

STIMULATING THE DEVELOPMENT OF THE NON-COMMERCIAL SECTOR OF THE ECONOMY IN RUSSIA: IMPROVING TAX PREFERENCES TAKING INTO ACCOUNT FOREIGN EXPERIENCE

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Abstract: This article is devoted to the study of the problem of stimulating the development of non-profit organizations in Russia by granting tax preferences to this sector of economy. Stimulating the population and organizations to engage in non-commercial activities and supporting these activities is an important task of the state. Also, the analysis of regulatory legal acts of the Russian Federation and the works of domestic and foreign authors devoted to the study of problems of non-profit organizations contribute to the development of measures that can improve tax preferences for the non-profit sector in Russia, so that the population and business will be more active in supporting non-profit organizations. This, in turn, will have a positive impact on the well-being of the entire Russian society.

Keywords: non-profit organization, tax, taxation, exemption, tax exemption, tax regulation

1 Introduction

Mankind's entry into the era of the global information society where information, knowledge and intellectual activity are gradually becoming leading activities has led to the emergence and development of non-profit organizations (or NPO), which are otherwise also referred to as the "third sector of the economy" of the modern world. At present, the third sector and social entrepreneurship play a key role in achieving the most important goals of social development, including overcoming social injustice in a number of countries of the world community.

As part of the social policy implementation, each state increasingly uses the potential of non-profit organizations. Non-profit organizations help solve social problems of the country population without the aim of making a profit by taking over some of the functions of the state itself. In Russia, non-profit organizations are a special sphere of activity that differs from commercial organizations in many ways, both in terms of organization, in accounting and tax accounting.

However, this sector of Russian economy is not currently experiencing the most favorable dynamics: the total number of non-profit organizations in Russia has decreased by more than 2% over the past 10 years (which amounted to more than 14,000 organizations). In particular, the number of non-profit organizations whose registration is decided by the Ministry of Justice (i.e. organizations that are involved in the social sphere) has decreased by more than 30% (or 64,000 organizations).

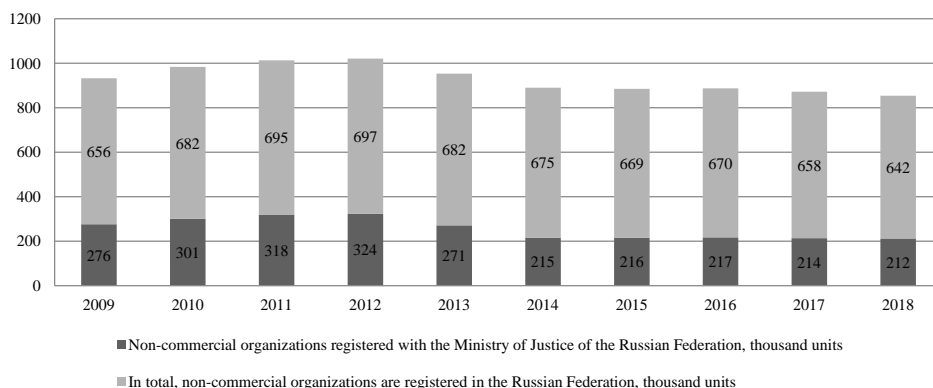


Fig 1: Dynamics of the number of non-profit organizations in Russia in 2009-2018

Source: our processing on data: Ministry of Justice of the Russian Federation, Federal State Statistics Service of the Russian Federation

1.1 Thousand Units

Properly constructed tax policy of non-profit organizations is of great importance for creating conditions for productive work of the organization, so this topic of the study seems very relevant. At present, issues related to the taxation of organizations of the non-profit sector of the economy continue to require special attention due to the variety of forms and spheres of activity of non-profit organizations in Russia, the existence of various ways and sources of funding and support for such organizations, as well as changes in legislation in this area.

Besides the fact that non-profit organizations solve a wide range of social problems and their activities are not aimed at making profit, however, practice shows that the activities of non-profit organizations can bring them income. Here, new issues of taxation and accounting of such income arise.

In order to maintain the competitiveness of the third sector, the state in the developed countries of the West invests significant funds in its activities, creates favorable conditions primarily in the field of taxation, encouraging individuals who make

donations to non-profit organization or even completely exempting the third sector from taxes.

Therefore, this article is intended to propose some possible measures regarding taxation, which may help to improve the situation of non-profit organizations in Russia.

2 Background

According to the World Bank, non-profit organizations are private organizations that aim to alleviate suffering, protect the interests of those in need, protect the environment, provide basic public services and develop society. Based on this definition, it is fair to assume that the activities of such organizations are partially or totally dependent on voluntary contributions. As for the main sources of funding for the activities of such organizations, they are highly diversified and dependent on voluntary contributions and donations. Also, taking into account the nature of non-profit organizations' activity, the key factors of their stability in foreign countries are volunteerism and altruism.

In Russia, at the legislative level (Art. 2 of the Federal Law "On non-commercial organizations" of 12.01.1996 N 7-FZ, Art. 50 of the Civil Code of the Russian Federation) the definition of a non-profit organization is formulated, which is an organization that does not have profit as the main purpose of its activities and does not distribute the resulting profits among the participants

Non-profit organizations in Russia can get support from various sources and different forms, the main of them are shown in Figure 2.

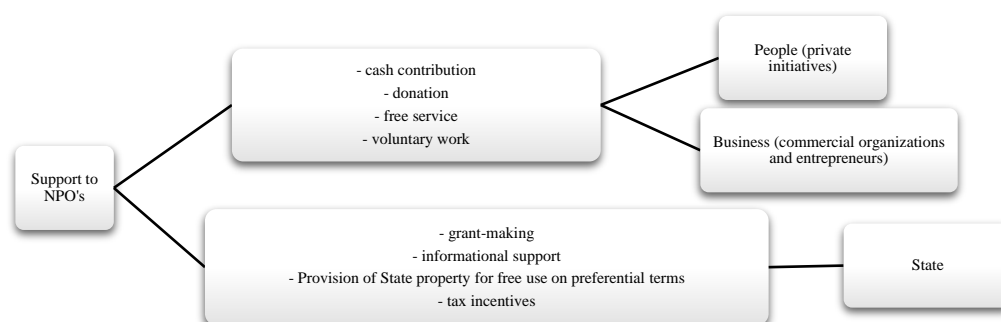


Fig 2: Scheme of forms of support to non-profit organizations from different sources
Source: Compiled by the authors

As can be seen in Figure 2, tax preferences granted by the state to NPOs serve as a form of support to the third sector of the economy. Although, this is only one of many instruments, the demand for and popularity of other instruments of NPO development depend on tax regulation: for example, thanks to the provisions of tax legislation in Russia, gratuitous transfer of NPO property for use in charity and charter activities is not subject to VAT and other taxes. Therefore, in the absence of such a provision in the law, a gratuitous transfer of property to an NPO would not be so popular as there would be a need to pay taxes.

In order to assess the implications of any approach to tax regulation of the non-profit sector for the civil society, it is necessary to understand what functions non-profit organizations perform and why states support only certain types of non-profit organizations by granting a wide range of tax preferences (Grishchenko 2016). In this connection in Table 1 a consideration is given to how in different countries of the world the status of a non-profit organization affects its taxation.

Table 1: Non-profit sector around the world

Country	Status of non-profit organizations	Types of non-profit organizations for taxation purposes
USA	The organization is assigned the status of a certain type of non-profit organization under Article 501 of the US Tax Code.	9 groups of non-profit organizations, including 27 types and 600 subspecies.
Canada	The organization should work only in the non-commercial sphere, the income is not distributed and it is not a benefit for the members of the organization (except amateur sports clubs).	The division of organizations into "non-commercial" and "charitable", and within these groups - by type.
Germany	The organization must comply with the requirements of sections 51-68 of the German Tax Code. A closed list of non-profit organization's objectives has been introduced: socially useful, charitable and religious.	Types of non-profit organizations depending on statutory purposes.
France	A non-profit organization should not compete with the commercial sector, should not make a profit, management should not be interested in its own benefits, non-profit activities should be the priority.	Multiple species depending on the level of commercialization of the non-profit organization.
Great Britain	The activities of the organization are carried out in accordance with the Charities Act of 1992 and 1993. The legislation allows trading and business activities if they are consistent with the statutory objectives of the organization.	Different types, but benefits are available to charities and local amateur sports clubs.
Italy	The status of "social orientation" is assigned depending on the direction of the non-profit organization.	Types of non-profit organizations depending on statutory purposes.
Russia	The purpose of the organization is not to make profit, the income is not distributed among the participants but it is directed to the statutory activities. Entrepreneurial activity can be carried out by some types of non-profit organizations.	Types are provided for in the Civil Code and Act No. 7-FZ on non-profit organizations. However, the lists do not coincide.

Source: Compiled by the authors on materials: Grishchenko A. V. *Theory and methodology of the tax regulation of non-commercial organizations activity: dis. and Doc. - Moscow, 2016. - p. 94-118.*

As can be seen from Table 1, non-profit organizations around the world are organizations that are not created for profit, but for the implementation of certain socially useful and charitable purposes outlined in their charters. At the same time, a number of countries stipulate that the status of non-profit organizations is assigned only to those organizations that comply with certain provisions of the legislation. According to the laws of some countries, such organizations are not entitled to engage in entrepreneurial activity while other countries allow it - either with the reservation that entrepreneurial activity of a nonprofit

organization must meet its statutory objectives or without imposing restrictions on the non-profit organization's entrepreneurial activity at all. At the same time, not all non-profit organizations are entitled to apply preferential taxation: each country has its own lists of types of such organizations and criteria that they must meet in order to use tax preferences lawfully.

In order to maintain the competitiveness of the third sector, the state in the developed countries of the West invests heavily in its

activities, creates favorable conditions primarily in the field of taxation, or even exempting the third sector from certain taxes.

Let us consider in Table 2, what tax preferences non-commercial organizations in foreign countries enjoy with respect to corporate income tax and value added tax (Gamolsky, 2015)

Table 2: Comparative analysis of tax benefits of the third sector in foreign countries

Country	Tax benefits from income tax	Tax benefits from VAT
USA	Charities are exempt from payment; non-profit organizations without the relevant status pay 2%.	Exemption from paying VAT.
France	Exemption from payment if it is engaged in socially useful activities, does not compete with businesses in the commercial sector.	Exemption from paying VAT when carrying out socially important activities.
Italy	Exempted from payment if it has "ONLUS" status.	Exemption from paying VAT when carrying out socially important activities.
Spain	Exemption from payment in case of carrying out socially significant activities and using at least 70% of the income to carry out statutory activities.	Exemption from paying VAT when carrying out socially important activities.
Germany	Exemption from payment in case of having a special status.	Exemption from paying VAT when carrying out socially important activities.
Great Britain	Only charities and local amateur sports clubs have an exemption.	VAT concessions for a group of goods and services, with regard to the organization of events to collect donations.

Source: Compiled by the authors on materials: Grishchenko A. V. *Theory and methodology of the tax regulation of non-commercial organizations activity: dis. and Doc. - Moscow, 2016*; Guz N.A., Zajceva A.A. *Comparative analysis of taxation of non-commercial organizations in Russia and abroad - https://doi.org/10.23670/IRJ.2019.82.4.030*.

As can be seen from Table 2, the main trend in taxation of non-commercial organizations in the considered foreign countries is in their exemption from value added tax when carrying out socially significant activities, as well as exemption from profit tax when carrying out statutory activities and having a certain status of non-commercial organization.

In Russia, the taxation of non-commercial organizations is connected with application of the system of preferences in calculating taxes (Grishchenko, 2016). For example, some types of religious organizations have land tax and property tax benefits. For the value added tax on a number of socially useful goods and services there is an exemption from this tax (under Article 149 of the Tax Code). In 2019 - 2024 for organizations

that apply the simplified system of taxation and are engaged in activities in the field of social services to citizens, research and development, education, health care, culture and art and mass sports, the rates of insurance premiums for mandatory pension insurance are in the amount of 20.0%, for other types of insurance - 0% (paragraphs 7, paragraph 1, 3, paragraph 2 of Art. 427 of the Tax Code). The same reduced rates of insurance premiums are provided for charitable organizations applying simplified taxation system (subparas. 8 p.1, p.3, p.2, article 427 of the Tax Code). If we talk about taxes paid on receipt of the income by a nonprofit organization (profit tax, tax collected in connection with the application of the simplified taxation system), it is fundamentally important to define several aspects, which are clearly illustrated by Figure 3.

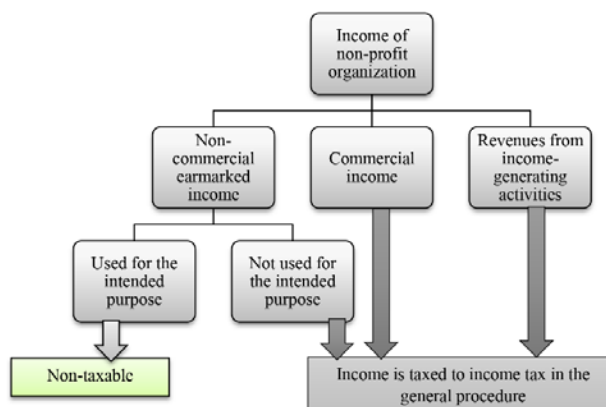


Fig 3: Scheme of income taxation of non-profit organization

Source: Compiled by the authors

Figure 3 shows and Article 251 of the Tax Code provides that non-profit organizations do not take into account the target income listed in Article 251 of the Tax Code while forming the tax base for income tax (as well as the tax paid in connection with the application of the simplified tax system). All other income, including gratuitous income which is not named in article 251 of the Tax Code, is recognized as non-operating income, regardless of how it is used further. Target income and target financing will also be recognized as non-operating income of a non-profit organization if they are not used for their intended purpose. At the same time, expenses of a non-commercial organization that carries out entrepreneurial activity,

not only the basic charter income, when calculating the tax base for the profit tax are included into expenses only in the part that is directly related to entrepreneurial activity. In this connection, a peculiarity of tax accounting of non-commercial organizations is that they keep separate accounting by target receipts.

Also, in foreign countries the great importance is attached to the deductions that legal entities and individuals can receive when making donations to non-profit organizations. Table 3 shows the countries that provide such deductions for donations to non-profit organizations (Grishchenko, 2016).

Table 3: Tax credits in different countries for those who make donations to non-profit organizations

Comparison object	Credits for legal entities	Credits for individuals	Tax credit can be carried forward to the following tax periods
Countries	Canada, France, Germany, Spain, Italy, Hungary, UK, Switzerland, USA	Russia, UK, USA, France, Germany, Italy, Spain, Switzerland	USA, Canada, France, Germany

Source: Compiled by the authors

As it can be seen from Table 3, organizations in Russia cannot receive tax relief if they supported NPOs or made donations. Also, unlike in many countries, Russia does not provide for the possibility to transfer the social deduction for charity to the next tax periods. This directly affects the passivity of citizens and businesses in participating in NPO activities. Thus, according to the CAF World Giving Index, Russia ranks only 117th out of 126 countries.

3 Literature review

Many academic economists, theoreticians and practicing economists and lawyers have devoted their work to the study and development of the problems of improving taxation of non-profit organizations and made a significant contribution to the economic science.

At the same time, works by P. Yu. Gamolsky devoted to various aspects of non-commercial organizations' activities in Russia, including their taxation and identification of tax risks, are the most well-known and widespread in Russia.

Grishchenko, A.V., Guz N.A. and Zaitseva A.A. devoted their works to the survey of foreign practice of taxation of non-commercial organizations.

Tax policy of the majority of industrial, economically developed countries in the beginning of the 21st century is formed on the basis of application of achievements of all classic economic schools offering the solution of tax regulation problems presented in Table 4.

Table 4: Principles of tax regulation of different economic schools

Name of the macroeconomic schools	Principles of tax regulation within a given macroeconomic schools
Keynesian	The main instruments of state regulation of the economy are taxes and public expenditures, the main purpose of which is to smooth or prevent economic cyclical crises. In the phase of economic decline, the state increases expenditures by supporting the health and social sectors, helping to increase aggregate demand, while in the growth phase it reduces expenditures.
Neoliberal Economic School (London, Freiburg, Chicago)	The most important government task is, on the one hand, to minimize interference in the allocation of resources in the private sector and, on the other hand, to create a free market and competitive environment.
Monetarism	Taxes are analyzed as a negative factor constraining the development of the economy - the emergence of new taxes leads to higher prices of factors of production, compression of their supply, which leads to higher inflation. The main task of the tax policy is minimization of taxes, budget expenditures, as well as stimulation of supply - factors of production, goods and labor.
Neoclassical school	Tax regulation enables the government to influence the development of important areas such as health and social services. As a result, many economies around the world base their tax policies on the support of social sector organizations, as well as charitable and non-profit organizations.

Source: Compiled by the authors

As can be seen from Table 4, each macroeconomic doctrine recognizes taxes as an important economic regulator that can have a significant impact on the demand and supply of goods and services, as well as on production factors. At the same time, the significance of the essential provisions of each theory in the development of tax policy is unique.

However, it should also be noted that in order to study the instruments of tax regulation, it is necessary to determine the essence of this concept at first. The views of scientists on the understanding of tax regulation are different as evidenced by the information presented in Table 5.

Table 5: Approaches to interpretation of "tax regulation" (Grishchenko et al., 2017).

Author	Interpretation
A. Nachalov	"...tax regulation means measures of indirect impact on economic and social processes by changing: the type of taxes, tax rates, tax exemptions, increase or decrease of the general level of taxation, contributions to the budget".
И. Gorsky	"...tax regulation should be carried out only by means of tax exemptions: full exemption from taxes, reduction of rates, mitigation of tax conditions".
Y. Ivanov	"...tax regulation should be understood as the conscious, active and purposeful influence of the state on the participants of economic relations with the help of levers and instruments of tax policy in order to achieve the desired socio-economic results"
H. Hare	"...tax regulation is one of the most dynamic and mobile elements of the tax mechanism and the sphere of state tax management, where its basis is the system of economic measures of operative interference in the course of fulfilling tax obligations".
C. Barulin	"...tax regulation is an integral part of the tax management process aimed at ensuring the implementation of the concepts of state and enterprise tax policy".
T. Efimenko	"...tax regulation allows achieving more effective use of material and financial resources by means of inherent methods and levers, intensifying investment and entrepreneurial activity, coordinating interests of various subjects, layers of population, central and regional levels of state administration".
B. Panskov	"...tax regulation is a set of measures of indirect impact of the state on the economy by changing the list of taxes, tax rates, establishment or cancellation of tax benefits, reduction or increase in the overall level of taxation"

As the analysis of scientific and economic literature presented in Table 5 has shown, issues of the essence of tax regulation, its place and role in the structure of financial relations of the state, its methods and instruments are debatable. The majority of scientists connect tax regulation with state regulation of tax relations (V.G. Pankov, A.V. Nachalov, I.V. Gorsky, T.I. Efimenko and others). Sharing the position of S.V. Barulin that tax regulation is a practical activity of the state authorities on the use of regulatory opportunities of taxes within the framework of the implementation of the concepts of state tax policy, we note that we consider the definition of Y.B. Ivanov to be the most accurate, in which tax regulation refers to the impact of the state on economic entities with the help of levers and instruments of tax policy to achieve socio-economic results.

Separate taxes may be applied to regulate the non-profit sector and social sphere. Low tax rates for certain types of activities or general exemption from taxation of health care and social sphere activities lead to an increase in financial resources of this sector, expand the list of services and socially important goods, which, as a result, reduces social tension in society.

Many authors and scholars have argued for the need to improve tax regulation of NPO activities in Russia, citing specific problems existing in the taxation of this sector of the economy. The main problems identified by the researchers are presented in Table 6.

Table 6: Views of the authors on problems in NPO taxation

Authors	The problem in taxation of NPO activities
Guz N.A., Zajceva A.A.	"...obtaining tax benefits for NPOs in the Russian Federation is a time-consuming and complicated process, which not all NGOs functioning on the territory of the country are able to do" (Guz & Zajceva 2019)
Smirnova E.E.	"Carrying forward of the unspent deduction to the next tax period of the Tax Code is not provided that also reduces the interest of individuals in transferring donations" (Smirnova, 2018)
Sokolskaya L. V., Konovalova Z. A.	"...it is imperative that the legislator clearly understand and change his attitude towards volunteer organizations in the field of taxation" (Sokolskaya & Konovalova, 2020)
Gorokhov A.A., Emelianov A.S., Uglitskikh O.N., Klishina Yu.	"Russia does not provide for the possibility of applying a zero rate to a part of NPO income" (Gorokhov et al., 2016)
Deryugina T. V.	"The problems of defining the income-generating activity, its correlation with the entrepreneurial activity have not been solved, there are no criteria for attributing the activity to the main goal and its correlation with the "non-core" income-generating activity of the non-profit organization" (Deryugina, 2018)
Grischenko A. B.	"...increasing the tax burden at the expense of stimulating the development of socially important industries often pushes taxpayers to conceal the tax base, which has an extremely negative impact on the amount of tax revenues to the budgets of various levels and the financial condition of non-profit organizations when identifying tax offenses" (Grishchenko, 2016)

By analyzing the positions of various scientists and authors of works in the field of taxation of non-profit organizations, it is possible to identify the following problems on this topic:

- lack of differentiation at the legislative level between "entrepreneurial activity" and "income-generating activity", which leads to confusion;
- no income tax benefits for non-profit organizations engaged in income-generating activities;
- no incentive for businesses to make cash donations and other support to non-profit organizations, as the expenses incurred for this purpose cannot be taken into account in the calculation of income tax;

- no incentive for individuals to make significant donations to non-profit organizations, as the current legislation does not allow the transfer of the unspent amount of the social tax credit for individual income tax to charity for the following tax periods.

4 Data Analysis and Empirical Findings

The empirical analysis is aimed at analyzing data from the Federal Tax Service of Russia, as well as statistical data from other government agencies involved in working with non-profit organizations in Russia. For our analysis, we use data for a period of 10 years to track the dynamics of indicators and draw appropriate conclusions.

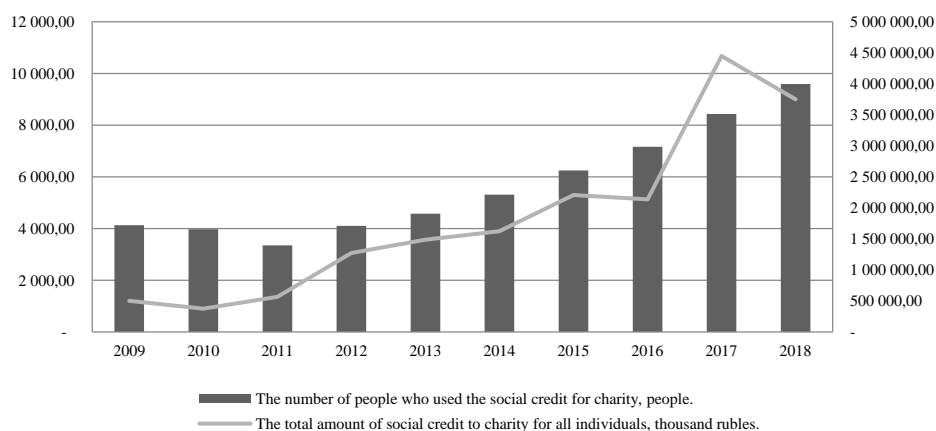


Fig 4: Dynamics of charitable activity indicators of the Russian population in the period 2009-2018
Source: our processing on data: Russian Federal Tax Service

The dynamics of indicators of charitable activity of the Russian population, which was presented in Figure 4, indicates a constant growth in the number of people applying social deduction for

personal income tax to charity. Over 10 years, this indicator has doubled and the average growth in the number of people donating to charity was 10%. As for the amount of donations

made, which were presented by Russian tax residents in their annual returns, this indicator was extremely unstable during the period under review: although there is a general upward trend and the average growth of the indicator was 33%, however, this indicator often decreases.

The following factors may have influenced such trends:

- As a result, real incomes of the population are lower than nominal, so people donate less and less to charity;
- crisis phenomena;
- According to the rules of the Tax Code of the Russian Federation, the taxpayer has no right to transfer the amount

of the donation to a deduction within several years, so people have a lower incentive to spend large sums on non-profit organizations.

In recent years Russia, like many other countries in the world, has been pursuing a policy of "denationalizing" the social sphere, partly and selectively transferring some functions of the state to the non-profit sector. As a result, over the last four years non-profit organizations have been increasingly supported by the state, including financial support, according to the Russian Ministry of Economic Development (Figure 5).

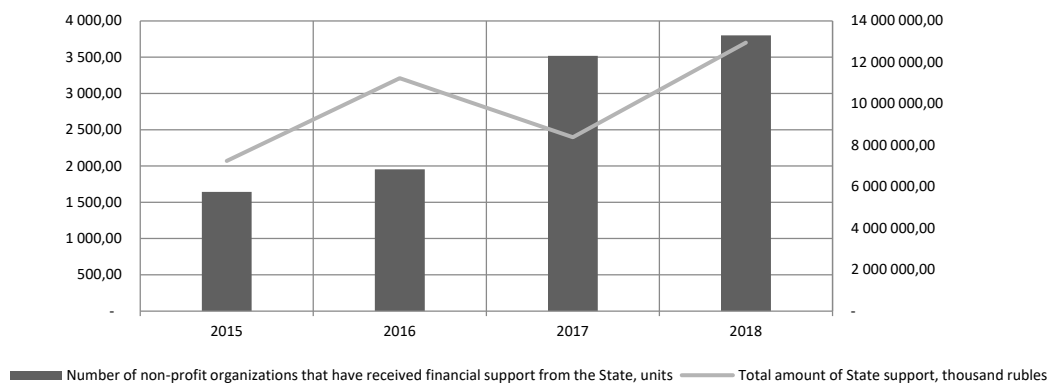


Fig 5: Dynamics of State financial support for socially oriented non-profit organizations in 2015-2018

Source: our processing on data: Ministry of Economic Development of the Russian Federation

Figure 5 shows a positive trend in the number of socially oriented non-profit organizations that have received financial support from the state, although the amount of this support does not have a clear positive trend: financial support from the state does not always increase.

This is why the funding that comes from business is important for non-profit organizations. But entrepreneurs are not active in their donations - in Russia there are no tax incentives for legal entities that help non-profit organizations. Current legislation

requires commercial organizations that are engaged in charity to provide assistance only from net profit. Organizations are not exempted from paying income tax on the amounts that were allocated to charity. This creates a significant barrier to attracting business funds for charitable and social purposes.

Meanwhile, non-profit organizations themselves do not pay income tax only on income received in the framework of targeted funding and used for their intended purpose in accordance with their statutory activities.

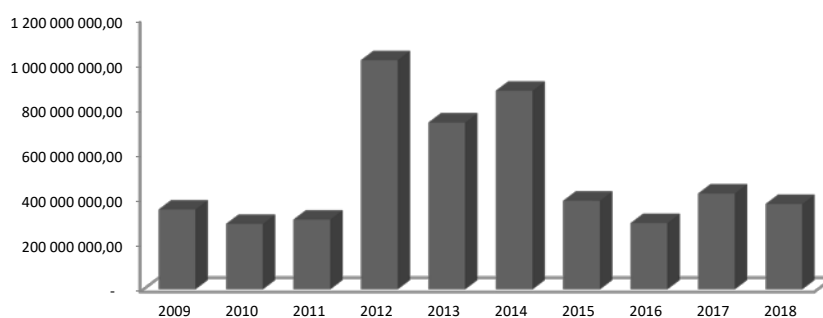


Figure 6: Amounts of earmarked funding declared by taxpayers - non-profit organizations for the period 2009-2018

Thousand rubles

Source: our processing on data: Russian Federal Tax Service

Figure 6 shows the instability of targeted income received by non-profit organizations. Due to significant drawbacks in tax incentives for businesses and the public to provide financial support to non-profit organizations, such organizations are unable to operate fully. This fact creates a threat to the unprotected layers of the population to receive quality social services, as well as creates barriers to non-commercial organizations to perform some functions of the state.

5 Conclusion

Non-profit organizations are popular all over the world because they take over state problems and solve them. In many countries,

the performance of non-profit organizations is much higher than in Russia. At the same time, foreign countries have systems of tax support for non-profit organizations: benefits are directly provided to such organizations, as well as benefits for businesses and people involved in social sphere and charity.

Many authors of scientific works on the topic of tax regulation of non-profit organizations in Russia have come to the conclusion that it is necessary to improve the taxation of such organizations by providing them with tax preferences, as well as to provide tax preferences to persons involved in charity activities. Although some tax incentives for third sector organizations are already in place in Russia, analysis of

statistical data revealed the instability of financing of such organizations. And in order to solve pressing problems, we propose to implement the following set of measures to improve taxation of non-profit organizations in Russia:

- A clear distinction between "business" and "income-generating activities" is made in the legislation;
- establishment of a tax-exempt minimum with respect to the income of non-profit organizations derived from income generating activities;
- introduction of a social deduction for commercial organizations that have incurred expenses for non-profit organizations, as well as charitable donations;
- allowing individuals to transfer the unspent amount of the social tax deduction for individual income tax to charity for the following tax periods.

The implementation of the proposed measures will facilitate the involvement of the population and business in the work and support of the non-profit sector, which will help its development and prosperity.

Acknowledgements

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