

Recording of per diems

Introduction

1. The aim of this GFS interpretation is to provide further technical guidance on per diems. The need for a GFS interpretation arose from the GNI verification process, where it became apparent that Member States had heterogeneous recording practice for per diems: being recorded fully as compensation of employees (D.1) or intermediate consumption (P.2) or being split across the two categories.
2. The choice of recording options has consequences for the type of consumption that is recorded (final consumption of employee versus intermediate consumption of the employer). Furthermore, recording the full amount as P.2 can create a reconciliation problems if there is a difference between amounts purchased and the amount of the per diem, hence if the employee saves money.

Definition of per diem, including sub-division into broad and narrow types

3. In the absence of specific mentioning in ESA 2010, and in order to separate per diems from other reimbursements, the following definition of per diems is used:

Per diem or daily allowances are a specific amount of money an organisation gives to an employee designed to cover cost incurred but without proof of spending. Thus, it will be a standard daily rate without regard to the actual expenditure incurred. Per diems eliminate the need for employees to prepare, and employers to scrutinise, a detailed expense report with supporting receipts to document amounts spent while travelling for business. The goal is to cover/compensate additional expenses incurred when travelling for work such as accommodation, local travel costs and costs for meals. The kind of expenses that a per diem is deemed to cover can vary. For example, a per diem may exclude expenses for accommodation if the organisation reimburses actual amounts on presentation of receipts for larger positions (such as accommodation). In most cases, the per diem will exclude transport from the work place to the location of business (flights, trains etc.), which are typically reimbursed separately or directly purchased by the employer. The types of per diem covered here exclude top-up payments (proportional to the number of days) made by employers to employees due to certain circumstances, such as expatriation allowances or high cost of living in a certain country, which de facto aim at compensating certain costs that the employees may incur due to the said circumstances, but which also aim at incentivising staff. These amounts are recorded as D.1.

4. Furthermore, it is beneficial to distinguish between narrow and broad (or “extended”) types of per diem:
 - the **narrow** type of per diem are those designed to cover basic costs that would otherwise be bought by the employee on their own account (e.g., for food) as well as some extra remuneration for working later or on an otherwise free day;
 - the **broad** type of per diems encompass items covered by the narrow type of per diem as well as hotel costs or even flight costs. These broader types of expenditure seem of a different nature, as the employee would otherwise not incur them on their own account.

Analysis of references in ESA 2010, 2008 SNA and GFSM2014 and rationale for the recording

5. ESA 2010 paragraph 1.66 states that we should investigate who is interacting with whom. Is it the employee or the employer that is interacting with the restaurant, hotel and airline et cetera?:
"A transaction is an economic flow that is an interaction between institutional units by mutual agreement (...)."
6. ESA 2010 paragraph 1.116 implies that the supply of services should equal demand. Hence if the demand side is overestimated because per diems are not actually spent it creates a reconciliation problem:
"The goods and services account shows (...) the total resources (...) and uses of goods and services (...). It is (...) the presentation in table form of an accounting identity, according to which supply is equal to demand for all products and groups of products in the economy."¹
7. ESA 2010 paragraphs 3.88 and 3.89 on the definition of intermediate consumption (P.2) state that inputs used for the production process are included within intermediate consumption even if there is a benefit for the employees as well as for the employer:
"Intermediate consumption consists of goods and services consumed as inputs by a process of production, excluding fixed assets whose consumption is recorded as consumption of fixed capital. The goods and services are either transformed or used up by the production process."
"Intermediate consumption includes the following cases:
(h) expenditure by employers which is to their own benefit as well as to that of their employees, because it is necessary for production. Examples are:
(1) reimbursement of employees for travelling, separation, removal and entertainment expenses incurred in the course of their duties;(...)"
8. ESA 2010 paragraph 4.02 defines compensation of employees as *"Compensation of employees (D.1) is defined as the total remuneration, in cash or in kind, payable by an employer to an employee in return for work done by the latter during an accounting period."* While ESA 2010 paragraph 4.04 defines wages in kind as *"goods and services, or other non-cash benefits, provided free of charge or at reduced prices by employers, that can be used by employees in their own time and at their own discretion, for the satisfaction of their own needs or wants or those of other members of their households."*
9. ESA 2010 paragraph 4.05 makes a reference to (bold added) *"meals and drinks, including those consumed **when travelling on business** but excluding special meals or drinks **necessitated by exceptional working conditions**"* as part of wages and salaries in kind (part of D.11). Although per diems are not in kind payments but rather in cash, it is worth noting that if the employer had provided the same services in kind, they would have been recorded as D.11 (if not regarded as being necessitated by exceptional working conditions). This is relevant because such choice for per diem might be considered just a 'payment technique' (more form than substance).
10. One issue is how to interpret *"necessitated by exceptional working conditions"*? To what extent does the employee need to have the freedom to make the decision on what, where and when to spend the money in order to consider a per diem as D.1 and to what extent is it a necessity to do the job, i.e. to consider the per diem as P.2? This is similar to the distinction between special accommodation needed because of nature of the job (e.g. army barracks are P.2) versus an allowance for accommodation, which can be freely chosen (D.1). Conversely, the employee may often have to make decisions between acquiring different inputs on behalf of the employee and their involvement in making the decision does not stop these being intermediate consumption.
11. To reinforce this distinction between expenses incurred in *the course of duties* and *remuneration*

¹ See also ESA 2010 paragraph 1.08.

for work done, ESA 2010 paragraph 4.07 mentions explicitly that (bold font added):

*“Wages and salaries do not include (...) the expenditure by employers necessary for the employers’ production process. Examples are the following: (1) **allowances or reimbursement of employees for travelling**, separation, removal and entertainment expenses incurred in the course of their duties; (...) special meals or drinks necessitated by exceptional working conditions; (...)”.*

12. Similarly, 2008 SNA paragraph 6.222 suggest recording that spending on meals provided while the employee is travelling on business should be recorded as intermediate consumption:

“The following types of goods and services provided to employees must be treated as part of intermediate consumption (...) Transportation and hotel services including allowances for meals provided while the employee is travelling on business (...) Employees may sometimes be responsible for purchasing the kinds of goods and services listed above and be subsequently reimbursed by the employer. Such cash reimbursements must be treated as intermediate expenditure by the employer and not as part of the employee’s wages and salaries”.

13. However, 2008 SNA paragraph 7.44 (and similarity GFSM2014 paragraph 6.13) suggest a recording in wages and salaries (bold added):

*“(...)Wages or salaries payable at regular weekly, monthly or other intervals, including payments by results and piecework payments; enhanced payments or special allowances for working overtime, at nights, at weekends or other unsocial hours; **allowances for working away from home** or in disagreeable or hazardous circumstances; expatriation allowances for working abroad; etc.; (...)”*

14. 2008 SNA paragraph 7.49 explains that even if cash gives more freedom than compensation in kind and is therefore valued higher by the employee than the provision of goods and services in kind, still wages and salaries (D.11) are recorded for the full amount. Extending this logic to the per diem one can say that the higher costs for meals on a business trip compared to home cooking is not a decisive argument to record intermediate consumption (P.2), for the kind of expenditure the employee incurs wherever they are such as eating and drinking. More generally, this can be seen as covering the narrow type of per diem.

“Income in kind may bring less satisfaction than income in cash because employees are not free to choose how to spend it. Some of the goods or services provided to employees may be of a type or quality that the employee would not normally buy. Nevertheless, they must be valued consistently with other goods and services. When the goods or services have been purchased by the employer, they should be valued at purchasers’ prices. When produced by the employer, they should be valued at producers’ prices. When provided free, the value of the wages and salaries in kind is given by the full value of the goods and services in question. When provided at reduced prices, the value of the wages and salaries in kind is given by the difference between the full value of the goods and services and the amount paid by the employees”

15. Furthermore, 2008 SNA paragraph 7.52 indicates: *“Some of the services provided by employers, such as transportation to and from work, car parking and childcare have some of the characteristics of intermediate consumption. However, employers are obliged to provide these facilities to attract and retain labour, and not because of the nature of the production process or the physical conditions under which employees have to work. On balance, they are more like other forms of compensation of employees than intermediate consumption. Many workers have to pay for transportation to and from work, car parking and childcare out of their own incomes, the relevant expenditures being recorded as final consumption expenditures.”*

This reinforces the idea that any good or service, that is normally paid out of the pocket of the employee but should be regarded as wages and salaries (D.11) in principle (and for the full amount, following 2008 SNA paragraph 7.49). Furthermore, a high per diem, making it possible for the employee to make a ‘profit’, can be considered as to *“attract and retain labour”* and therefore as compensation of employees. Again, this is relevant for expenditure that can be deemed to be part of the employee’s general cost of living, and thus coincide with narrow types of

per diem. This is notably covered by ESA 2010 paragraph 4.05 and 2008 SNA paragraphs 7.44, 7.49 and 7.52.

16. In contrast, broad type of per diem (covering hotel and flight costs) reflect expenditure that are only incurred as the employee is travelling in the course of their duties. This is covered by the meaning notably of ESA 2010 paragraphs 3.88, 3.89 and 4.07.

Conclusions on the recording in government finance statistics

17. Considering the text of the manuals, the GFS interpretation is that:

- Narrow per diems have the characteristics of remuneration for work and should therefore in principle be recorded as D.11 for their full amount.
- Other per diems (within broad per diems) have the characteristics of payments made to the employee in order to cover expenses in the course of duties. They should therefore in principle be recorded as P.2 at least up to the value of the actual expenditure incurred.
- When the amount paid by the employer to the employee for per diems recorded as intermediate consumption (such as for other per diem) deviates² from actual expenditure, the difference should be reconciled elsewhere in the accounts following the principles that the ESA 2010 is a consistent framework (ESA 2010 paragraph 1.20c) and supply equals demand (ESA 2010 paragraph 1.08). Options to do so include adjusting D.11 for the difference (when positive) between amounts paid by the employer and actual expenditure incurred by the employee.

Some additional considerations on the reconciliation of supply and demand

18. The recording of intermediate consumption (P.2) for broad per diem is based on the assumption that the per diem allowance is approximately equivalent to the actual expenditure. If that assumption holds, there should be no difficulty. However, if the employee takes the opportunity of making money (either by choosing cheaper alternatives or through the per diem being overly generous) then the economic reality is that the amount not spent is part of wages and salaries, compensation of employees (D.1). The amount needs to enter household savings (B.8).
19. In such a situation, the system does not have a proper counterpart recipient for the intermediate consumption expenditure of the employer. For example, if the employee 'profits' from staying at a cheaper hotel, the employers' expenditure does not match up with the supplier's output.
20. If the approximation to actual expenditure fails to hold, it leads to discrepancies between supply and use and between the financial and non-financial accounts. One option is to record wages and salaries (D.11) for the amount that exceeds the actual expenditure.
21. From a conceptual and practical point of view, it is not satisfactory to generate discrepancies between supply and demand and non-financial and financial accounts in the course of compilation.
22. From a pragmatic point of view, a split between intermediate consumption (P.2) and wages and salaries (D.11) may need to be considered for broad per diem for the amount that is not actually spent in order to balance the accounts, particularly in case of noticeable discrepancies and source data constraints.
23. Such a split or balancing option, possibly based on indicators, estimates and assumptions as available and appropriate, may particularly be needed by compilers facing the following

² In theory, it could be that actual expenditure is higher than the per diem, leading to an underestimation of supply compared to demand.

constraints:

- a. Broad types of per diem are known to exist.
- b. Narrow and broad type of per diem cannot be distinguished.
- c. Survey data or a micro approach is used in the compilation.

Illustration/T-accounts

24. The following T-accounts illustrate the recording of per diem. Three parties are involved, the government acting as the employer (S.13), the employee (S.14) and the supplier of the goods and services (the restaurant, hotel, etc., here S.11³).
25. There are two cases: narrow per diem treated as wages and salaries (D.11), broad per diem as intermediate consumption (P.2). In both cases, it is deemed that the employee makes a 'profit' from the per diem of 40. The per diem paid is 100, while the service supplied is worth 60. We assume no timing difference between the per diem paid and the business trip as this does not need interpretative guidance.

³ But could equally be S.2, S.14.

Narrow per diem treated as D.11**Non-financial transactions**

S.13 (employer)	
Uses	Resources
D.11	100
B.9/B9f	-100

S.14 (employee)	
Uses	Resources
P.31	60
B.8/B.9/B9f	40

S.11 (supplier)	
Uses	Resources
B.9/B9f	60
P.11	60

Financial transactions

S.13 (employer)	
Assets	Liabilities
B.9/B9f	-100
F.2	-100

S.14 (employee)	
Assets	Liabilities
B.9/B9f	+40
F.2	+40 (100-60)

S.11 (supplier)	
Assets	Liabilities
B.9/B9f	+60
F.2	+60

Broad per diem treated as P.2**Non-financial transactions**

S.13 (employer)	
Uses	Resources
P.2	100
B.9/B9f	-100

S.14 (employee)	
Uses	Resources
B.8/B.9/B9f	0

S.11 (supplier)	
Uses	Resources
B.9/B9f	60
P.11	60

Financial transactions

S.13 (employer)	
Assets	Liabilities
B.9/B9f	-100
F.2	-100

S.14 (employee)	
Assets	Liabilities
B.9/B9f	+40
F.2	+40 (100-60)

S.11 (supplier)	
Assets	Liabilities
B.9/B9f	+60
F.2	+60

Discrepancy (to be solved)

-40

Broad per diem treated as P.2 up to the amount of expenditure incurred by the employee**Non-financial transactions**

S.13 (employer)	
Uses	Resources
P.2	60
D.11	40
B.9/B9f	-100

S.14 (employee)	
Uses	Resources
B.8/B.9/B9f	40
D.11	40

S.11 (supplier)	
Uses	Resources
B.9/B9f	60
P.11	60

Financial transactions

S.13 (employer)	
Assets	Liabilities
B.9/B9f	-100
F.2	-100

S.14 (employee)	
Assets	Liabilities
B.9/B9f	+40
F.2	+40 (100-60)

S.11 (supplier)	
Assets	Liabilities
B.9/B9f	+60
F.2	+60

Discrepancy

0