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**Expanded accounts for the household sector including non-profit institutions, serving households (NPISH)****Non-profit Institutions Serving Households in the Canadian System of National Accounts****Prepared by Statistics Canada***Summary*

While the Canadian national accounts have always accounted for the monetary transactions of non-profit institutions, they have not until recently been identified explicitly in published statistics. International guidelines for national accounting recommend that data be produced for a limited subset of non-profit institutions in standard national accounts statistics. This subset is called Non-profit Institutions Serving Households (NPISH). Until recently NPISH were included in the household sector of the Canadian System of National Accounts (CSNA). With the conversion of the Canadian System of National Accounts to the 2008 SNA, NPISH are now identified separately in the CSNA. This paper provides an overview of the CSNA non-profit institutions serving household sector, the data sources and methods used to compile the accounts, and concludes by highlighting some of the more salient results.

## I. Overview

1. Until October 2012, the Canadian System of National Accounts (CSNA) presented a sequence of accounts for the Canadian economy, representing four institutional sectors, each characterized by different economic behaviour. One of these sectors was called the persons and unincorporated businesses sector. This sector included households, non-profit institutions serving households (NPISH), Aboriginal general governments and various financial corporations, such as trustee pension funds.
2. International guidelines for national economic accounts specify separate NPISH and household sectors. With the implementation of the 2008 SNA in the Canadian System of National Accounts, a decision was taken to align with the international recommendations and compile a NPISH sector account. In addition, the CSNA also moved the Aboriginal general government institutional units to the government sector. This decision not only increased the sector detail contained in the CSNA, but also improved the household sector account as it no longer includes transactions of these decidedly different institutional units.
3. Creating a separate NPISH sector offers several benefits to researchers, economists, policy makers and national accountants. The NPISH sector account improves our understanding of the economic contribution of NPISH to the production of goods and services in Canada and points to the importance of NPISH within the Canadian economy. As well, the sector account helps illuminate its significance in providing social services to households in Canada. Transfers of income between sectors can also be better identified.
4. The current Canadian System of National Accounts presents a partial sequence of accounts for the NPISH sector on a quarterly basis, published roughly 60 days following the reference period. The CSNA does not produce a quarterly NPISH production or generation of income account. The sequence of accounts starts at the allocation of primary income account. The CSNA goes on to articulate a secondary distribution of income account, use of disposable income account, capital account, financial account and balance sheet. Table 1 illustrates the quarterly detail produced for the allocation of primary income account, secondary distribution of income account, use of disposable income account and capital account.

Table 1

**Quarterly detail produced for the allocation of primary income account, secondary distribution of income account, use of disposable income account and capital account**

Currents accounts

Allocation of primary income account

- 1 Net property income
- 2 Property income received
- 3 Less: property income paid
- 4 Equals: primary non-profit institutions serving households' income

Secondary distribution of income account

- 5 Primary non-profit institutions serving households' income
- 6 Plus: current transfers received
- 7 From households
- 8 From corporations
- 9 From general governments
- 10 From non-residents
- 11 Less: current transfers paid
- 12 To households

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- 13 To corporations
  - 14 To general governments
  - 15 To non-residents
  - 16 Equals: non-profit institutions serving households' disposable income
    - Use of disposable income account
  - 17 Non-profit institutions serving households' disposable income
  - 18 Less: net non-profit institutions serving households' final consumption expenditures
  - 19 Equals: non-profit institutions serving households' net saving
    - Capital account
  - 20 Non-profit institutions serving households' net saving
  - 21 Plus: consumption of fixed capital at replacement cost
  - 22 Plus: net capital transfers received
    - 23 From households
    - 24 From corporations
    - 25 From general governments
    - 26 From non-residents
  - 27 Equals: gross saving and capital transfers
  - 28 Less: non-financial capital acquisitions
    - 29 Fixed capital
      - 30 New capital
      - 31 Existing capital
    - 32 Inventories
  - 33 Equals: net lending or net borrowing

## II. Data sources and methods

- 5. The source data for the non-profit institutions serving households draws heavily on administrative files (taxation data) to build the annual estimates. Alternative sources and counterparty data are used for a few key variables where administrative data are not readily available, and these are deemed to be of lower quality, or only provide an annual measure.
- 6. In Canada, there is no single comprehensive source of administrative data on non-profit institutions serving households from which an entire sequence of accounts can be constructed. Rather, they are identifiable in a range of data files, none of which is exhaustive.
- 7. These files include:
  - (a) The Registered Charity Information Return (T3010);
  - (b) Non-profit Organisation Information Return (T1044);
  - (c) Summary of Remuneration Paid (T4 Summary and Supplementary)
  - (d) Income Tax and Benefit Return (T1)
  - (e) Tax-exempt corporations (from T2 Corporate Income Tax returns and the Generalized Index of Financial Information); and
  - (f) Public sector bodies eligible for rebates under the Goods and Services Tax system (the GST Public Sector Bodies Rebate File).

### A. Registered Charity Information Return (T3010)

8. Registered charities are charitable organizations, public foundations or private foundations that are established in Canada and are resident in Canada. They must have charitable purposes (either carry on charitable activities and / or provide gifts of funds to other qualified donees), provide a tangible benefit to the public and fall into one or more of the following four categories:

- the relief of poverty,
- the advancement of education;
- the advancement of religion; or
- other purposes that benefit the community in a way the courts have said are charitable.

9. Registered charities operate for charitable purposes and must devote their resources to charitable activities. Each registered charity has received its registration number from the Canada Revenue Agency (CRA). They are exempt from paying tax on their revenue, and can issue official donation receipts.

10. Under the *Income Tax Act*, every registered charity has to file an information return each year (the T3010). The return must be filed no later than six months after the end of the registered charity’s fiscal period. For 2009, as part of the Small and Rural Charities Initiative, CRA has simplified financial reporting for charities under a certain revenue and asset level, while all other charities with revenue and asset above specific thresholds are required to fill out a detailed financial information schedule.

11. The T3010 core form contains the following information:

**E3** Please show figures to the nearest **single dollar**. Do not show cents. See the guide for an explanation of the terms.

<b>Revenue</b>			
Total eligible amount of tax-receipted gifts		4500	.00
Total amount received from other registered charities		4510	.00
Total specified gifts included in line 4510	4520		.00
Total enduring property included in line 4510 (See the guide.)	4525		.00
Total other gifts		4530	.00
Revenue from federal government	4540		.00
Revenue from provincial/territorial governments	4550		.00
Revenue from municipal/regional governments	4560		.00
Total revenue from government (add lines 4540, 4550, and 4560)		4570	.00
Interest and investment income		4580	.00
Proceeds from disposition of assets	gross 4590	net 4600	.00
Rental income (land and buildings)		4610	.00
Memberships, dues, and association fees (non tax-receipted)		4620	.00
Total revenue from fundraising		4630	.00
Total revenue from sale of goods and services (except to government)		4640	.00
Other revenue		4650	.00
<b>Total revenue (add lines 4500, 4510, 4530, 4570, 4580, and 4600 to 4650)</b>		<b>4700</b>	<b>.00</b>
<b>Expenditures (Enter all expenditures, whether or not on charitable programs)</b>			
Advertising and promotion		4800	.00
Travel and vehicle		4810	.00
Interest and bank charges		4820	.00
Licences, memberships, and dues		4830	.00
Office supplies and expenses		4840	.00
Occupancy costs		4850	.00
Professional and consulting fees		4860	.00
Education and training for staff and volunteers		4870	.00
Salaries, wages, benefits, and honoraria		4880	.00
Donated and purchased supplies and assets expensed for the fiscal period		4890	.00
Amortization of capitalized assets		4900	.00
Research grants and scholarships as part of charitable programs		4910	.00
Other expenditures		4920	.00
<b>Total expenditures before gifts to qualified donees (add lines 4800 to 4920)</b>		<b>4950</b>	<b>.00</b>

**Section E – Financial Information**

**E1** Was the financial information reported below prepared on an accrual or cash basis?  4020  Accrual  Cash

**E2** Please show figures to the nearest **single dollar**. Do not show cents. See the guide for an explanation of the terms.

<b>Assets</b>		<b>Liabilities</b>	
Cash, bank accounts, and short-term investments	4100 .00	Accounts payable and accrued liabilities	4300 .00
Amounts receivable from non-arm's length parties	4110 .00	Deferred revenue	4310 .00
Amounts receivable from all others	4120 .00	Amounts owing to non-arm's length parties	4320 .00
Investments in non-arm's length parties	4130 .00	Other liabilities	4330 .00
Long-term investments	4140 .00	<b>Total liabilities (add lines 4300 to 4330)</b>	<b>4350 .00</b>
Inventories	4150 .00		
Capital assets (at cost or fair market value)	4160 .00		
Other assets	4170 .00	Amount included in lines 4150, 4160, and 4170 not used in charitable programs	4250 .00
<b>Total assets (add lines 4100 to 4170)</b>	<b>4200 .00</b>		

**B. Non-profit Organizations Information Return (T1044)**

12. Non-profit organizations are associations, clubs, or societies that are not charities and that are organized and operated exclusively for social welfare, civic improvement, pleasure, recreation, or any other purpose except profit. They are exempt from paying tax on their revenue, and cannot issue official donation receipts.

13. Non-profit organizations are characterized by the fact that no part of the income is payable or otherwise available for the personal benefit of proprietors, members or shareholders and can include:

- agricultural organizations;
- boards of trade;
- chambers of commerce;
- organizations devoted to social welfare;
- organizations devoted to civic improvement;
- organizations devoted to pleasure or recreation; or
- any purpose other than profit.

14. It is important to note that organizations submitting a T1044 form can fall into one of three non-profit groups—non-profit institutions serving households, corporate non-profit institutions or government non-profit institutions.

The T1044 form contains the following information:

**Part 2 – Amounts received during the fiscal period**

Membership dues, fees, and assessments	100	_____
Federal, provincial, and/or municipal grants and payments	101	_____
Interest, taxable dividends, rentals, and royalties	102	_____
Proceeds of disposition of capital property	103	_____
Gross sales and revenues from organizational activities	104	_____
Gifts	105	_____
Other receipts (specify) _____	106	_____
<b>Total receipts (add lines 100 to 106)</b>	<b>107</b>	_____

Part 4 – Remuneration		
Total remuneration and benefits paid to all employees and officers .....	120	_____
Total remuneration and benefits paid to employees and officers who are members .....	121	_____
Other payments to members (specify) .....	122	_____
Number of members in the organization .....		_____
Number of members who received remuneration or other amounts .....		_____

Part 3 – Statement of assets and liabilities at the end of the fiscal period		
<b>Assets</b>		
Method used to record assets .....		_____
Cash and short-term investments .....	108	_____
Amounts receivable from members .....	109	_____
Amounts receivable from all others (not included on line 109) .....	110	_____
Prepaid expenses .....	111	_____
Inventory .....	112	_____
Long-term investments .....	113	_____
Fixed assets .....	114	_____
Other assets (specify) .....	115	_____
<b>Total assets</b> (add lines 108 to 115) .....	116	_____ ▶ _____
<b>Liabilities</b>		
Amounts owing to members .....	117	_____
Amounts owing to all others (specify) .....	118	_____
<b>Total liabilities</b> (add lines 117 and 118) .....	119	_____ ▶ _____

**C. Summary of Remuneration Paid (T4 Summary and Supplementary)**

15. The T4 Summary and Supplementary data is an electronic media file containing all employee and employer salary data, pension data, and non-resident income data, captured on payroll (PD7 & T4) forms.

16. The information is used as a benchmark for compensation of employees. The T4 slip (T4) below is used to report salary, wages, and taxable benefits paid to employees for services rendered during the year, as well as pension adjustment amounts for employees who accrued a benefit for the year under a registered pension plan or a deferred profit sharing plan. This data source is used as a benchmark source of information for all wages and salaries in the CSNA and as such becomes the benchmark estimate of wages and salaries for the NPISH sector.

#### D. Income Tax and Benefit Return (T1)

17. The T1 Universe File is an electronic file of data from all individual Canadian T1 tax filers, including unincorporated businesses. This file contains information on household charitable donations. These are used to help establish the benchmark information for current transfers from households to NPISH.

#### E. Corporations Income Tax Return (T2)

18. All resident corporations including non-profit organizations, tax-exempt corporations, and inactive corporations have to file a T2 return for every tax year, even if there is no tax payable. The only exception to this rule is a corporation that was a registered charity throughout the year.

19. A non-resident corporation has to file a T2 return if, at any time in the year, one of the following situations applies:

- it carried on business in Canada;
- it had a taxable capital gain; or
- it disposed of taxable Canadian property.

20. This requirement applies even if any profits or gain(s) realized are claimed by the corporation to be exempt from Canadian income tax due to the provisions of a tax treaty.

21. The corporations with a tax-exempt status are specifically identified from this data source and used in the processing of the NPISH sector accounts.

#### F. GST Public Sector Rebate File

22. This file contains records that are part of the public sector and are exempt from paying Canada's Goods and Services Tax (value added tax). Certain registered charities and

non-profit organizations that receive at least 40% of their total revenues from government funding are entitled to a GST rebate. This additional tax file source is used to assess coverage of non-profit organizations with a view to improving it.

23. The above information is heavily exploited not only to establish the NPISH universe but also to build estimates for variables throughout the core economic accounts. However, in a number of specific cases, either for particular variables or key segments of the non-profit universe, alternate data sources are available. The most significant cases are summarized below. As a general rule, elements of the NPISH account not listed here are estimated using the non-profit tax records described above.

**1. Transfers (gifts) from households to NPISH:** The tax-receipted portion of household transfers is built from the point of view of the payer, using tax returns of individuals (the T1 data file) while the non-tax receipted portion is based on non-profit tax filer information.

**2. Transfers from governments to NPISH:** These are built from the point of view of the payer, using federal and provincial public accounts information, surveys of municipalities, and financial statements of government special funds and government agencies.

**3. Transfers from corporations to NPISH:** These are based on corporate donations recorded on T2 corporate tax returns. It is important to note that only amounts recorded as corporate donations are included and any support to non-profit institutions that is recorded as a business expense is excluded as it cannot be separately identified.

**4. Trade unions dues:** Trade union dues are reported on the T4 Statement of Remuneration and Benefits.

24. There is very little quarterly information available for non-profit institutions serving households. Most of the quarterly movements and estimates rely on monthly wage and salary information obtained from Statistics Canada's monthly Survey of Employment, Payrolls and Hours. This survey provides information on wages and employment by industry. Given that the main expenditure category for NPISH is wages, this provides a good estimate of the quarterly expenditure movement. Quarterly information on transfers from government to NPISH is available from government accounting records. Property income flows, both paid and received, are modeled along with transfers from households to NPISH and from NPISH to households.

25. Quarterly financial flow and balance sheet information are derived by dividing the annual values by 4 and projecting the benchmark series using the same model used to derive the property income flows.

## **G. Delineation of the universe of non-profit institutions serving households**

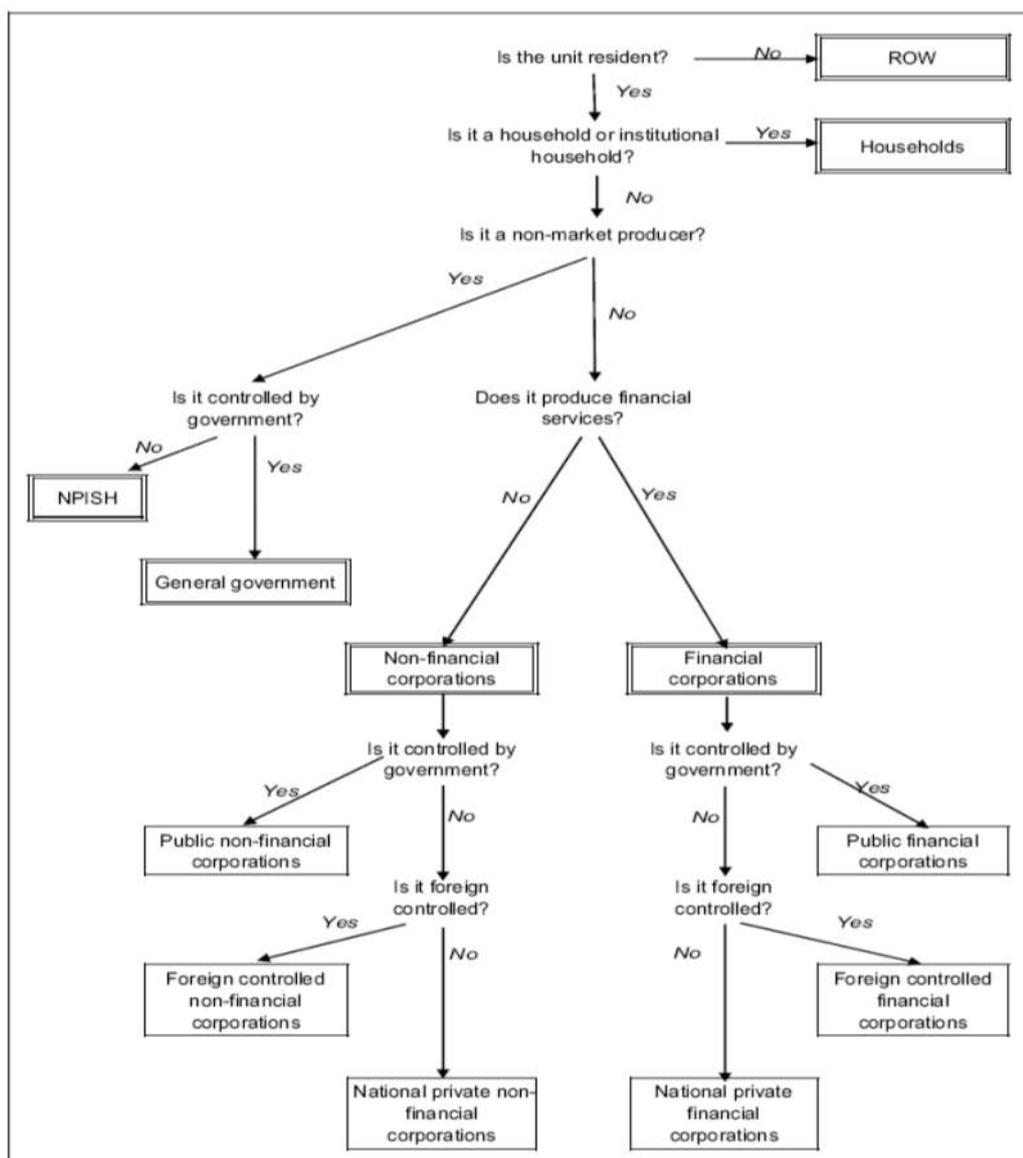
26. NPISH are non-market producers with the primary purpose of providing goods and services free or at prices that are not economically significant to individual households or to the community at large. The first step in constructing a non-profit institutions serving households sequence of accounts is the development of a NPISH universe of institutional units.

27. The CSNA follows the 2008 SNA guidance in establishing the NPISH universe of institutional units:

*NPIs are institutional units created for the purpose of producing or distributing goods or services but not for the purpose of generating any income or profit for the units that control or finance them. Nevertheless, some NPIs deliver goods and*

services to customers at economically significant prices and, when they do, these NPIs are treated in the same way as corporations in the SNA. Other NPIs that are controlled by government are treated as government units. The remaining NPIs, those that produce goods and services but do not sell them at economically significant prices and are not controlled by government, are treated as a special group of units called non-profit institutions serving households (NPISHs). They are in effect non-governmental social institutions. (2008 SNA p4.22)

Figure 4.1: Illustrative allocation of units to institutional sectors



28. Operationally, the CSNA first takes the unduplicated list of all non-profit institutions which are found on the following files:

- (a) The Registered Charity Information Return (T3010);
- (b) Non-profit Organisations Information Return (T1044);
- (c) Tax-exempt corporations (from T2 Corporate Income Tax returns and the Generalized Index of Financial Information); and
- (d) Public sector bodies eligible for rebates under the Goods and Services Tax system (the GST Public Sector Bodies Rebate File).

29. This unduplicated list becomes the list of all non-profit institutions (government, corporate and serving households) operating in the Canadian economy. Information about these organizations is available on Statistics Canada's central business register. When they are placed on the business register frame they are provided with an industrial 6 digit North American Industrial Classification System (NAICS) code.

30. All NPIs that are assigned to the following industries are assumed to be part of the NPISH sector:

- Child and Youth Services (NAICS 624110)
- Other Individual and Family Services (NAICS 624190)
- Community Food Services (NAICS 624210)
- Community Housing Services (NAICS 624220)
- Emergency and Other Relief Services (NAICS 624230)
- Religious Organizations (NAICS 813110)
- Grant Making and Giving Services (NAICS 813210)
- Social Advocacy Organizations (NAICS 813310)
- Civic and Social Organizations (NAICS 813410)
- Labour Organizations (NAICS 813930)
- Political Organizations (NAICS 813940)

31. For all other industries, additional classification work is required to determine if the NPI belongs to the NPISH sector, government sector, or corporate sector. This is particularly important in the education and health sectors, where there can be a mix of very large government NPIs and smaller non-profit organizations serving households operating within the same NAICS code.

32. Once this classification work has been completed, the NPISH universe for a given year is established. Ensuring proper classification is essential before assigning and editing financial data. The process of compiling a NPISH universe is time consuming and labour intensive, and results in a high quality product that is used throughout the CSNA.

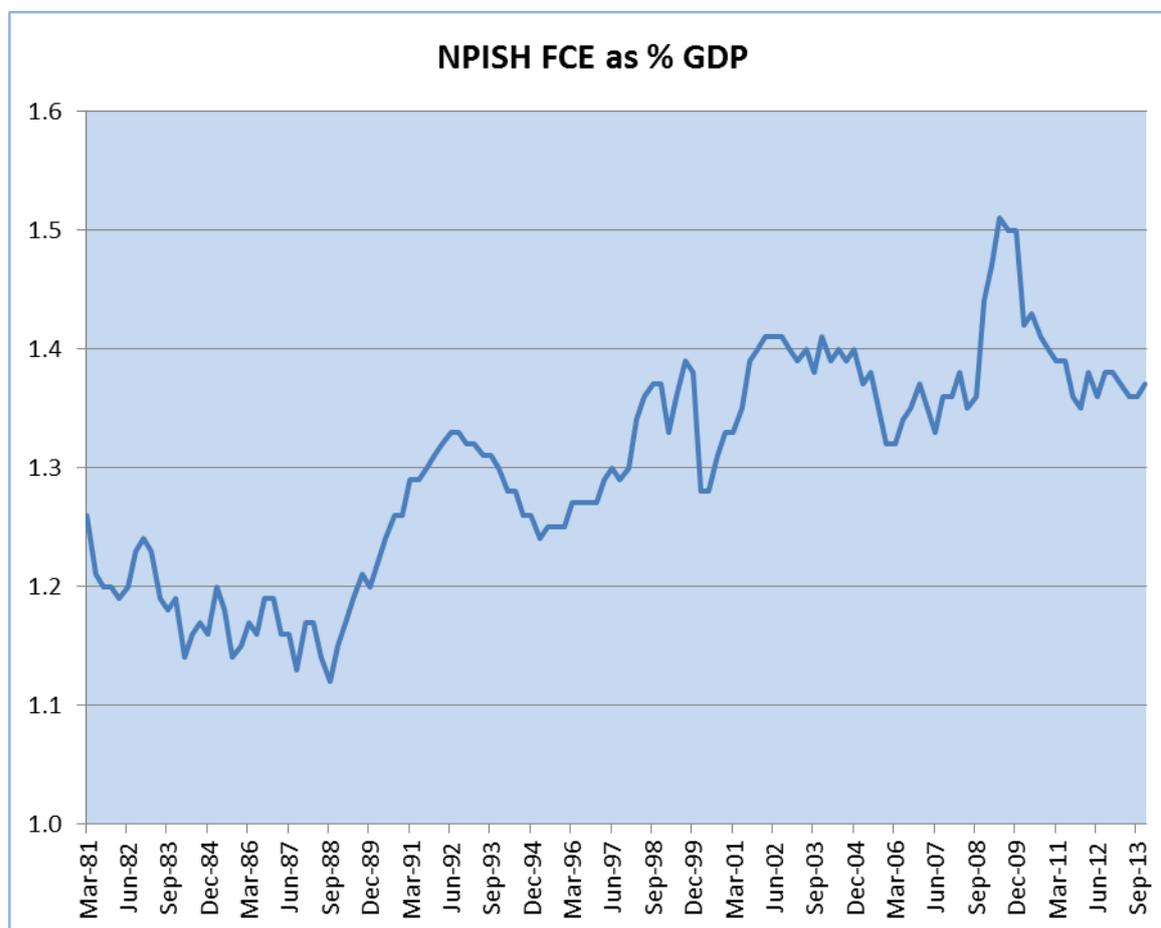
### **III. Results**

33. As noted earlier, the delineation of the NPISH sector in a country's national accounts is important because it helps to clearly identify the contribution of this sector to the economy. While the NPISH sector only averaged around 1.2% of gross domestic product from 1981 to the current period, it did exhibit counter cyclical behavior where it's

expenditures as a share of GDP rose during recessionary period—indicating an increasingly important role for these institutional units during difficult economic times.

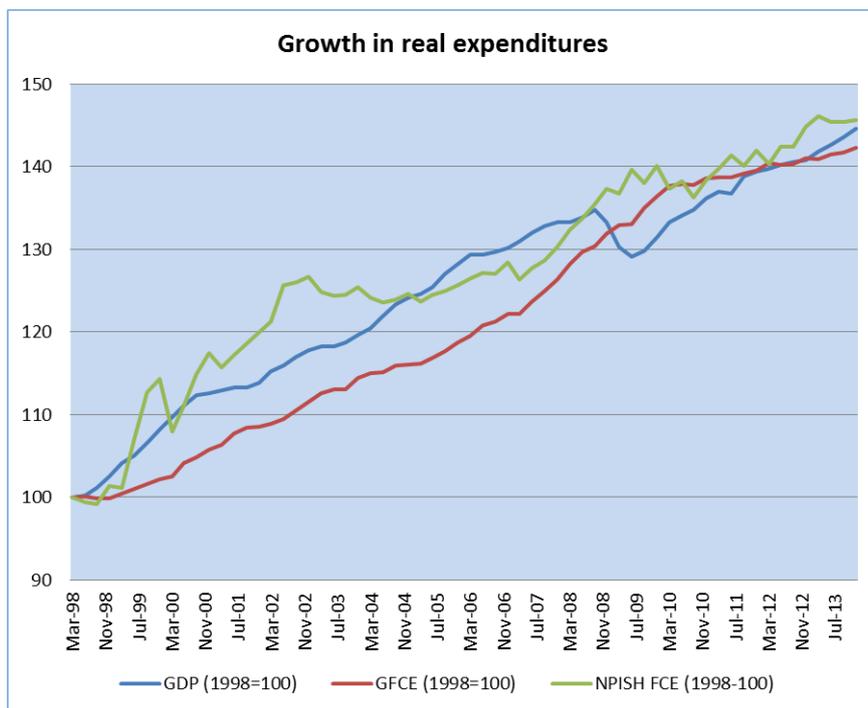
Figure 1

**Non-profit institutions serving households' final consumption expenditure as a share of gross domestic product**



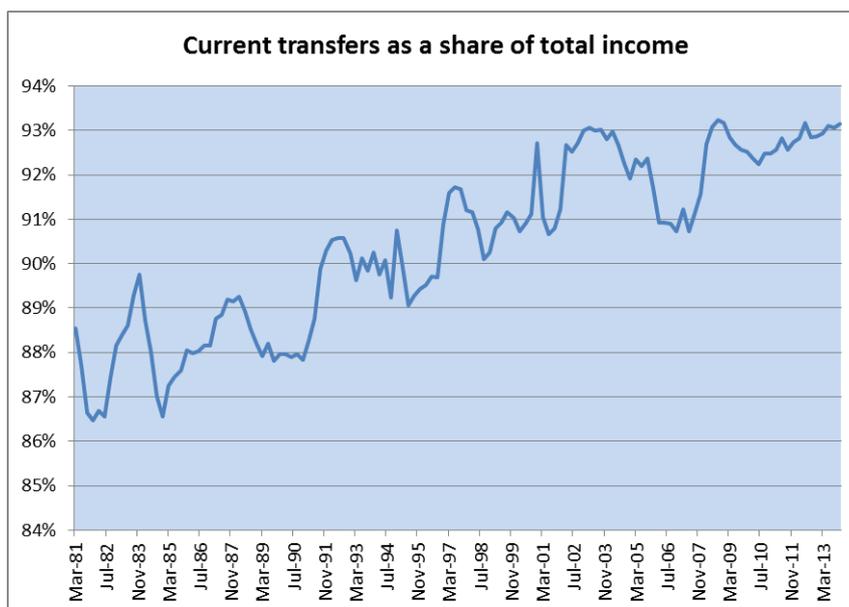
34. Growth in NPISH expenditures for the period 1998 to 2013 has been similar to the overall growth in the economy. NPISH real final consumption expenditures have risen 45.6% over this period, while government final consumption expenditure increased 41.7% and overall GDP -41.8%.

Figure 2  
**Growth in real expenditures, NPISH, general government and gross domestic product (1998=100)**



35. The NPISH have two sources of income—property income and current transfers received from households, corporations, governments and non-residents. Over 90% of their total income comes from current transfers from other sectors of the economy.

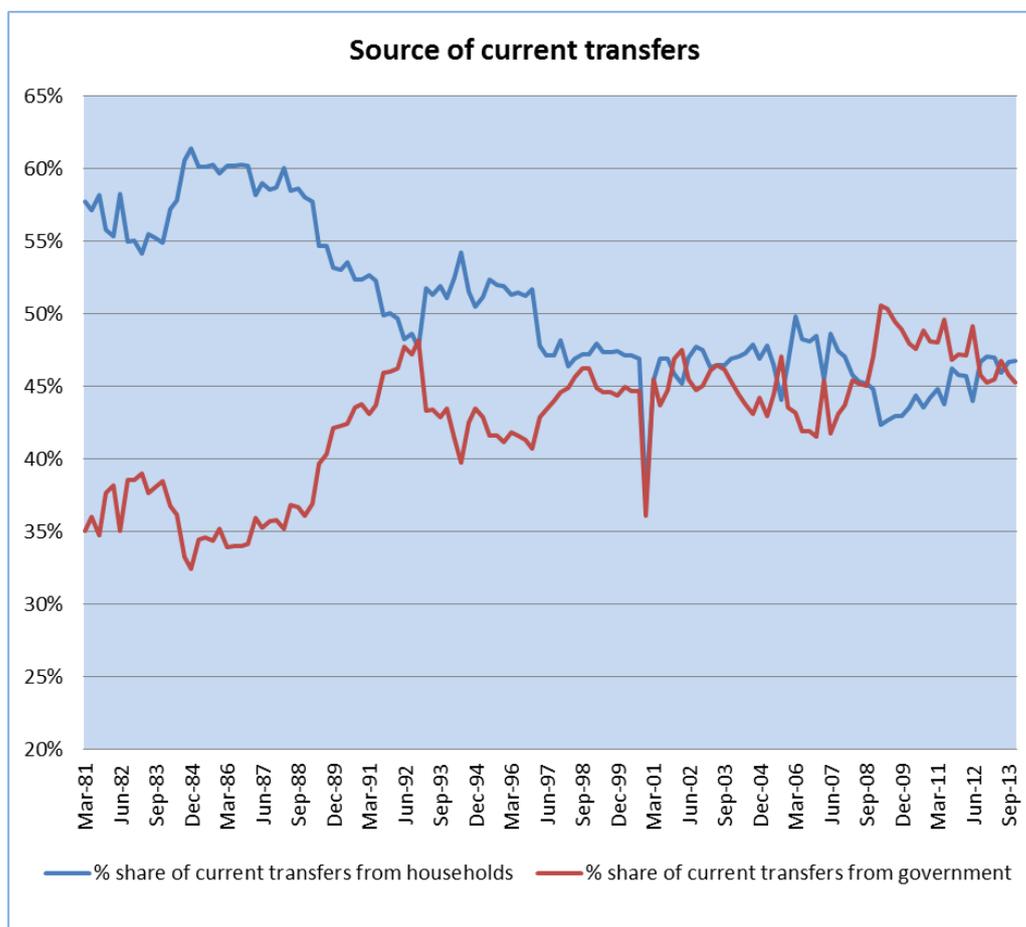
Figure 3  
**Current transfers as a share of total income**



36. Over the last 35 years the source of current transfers has changed significantly. In 1981, the main source of funding for the NPISH sector was households—accounting for

over 57% of total current transfers and roughly 50% of total income. In 1981 the various levels of government accounted for 36% of total transfers and 31% of total income. By 2013, the level of government funding sat on par with that of households with each sector accounting for roughly 46% of total current transfers and 43% of total income.

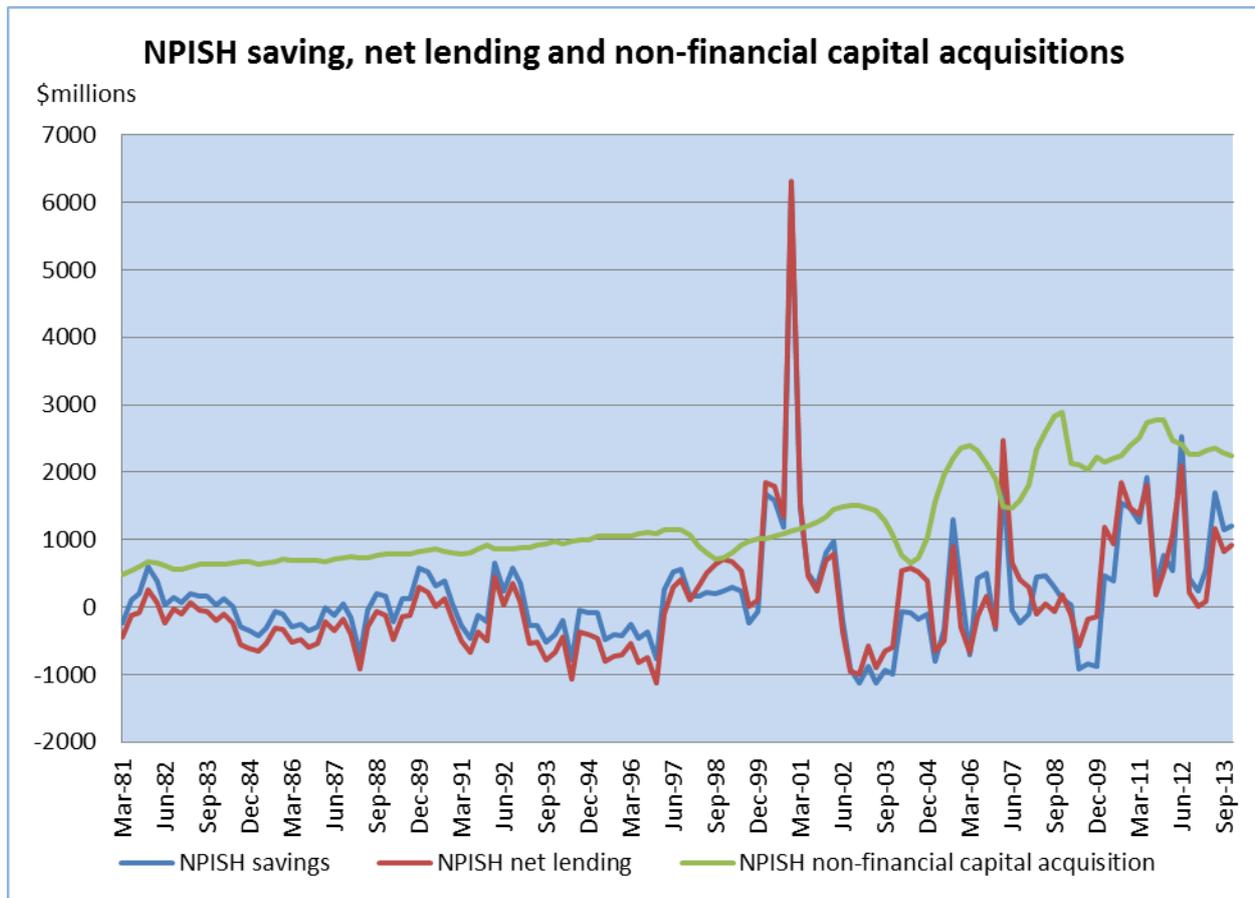
Figure 4  
Current transfers by source – NPISH



37. The NPISH sector's net lending fluctuated around zero for most of the period between 1981 and the mid-1990s. Since that time it has had a tendency to be above zero. There are rules in place within the Canadian tax system by which charitable organizations are not permitted to accumulate funds unless they have been granted permission by the Canada revenue authorities. Over the last 20 years we have seen an increasing number of foundations being established by which non-profit organizations are establishing funds.

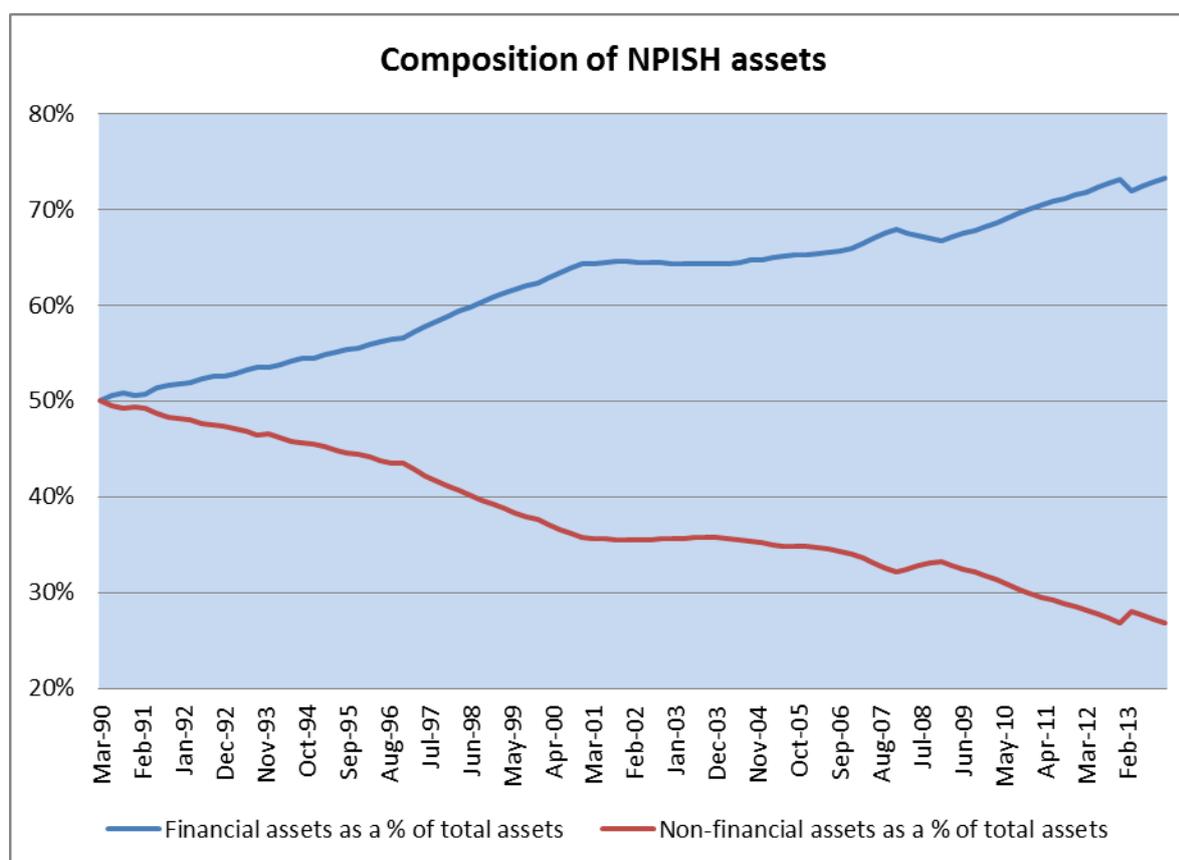
38. It is also interesting to note that the saving and net lending pattern follow the business cycle—indicating that in times of economic downturn NPISH expenditures increase and the institutions need to finance some of this increased spending out of accumulated wealth or borrow funds to meet the increased spending demands.

Figure 5  
 NPISH saving, net lending and non-financial capital acquisitions



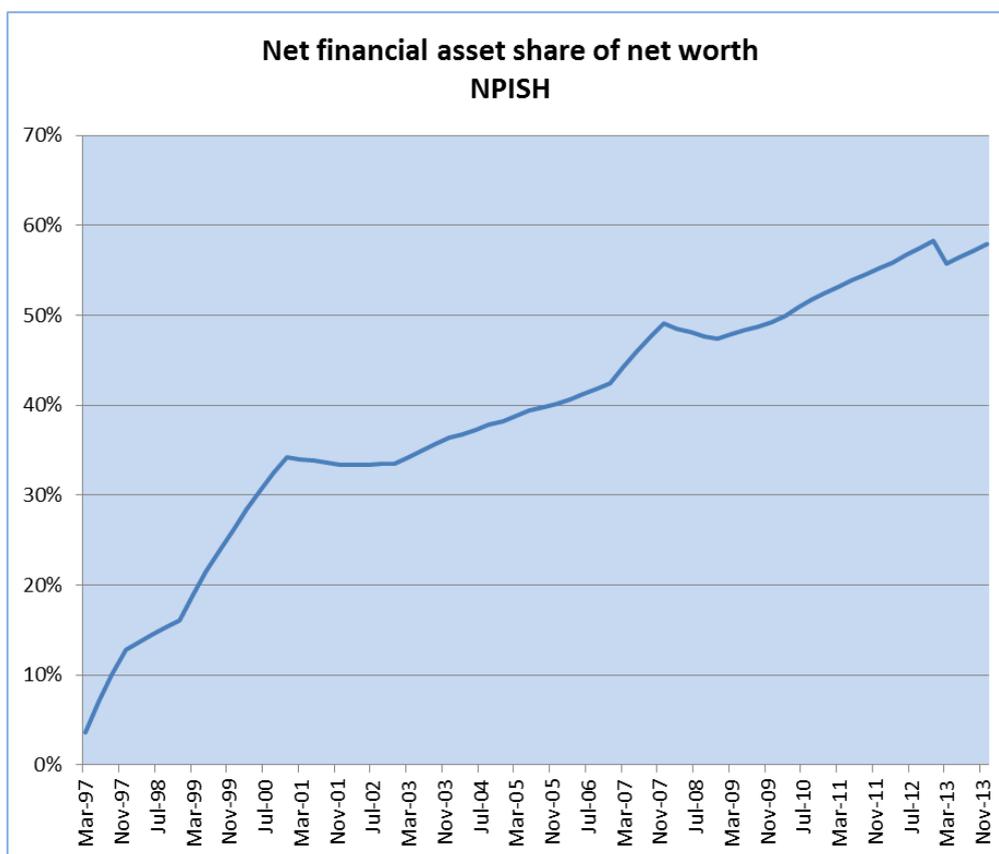
39. In 1990, total assets in the NPISH sector were equally divided between non-financial assets and financial assets. By 2013 the composition of NPISH assets had changed substantially with financial assets representing around 75% of total assets and non-financial assets representing around 25%. One of the reasons for this significant shift is the tendency for many NPISH to establish endowment type funds from which they can draw upon to finance current expenditures. The majority of these assets are included in the other financial assets category on the NPISH balance sheet. Most likely they should be classified as long-term investments but the source data does not allow for this granularity and therefore the only financial asset detail published for NPISH are currency and deposits and other assets. Currency and deposits represented 26% in 2013 while other assets represented 74%.

Figure 6  
Composition of NPISH assets



40. While NPISH liabilities have increased since 1997, the growth has been much lower than that of financial assets. From 1997 to 2013, financial liabilities grew around 230%, whereas financial assets increased over 400%. As a result, much of the growth in the net worth of the NPISH sector has been due to a large increase in their net financial assets. In 1997, net financial assets accounted for only 4% of the sector's net worth. By 2013 this had changed dramatically, with net financial assets accounting for almost 60% of total net worth.

Figure 7  
 Net financial assets as a share of net worth – NPISH



#### IV. Conclusion

41. The inclusion of a NPISH sector in the Canadian System of National Accounts has been a major step forward in our understanding of the important contribution of this sector to the Canadian economy. The notable accomplishments in compiling this account include the fact that the entire set of source data are taken from administrative tax data records supplied by the Canadian Revenue Agency. While much of the source data only go back to 1997, Statistics Canada was able to push the time series back to 1981, using a series of modeling and proxy data sources.

42. In addition to providing a measure of the NPISH economic activity, the CSNA also have a clearer picture of the Canadian household sector—an added benefit of this exercise. The CSNA will continue to work towards improving the overall quality of the NPISH sector account. Work needs to be done in improving the process for delineating the NPISH universe for all survey programs within Statistics Canada, so that NPISH organizations can be easily identified on survey files. Also, the mapping of NPISH expenditure data on the Classification of the Purposes of Non-profit Institutions serving households (COPNI) basis is necessary in order to provide more accurate measures of household actual consumption expenditure. Finally, improvements can be made in identifying, in more detail, the assets and liabilities of NPISH organizations within the CSNA financial account and balance sheet.