

Diploma in Financial Management & Accountability

- a joint initiative of TISS & FMSF

Course Material



Project Fund Accounting
Paper - V

Module - III
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UNIT- 6. CORPUS FUNDS

Learner's Objectives:

- To understand the meaning and concept of Corpus Fund
- To understand the legal provisions and related concepts relating to corpus funds.

6.1 WHAT IS CORPUS FUND?

The term '*corpus*' is often confused and misunderstood. The literal meaning of the term '*corpus*' is the main part/organ of a body. The term '*corpus*' also denotes the sum and substance of an issue/entity. From a layman's point of view a corpus fund should be understood as the capital of the organisation ; the funds generated and kept for the existence and sustenance of the organisation.

For a charitable organisation, corpus fund are of paramount importance. Normally a corpus fund denotes a permanent fund kept for the basic expenditures needed for the administration and survival of the organisation. The corpus fund is generally not allowed to be utilised for the attainment of the purposes, but the interest/dividend accrued on such fund can be utilised as well as accumulated.

Corpus funds are generally created out of corpus donation. A donation will be treated as corpus donation only if it is accompanied by a specific written direction of the donor. In the absence of any written direction of the donor, a contribution or grant cannot be transferred to corpus fund. It is important to understand that in case of a corpus fund, the funds are restricted but the purposes are not restricted. Corpus fund is an unrestricted permanent fund.

The restriction is on the use itself rather than the type of use. A corpus fund may be used in exceptional circumstances, where the survival of the NGO is at threat. Such decisions are rarely taken and should be taken at general meetings. As such there is no legal bar on application of corpus funds for charitable purposes. But for all practical purposes corpus fund is a permanently closed fund with no strings or restriction for future application attached.

As discussed above, it is difficult to create a corpus fund unless a written consent is received from the donor because creation of a corpus fund implies reduction of program activities to that extent. Therefore, the law does not encourage creation of corpus fund. For instance, under the Indian Income Tax laws 85% of voluntary contribution received are required to be applied for charitable purposes. In other words, only 15% of the income is available for accumulation every year. If the board of an NGO wants to create corpus fund then it cannot go beyond 15% of its income even if it is available for accumulation.

6.2 DONATION RECEIVED THROUGH CHARITY BOXES

Any donation received through charity boxes will not be considered as corpus donation even if the donation box is marked with the word '*corpus*'. Suppose, an NGO puts a donation box with a inscription '*all donation will be towards the corpus of the organisation*', the donation so collected will not be considered as corpus donation because a specific direction from the donor has to come in writing in order to constitute a corpus donation.

6.3 INTERNALLY GENERATED CORPUS FUND

The board of an NGO may create corpus fund from its internal accrual and surpluses. It is not necessary that a corpus fund will be created out of corpus donation only. A corpus fund can be created from the current years income or other available UFs. To create a corpus fund from the current years income, the prevailing legal provisions and the bye-laws of the organisation have to be

kept in mind. For instance, under the Indian Income Tax Laws maximum 15% of the income can be transferred to the corpus fund each year.

6.4 INCOME FROM CORPUS FUND

The income generated from corpus fund is treated as a part of the income of the charitable organisation along with other grants and incomes. Therefore, the income from corpus fund is also subject to the condition of applying 85% during the year as per Income Tax laws.

6.5 RELEVANCE OF CORPUS FUND

Building of a corpus fund is important, in order to ensure smooth sustenance of an organisation. If a sizeable corpus exists, the core activities of the organisation can still continue in the period when grants and external help are not available.

A sizeable corpus fund reduces the financial vulnerability and thus assures long term existence. At the same time a large corpus or the tendency to pile corpus fund may not be in the interest of the objectives of the organisation. Therefore it is necessary that a judicious balance is maintained between a corpus fund and the funds that are utilized, keeping in view the current and future activities of the organisation.

Corpus of Harvard University

The corpus fund of Harvard University is reportedly around 20 billion dollars, which is close to 90,000 crore of rupees. In USA, the debate has already started about the rationale and necessity of creating large corpus funds. In the long run, do they really justify the vision and mission of the organization? Around 900 billion dollars are lying in various corpus funds of American Charities & Foundations.

Self- Assessment Exercise

1. What does 'corpus fund' mean and how is it created?
2. Why is corpus fund important for a charitable organisation?
3. What is the provision given under the Income Tax Act, 1961 with regard to corpus funds?
4. Is it necessary that a specific written direction has to come from the donor for creating a corpus?
5. Are donations received through charity boxes, corpus donations?
6. Can an NGO create corpus funds from its internal accrual and surpluses?