Institutional Sector Accounts and the Residential Property Boom

Paper presented at NZAE Conference,
at Palmerston North, New Zealand,
27 June 2012

Chase O'Brien

Analyst, Development Environment Satellites and Strategy, Statistics New Zealand
P O Box 2922
Wellington, New Zealand
info@stats.govt.nz

www.stats.govt.nz

Liability
The opinions, findings, recommendations, and conclusions expressed in this paper are those of the authors. They do not represent those of Statistics New Zealand, which takes no responsibility for any omissions or errors in the information in this paper.

Citation
O'Brien, C N (2012, June). *Institutional Sector Accounts and the Residential Property Boom.* Paper presented at the NZAE Conference, Palmerston North, New Zealand.

Abstract

Institutional sector accounts (ISA) were officially released for the first time in New Zealand in December 2010. ISA for all sectors were released for 1999–2008 (March years). A further release in December 2011 updated the tables to 2009. The general government and household sectors were released up to the March 2011 year. These tables are part of the system of national accounts (SNA).

During the 2000s, there was an investment boom in residential property. This paper discusses how this boom is reflected in the ISA. The ISA include financial flows that are not included in other national accounts macro-economic series, and so provide a more complete economic picture of the impact of events such as a property boom. In the absence of comprehensive official balance sheets, the Reserve Bank estimates of residential housing value have been used to provide more complete analysis.

New Zealand's residential property boom peaked in overall housing value in the March 2008 year. Associated with increased housing value was an increase in mortgage debt levels, leading to increased payments of mortgage interest by households and landlords. These increased mortgage payments contributed to weak household saving over the period.

Incorporating an upgraded housing interest series in the December 2010 ISA led to a revised allocation of mortgage interest between households and residential landlords. The revised allocation to residential property operators caused 'negative income' estimates for this activity in recent years. Similar negative income results were also found in independent IRD data. This negative income has been adjusted for in the ISA. This adjustment was not made in the previous unofficial household accounts, and the change is one of the reasons why revised household saving is at a higher level than in the previous unofficial estimates.

Under the SNA framework, residential property ownership has a negative impact on household saving, from mortgage payments, intermediate consumption and taxes on production. When there is a property boom, the impact on household saving will generally be negative due to higher mortgage payments in particular. The available data indicates that the residential property boom in the 2000s had a very positive impact on household net worth, more than offsetting the negative contribution towards saving.

The official ISA release

Rationale for ISA

Classifying economic agents by sector brings together similar types of decision makers. It also provides information that is useful in studying the source and disposal of incomes, the origin of saving, the direction and method of transfer of saving from one sector to another, and the areas of the economy in which available funds are spent. A full set of accounts for each sector make it possible to fully reconcile a number of key inter-sector income and transfer flows (such as interest, dividends, and donations) and enable saving to be analysed by sector.

There are five domestic sectors in the ISA, with the rest of the world completing the system:

- non-financial corporations (sector 1)
- financial corporations (sector 2)
- general government (sector 3)
- private non-profit organisations serving households (sector 4)
- households (sector 5)
- rest of the world (sector 6).

Scope of the official ISA release

The ISA released by Statistics New Zealand from 2010 are classified as official statistics. Previously published institutional sector accounts were labelled 'experimental' as the data sources did not have the required level of detail. Consequently, key data sources, including the Annual Enterprise Survey, were upgraded and are incorporated into the ISA.

The December 2011 release of the New Zealand institutional sector accounts covered, for all sectors, the years ended March 1999 to 2009. The accounts for the household and general government sectors are published up to 2011. The release incorporated the most recent national accounts and balance of payments statistics as at November 2011.

ISA and SNA

Institutional sector accounts break down the national accounts into mutually exclusive economic sectors identified in the 1993 system of national accounts.

In a fully-developed national accounting system, data is presented in the form of a set of self-balancing and inter-related accounts. For each enterprise, sector, or the economy as a whole, it is possible to compile a full set of accounts including:

- A production account recording the current value of goods and services produced and the costs associated with the production. Value added is the sum of all production (output) less the consumption of intermediate goods and services in the production process.
- An income and outlay account recording income received from the various factors of production and how this income is either redistributed or used for final consumption expenditure across a variety of sectors. The balancing item is saving, which is a major source of finance for investment in assets or reducing financial liabilities.
- A capital account recording net capital transfers, consumption of fixed capital (depreciation), and net purchases of non-financial assets, inventories, and fixed assets. It also shows whether capital expenditure is financed from saving generated within the current period or from borrowing. The balancing item is net lending.
- A financial account recording changes in financial assets and liabilities that underlie the current and capital transactions in the first three accounts.
- A reconciliation account showing changes in the values of assets and liabilities arising out of price changes and other revaluations.

The production account is linked to the income and outlay account through value added, which represents the income available to distribute. The income and outlay account is linked to the capital account through saving, which is the total amount available to invest or retain for future use. The capital account is linked to the production account through consumption of fixed capital in the production process.

Financial and reconciliation accounts and balance sheets are not published as part of the New Zealand national accounts. In line with the New Zealand national accounts, the ISA release presents sector estimates for the production account, income and outlay account, and the capital account only.

The residential property boom

This paper does not attempt to give an in-depth explanation of the causes of the property boom. Instead, the following comments aim to provide some context for the ISA estimates and methods.

'The biggest bubble in history'

The New Zealand housing boom was part of a global boom, which *The Economist* termed 'the biggest bubble in history'. *The Economist* estimated that:

> …the total value of residential property in developed economies rose by more than $30 trillion over the past five years, to over $70 trillion, an increase equivalent to 100% of those countries' combined GDPs. Not only does this dwarf any previous house-price boom, it is larger than the global stock market bubble in the late 1990s (an increase over five years of 80 percent of GDP) or America's stock market bubble in the late 1920s (55 percent of GDP). In other words, it looks like the biggest bubble in history. (*The Economist*, 2005.)

Applying The Economist's comparison of the value of residential property versus GDP for New Zealand, from the 2001 to 2007 calendar years, New Zealand's housing value increased by $367 billion, while the value of New Zealand's GDP only increased by $57 billion (March 2008 year less March 2002 year).

New Zealand's housing boom

The New Zealand residential property market experienced strong price growth from 2001 to 2007. This is reflected in sources such as the Real Estate Institute of New Zealand (REINZ) annual price series. The REINZ Housing Price Index series grew by 117 percent from 1999 to 2008 (March years). This monthly series peaked in November 2007 (based on the series up to April 2012).

The buoyant property market is also reflected in the Reserve Bank estimates of household housing value (Reserve Bank of New Zealand, 1978–2010 annual tables). The Reserve Bank estimate of housing value was $247b in 2001 and $614m in 2007 (calendar years), which was the peak of the series (1978–2010). The Reserve Bank estimates are based on Quotable Value data.[1]

The effect of tax

The Tax Working Group noted that residential property investment in New Zealand is influenced by tax considerations:

> In addition, like many other countries, New Zealand has retained a tax bias in favour of investment in owner-occupied property by not taxing imputed rents (i.e. what people in owner-occupied homes would otherwise have to pay in rent). The tax system also biases investment in favour of rental property investment. One of the consequences has been that in recent years there has been a steady decline in taxable income declared by rental property investment and indeed, there have been substantial net tax revenue losses. (Tax Working Group, 2010, page 25).

These comments on residential property investment were echoed by the Savings Working Group, which stated that of the five investment classes in New Zealand, owner-occupied housing and rental housing had the lowest real effective tax rates.

The Tax Working Group also observed that the losses on the rental property activity were significant enough to affect tax revenue:

> …there has been a marked decline in net rental income since 1999, a pattern accentuated by losses claimed by loss-attributing qualifying companies (LAQCs). An LAQC is a normal company that has special tax status that enables losses to be offset against the shareholders' personal income for determining their tax liability. A consequence of the tax treatment of rental property investment is that the $200 billion investment in rental housing generated net rental losses totalling about $0.5 billion and approximately $150 million in tax revenue losses in 2008. (Tax Working Group, 2010, page 27).

[1] Quotable Value quarterly house price index – available from http://www.rbnz.govt.nz/keygraphs/Fig4.html

Other factors influencing the property boom

There are many other factors influencing the residential property boom apart from tax policy. The Productivity Commission listed three global factors behind the real price appreciation of residential, and six New Zealand specific factors (besides tax policy). The six New Zealand specific factors were: population growth, net migration, household income growth, low interest rates in the early 2000s, low exchange rates in 2003, and the 'wealth effect', with households using housing equity for consumption. This is not a comprehensive list as the Productivity Commission Report itself mentions additional factors, including the tax framework.

Whether tax-driven or not, the fact is that residential landlords appeared to be willing to make substantial operating losses on property operation through the 2000s. Later in this paper there is a discussion on how these ongoing losses are treated in the ISA, and the effect on household saving.

Interpreting the residential property boom in the ISA

As noted previously, the ISA as currently published do not include balance sheets. Reserve Bank estimates of housing values have been included in the following analysis to help provide a more complete view of the residential property boom. Statistics New Zealand produces capital stock estimates that conceptually could be used for balance sheets. However, these estimates are for capital formation only; capital stock estimates for residential buildings exclude land.[2]

Owner-occupied dwellings

Household sector ownership of residential property is integrated into the household sector account in the ISA. The relevant variables in the household account include:

- gross operating surplus
- housing interest (payable)
- consumption of fixed capital.

These variables solely relate to the ownership of owner-occupied dwellings. For example, the consumption of fixed capital variable in the household sector account is the consumption of fixed capital of household owner-occupied dwellings.

How household sector account variables are calculated for owner-occupied dwellings

Gross operating surplus of owner-occupied dwellings is the value of output less intermediate consumption and taxes on production. The value of the output of owner-occupied dwellings is the rental that would be paid for accommodation of the same type, size, and quality (also known as 'imputed rent'). Intermediate consumption includes expenditure by owner-occupiers on maintenance and repairs on the dwelling (this expenditure is consequently not included in household final consumption expenditure).

There is no compensation of employees in the owner-occupied dwellings estimate, so gross operating surplus of this activity equals gross value added. To get a net figure, consumption of fixed capital should be deducted.

Imputed rent does not flow into household saving. Imputed rent is netted out as it appears in both the income and expense side. On the income side, it is a component of gross operating surplus. On the expense side, it is a component of household final consumption expenditure. Households in owner-occupied dwellings are effectively producing the imputed rent service and consuming it at the same time. Similar netting comments apply to consumption of fixed capital.

[2] Refer *Measuring Capital Stock in the New Zealand Economy* (Statistics New Zealand, 2010).

Excluding imputed rent, the other components of owner-occupied dwelling gross operating surplus are intermediate consumption and taxes on production (property rates). These variables are costs to households that are not offset by any income items and therefore have an adverse impact on household saving. Also, expenditure on dwellings is not included in household final consumption expenditure. This is because it is spending on a capital asset and consequently treated as intermediate consumption of the owner-occupied dwellings industry.

Basically, household saving is affected by all the costs relating to household ownership and maintenance that relate to actual spending. Mortgage interest payments are in this category as well as intermediate consumption and taxes on production.

Table 1
Households sector accounts: summary of variables that relate to housing

Household sector variable	Housing component[(1)]
Production account – market	
Taxes on production	OOD taxes on production
Gross operating surplus	OOD gross operating surplus (imputed rent less taxes on production and intermediate consumption)
Primary income receivable	
Entrepreneurial income	The non-farm variable includes entrepreneurial income from 'residential property operators'
Gross operating surplus	OOD gross operating surplus as above
Primary income payable	
Housing interest	OOD housing interest
Disposable income	
Less consumption of fixed capital	OOD consumption of fixed capital
Use of net disposable income	
Final consumption expenditure	Includes OOD imputed rent

1. OOD: Owner-occupied dwellings industry

Household saving equals households' net disposable income less their final consumption expenditure. Note that gross operating surplus is 'gross' of (ie includes) consumption of fixed capital.

Change in the housing variables during the boom
Table 2 summarises the relevant housing variables in 1999, and from 2007 to 2011. The change in these variables from 1999 to 2008 is also shown (2008 was selected because it was the peak of housing values).

Housing activity has contributed to the poor household saving performance in the published accounts. In 1999, household sector housing variables (consisting of mortgage interest payments, intermediate consumption and taxes on production) directly contributed -$6,065

million to household saving. By 2008, this had fallen to -$12,509 million, a -$6,444 million change.

The growth in the value of the housing interest variable over the period was due to the increasing value of household mortgage debt, rather than any change in mortgage interest rates. The value of household mortgage debt held by banks on residential loans was $53.3 billion in the March 1999 month, and $148.1 billion in the March 2008 month.[3] Weighted average mortgage rates were actually lower in 2008 than in 1999.

The Reserve Bank housing value series also grew strongly from 1999 to 2008, increasing by $398,000 million. The Reserve Bank numbers are for the calendar years 1998, and 2006–2010. Not only are these values much greater than the increase in housing interest, the percentage growth in housing value (184 percent) is greater than the percentage increase in housing interest (146 percent).

The Statistics NZ numbers are calculated on a different basis to the Reserve Bank statistics but also show strong growth. The net capital stock of residential buildings (replacement cost) grew by $126,313 million from 1999 to 2008, an increase of 95 percent. These movements provide some context for the poor saving figures.

Table 2
Household sector accounts – housing variables and saving

Households sector accounts year ended March	1999	2007	2008	2009	2010	2011	Change 1999–2008	
	$(million)						$(million)	%
Housing interest	3,103	6,400	7,648	8,316	7,045	6,729	4,545	146
Owner-occupied dwellings: taxes on production	1,113	1,843	1,956	2,082	2,137	2,329	843	76
Owner-occupied dwellings: intermediate consumption	1,849	2,548	2,905	3,287	..	..	1,056	57
Contribution to saving from the above variables	-6,065	-10,791	-12,509	-13,685	..	..	-6,444	…
Published household saving	-1,954	-6,191	-3,054	-4,553	-1,604	239	-1,100	…
Residential buildings net capital stock at replacement cost	132,330	242,154	258,643	266,541	270,407	274,357	126,313	95
Housing value (Reserve Bank)	216,000	559,000	614,000	568,000	606,000	599,000	398,000	184

Symbols:
.. figure not available
… not applicable

Source: Statistics New Zealand and Reserve Bank of New Zealand

[3] Source is the Reserve Bank Standard Statistics Return. The published time series goes back to June 1998, so the comparison is based on March months, rather than for the overall year. The same comparison for the nine months to March yields similar results.

Although housing's contribution to household saving was negative, that contribution has been more than offset by increases in housing stock values. The Reserve Bank numbers show that housing debt grew at a similar rate to housing value over the period. However, while debt increased by about $95 billion, housing values increased by $398 billion. From 2008 to 2011, there would be some deterioration as mortgage debt increased by $20 billion and housing value fell by $15 billion. The Statistics NZ numbers also show that growth in capital stock values is more than offsetting the negative saving and increase in mortgage debt.

Note that the housing debt and housing value figures include debt and housing value of residential landlords as well as of the households sector itself.

Upgraded method for estimating housing interest

The housing interest estimate in the official ISA release is derived using an upgraded method for calculating housing interest. This new method was incorporated in Statistics NZ's December 2010 ISA release.

The revision to household mortgage interest in the December 2010 release is mainly due to the allocation of the 'control total' (as opposed to the control total method itself) between residential landlords and households. The previous estimates for household mortgage interest, and landlord mortgage interest, were rated forward from old benchmarks, and calculated independently.

Housing interest is now estimated in two stages. The first stage is to estimate a 'control' total, which is based on Reserve Bank data. For example, for registered banks the data source is from the aggregate registered bank standard statistical return.

Similar estimates are made for non-bank financial institutes (NBFI) and for the 'life, super and managed funds loans' category. Over 99 percent of the control total is from the registered bank and NBFI categories.

The control total is a modelled figure, and is adjusted (reduced) to account for factors such as non-payment of mortgages. This is a small adjustment.

The second stage is to allocate the control total between households (sector 5) and landlords. The latter are mostly in the unincorporated sector (this is sector 1121, a subsector of sector 1, non-financial corporations).

The allocation of mortgage interest to sectors is based on census data. This is a volume-based allocation. The Household Savings Survey (HSS) data indicated that, although rental properties generally have a lower valuation than owner-occupied dwellings, they tend to have higher mortgage loans relative to property values. The allocation method could be changed in future if data sources become available that allow for proper value-based ratios to be developed (such as a regular HSS).

Rental properties

Rental property operation is relevant to the household sector. In principle, the profits of residential property operation owned by households provide income to those households. This is termed 'entrepreneurial income' in the household sector account. This variable includes entrepreneurial income from all industries, not just residential property operation.

Before the development of the official ISA, residential property income provided positive entrepreneurial income to households in the household sector account. The revised allocation of mortgage interest to residential landlords was larger than under the previous method and implied negative entrepreneurial withdrawals. These 'losses' were consistent

with the estimates made by IRD for the Tax Working Group.[4] The IRD 'losses' estimates account for financial flows, including mortgage payments, and are comparable with entrepreneurial income. The calculated losses with the revised mortgage series appeared to reflect reality.

Changes with the official ISA

The concept of 'negative income' does not exist in the SNA. The solution in the ISA is to treat these landlord losses as negative savings in the **unincorporated** sector account.[5] In the current ISA, therefore, landlord 'losses' do not flow into household saving. In practice, these losses would be covered from the unincorporated sector balance sheets (such as capital gain and sale of properties), and would affect net worth. Remember that Statistics NZ does not currently estimate balance sheets.

The largest 'losses' adjustment in the ISA is in 2009, -$3,041 million.[6] The adjustment represents sector losses that are not transferred to the household sector. The adjustment in 2009 was the largest in the time series. Although housing values peaked in 2008, ongoing large losses may continue for longer due to lags in clearing debt from the economy. At some point, this adjustment should decline due to the property boom ending, lower interest rates, and changes to tax legislation relating to loss-attributing qualifying companies (LAQCs). There is also evidence that market rentals are increasing.

The overall impact of these methodology changes has been positive for household saving:

- Households are paying less mortgage interest than previously estimated.
- The increased allocation of mortgage interest paid by landlords would normally lower household entrepreneurial income. But because landlords are making large losses, this is 'zeroed'[7] rather than flowing into household entrepreneurial income and consequently saving.

Changes to tax legislation affecting LAQCs

On 1 April 2011, new legislation was introduced that effectively forces LAQCs to become qualifying companies (QCs), look-through companies (LTCs), 'regular' companies, or sole proprietorships or partnerships.

A look-through company removes some of the tax advantages of the previous LAQC structure. LTC profit is taxed at the owner's marginal tax rate. Also, while LTC losses can be claimed, claimable losses are capped to the extent that losses represent the owner's economic loss. In other words, claimed losses cannot be greater than the owner's investment in the LTC. These changes should reduce the incentive for landlords to claim significant ongoing losses on residential property operation.

At the same time as the new LAQC legislation was introduced, the depreciation rules on buildings were also changed. These changes made property investment generally less attractive than before.

---

[4] 'Total rental losses' from Figure 7, *A Tax System for New Zealand's Future: Report of the University of Wellington Tax Working Group,* Tax Working Group (2010).

[5] In previous unofficial tables, unincorporated sector saving was set to zero, as all sector profits were extracted by households as entrepreneurial income.

[6] Statistics NZ (2011). Institutional Sector Accounts: 1999–2009 – main tables [Data file], table 3. Available from www.stats.govt.nz.

[7] The term 'zeroed' refers to the impact on entrepreneurial income and saving only. In a full household account that includes balance sheets, these landlord losses would be reflected by lower holdings of financial assets as the household is making a capital injection.

The housing component of income tax has not been separately identified in this report. The figures quoted in the Tax Working Group analysis indicate that the income tax of residential landlords should be relatively small.

Interest income variability

While the ISA tables may reflect national behaviour for variables such as saving, the saving trend may vary at the micro level.

For instance, during the period of the housing boom (1999–2008), the household sector account shows significant increases in interest income. This is despite interest rates being at similar rates in 1999 and 2008. It is quite possible that some property investors sold out during the property boom, and re-invested in lower-risk financial assets.

If this scenario is occurring, then the known negative impacts of the residential property boom on household saving may be partly offset by an unknown amount of interest income from property sale re-investment. We would need more detailed micro level information to be able to say more about this.

Conclusion

Using the SNA framework, residential property ownership has a negative impact on household saving, from mortgage payments, intermediate consumption, and taxes on production. There may be some indirect mitigating factors, such as property sales being reinvested by households into financial assets. When there is a property boom, the impact on household saving will generally be negative due to higher mortgage payments.

The institutional accounts demonstrate this. In 1999, owner-occupied dwellings directly contributed -$6,065 million to household saving. By 2008, this contribution was -$12,509 million, a -$6,444 million change. Most of the change was due to a rise in mortgage debt and consequent mortgage interest payments.

In the New Zealand ISA estimates, landlords are currently contributing no entrepreneurial income to households so the activity currently has no direct effect on household saving.

To get a more complete picture of the impact of a residential property boom, it is better to use household net worth estimates. The available data indicates that the residential property boom had a very positive impact on household net worth, more than offsetting the negative contribution towards saving.

References

The global housing boom: In come the waves (2005, June 16). *The Economist.*

New Zealand Productivity Commission (2012). *Housing Affordability.* Available from www.productivity.govt.nz.

Real Estate Institute of New Zealand (2012). *REINZ Housing Price Index - April 2012.*

Reserve Bank of New Zealand (2012). *Household financial liabilities, assets and housing values*. Available from www.rbnz.govt.nz (under Money, credit & financial statistics). [The 1978–2010 tables were used in this paper.]

Reserve Bank of New Zealand (2012). Key graphs – house prices and aggregate dwelling values. Available from www.rbnz.govt.nz.

Savings Working Group (2011). *Saving New Zealand: Reducing Vulnerabilities and Barriers to Growth and Prosperity: Final report to the Minister of Finance.* Available from www.treasury.govt.nz/publications/reviews-consultation

Statistics New Zealand (2010). Measuring Capital Stock in the New Zealand Economy. Available from www.stats.govt.nz.

Statistics NZ (2011). Institutional Sector Accounts: 1999–2009 - main tables [Data file]. Available from www.stats.govt.nz.

Tax Working Group (2010). *A Tax System for New Zealand's Future: Report of the University of Wellington Tax Working Group*. Available from www.victoria.ac.nz/sacl/cagtr/twg/report.

Appendix: New Zealand Standard Institutional Sector Classification

1 Producer Enterprises

11 Private Producer Enterprises (see also 'Further details about Private Producer Enterprises (11)' below

111 Private Corporate Producer Enterprises

1111 Private Corporate Producer Enterprises

112 Private Non-Corporate Producer Enterprises

1121 Private Non-corporate Producer Enterprises

12 Producer Boards

121 Producer Boards

1211 Producer Boards

13 Government Enterprises

131 Central Government Enterprises

1311 Central Government Enterprises

132 Local Government Enterprises

1321 Local Government Enterprises

2 Financial Intermediaries

21 Central Bank

211 Central Bank

2111 Central Bank

22 Depository Organisations

221 Registered Banks

2211 Private Registered Banks

2212 Central Government Registered Banks

2213 Local Government Registered Banks

222 Other Broad Money (M3) Depository Organisations

2221 Private Other Broad Money (M3) Depository Organisations

2222 Central Government Other Broad Money (M3) Depository Organisations

229 Other Depository Organisations not elsewhere classified (nec)

2291 Private Other Depository Organisations nec

2292 Central Government Other Depository Organisations nec

2293 Local Government Other Depository Organisations nec

2 Financial Intermediaries - *continued*

- 23 Other Financial Organisations except Insurance and Pension Funds
  - 231 Other Financial Organisations except Insurance and Pension Funds
    - 2311 Private Other Financial Organisations except Insurance and Pension Funds
    - 2312 Central Government Other Financial Organisations except Insurance and Pension Funds
    - 2313 Local Government Other Financial Organisations except Insurance and Pension Funds
- 24 Insurance and Pension Funds
  - 241 Insurance and Pension Funds
    - 2411 Private Insurance and Pension Funds
    - 2412 Central Government Insurance and Pension Funds
    - 2413 Local Government Insurance and Pension Funds

3 General Government

- 31 Central Government
  - 311 Central Government
    - 3111 Central Government (excluding Funded Social Security Schemes)
  - 312 Funded Social Security Schemes
    - 3121 Funded Social Security Schemes
- 32 Local Government
  - 321 Regional Authorities
    - 3211 Regional Authorities
  - 329 Other Local Authorities
    - 3291 Other Local Authorities
- 33 Runanga Iwi
  - 331 Runanga Iwi
    - 3311 Runanga Iwi

4 Private Non-profit Organisations Serving Households

- 41 Private Non-profit Organisations Serving Households
  - 411 Private Non-profit Organisations Serving Households
    - 4111 Private Non-profit Organisations Serving Households

5 Households

- 51 Households
  - 511 Households
    - 5111 Households

6 Rest of World

61 Rest of World

611 Rest of World

6111 Rest of World

Further details about Private Producer Enterprises (11)

1111 Private Corporate Producer Enterprises

This subgroup includes incorporated enterprises, co-operatives, and other forms of business associations. Private Corporate Producer Enterprises are recognised as independent legal entities because they are registered under the Companies Act 1993, the Industrial and Provident Societies Act 1908, the Co-operative Dairy Companies Act 1949, the Co-operative Companies Act 1956, the Co-operative Freezing Companies Act 1960, the Friendly Societies and Credit Unions Act 1982, or similar legislation.

The subgroup includes partnerships where the partners are corporate companies. It also includes joint ventures of corporate enterprises (eg overseas fishing vessels operating in New Zealand as joint ventures). In such cases, the partnership between the New Zealand resident company and the foreign fishing company is treated as a resident New Zealand enterprise and is deemed to charter the fishing vessel and its crew while they are operating in New Zealand waters.

The subgroup also includes incorporated non-profit enterprises serving business enterprises that are mainly engaged in the productive activities described above.

1121 Private Non-corporate Producer Enterprises

This subgroup includes unincorporated enterprises, partnerships, and sole proprietorships, which engage in a measurable amount of productive activity. In practice, this means that only enterprises that keep adequate tax accounts will be included. Where adequate accounts are not kept, the production is generally treated as an extension of the owners' household activity and is therefore included in sector 5 households.

Partnerships where the partners are corporate companies are excluded from this subgroup; these partnerships are included in Private Corporate Producer Enterprises (1111).