A structure for a new Auroville Economy

Context and Background
Presently there are numerous trusts and units in Auroville for both the internal service activities and the income generating activities. Units of Auroville send bills to each other and to Auroville residents as if they are independent legal entities whereas in the final analysis there is only one legal entity or body corporate: the Auroville Foundation.

The existence of income generating activities and all other Auroville activities under one legal umbrella with a single income tax registration (PAN) has worked thus far and the income of the Auroville Foundation has remained exempt from income tax. However the income tax department may at any time take a different view on this.

Trusts have been established by the Auroville Foundation as administrative umbrellas under which various units are grouped. A trust is not a legal person (unlike a company or a society) and the natural persons who act as trustees are personally liable for all matters relating to the trust. If someone wants to sue the trust, the trustees need to be sued. This raises a question about the desirability of continuing with this trust structure and whether the role of the trustees can be exercised differently.

The way forward
It is submitted that only two legal entities are required under the Auroville Foundation:

Entity 1: an entity that acts as an umbrella for all non-income generating activities (hereinafter referred to as “Auroville Services”);

Entity 2: an entity that acts as an umbrella for all income generating activities (hereinafter referred to as “Auroville Enterprises”.

The Auroville Foundation will need to obtain a tax exemption status whereby all donations to it and utilised for Auroville Services give 100% income tax relief to donors (including Auroville Enterprises). There are provisions in the Income Tax Act for such a status.

The two entities can be created in several ways, some of which are given below:
- Auroville Foundation creates two trusts (or retains two trusts from the existing ones);
- Auroville Foundation creates two tax assessee verticals, in consultation with the Central Board of Direct Taxes;
- Auroville Foundation itself remains Entity 1 while Entity 2 is established as a so-called private trust (a trust with a single defined beneficiary: the Auroville Foundation in this case).

Each of the two entities will have its own PAN (permanent account number for Income Tax). Auroville Services does not need a GST registration since all goods and services procured by it are for own consumption, not for resale or manufacture etc. Auroville Enterprises will have a single GST registration and a single import / export license

The schools, cultural activities, farms, collective kitchens and all other services of Auroville (e.g. Auroville Electrical Service, Aurinoco, Auroville Water Service) become part of Auroville Services. They do not raise bills and invoices to other Auroville units or to Aurovilians but they will raise “Budget Debit Notes” to keep track of expenditure vs. approved budgets.

Aurovilians who have personal funds can contribute to budgets in round figures. Example: There is a budget “Electrical Maintenance”. AVES will carry out work in the house of an Aurovilian for a value of about INR 500. No bill will be raised, but a Budget
Debit Note will contain details of the services provided. The Aurovilian may contribute to the Electrical Maintenance Budget.

The same applies to inter-unit services. Example: Auroville Water Service is requested to install a pump in an Auroville farm. Auroville Water Service checks whether there is room in the budget for farm-related water services. If not, the beneficiary farm will be asked to issue a Budget Credit Note whereby an amount is transferred by the Financial Service from the farm budget to the Auroville Water Service budget. When the work is completed, Auroville Water Service raises a Debit Budget Note. These are all internal transactions within Auroville Services.

There will be zero cash exchange between Aurovilians and Auroville units. All budget notes (debit and credit) result in journal entries in the accounts of Auroville Services where each time one budget account is debited and another one is credited.

A purchase made by an Auroville service is treated as a purchase made by Auroville Services and is not resold within Auroville. The item purchased is used in Auroville for a purpose for which a budget exists. For non-budgeted expenses, two authorised persons can make ad-hoc decisions up to a case limit and an annual limit.

The income generating activities come under Auroville Enterprises. Auroville Enterprises can create under its umbrella companies and other corporate bodies in which it has 100% share holding. In some cases it may establish joint ventures. The profits of Auroville Enterprises are donated in full to Auroville Services to the extent that these profits are available as cash (minus working capital needs). If units of Auroville Enterprises need growth capital, they will prepare a business plan for the approval of the management committee of Auroville Enterprises and based on such approval and in consultation with Auroville Services, a capital injection is made into the activity that needs growth capital. The capital injection has in principle nothing to do with the contributions that the activity has made and is based on the soundness of the business proposition and its long term benefits to Auroville.

Supervisory boards, teams or groups can be formed to oversee the functioning of groups of units that operate under Auroville Services and Auroville Enterprises. The present supervisory role that is exercised by the trustees of the numerous Auroville trusts will be exercised by these supervisory boards. There can be one such board for each category of activity.

All Aurovilians, irrespective of the work they do (Auroville Services or Auroville Enterprises) are taken care of by Auroville in terms of housing, food, water, energy, mobility, clothing, education, culture and sports. There will be a Fraternity Fund to take care of special needs.

This is a first outline. There are details to be looked into and for some details there are proposals in the making. But let there be first an agreement on the basics of this proposal.

We shall propose a general meeting soon, to elaborate further about this.

TvM | 14SEP17