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Problems of Creation and Usage of Specific Capital Fund (Endowment)

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The article is devoted to the problems of development and usage of the so-called endowment or (in Russian interpretation) a specific capital fund. Importance of these problems is connected with the necessity of multichannel financing of social institutions. So, as a rule, endowment fund is always created to become one of the sources of financing. At the same time, endowment is one of the types of charity, and, as a result, it's a social responsibility of business. In this article, we study economic and organizational problems, which are related to endowment management and establishment. And we pay particular attention to the questions of creation and functioning of the asset-management consulting firms. Among all the economic aspects, the emphasis is put on the sphere of taxation. And, consequently, here are given variants of assets and different schemes of taxation usage.

Keywords: multichannel financing of social institutions, endowment, management and establishment, different schemes of taxation usage, social responsibility of business, charity funds.

In the course of Russian market economy development, innovative projects have become one of the most important measures of financial stability and development, particularly in the sphere of education. Most European countries have a considerable experience in creation of such projects. For example, the Government of Great Britain encourages the development and invigoration of the scientific base. Such a policy is the main source of economical growth. In this country, innovations have been put into practice mainly in the sphere of education since 80-s. For today, the model of multichannel financing of social institutions has become the dominating one. Financial support of education is based on the

combination of budgetary and extra-budgetary sources. Precisely such a combination allows taking efficient measures and using them for solving topical social-economical problems. One of such financial instruments, ensuring stability, is an endowment or a specific capital [2].

Specific capital is an endowment (from English «*endowment*»), a specific fund, meant for being used for the non-commercial purposes, as a rule, for financing institutions of education, medicine, culture, and also it is a transfer of money as such or of some other property as a free gift to these institutions, to a person or a group of persons for them to use it as a source of income.

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At present time, the questions of endowment creation are extremely important. To our mind, creation and replenishment of such a kind of funds can be referred to a sort of charitable activity.

We should note that day by day charity becomes a more powerful instrument of realization of the Russian social policy, which acquires more comprehensive shapes during the last years.

Moreover, from the point of view of business society, the most important thing is that charity being one of the forms of social responsibility of business. Finally, we have come to a civilized understanding of this phenomenon and in the course of active discussions we have agreed that by social responsibility of business we mean three considerable formations.

The first formation, from the point of view of the state form of government, is business liabilities before the society in the form of punctual and full size payroll and tax payments, creation of new working places by means of new investments.

The second formation is corporative social programs – investments into the stuff, development of educational, medical and other programs.

And, finally, the third formation, we are speaking about, and which being less traditional for new Russia – is a charity activity.

Thus, fulfilling all these three functions of social responsibility, business is also involved into the realization of state social policy. Correspondingly, the state must understand and respect all these and stimulate the development of the given functions.

Of course, charity is a superimposed, but nevertheless, an important part of social responsibility of business. Now, charity is considered by powers not as a simple concussion of business to transferring of some sums for

realization of social projects, which are adopted by regional, local, and federal powers, but as a mechanism of partnership of business, state and civil society. And this fact is an indicator of a new stage in the development of private and state partnerships.

Let us consider the main organizational, legislative and economical problems, which we face while forming endowment funds [5].

If we take the sphere of education, then at present time there are two main directions concerning the usage of charity funds, being received by universities, technical schools, and schools, – it is a salvation of social problems, including scholarships, and financing of construction. But, such spheres as investments in human capital assets are not covered by charity, i.e. engagement of new professors, increase of professors' and scientific workers' wages; professional improvement and reeducation; equipment purchase. And it amounts up to 60-70 percents of the charity fund usage directions in universities and colleges in developed countries. Thus, in Russia charity activity practically reproduces a bad structure of budgetary financing of this sphere. As the budget finances the routine reproduction, so the benefactors do the same, following the budget. Thus, on the whole, the situation is rather irrational.

The second problem, which we think to be rather significant, is economic harassments to the endowment formation. Along with the legislative ones, economic harassments are defined and clear. In Russia, the spheres, which get support, are used to be next door to starving, and that is why charity help is immediately consumed, thus fulfilling the lacunes, having been left by the underfunding of universities, schools, and other objects, which are being supported. Such a situation requires forming an efficient system of endowment management.

The third problem is the organization of charity business in our country. In Russia, charity business is organized in the form of funds and practically does not exist in the form of management companies. So, we observe an obvious misbalance towards money spending, and practically complete absence of efficient management of these means. That is why, in parallel with funds, we are to form management companies, which must be organized on commercial basis, as far as only such kind of basis can provide their efficient functioning. For today, Russian charity funds reproduce mainly inefficient schemes of fund management in their activity, because these funds activity is limited by the transferring of means to different institutions without any further control over the money. Thus, we are to create an effective chain of charity funds management, starting from the benefactor up to the consumer. And this question is the key one.

An efficient size of endowment is also a question of great importance. The Highest School of Economy has carried out corresponding researchers and comparisons with the international practice. In order to develop a university, being out of the leading hundred, one needs to provide its current additional revenue in the amount from 50 to 250 million rubles annually. And this figure is minimal, which will allow the endowments at least somehow influencing the quality of our higher education, i.e. putting in the revenues from the resource capital investments into the intellectual capital of universities, into the teaching staff, into the formation of young specialists' salaries and bonuses, into the equipment purchasing. And all these lay down certain demands to the initial amount of the university endowment, which must start from 1,5 billion rubles, i.e. from 50 million dollars, and concerning small university – from 30 million dollars [5].

Now, we shall consider the problems of economical character. Most of them are connected with questions of taxation. Current Russian Legislation forms various taxation regimes in case of endowment of one-time donations and in case of appearance of a regular financing source for noncommercial organizations (NCO).

The problem, being connected with the taxation load of the means, being received by NCO in order to form such a regular financing source, is in the following. If monetary means are given to NCO by its founding shareholders, then these means are not subjected to the profit tax as a part of income of the given NCO, but are recorded as special financing. But in case the person, willing to replenish the capital of NCO, is not its shareholder, then such contributions are included into the composition of extraordinary incomes, which are subjected to taxation. In order to exclude these means out of the composition of extraordinary incomes, one may make contributions in the form of special financing (grant), but it is far not always possible by the following reason. The Tax Code provides the requirement that a grant must be directed to support some concrete programs and concrete researchers. Thereat, resource capital is formed not only to spend money for NCO activity financing, but also in order to get certain income due to the management of the resource capital means, and this presupposes that in most cases it will be impossible to contribute to the resource capital formation in the form of special financing. Moreover, such revenues (as well as the proper resource capital) are liable for profit taxes according to the standard procedure alongside with other entrepreneurial incomes of NCO.

All these bring to impossibility to form steady and transparent sources of funds receipt for non-commercial organizations.

It is necessary to make some changes in the legislation, imposing preferential tax environment

for non-commercial organizations, which form resource capital and use the revenues from its investments for financing the main charter activity [4].

The given conditions presuppose to relief NCO from the profits tax payments as for the revenues, received from the donators for the resource capital forming (replenishment), so for the revenues from the resource capital investments. Thereat, the kinds of NCO activity, revenues, and also other characteristics should meet the given conditions.

Hardness of the given conditions depends upon the scheme of the resource capital formation and its usage:

Variant 1: NCO is simultaneously both the resource capital owner and the recipient of income from the resource capital investments (beneficiary). Such NCOs have chance to get profits tax exemption (for resource capital formation and for its management revenues) in case the following conditions are satisfied:

a) They limit the forms of agreements, concluded by NCO in order to make revenues, and the sources of profit receipt;

b) They limit authorized kinds of NCO activity.

The given NCOs conduct their business exclusively using the funds of the resource capital formation and investments and carry the main charter activity (for example, IHLs provide exclusively educational services, hospitals render medical aid and so on.), i.e. the NCO data have a restricted list of revenues from goods, jobs and services realization, and the list of permitted types of activities, which will actually define the types of the main charter activity in various directions, will be fixed by the RF Government. Fixation of so hard conditions of tax exemption eligibility for NCOs, which are simultaneously both the resource capital owners and the recipients of income from the resource capital

investments, is hazardous, because these NCO schemes data can be used in order to avoid the taxation. Though, such limitations will create uncomfortable business conditions for the NCOs, willing to use their resource capital, but unwilling to refuse from rendering of paid services, having not been included into the list of permitted types of activities (for example, leasing of some parts of offices and buildings). And in this connection, we consider variant 2.

Variant 2: The owner of the resource capital is a specially created NCO «The Resource Capital Management Fund». The recipients of income from the resource capital investments (beneficiaries) are some other NCOs.

The resource capital management fund is created especially for administering of the resource capital, being formed as the fund property (its replenishment, selection of a management company, which will invest capital funds in financial assets, distribution of resource capital management incomes among other NCOs – beneficiaries and so on.). In other words, the only object of such a Fund activity is possession of the resource capital and its investments income distribution in the favor of other NCOs. Profits tax exemption of the Fund is performed in the same order as in variant concerning NCO-owner. I.e. monetary means and other property, obtained for the resource capital creation (replenishment), and also revenues from the resource capital investments will be referred to the Fund special-purpose receipts, being not accounted while defining incomes for profits taxation.

NCOs (beneficiaries) are the recipients of income from the resource capital management and they are not limited in their activities and gained revenues (for example, an IHL, being the recipient of income from the resource capital investments, has a right to lease some parts of offices and buildings, in comparison with an IHL, being

the resource capital owner) and NCO taxation is performed within the frames of the given activity and according to the current procedure. Such NCOs get the right for tax concession only in the part of resource capital management revenues, distributed by the Resource Capital Management Fund among the given NCOs.

In order to control the activity of the NCO-the resource capital owner, they create a board of guardians, consisting of benefactor representatives, NCO beneficiaries, publicity and other people. If the benefactor is the organ of state power (organs of local self-government), then participation of the state power organs representatives (representatives of the local self-government organs) in the board of guardians is obligatory.

The functions of the board of guardians are the follows: selection of a management company, distribution of the resource capital management incomes between NCOs – beneficiaries, determination of volume of NCO executive expenses and other questions, connected to the resource capital administering.

The group of people, who has a right to take part in the resource capital formation, consists of: individuals and juridical persons, independently from their organizational-legal forms, and also state power organs (organs of local self-government).

The composition of assets, forming the resource capital (admissible assets), includes the following:

- State securities and other obligations of Russian emitters (which include mortgage-backed securities);
- Units (stocks, shares) of index investment funds, allocating means in obligations and stocks of other foreign emitters;
- Monetary means on the accounts of credit organizations;
- Credit organizations ruble deposits.

The NCO (the resource capital owner) and the benefactor (the donator) make an agreement about the resource capital usage, and within the frames of this agreement they define the following:

- The goals, for which achievement the resource capital revenues will be spent. (Thereat, the agreement can cover both the concrete goals for resource capital usage and the NCO right to define by itself the directions of expenditures of the resource capital management incomes).
- The type and the cost of property, being rendered to the resource capital amount within the frames of set limitations (admissible assets).
- The recipients (beneficiaries) of incomes from the resource capital management. Thereat, the agreement can define as concrete NCO-beneficiaries (address resource capital), so, for example, the procedure of NCO-beneficiaries selection.
- Variants of the resource capital expenditures.

The agreement can cover the following cases:

- NCO has a right to spend all the revenues, gained from the resource capital management;
- NCO has a right to spend some part of the revenues, gained from the resource capital management, capitalizing the rest of them;
- NCO has a right to spend as the revenues, gained from the resource capital management, so some part of the resource capital itself.
- The period of the resource capital validity

(The agreement can contain the following variants of the resource capital validity periods:

a) for a certain period, b) up to the moment of spending of the whole amount of the resource capital itself, c) up to the moment of achievement of the goals, for which purposes the resource capital has been created, d) unlimited resource capital).

- The resource capital liquidation order.

(The agreement may define the following cases of the resource capital liquidation: a) upon the completion of its usage, b) upon the achievement of the goals, for which purposes the resource capital has been created, c) in case of inappropriate expenditures of incomes, obtained from the resource capital management, d) in case of covenants violation in the resource capital usage agreement).

- NCO resource capital income use accountancy and NCO activity checking procedure.
- NCO costs assessment procedure of administrative expenditures and so on.

The NCO (the resource capital owner) and the management company make an agreement about the resource capital usage, and within the frames of this agreement they define the following:

- Management company responsibility before the trustor;
- Procedure and periods for revenues transfer from the resource capital to the NCO (the resource capital owner);
- The type and the cost of property, being rendered to the property trust;
- Management company accountancy to the trustor and so on.

Thus, creation of endowments is a rather difficult task. The institution of endowment

funds has appeared in the United States of America. Today, it also exists in Canada, Japan, and countries of the European Union.

For the last two decades, one can observe an obvious and accelerating development of the USA endowment institution, what is directly connected with the role elevation of the scientific-educational sector in innovation development and its competitive growth, i.e. from the point of view of strategic perspectives of the country development. There are certain bases to think that precisely a huge scale of the American endowment (in comparison with other countries) is a direct and significant factor of the USA world leadership in development of fundamental sciences and higher education, and indirectly – in innovation and economical leadership of the country.

The Russian Federation Endowment Institution is regulated by Federal Law №275-ФЗ «Procedure of Non-Commercial Organizations Special Capital Formation and Usage» dated 22.12.2006 (further is the law).

In Russia, at present time they actively form university endowments (The Moscow State University of Foreign Affairs, The European University, The State University – Higher School Of Economics, The Moscow School Of Management «Skolkovo», The Special Capital Fund «Education and Science of the Southern Federal Region» and others.), and the means of some of the funds has been already placed into trusts.

Salvation of the above mentioned problems will advance the creation of endowments in other spheres and will considerably raise their effectiveness.

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