

8. The transition from GDP to GNI - GNI published nationally and GNI for own resource purpose

8.0 Introduction and reference framework

Table 8.1 shows the transition from GDP to GNI published nationally and GNI for own resource purposes.

Table 8.1 Transition from GDP to GNI, 2003

	DKK mill.
GDP	1 400 690
+ Compensation of employees from the ROW	6 158
- Compensation of employees to the ROW	6 772
+ Property income from the ROW	65 576
- Property income to the ROW	80 198
- Taxes on production and imports to the ROW	2 341
+ Subsidies from the ROW	9 007
= Nationally published GNI (ESA 95)	1 392 120
+ Illegal activity	2 670
- EU's third own resource (definitional difference)	2 828
- FISIM	14 274
= GNI for fourth own resource purposes	1 377 688

It is important to note that for Denmark, GNI published nationally is different from GNI used for own resource purposes. The differences are well defined and shown in table 8.1

The adjustment for illegal activity has not yet been introduced in our national publications as it is only possible in connection with a major revision. Because illegal activity is part of the production boundary in ESA95, Statistics Denmark considers the explicit adjustment to GNI for own resource purposes as a satisfactory solution in the short run. The estimates of illegal activity are described further in chapter 7.

The adjustment made for EU's third own resource is due to the fact that this contribution to the EU is recorded as a transfer to the rest of the world in our national publication. For GNI own resource purposes, this contribution is recorded as taxes on products paid directly to the EU because it is based on VAT.

The adjustment for FISIM follows directly from the Council decision on EU own resources (2000/597), according to which the allocation of FISIM to user sectors should not have an impact on GNI for own resource purposes until the Council so decides. The calculation of FISIM allocated to user sector is described in chapter 9.

8.1 Compensation of employees

The main source for compensation of employees is *Danmarks Nationalbank's* settlements statistics - cf. Section 5.16. It should be noted, though, that a large part of the item concerned is due to below threshold estimates. These figures are corrected for wages paid to Danish building workers employed on Danish building sites in the ROW. Since these sites are considered to be producer units in the ROW, the wages, which go to Danish workers, are considered as coming from the ROW even though they are paid by the Danish construction firm. The source for this correction is VAT statistics information on tax-free export sales by Danish construction firms. A share of these "export sales" is considered to be wages from the rest of the world.

Another statistical problem is that ESA 95 requires the compensation of employees to and from the ROW to be recorded gross, i.e. before deductions for income tax and social security contributions, which are deducted at source, whereas the settlements statistics record actual payments, i.e. the wages paid out after tax etc. has been withheld in the ROW and in Denmark respectively. The settlements statistics figures for the compensation of employees to and from the ROW are therefore corrected for income taxes and social security contributions paid. The correction is based on aggregate shares of the total compensation accounted for by income tax and social security contributions in Denmark, Sweden and Germany.

8.2 Taxes on production and imports

Taxes on production and imports to the EU Institutions are recorded directly in central government accounts, in gross terms, before the payment of 25% of customs revenues which the Member States receive as payment for administrative services. These services are counted as exports of services.

As described in section 8.0, contributions to the EU's third own resource, which is based on VAT, is not recorded as taxes on products paid directly to the EU in our national publication. Therefore an explicit adjustment is made to GNI for the purpose of the fourth own resource, in which the contribution to the third own resource is treated as a tax on products paid directly to the EU.

8.3 Subsidies

Subsidies from the EU Institutions are recorded in central government accounts. The subsidies are related to agricultural schemes.

8.4 Interest

The main source for the interest item is *Danmarks Nationalbank's* settlements statistics – cf. Section 5.16. Under interest payable to the ROW, a correction is made for losses on the issue price of discounted bonds and the index-linked premiums on index-linked bonds. The ROW has large holdings of these types of bonds issued by Danish residents. In line with the ESA 95, the method used to break down losses on discounted bonds over their lifetime is the mathematical method based on the debtor's point of view. Conversely, there is no correction on the income side. Since these types of bonds are much less common in the ROW than in Denmark, and there is no information available on Danish residents' holdings of foreign bonds divided by fund code, it was

decided not to make any correction on the income side for the time being. As far as is known, Danish financial institutions' holdings of foreign bonds issued at prices very different from par and of foreign index-linked bonds are insignificant.

There is no correction for tax withheld at source on interest income received from and paid to the ROW. There is no such tax in Denmark and (for reasons of competition) it is not common in other countries either.

Corrections for FISIM on interest flows to and from abroad as a result of the allocation of FISIM to user sectors have been undertaken. However, as described in chapter 9, FISIM should not be allocated for own resource purposes. Therefore, an overall adjustment for the allocation of FISIM on GNI is made, cf. section 8.0 and chapter 9.

8.5 Distributed income of corporations

The source for the distributed income item is *Danmarks Nationalbank's* settlements statistics – cf. Section 5.16. No correction is made for withholding tax on income distributed to or from the ROW. It is therefore implicitly assumed that tax is always refunded to ROW dividend recipients if there is a withholding tax on those dividends. Since settlements statistics record dividends as at the date of payment, payments are periodised in line with paragraph 4.55 of the ESA 95.

No correction is made for reinvested interest and dividend income in mutual funds which issue accumulation units. Under Commission Decision 97/157/EC, Euratom, reinvested earnings in such funds are considered to be property income for the owners of the investment certificates.

In Denmark, as in most other countries, there is a range of resident mutual funds which enable investors to invest in virtually all types of domestic and foreign securities, and there is therefore no obvious incentive for residents to invest in foreign rather than domestic funds unless the motive is tax evasion. It must be considered likely that those Danes who may have such investment certificates in the ROW have chosen countries with rules on banking secrecy such as Switzerland or Luxembourg. It goes without saying that the banking authorities in those countries do not readily disclose information which can shed light on the extent of possible tax evasion.

It is well known that some Danish citizens have large financial assets in the ROW, but the known cases are Danish nationals resident in another country, and their property income from the ROW should not be included in the Danish national accounts. For wealthy Danes who wish to avoid being taxed on their property income, emigration is an entirely legal way of avoiding the high Danish tax rates on positive property income.

8.6 Reinvested earnings on foreign direct investments

For the balance of payments statistics, *Danmarks Nationalbank* estimates reinvested earnings on the basis of questionnaire surveys, which in principle cover all inward and outward foreign direct investment enterprises. The population for the questionnaire surveys is a register of all firms/enterprises in Denmark which represent foreign direct investments, along with Danish firms' direct investments in the ROW. The source for register updating is the settlements statistics, the

basic figures of which include information on payments to and from Denmark in connection with direct investments at individual unit level.

The recording of financial transactions (direct investments) includes the following information:

CVR (business register) number

Branch code

Sector code

Type (inward or outward)

Amount

Currency involved

Partner country

Date entered in the books

Indication of purpose.

It is thus possible to obtain information on the Danish corporation to which the direct investments relate. It will not be possible, however, to see who has sold the equity. To decide who the sellers are, we therefore have to use accounting information on the ownership structure of the corporation sold.

It will not be apparent, either, whether and to what extent part-payments are involved (for example, in connection with an agreement that an investment will take place over several periods) or whether the transaction is one-off.

The indications of purpose show whether the equity is being set up/extended or liquidated. Extending equity from under 10% to over 10% also constitutes direct investment, even if the extension is under 10% - and the same applies to liquidation.

The estimates of direct investments stocks are based on the *Nationalbank's* annual questionnaire survey (which is also used for the estimate of Denmark's foreign debt).

The questionnaire surveys include the following information:

- 0 CVR number (as from the census year 2000 – previously, recording by log entry number)
- 1 Partner country
- 2 Percentage share of capital
- 3 Amount
- 4 Result before tax/dividend retained/dividend paid out/operating surplus.

"Capital" means share capital plus reserves, including the undistributed share of previous years' results. For corporations quoted on the stock exchange, the quoted value is also reported. Investments in unlisted corporations are included in terms of the corporation's book value.

The reinvested earnings on foreign direct investments in the balance of payments and in the national accounts are calculated as the difference between the surplus (profits) for the year and the dividends paid out during that same year according to the settlements statistics. This implies that Method II according to document GNIC/052 is applied. It should be noted that as the settlements statistics have been discontinued by the end of 2004 a new data collection system has been taken into use by *Danmarks Nationalbank* implying the application of Method I as from 2005.

8.7 Property income attributed to insurance policy holders

In addition to actual interest, property income allocated to insurance policyholders to and from the ROW is calculated. For sources and methods of insurance calculations, reference should be made to Section 3.16. All property income allocated to policyholders who are non-resident is assumed to come from non-life insurance. The values for 2003 are as follows:

Property income allocated to policyholders from the ROW:

DKK 293 mill.

Property income allocated to policyholders to the ROW:

DKK 677 mill.

8.8 Rents on land and sub-soil assets

As land in the present context can be owned by resident units only, cf. BPM 5, 316, rents on land and sub-soil assets to and from the ROW are considered to be nonexistent by definition.

