

***BPM7* Chapter 12. Primary Income Account:
Annotated Outline**

BPM7 Chapter 12. Primary Income Account:¹ Annotated Outline²

(Update to *BPM6* Chapter 11)

Changes from BPM6 highlighted yellow

As in Balance of Payments and International Investment Position Manual, sixth edition (*BPM6*) Chapter 11, this chapter will introduce the primary income account and its major components. The structure will be maintained from the *BPM6* chapter. The chapter will have separate sections on overview of the primary income account (Section I), types of primary income (Section II), investment income and functional categories (Section III). See the Schematic Overview for details.

In addition to the highlighted updates/additions below, further changes may be made to improve the consistency of the language with other macroeconomic statistics manuals (e.g., System of National Accounts 2025) as appropriate.

I. Overview of the Primary Income Account

The structure and content of this section will be maintained as in the *BPM6*. This section will introduce primary income and its main components, describe the links to gross domestic product (GDP) and gross national income (GNI), and distinguish primary income from secondary income.

II. Types of Primary Income

This section—which discusses the coverage, timing, and valuation for each type of primary income—will be maintained as in *BPM6* with the following important changes.

- Per GN B.9, a new paragraph or analytical box will be added under this section to clarify that income declared under tax amnesties should follow the accrual principle, meaning that adjustments from cash recording will need to be made. Reference to related discussion in other *BPM7* chapters will be provided.

A. Compensation of Employees – no significant changes

B. Dividends and Withdrawals of Quasi-Corporations

- Paragraph 11.27 on exceptional payments will be revised as a result of GN D.17 (and the related Issue Note). Specifically, the GN recommends that the concept of superdividends for foreign direct investment be discarded, and any distributions of accumulated reserves from ordinary earnings will be treated as dividends. Therefore, the paragraph will be revised to indicate that all distributions out of accumulated reserves from ordinary income should be treated as dividends. It

¹ Note that the term “primary income” is used throughout this annotated outline. However, pending the outcomes of CM.2, Terminology and Branding of the Economic Accounting Statistical Standards, and related work to develop a standard glossary for macroeconomic accounts, the term may be changed. The current proposal under review is to replace “primary income” with “earned income.”

² Prepared by Kristy Howell and Patrick Quill (*BPM* editors) and cleared by Carlos Sánchez-Muñoz (*BPM* Project Manager).

will retain the treatment of exceptional payments by corporations to their shareholders that are made from the sales of assets; these should not be treated as dividends. It will also acknowledge that it may still be useful to separately identify payments from accumulated reserves, if feasible, for comparability with domestic superdividends, and thus, this will be added as a supplementary item. Corresponding changes will be made to paragraph 11.30, on liquidating dividends.

C. Reinvested Earnings

- Pending the final outcomes of GN D.16, the definition of retained earnings (paragraph 11.34) and discussion of reinvested earnings on direct investment enterprise (11.40–47) would be clarified. Box 11.1 on Reinvested Earnings with Chain of Ownership would, likewise, be updated to reflect clarifications suggested in D.16.
- Also relevant to the discussion of the net recording of reinvested earnings is the discussion in GN C.8 on whether fines and penalties should impact direct investment income when direct investment enterprises are the responsible party in these transactions. Because no agreement was reached, the updated chapter will recommend that compilers base their determination about whether to include fines/penalties as part of Current Operating Performance Concept (COPC) on the specific characteristics of the fine/penalty, including whether it is considered extraordinary.
- Per GN F.2, a new paragraph will be added to encourage supplemental reporting of information on retained earnings for portfolio investment and to signal the possible expansion of the treatment of retained earnings to portfolio investment in a future update of the standards.

D. Interest and Similar Returns

- Per the recommendations of GN IF.1 on Islamic Finance, the term “interest” will be replaced with “interest and similar returns” to include the broader interest-like returns on Islamic instruments. The definition of interest will be updated accordingly. Economies with significant Islamic financial activities will be encouraged to create a sub-category within interest and similar returns to present the investment income for Islamic deposits, loans, and debt securities separately. This section may refer the reader to Chapter 26 of *2025 SNA* on Islamic Finance for more detail.
- Following the IMF Clarification Note 3 on the treatment of negative interest rates, a paragraph will be added to clarify that negative interest rates should be recorded as negative income receivable by the investors (and payable by the financial institutions). Economies with a significant amount of negative-yielding deposits could consider the incorporation of an “of which” category showing the negative interest income separately in their national publications.
- The discussion of investment income accrued while securities are under reverse transactions (paragraph 11.69) will be updated according to the outcomes of GN F.3. Specifically, in the case where a reverse transaction covers the period when dividends/interest are payable for an on-sold security (also called manufactured dividends/interest), the recommendation is to record positive credit in dividends/interest for the security lender and negative credit in dividends/interest for the security borrower (as shown in F.3, Annex II).

- The numerical examples included in this section will be expanded to include additional numerical examples for bonds issued at par, at discount, and at premium, drawing in part from the examples in the *Handbook on Securities Statistics* (Annex 1).

E. Investment Income Attributable to Policyholders in Insurance, Standardized Guarantees, and Pension Funds

- A number of clarifications on the treatment of pension schemes have come from the SNA since 2008 SNA was published (SNA News & Notes 39/40, AEG 9/2014). These will be reviewed to determine if any changes/clarifications are needed in BPM to align the treatment.³

F. Rent

- Pending discussions on the recording of data (GN DZ.6), treatment of rent (AI.2), and clarification of borderline between taxes, service fees, and other revenue (GN WS.14), there may need to be changes to the definition and recording of rent in the macroeconomic accounts. Likewise, discussions of accounting for the economic ownership and depletion of natural resources (GN WS.6), accounting for biological resources (GN WS.8), and treatment of renewable energy resources (GN WS.11), while focused on domestic transactions, may have implications for the guidance on rent in BPM.

G. Taxes and Subsidies on Products and Production

- Pending the outcomes of GN WS.7, a new section may be added to describe transactions for taxes on production related to emission permit trading schemes. Cross-border transactions are possible because there are international emission trading schemes where corporations may purchase emission permits from one economy and surrender them in another economy. This may imply that one economy will be receiving tax revenue from production activities that occurred in another economy.
- Pending the outcomes of GN WS.14, a discussion of the borderline between taxes and service fees may be expanded/clarified and aligned across the manuals.

III. Investment Income and Functional Categories

This section—which explains the classification of investment income by functional category—will be maintained as in *BPM6* with the following important changes.

- Table 11.2 will be updated to reflect the new detailed breakdown of direct investment income, following the recommendations of GN D.7, which recommended to de-emphasize the breakdown by investment relationship (direct investor in direct investment enterprise; direct investment enterprises in direct investor (reverse investment); and between fellow enterprises) in favor of sectoral breakdown (see proposed table in Annex III of the GN). The sectoral breakdown of direct investment income will be included within the standard components of the balance of payments.

³ In addition, there is also ongoing discussion within the SNA community of the treatment of holding gains and losses in the case of insurance transactions, which may have an impact on, in particular, output (and therefore the concept of net premiums) and investment income attributable to insurance policyholders.

- This section will recommend disaggregation of investment income by characteristics of the trading enterprise (ownership and size) as a supplemental presentation (as recommended in GN C.2) to highlight the role of enterprises with different characteristics in the current account. This supplemental presentation will also be described further in Chapter 15, Globalization.

Schematic Overview

I	<p>Overview of Primary Income Account</p> <ul style="list-style-type: none"> Definition Links to GDP and GNI Distinguishing primary income from secondary income Structure of primary income account <p style="text-align: center;"><i>Table 12.1 Overview of the Primary Income Account</i></p>
II	<p>Types of Primary Income</p> <ul style="list-style-type: none"> A. Compensation of employees B. Dividends and withdrawals from quasi-corporations C. Reinvested earnings <ul style="list-style-type: none"> <i>Box 12.1 Reinvested Earnings with Chain of Ownership</i> D. Interest and similar returns <ul style="list-style-type: none"> <i>Box 12.2 Numerical Example of Calculation of Interest Accrual on a Fixed Interest Rate Bond Issued at Par</i> <i>Box 12.3 Numerical Example of Calculation of Interest Accrual on a Fixed Interest Rate Bond Issued at Discount</i> <i>Box 12.4 Numerical Example of Calculation of Interest Accrual on a Fixed Interest Rate Bond Issued at Premium</i> <i>Box 12.5 Numerical Example of Calculation of Interest Accrual on a Zero-Coupon Bond</i> <i>Box 12.6 Numerical Example of Calculation of Interest Accrual on an Index-Linked Bond—Broad-Based Index</i> <i>Box 12.7 Numerical Example of Calculation of Interest Accrual on an Index-Linked Bond—Narrowly Based Index</i> E. Investment income attributable to policyholders in insurance, standardized guarantees, and pension funds F. Rent G. Taxes and subsidies on products and production
III	<p>Investment Income and Functional Categories</p> <ul style="list-style-type: none"> Direct investment income <ul style="list-style-type: none"> <i>Box 12.5 Numerical Example of Calculation of Reinvested Earnings of a Direct Investment Enterprise</i> <i>Table 12.2 Detailed Breakdown of Direct Investment Income updated to reflect sectoral breakdown in favor of investment relationship</i> Portfolio investment income Other investment income <ul style="list-style-type: none"> <i>Table 12.3 Detailed Breakdown of Other Investment Income</i> Income on reserve assets <i>Supplemental presentation of investment income by enterprise characteristics</i>

References

- GNs B.9, B.12, D.7, D.16*, D.17*, C.2, F.2*, F.3, G.9, IF.1, DZ.6, WS.6*, WS.7*, WS.8*, WS.11*, WS.14*, and AI.2. These guidance notes are posted at [Update of the sixth edition of the *Balance of Payments and International Investment Position Manual \(BPM6\)* \(imf.org\)](#) or at [List of Guidance Notes for the 2008 SNA Update](#) (unstats.un.org).⁴
- Clarification Note on [The Statistical Treatment of Negative Interest Rates](#) (CN.3).
- [SNA News & Notes 39/40](#) on recording of flows between defined benefit pension schemes and their sponsors and [AEG 9/2014](#) meeting decisions on treatment of holding gains and losses for pensions.
- [Handbook on Securities Statistics](#)

Key Stakeholders Consulted

- System of National Account and Balance of Payments Manual editors
- IMF Statistics Department Financial Institutions Division and Government Finance Division

⁴ Guidance notes that are under consultation at the time of writing this AO are marked by an asterisk (*).