

## Chapter 8. Transition from GDP to GNI

### 8.0 Introduction

Table 137 shows the transition from GDP to GNI.

**Table 137 Transition from GDP to GNI, 1995**

	<b>DKK mill.</b>
GDP	1 009 756
+ Compensation of employees from the ROW	6 847
- Compensation of employees to the ROW	1 982
+ Property income from the ROW	108 456
- Property income to the ROW	134 271
- Taxes on production and imports to the ROW	2 320
+ Subsidies from the ROW	10 588
= Nationally published GNI (ESA 95)	997 074
- EU's third own resource (definitional difference)	5 323
= GNI according to ESA 95	991 751

### 8.1 Compensation of employees to and from the ROW

The source is the *Nationalbank* settlements statistics, which were discussed in Section 5.16. The figures are corrected for wages and salaries paid to Danish building workers employed on building sites in the ROW. Since these sites are considered to be producer units in the ROW, the wages and salaries which go to Danish workers should be 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 and salaries from the rest of the world. The only other statistical problem is that the 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 in the rest of the world, whereas the settlements statistics record actual payments, i.e. the wages and salaries paid out after tax etc. has been withheld in the ROW.

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 estimates the shares of the total compensation accounted for by income tax and social security contributions, and these can be seen in Table 138.

**Table 138 Income tax and social security contributions withheld at source**

%	From the ROW	To the ROW
Income tax	24.0	40.0
Social security contributions	21.0	2.6
Total	45.0	42.6

The 24% for income tax from the rest of the world reflects the fact that the share of income tax in the GDP of Sweden and Germany is on average 40% lower than in Denmark, where the tax rate is 40%. Similarly, the 21% of social security contributions from the ROW reflects the fact that the share of these contributions in the GDP of Sweden and Germany is around eight times higher than in Denmark. The social security contribution share of wages and salaries in Denmark is estimated from the ratio of contributions remitted to general government to aggregate wages and salaries according to the national accounts.

## 8.2 Taxes on production and imports

These taxes to the EU are recorded directly in central government accounts, in gross terms, before the payment of 10% of customs revenues which the Member States receive as payment for administrative services. These services are counted as exports of services.

## 8.3 Subsidies

Subsidies from the EU are recorded in central government accounts. The figures are exhaustive and the subsidies are divided by scheme.

## 8.4 Interest

The source 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 bond 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 at present insignificant.

There is currently 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. If the EU or any other international body decided to introduce a withholding tax, the method of calculation would, of course, be amended in this respect.

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 1995 are as follows:

Property income allocated to policyholders from the ROW:	DKK 356 mill.
Property income allocated to policyholders to the ROW:	DKK 503 mill.

## 8.5 Distributed income of corporations

The source 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. There are, however, no statistical sources which can provide information on Danish residents' holdings of investment certificates in foreign mutual funds. Where appropriate, it should be up to the EU Commission to collect and pass on such information to the Member States.

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.

At present, the amounts in question are considered to be vanishingly small on both the income and expenditure sides, since the *Nationalbank's* foreign exchange rules make it impossible to transfer large sums to other countries via monetary institutions without the authorities' knowledge. Transporting large amounts of cash across national borders is, however, both difficult and risky. The lack of any correction is therefore considered to be of very minor importance.

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.

If the Commission produces information collected from those European countries which have banking secrecy, a correction will be made for reinvested earnings in foreign mutual funds with accumulation units.

## 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.

Up to now, the settlements statistics have operated with a threshold value for reporting of DKK 60 000. As of 1 January 2001, the minimum value was amended to DKK 100 000. These threshold

values are so low that it may be assumed that settlements statistics capture all transactions relating to both inward and outward foreign direct investment.

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

- 0 CVR (business register) number
- 1 Branch code
- 2 Sector code
- 3 Type (inward or outward)
- 4 Amount
- 5 Currency involved
- 6 Partner country
- 7 Date entered in the books
- 8 Indication of purpose.

It is thus possible to obtain information on the Danish corporation to which the direct investments relate. For example, in the case of NKT's sale of Giga to the foreign Intel, Giga's CVR number will feature. 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 balance estimates for direct investments 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 reinvestment of earnings on foreign direct investments is calculated for each individual direct investment enterprise as the difference between the surplus for the year and the dividends paid out during that same year. The information on equity collected by the questionnaire survey is used for the estimate of income and expenditure for Denmark.