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Eurostat Guidance on accounting rules for EDP¹

Classification of payments for the use of roads

This note provides guidance on the appropriate accounting treatment of payments for the use of roads, in the light of ESA 1995/SNA 1993 principles and rules and of the further elaboration of the Manual on Government Deficit and Debt (MGDD), with the aim to ensure an appropriate measurement of the government deficit and the equality of treatment across Member States.

I. The issue

1. In Europe there are at least two systems for road charging – tolls and "vignettes". According to available information, toll systems exist in France, Greece, Ireland, Italy, Poland, Portugal, Slovenia, Spain and the United Kingdom. Vignette schemes exist for passenger traffic in Austria, the Czech Republic, Hungary and Slovakia. Tolls are payments mainly proportional to distance, charged to users on the basis of the number of kilometres (although subscription schemes often also exist), while in the case of vignettes, payments are in connection with a pre-determined time of usage such as one week, one month or one year, generally with wide access to the road framework and for an unlimited amount of kilometres.
2. In future, "road pricing", which implies individual tracking devices to monitor the roads actually used on which user charges are based, may also develop. Road pricing may be assimilated to another more efficient way to administer toll systems, whilst having the same feature of proportionality of payment to the service provided.
3. Some new cases of "city tolls", where users must pay a fee – generally a daily fee – to have access to the centre of some cities, are not addressed in this note. These tolls can be established for various purposes, such as to avoid traffic congestion, to limit pollution or to raise revenue. They raise specific accounting difficulties, notably given that it is unclear whether users can be deemed to be willingly conducting a genuine purchase of a service. The case of city tolls might be subject to further guidance by Eurostat in the future.
4. The main issue at stake is whether payments for road, both in the case of tolls and vignettes, should be considered as sale of services or as a tax, when the infrastructures are owned by public units. The issue is important also because the classification of payments made for the usage of roads, either as sales or taxes, influences the assessment of the 50% criterion, which is fundamental for the purpose of assessing whether a given institutional unit (in some cases, a government-controlled entity receiving the payment of the toll or vignette) is a market or a non-market producer.

¹ This Guidance note is released under the responsibility of Eurostat. Member States have been consulted within the framework of the Financial Accounts Working Group (FAWG), where this Guidance note received broad support.

II. Accounting references

ESA 1995/ SNA 1993

5. In order to see whether tolls and vignettes should be considered as taxes or sale of services, it is important to recall the distinction between taxes and sales in national accounts. Features, such as the exercise by government of a regulatory function and the proportionality of payments in relation to the cost of services provided are important in this respect.

6. Taxes are compulsory, unrequited payments, in cash or in kind, made by institutional units to government units (SNA 1993, paragraphs 7.48 and 8.43). The borderline between taxes and purchases of services from government, in the case of licences granted by government is defined in ESA 1995 as follows: (paragraph 4.80-d, footnote 5) "*if the licences are being granted automatically on payment of the amounts due, their payment is treated as taxes. But if the government uses the issue of licences to organise some proper regulatory function (such as checking the competence, or qualifications, of the person concerned), the payments made should be treated as purchases of services from government rather than payments of taxes, unless the payments are clearly out of all proportion to the cost of providing the services*". ESA 1995 paragraph 4.23-e) also describes the same approach in terms of borderline case.

7. It can be assumed that both ESA 1995 quotations are restricted to situations where no government asset exists in the first place. This is because in case a government asset exists, a renting service is likely to be provided in exchange of the payment, i.e. a presumption of rent or rentals recording would be considered, and the analysis would be different.

8. The conclusion from the above ESA 1995 paragraphs would lead apparently to the following conclusion:

- if licences are granted automatically or if government exercises a regulatory function but payments are out of proportion of the cost of providing the services, they should be recorded as taxes.
- if licences are granted in case of government exercising a regulatory function with payments being not out of proportion of the cost of providing the services, they should be recorded as services.

9. However, a question would arise on how licences should be recorded in national accounts when they are not granted automatically and when no obvious regulatory functions are performed.

10. According to the above, the vignette receipts covering roads where government is not the economic owner would necessarily and automatically be taxes². The main reason would be that the vignette would not be linked to the usage of an asset owned by government.

² As an example, a case has been observed where the vignette covers some roads that are operated under PPP with the asset classified outside government.

Manual on government deficit and debt

11. The ESA 1995 Manual on Government Deficit and Debt (MGDD) provides a more comprehensive framework to interpret the classification of licences proceeds. It expands on the classification of receipts, in its Part IV on leases, licences and concessions, including cases of receipts where a (underlying) government asset exists. The section IV.2 of the MGDD is based on the following structure:

- (a) receipt for goods and services produced by government (that could be supplied by other units),
- (b) receipts for the use of a produced asset owned by government,
- (c) receipts for the use of a non-produced asset owned by government,
- (d) note on intangible non-produced assets and
- (e) receipts in return of permission from government to undertake an activity.

12. The MGDD focuses on whether the service is provided by other entities than government and on whether the receipt is related to the use of an existing asset. Only item (a) and mostly item (e) can be (partially) related with the above distinction established between taxes and sales, while (b) and (c) are payments derived from the existence of an asset.

13. In the first cases (a) and (e), government receives funds, resulting from its taxing powers or because it provides a service similar to any other producer, while in the second case (b) and (c), government receives funds for the use of an asset which it already owns (government asset). ESA 1995 paragraph 4.79-d records as taxes – in that case, D.59 – payments by households for licences either to own or use vehicles, boats or aircraft or for licences to hunt, shoot or fish. However, the ownership elements mentioned in ESA 1995 par 4.79-d clearly refers to the licence payer's asset, not to that of the licence grantor (government). Thus the two situations are clearly distinct.

14. Road tolls and vignettes are apparently related with the type (b) and (c). A 'motorway' means a road specifically designed and built for motor traffic. In this context, the MGDD (item b, page 160) explicitly indicates the examples of "road and bridge tolls" and of "vignettes for use of specific roads for a certain length in time" to be classified as a sale of service. These payments are referred to be made each time the asset is used, or when there is a single payment allowing the use of the asset for a period of time less than one year.

15. The MGDD section *b) receipts for the use of a produced asset owned by government* (page 160-161) mainly indicates that the classification of receipts for the use of a produced asset depends on the financial lease/operating lease test and avoids to refer to the cost of providing the service.

16. Three sub-categories are then considered: i) the asset is used for a period of time less than one year (this case), ii) the asset is used for a period of more than one year but less than the economic life, and iii) a payment is undertaken in order to use the asset for the rest of its economic life (to be recorded as a sale of an asset). It is assumed that the market/non-market criterion is then to be applied (ESA 1995 paragraph 3.43).

III. Analysis

Market / nonmarket nature of the payment

17. An important issue would be to determine whether "tolls" and "vignettes" are to be considered as set at "economically significant prices" or, in a more general way, whether the payments are market or non-market.

18. An assessment on whether the output is market or non-market should first be made, implying analysing the nature of the underlying transaction and the characteristics of the associated payments. In the case of a market output, the link between the payment and the service must exist because the price must be economically significant. Other possible cases include "partial payments" (P.131) ("revenue from the sale of their other non-market output" ESA 1995, paragraph 3.45), transfers and taxes. In the case of "partial payments", similarly to market output, these revenues must also be linked to the output in question although in a different manner (as they are not economically significant).

19. Thus, one could establish a distinction between tolls and vignettes on the basis of two main features: when the user is forced to buy a given package – situation applicable in certain cases to vignettes – he/she might make a **payment** where no strict **proportionality** is observed and with **unrequited** features. A clear example would be a situation where the user of the road is obliged to acquire a vignette for one year, and not have the choice to acquire the vignette for shorter periods to fulfil his specific needs (say, for one day or for one week).

20. As far as compulsory and unrequited payments are concerned, it is important to underline that the ESA 1995/ SNA 1993 criteria established between output and transfers lays on the distinction between unrequited or requited transactions. It is generally easy to determine in a commercial transaction whether the payer receives something in exchange or not. However, in the case of government, the borderline is murkier because it can always be argued that the taxpayer always receives something in exchange (e.g., services of a general nature from government free of charge). There is a broader spectrum of cases ranging from itemized payments to general payments to governments.

21. In this case, one possible further criteria for classification should be whether the existence of an alternative road might influence the decision of the user. In many cases, the user has no choice and it is obliged to pay for the use of the only existing road. In this case, the price influences neither demand nor supply, and difficulties arise on classifying it as a sale (market output). In this respect, the "choice" of the user could be conceived as multi-criteria with respect to the time / space dimensions: choice to pay a fee valid only immediately (toll) or, say, for one day *versus* for one year (vignette), or forever (vignette).

22. Sometimes, the fact that the charge will be used to maintain the road infrastructure benefiting those that use it and are paying for it (ring-fencing) might be indicative of, or instrumental to establish, the proportionality of the payments to costs. However, ring-fencing as such cannot be a decisive classification criteria, unless in the extreme case where the vignette proceeds are collected by another institutional unit than the one bearing the costs of the provision of the service.

Conclusions

23. The distinction made between a tax and an acquisition of service, according to different criteria indicated in ESA 1995 and the MGDD has been highlighted. From the above, it can be concluded that a sale of services can be generally assumed for both tolls and vignettes, but only, in the case of vignette, when there is the possibility to buy it according to needs, for different periods of time, or for a limited length of time (say, for a maximum period of time of less than one year), or for very specific parts of the road systems (one motorway or a section of it).

24. This indicates that users are facing a choice to assume a deliberate purchase act and that at the same time there is some proportionality between the payment made and the service purchased. And most commonly it would be consistent with the fact that the charge will be used to maintain the road infrastructure benefiting those that use it and are paying for it (ring-fencing).

25. In very specific circumstances, whenever the user is forced to buy a "package" allowing him to use several or all the roads of the country for a considerable length of time (say, one year), the payment should be classified as a tax. In this case, the user is not acquiring a service for using a specific road or for using it during a specific period of time, and the vignette or licence functions more as a device to levy government revenue.

IV. Guidance

26. Payments for the use of roads will generally be classified as a sale of a service in the case of tolls. They will also be classified as a sale of a service in the case of vignettes whenever users have sufficient choice both in terms of selecting specific roads and of choosing a determined length of time.

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