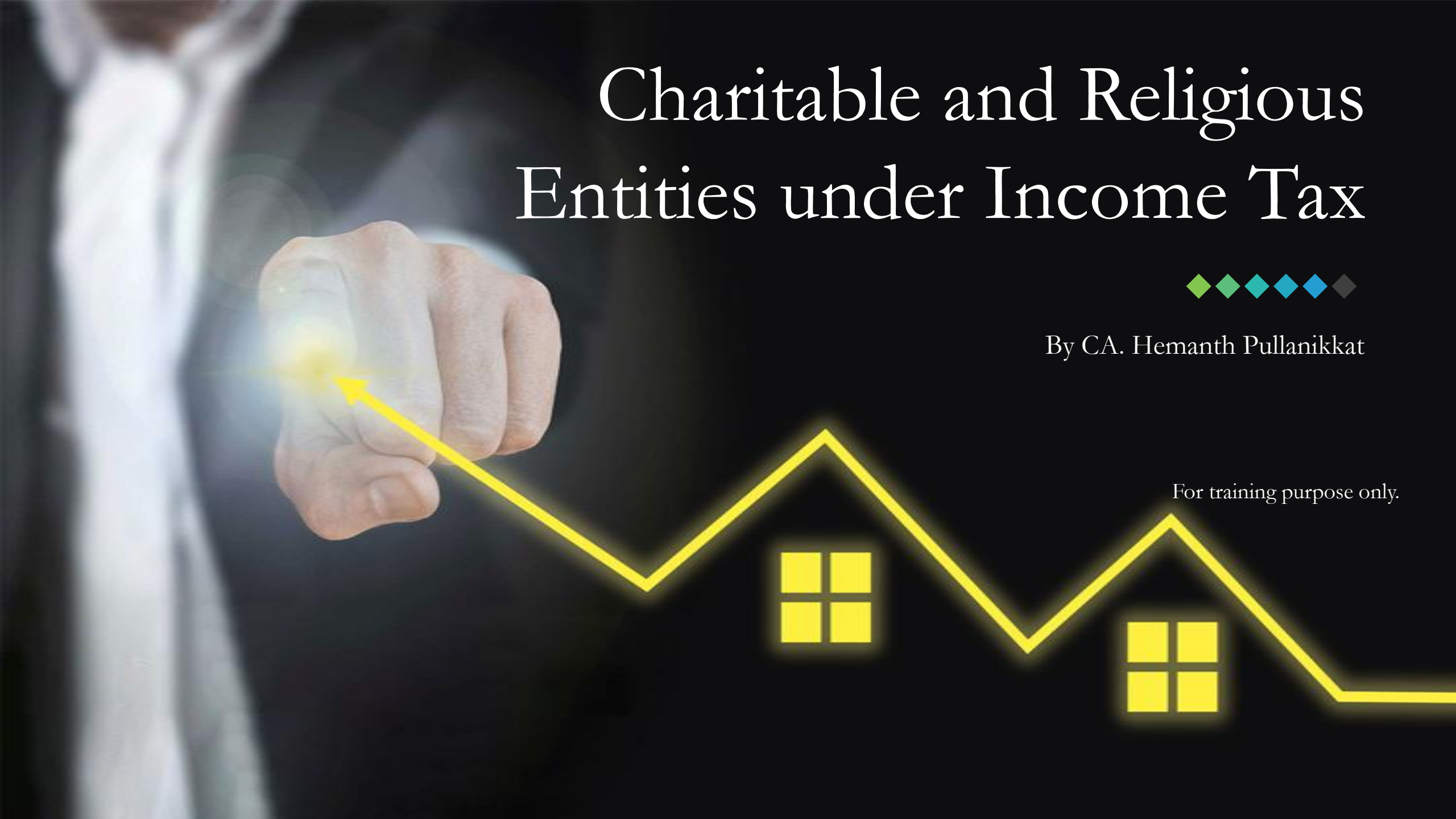

Charitable and Religious Entities under Income Tax

By CA. Hemanth Pullanikkat

For training purpose only.

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Type of Entities

Organizations for Profit

Organizations <u>not</u> for Profit

Not for profit entities

Not for profit entities work for <u>Charitable</u> or <u>religious</u> purposes. This can be in the form of a Company, Society, Trust etc.

Non- Profit organizations are exempt from income tax.

Charitable Purpose

EDUCATION	**YOGA**	**PRESERVATION OF ENVIRONMENT**	Any other object of General Public Utility
RELIEF OF POOR	**MEDICAL RELIEF**	**PRESERVATION OF MONUMENTS**	

Any other object of general public utility

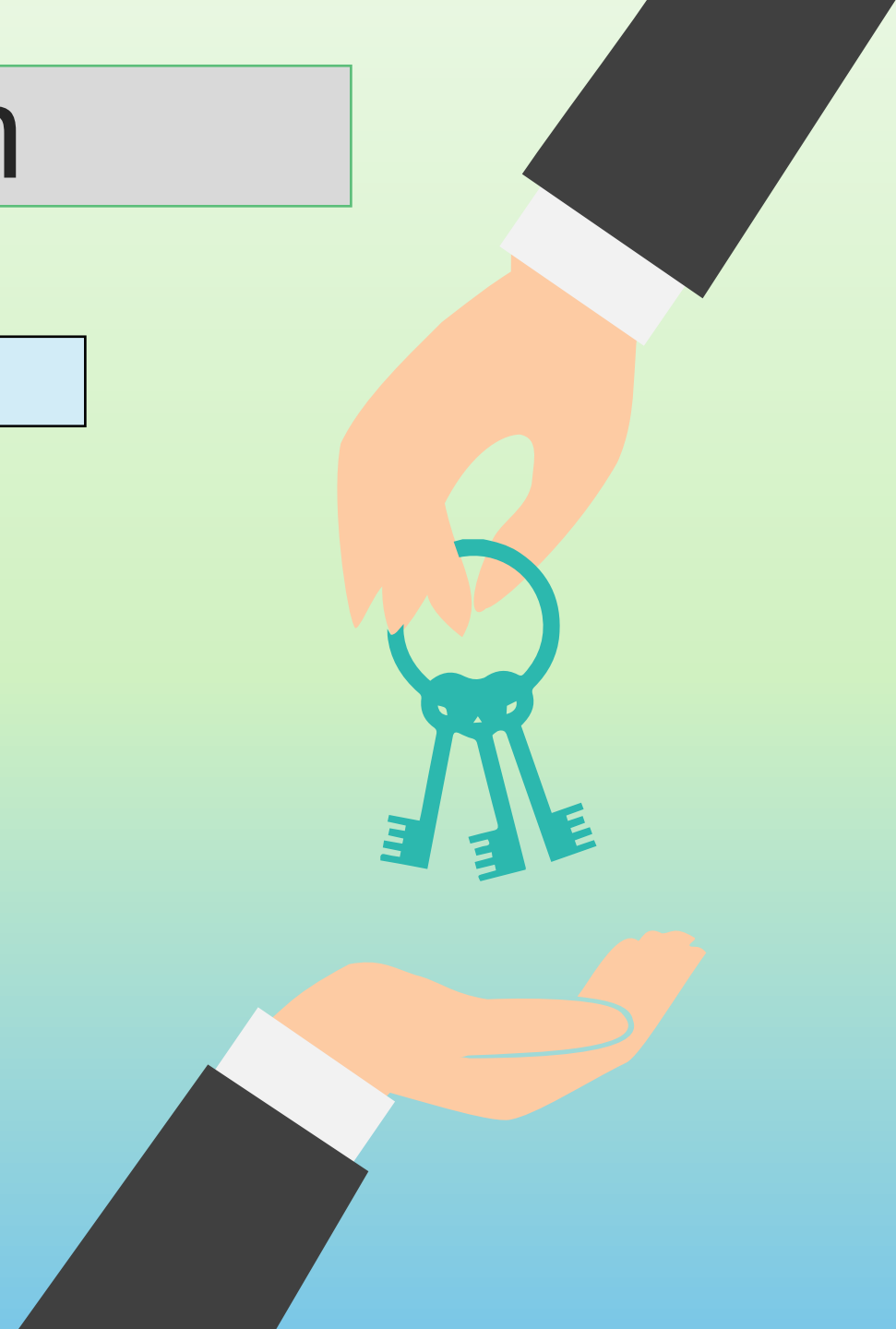
It may include any activity in the nature of trade, commerce or business, but:

- **The activity carried out in the course of the charitable purpose**
- **Receipts from such activity shall not exceed 20% of total receipts.**

Type of Exemption

I. Complete Exemption

- ✓ PM’s National Relief Fund
- ✓ CM’s Relief Fund
- ✓ PM’s Fund for Promotion of folk Art
- ✓ PM’s Aid to students Fund
- ✓ National fund for Communal Harmony
- ✓ Swachh Bharath Kosh
- ✓ Clean Ganga Fund



II. Conditional Exemption - A

University or Educational Institution

Hospital and related institutions

Government Support

If wholly or substantially (more than 50% of total receipts) financed by government

Annual Receipts

If not supported by Govt. but aggregate annual receipts is below 1 Crore or 5 Crores (A.Y 2022-23).

II. Conditional Exemption - B

01 Register under Income Tax:

To have a control over the trust by income tax department.

Registration

02 Spend at least 85% of *Income:*

Wholly and exclusively for the purpose in the same year.

Apply **85%**

03 Need not apply balance 15%,

as it can be reserved without time limit.

Balance 15%

04 Invest the amount in modes of 11(5);

Inform % not applied to IT using Form 10 before 139(1).

If 85% not *applied*

05 If *income* not received or due to other reasons not applied,

Inform this in Form 9A before 139(1)

Deemed apply

Examples of Condition - B

Scenario – 1 Income : 1,00,000/- Applied : 85,000/- Deemed apply : Nil		Scenario – 2 Income : 1,00,000/- Applied : 65,000/- Deemed apply : Nil		Scenario – 3 Income : 1,00,000/- Applied : 60,000/- Deemed apply : 12,000/-		Scenario – 4 Income : 1,00,000/- Applied : 60,000/- Deemed apply : 12,000/-	
Particulars	Amount	Particulars	Amount	Particulars	Amount	Particulars	Amount
Income	1,00,000/-	Income	1,00,000/-	Income	1,00,000/-	Income	1,00,000/-
Application	85,000/-	Application	65,000/-	Application	60,000/-	Application	60,000/-
% applied	85%	% applied	65%	% applied	60%	% applied	60%
Reserve Accu.	15,000/-	Reserve Accu.	15,000/-	Reserve Accu.	15,000/-	Reserve Accu.	15,000/-
5 Year Accu.	Nil	5 Year Accu.	20,000/-	5 Year Accu.	13,000/-	5 Year Accu.	13,000/-
Form – 10	Nil to filed	Form – 10	Yes, 20,000/-	Form – 10	Yes, 13,000/-	Form – 10	Not submitted
Form – 9A	Nil to filed	Form – 9A	Nil to be filed	Form – 9A	Yes, 12,000/-	Form – 9A	Not submitted
Total Income	NIL	Total Income	NIL	Total Income	NIL	Total Income	25,000/-

Income – Scrutinized - 1

$ Donation is a major form of income for charitable and religious organizations.

$ Few may donate for <u>general purpose</u> but others with <u>specific purpose</u>.

<u>Voluntary Donation</u>

Donation with out specific purpose.

This will be included in computation of 85% as it is normal income of trust.

<u>Corpus Donation</u>

Donation with specific purpose, being building fund etc.

Not for general purpose will not form part of the computation of 85%.

Income - 2 - Corpus & Anonymous Donation

Corpus donation is exempted even if not spend but

It is invested in any modes specified in sec. 11(5)

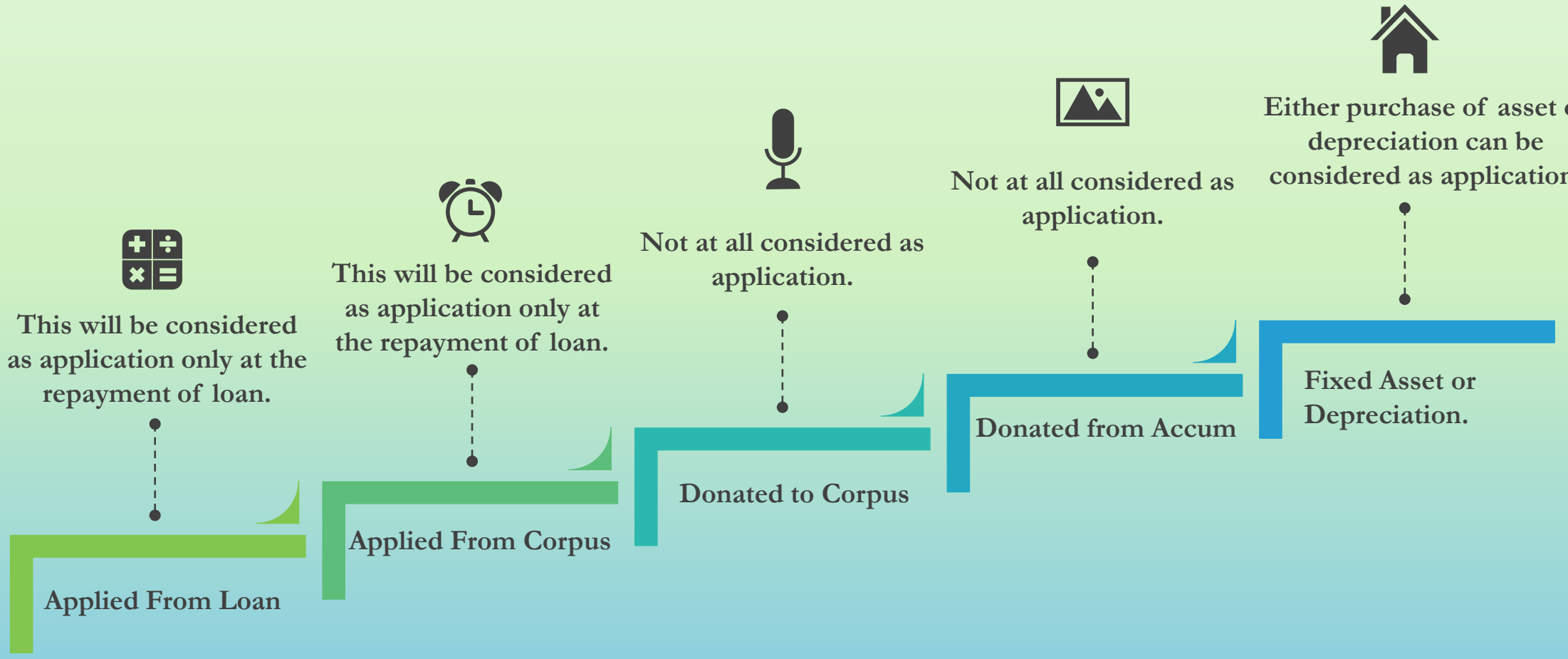
$ maintained specifically for such corpus

Anonymous donation received in excess of the higher of the following will be taxed at 30%

5% of the total donation received or Rs.1 lakh.

But this provision shall not applicable if donation received by religious trust or religious and charitable trust without specific direction to use it for charity.

Application – Scrutinized - 1



Application – Scrutinized - 2

TDS to be complied:

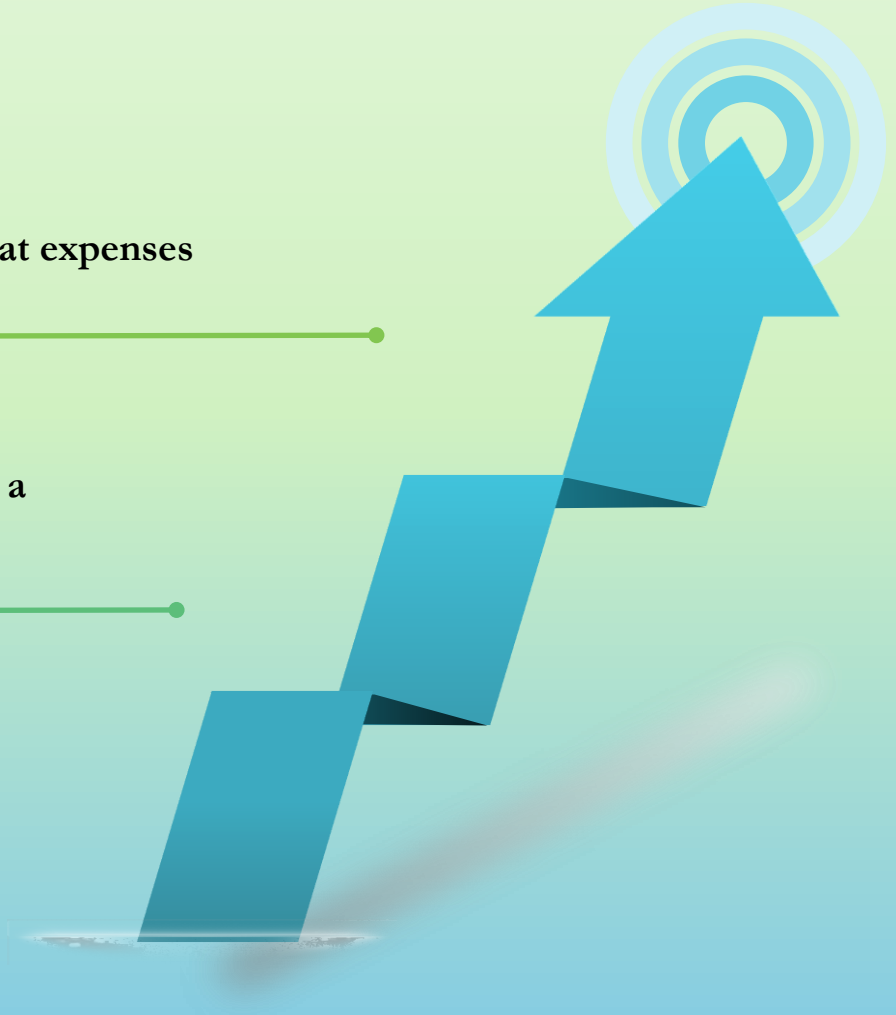
If Tax not deducted from payments, that expenses cannot be considered as application.

Expenses more than 10,000/-

Rs.10,000/- shall not be paid in cash to a person in a day. If paid that amount will not be considered as application.

Agricultural Income:

Agricultural income earned by any entity is exempt from tax under section 10.



Check Points for Computation

Donation

Corpus Donation

#Whether deposited

#Is it specifically maintained account

Donation

Anonymous

Whether Religious?

More than the limit?

Taxed @ 30%.

Expenses

Any nature

For Object

Not from Loan

Not from Corpus

TDS complied

Expenses

Donation

Only to registered entities

Not to Corpus

Not from Accumulation

Computation of Total Income

Year - 1 **Income : 1,00,000/-** **Applied : 85,000/-**		**Year – 2** **Income : 1,00,000/-** **Applied : 1,15,000/-**		**Year - 3** **Income : 1,00,000/-** **Applied : 1,60,000/-** **(Spend from loan : 90,000/-)**		**Year – 4** **Income : 1,00,000/-** **Applied : 60,000/-** **(From Loan – 20,000/-, Corpus – 10,000/-, Loan repaid – 20,000/-)**	
Particulars	Amount	Particulars	Amount	Particulars	Amount	Particulars	Amount
Income	1,00,000/-	Income	1,00,000/-	Income	1,00,000/-	Income	1,00,000/-
Spend	85,000/-	Spend	1,15,000/-	Spend	1,60,000/-	Spend	60,000/-
Application	85,000/-	Applied fromC.Y	1,00,000/-	From Loan	90,000/-	Loan & Corpus	30,000/-
Reserve Accu.	15,000/-	Applied from P.Y	15,000/-	From C.Y	70,000/-	From C.Y	30,000/-
		Excess applied	NIL	Application	70,000/-	Application (30,000+20,000)	50,000/-
		Reserve Accu.	NIL	Reser Accum	15,000/-	Reser Accum	15,000/-
Total Income	NIL	Total Income	NIL	Total Income	15,000/-	Total Income	35,000/-

Requirement list and Procedure

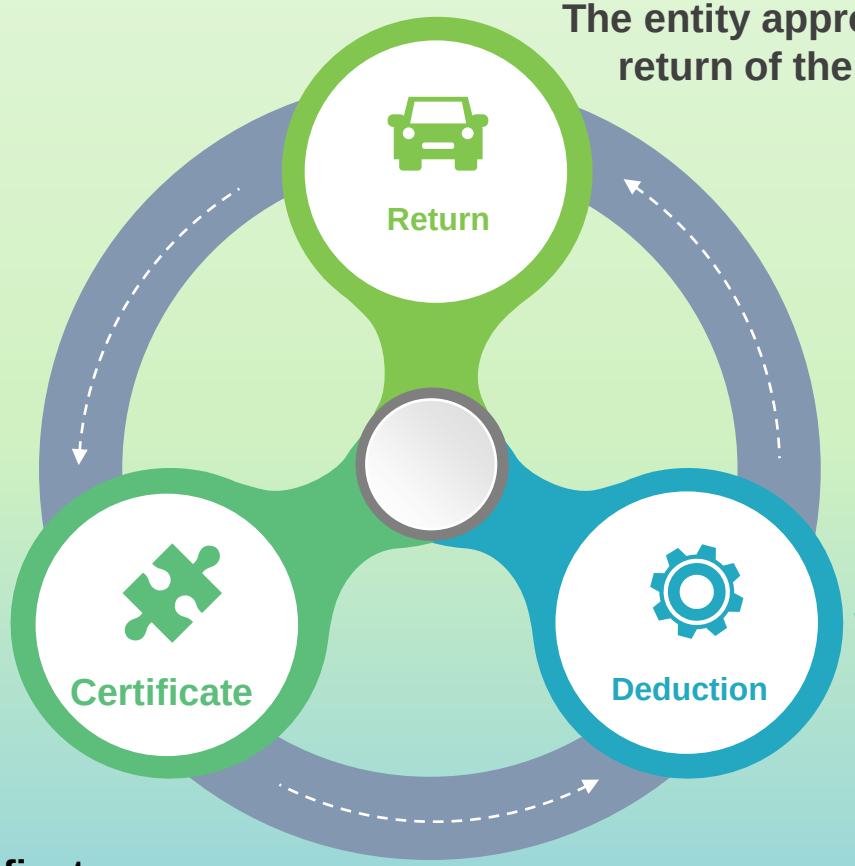
✓ Receipts and Payments A/c	To know what all are the income and expenses of the period	Follow audit procedures
✓ Income from business, (GPU).	To check income from business is more than 20% of the total receipts.	Not charitable, Include in total income
✓ Corpus and Anonymous Donation	To check whether corpus deposited and anonymous violated condition.	Corpus add to total income, anonymous taxed @ 30%
✓ Corpus and Loan Bank statement	To check amount spend from loan and corpus and amount repaid to these.	Only repayment will be considered as application.
✓ Donation expenses	Whether the donation is to Corpus or whether it is from accumulation	Remove from application.

Donor gets Deduction

The donor will get deduction of the amount donated to trust either 50% or 100%.

Trust has to get registration under section 80G.

Application for registration is Form 10A



File Statement

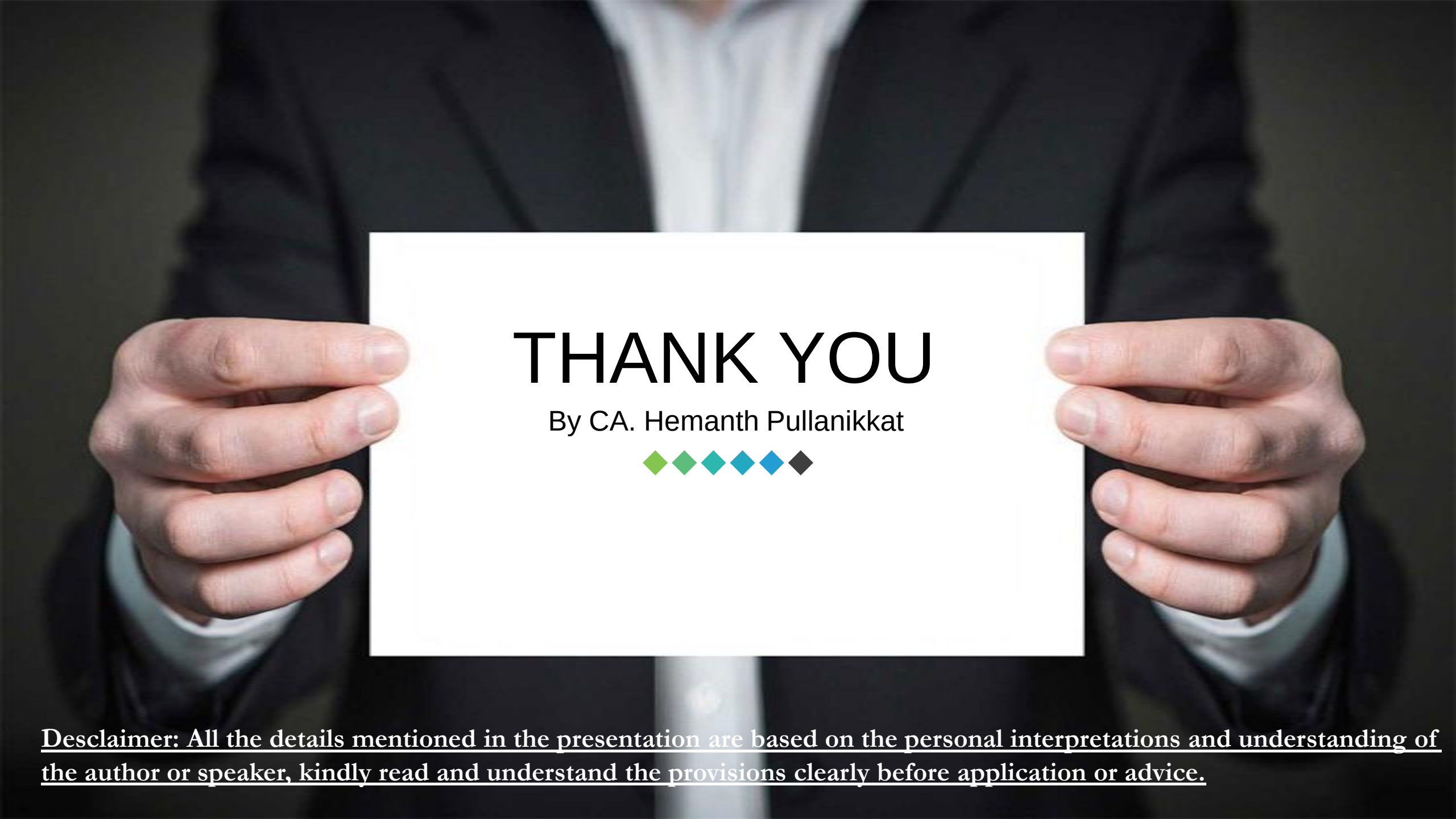
The entity approved u/s 80G has to file return of the donations received.

Deduction to Tax payer

Donor will get deduction of the amount donated to entities.

Issue Certificate

The entity received donation has to issue certificate to the donor.



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