness/health care). The lack of guidance in the manual has therefore led to different interpretations across countries.

However, the detailed classification laid out in Appendix 1 of the manual uses labels such as ‘social contributions rerouted paid on unemployment benefits’ for these breakdowns, which makes clear that the intention is for the breakdown to be completed on the basis of the function of the qualifying benefit. Recording the data on this basis also reflects the history of the classification as re-routed contributions were previously (see manual 1996) recorded as a sub-classification of social benefits within each function.

It is useful, also, to reflect on the purpose for which the contributions are made. In practice, the contributions are paid ‘on top of’ the qualifying benefit much as employers’ social contributions (D.12 in national accounts) are paid in addition to wages and salaries (D.11)(50). In other words, the contributions are paid (e.g. by the unemployment scheme) because of the current circumstance (e.g. unemployment) of the protected person and thus have the purpose of counteracting a current materialised risk (e.g. inability to make pension or health care contributions because of unemployment) rather than to counteract the future risk that the contributions insure against. It is a fundamental principle of ESSPROS that benefits are classified according to the ‘primary purpose for which social protection is granted’ (§109) and, following this principle for re-routed social contributions as a ‘para-benefit’ (see above), it is logical that they are classified according to the function of the qualifying benefit. This reflects the economic substance of the transaction but also raises again the question as to whether the classification of re-routed social contributions might better revert to the 1996 approach.

Further guidance in the manual is needed to make clear how the functional breakdown of re-routed social contributions should be completed.

8.4. Conclusions

8.4.1 Main conclusions

Recently agreed revisions to the manual have helped to clarify the difference between re-routed and withheld contributions. However, analysis of the treatment of re-routed social contributions in the ESSPROS accounting framework has revealed that:

- Type ii re-routed contributions (as currently defined in §82B) are not distributive transactions and are therefore outside the scope of ESSPROS Core system.
- Expenditure on re-routed social contributions by function should be completed on the basis of the function of the qualifying benefit and not the final purpose of the contribution.

The 2016 ESSPROS Task Force agreed with these observations and the need for appropriate revisions to the ESSPROS Manual.

(50) See ESA 2010 §4.02
8.4.2 **Recommended modifications in the ESSPROS Manual**

Amendments to the ESSPROS Manual are recommended as listed below (changes are shown in red).

**TREATMENT OF TYPE II OF RE-ROUTED SOCIAL CONTRIBUTIONS**

82B In practice, the following two cases fall within this category: (i) social contributions that social protection schemes pay on their own behalf for the benefit of their beneficiaries to other social protection schemes. For example, An example of re-rerouted social contributions occurs when an unemployment benefit scheme pays social contributions to the sickness scheme for the benefit of its beneficiaries;

Note that the transfer of funds relating to an insured person moving from one scheme to another is outside the scope of the ESSPROS Core system. Such transactions result in no net change in either the funds available or the liability to deliver social protection and are therefore financial and not distributive transactions (see §36).

(ii) the transfer of funds relating to an insured person moving from one scheme to another. In the United Kingdom, payments of this type occur when an insured person decides to opt out of SERPS and out of their Occupational pension plan in order to set up an Appropriate Personal Pension Plan. In this case, the National Insurance Fund transfers his/her social contributions to the selected plan.

83A (ii) the transfer of funds relating to an insured person moving from one scheme to another (this is recorded as Social contributions re-routed from other schemes, see paragraph 82); This transaction is not recorded in the ESSPROS core system (see §82B);

(iii) social contributions that social protection schemes pay on their own behalf for the benefit of their beneficiaries to other social protection schemes. These payments are treated analogous to case (ii) as Social contributions re-routed from other schemes; These are recorded as re-routed social contributions re-routed from other schemes (see §82);

**TREATMENT OF RE-ROUTED SOCIAL CONTRIBUTIONS ON THE EXPENDITURE SIDE**

104 Re-routed social contributions are payments that a social protection scheme makes on its own behalf to another scheme in order to maintain or accrue the rights of its protected people to social protection from the recipient scheme. For a more detailed explanation, see paragraph 82.

104bis Re-routed social contributions to other schemes are broken down by function of social protection which should be completed on the basis of the function of the qualifying benefit and not the final purpose of the contribution. For example, contributions for health care paid by an unemployment scheme for the benefit of persons receiving an unemployment benefit are reported in the unemployment function and not sickness/health care.

8.4.3 **Recommended modifications to the ESSPROS regulation(s)**

Modifications to the ESSPROS regulation(s) are not required.
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The European System of Integrated Social Protection Statistics (ESSPROS) aims to collect comparable statistical data by enforcing a common methodology. Given the different national social protection systems and their continuous adaptation to emerging needs, inevitably there are cases of interventions for which the methodology does not provide clear guidance on whether or not they should be included in ESSPROS and how they should be reported.

This document provides a compendium of the analysis performed in order to give methodological clarifications, including cases where changes to the ESSPROS methodology were proposed and adopted by the Working Group on Social Protection Statistics.

For more information
http://ec.europa.eu/eurostat/