CHAPTER 10

# ASSESSMENT OF REGISTERED NON-PROFIT ORGANISATIONS, POLITICAL PARTIES AND OTHER SPECIAL ENTITIES



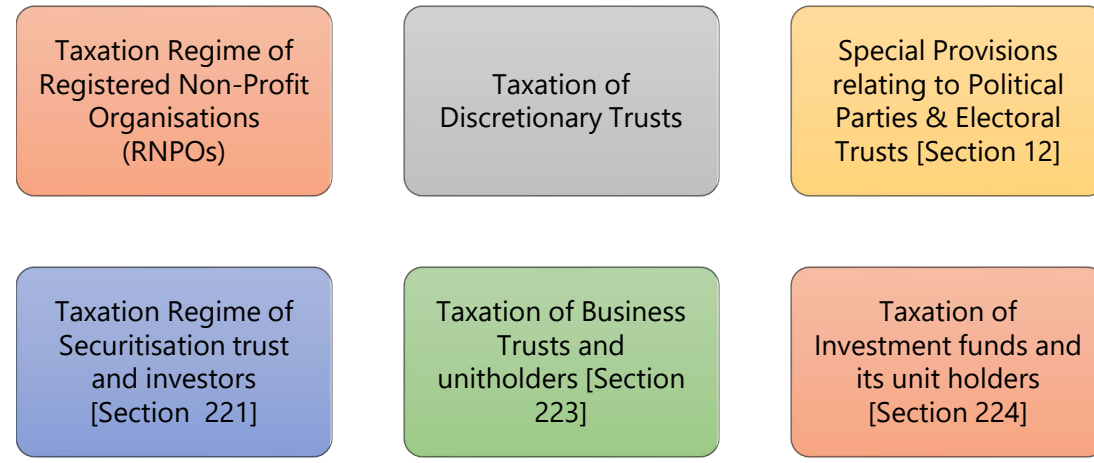
## LEARNING OUTCOMES

**After studying this chapter, you would be able to -**

- **understand** income tax exemption available for educational and medical institutions in certain cases
- **identify** who can claim benefit of special provisions for Registered Non-Profit Organisations (RNPO)
- **appreciate** the procedure to be followed for registration of a Non-Profit Organisation ;
- **understand** different categories of income of an RNPO and their taxability
- **analyse** the special provisions applicable for commercial activities by an RNPO
- **appreciate** the compliance requirements for an RNPO
- **understand** the implications of violations committed by an RNPO
- **identify** the income of political parties which are exempt from tax and the conditions to be satisfied to avail the exemption;
- **examine** the conditions to be satisfied by an electoral trust to avail exemption in respect of voluntary contributions received by it;
- **examine** the special provisions relating to taxation of business trusts, securitisation trusts and investment fund and **compute** the tax liability in the hands of such trusts/fund and the unit holders/investors.

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## CHAPTER OVERVIEW




## 10.1 INTRODUCTION

In this chapter, we will be discussing the income tax treatment for income of educational and medical organization established not for profit, trusts and institutions engaged in charitable or religious activities, political parties, electoral trusts and other special entities such as securitization trusts, business trusts and investment funds.

Chapter III of the Income-tax Act, 2025 i.e. Section 11 and 12 read with Schedules II to VIII, contains the provisions pertaining to exemptions in respect of income of special entities like securitization trusts, business trusts and investment fund and exemption in respect of political parties and electoral trusts. Special Provisions related with charitable entities called as Registered Non-Profit Organisations are contained in Chapter XVII-B.

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## 10.2 EXEMPTION IN RESPECT OF INCOME OF CERTAIN UNIVERSITIES, EDUCATIONAL INSTITUTIONS, HOSPITALS, MEDICAL INSTITUTIONS ETC.

Exemption is available under section 11 read with Schedule VII in respect of total income received by a university, educational institution, hospital and other medical institution which fulfill certain conditions. The brief summary of the exemptions available to these institutions is encapsulated in the following table:

| Relevant Schedule | Eligible persons | Exemption Conditions |
|---|---|---|
| Schedule VII (Table: Sl. No. 17) | Any university or educational institution | Wholly or substantially financed by the Government. |
| Schedule VII (Table: Sl. No. 18) | Any hospital or other institution | Wholly or substantially financed by the Government |
| Schedule VII (Table: Sl. No. 19) | Any university or educational institution<br>Any hospital or other institution | Aggregate annual receipts do not exceed **five crore rupees.** |

Accordingly, the following entities are exempt from paying income-tax on their total income for any tax year, subject to the fulfilment of certain conditions:

### (1) Universities or Educational Institutions or Hospitals or Medical Institutions substantially financed by the Government:

- Any university or other educational institution **wholly or substantially financed by the Government** which exists solely for educational purposes and not for profit [Schedule VII (Table: S. No. 17)].
- Any hospital or other institution **wholly or substantially financed by the Government**, which exists for the reception and treatment of persons suffering from illness or mental defectiveness or for the reception and treatment of convalescing persons or persons requiring medical attention or

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rehabilitation AND which exists solely for philanthropic purposes and not for profit [Schedule VII (Table: S. No. 18)].

**Meaning of Substantially financed by the Government**

Any university or other educational institution, hospital or other institution referred above, are considered as being substantially financed by the Government for any tax year, **if the Government grant** to such University or other educational institution, hospital or other institution for such tax year **exceeds 50% of their total receipts** including any donations during the said tax year [Rule 287].

### (2) Universities or Educational Institutions or Hospitals or Other Medical Institutions whose annual receipts do not exceed ₹ 5 crore

- Any university or other educational institution
  - existing solely for educational purposes and not for profit and
  - **the aggregate of annual receipts of University or Universities or educational institution or institutions does not exceed ₹ 5 crore** [Schedule VII (Table: S. No. 19(a))].
- Any hospital or other institution
  - which is for the reception and treatment of persons suffering from illness or mental defectiveness or for the reception and treatment of convalescing persons or persons requiring medical attention or rehabilitation and
  - which exists solely for philanthropic purposes and not for profit and
  - aggregate of annual receipts of such hospital or hospitals or institution or institutions **does not exceed ₹ 5 crore** [Schedule VII (Table: S. No. 19 (b))].
- Where a person has receipts from any university or other educational institution as well as from any hospital or other medical institution, **whose combined receipts exceeds ₹ 5 crores, then, the said person shall not be eligible for exemption** under Schedule VII (Table: S. No. 19).

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- Where such University or other educational institution or such hospital or other institution receives any **anonymous donation** defined under section 355(*a*), the provisions of section 337 (Table: Sl. No. 1) in respect of specified income shall apply on such anonymous donation as they apply in the case of a registered non-profit organisation and such anonymous donations shall be excluded from the income on which no tax is payable.

## ILLUSTRATION 1

*An educational institution having annual receipts of ₹ 3.80 crore during the T.Y. 2026-27, has availed exemption under Schedule VII (Table: S. No. 19). The Assessing Officer has denied the exemption on the grounds that the educational institution has not registered under the Income-tax Act. Examine the action of the Assessing Officer in denying the exemption.*

## SOLUTION

As per Schedule VII (Table: S. No. 19), income of any university or other educational institution existing solely for educational purposes and not for purposes of profit would be exempt if the aggregate annual receipts of such university or educational institution do not exceed ₹ 5 crores. Therefore, the exemption can be availed without registered under section 332.

Therefore, the action of the Assessing Officer in denying the exemption to the educational institution is not correct.

## ILLUSTRATION 2

*A not-for-profit trust undertakes philanthropic activities through an educational institution and a hospital. During the T.Y. 2026-27, the trust had annual receipts of ₹ 3 crores from its educational institution and ₹ 4 crore from the hospital. During the T.Y. 2026-27, it desires to avail exemption under Schedule VII (Table: S. No. 19), as the individual threshold for each of the entity, is less than ₹ 5 crores. Can it do so? Examine.*

## SOLUTION

As per the provisions of Schedule VII (Table: S. No. 19) the limit of annual receipts of ₹ 5 crore is qua 'taxpayer' and not qua 'activity'. Therefore, if the aggregate annual receipts from educational activity and medical activity exceeds ₹ 5 crores, then, exemption under Schedule VII (Table: S. No. 19) cannot be availed by the trust.

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Since, in the present case, the aggregate annual receipt of ₹ 7 crores (₹ 3 crores of educational institution and ₹ 4 crores from hospital) exceeds the threshold of ₹ 5 crores, exemption under Schedule VII (Table: S. No. 19) cannot be availed, even though the individual receipts from educational institution and hospital have not exceeded ₹ 5 crores.

## 10.3 SPECIAL PROVISIONS FOR REGISTERED NON-PROFIT ORGANIZATION

Non-Profit Organisations intending to carry on charitable or religious activities are normally set up either as a trust or a society or a company registered under section 8.

Trust is the most common and preferred legal form. Therefore, before considering the income-tax provisions governing Non-profit Organisations, let us see briefly what exactly the term trust signifies, the types of trusts and the manner of their creation.

Though this aspect of the topic does not strictly fall within the purview of income-tax, such a general knowledge would be useful in understanding the provisions of tax laws relating to non-profit organizations.




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## Meaning of certain terms

**Trust**

- is an obligation annexed to the ownership and arising out of a confidence reposed in and accepted by the owner if declared and accepted by him for the benefit of another.

**Author of the trust**

- the person who reposes or declares the confidence

**Trustee**

- The person who accepts the responsibility of holding and managing the trust property according to the terms of the trust for the benefit of the beneficiaries.

**Beneficiary**

- The person (or persons) who receives the benefit or income from the trust property

**Trust property**

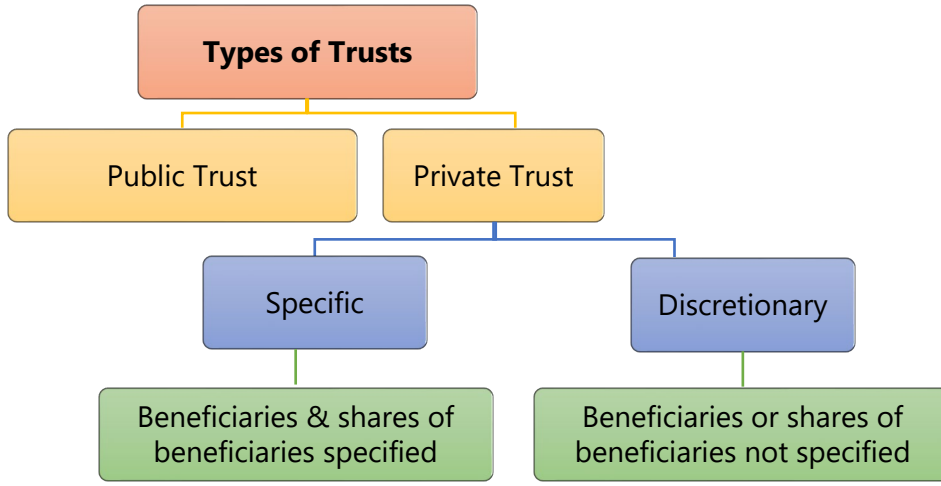
- the property or fund of the trust

**Instrument of trust (Trust Deed)**

- The legal document that creates the trust and sets out its terms, rights, duties, and conditions

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**Trusts can be broadly classified into two groups - Public and Private**




## Distinction between a public and private trust

The distinction between a public and private trust is that, whereas in the former, the beneficiaries are the general public or a class thereof, in the latter they are specific persons. While in the former, the beneficiaries constitute a body which is incapable of ascertainment, in the latter they are persons who are ascertained or capable of being ascertained. Generally private trusts are formed for the convenience of individuals and families. The private trust does not qualify for the special exemption regime applicable to public charitable/ religious RNPOs merely by virtue of being constituted as trust.

Private trusts are governed by the Indian Trust Act, 1882. This Act does not apply to the following:

(i) The rules of Mohammedan law as to waqf;

(ii) The mutual relations of the members of undivided family as determined by any customary or personal law;

(iii) Public or private religious or charitable endowments; and

(iv) Trust to distribute prizes taken in war among the captors.

On the other hand, Public trusts are constituted mainly for the benefit of the public at large.

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There are three requirements for creation of a public trust. They are

(i) a declaration of trust which is binding on the settlor,

(ii) setting apart definite property and depriving himself of the ownership, and

(iii) a statement of objects for which the property is thereafter to be held. In the case of a private trust also, more or less similar requirements exist.

Public trust enjoys tax exemption under the Income-tax Act subject to compliance of certain conditions, that are discussed in detail in this chapter.

## Special Provisions for Registered Non-profit Organisations (RNPOs) in the Income-tax Act 2025

Chapter XVII of the Income-tax Act, 2025 lays down special provisions relating to certain persons. Part B of the Chapter XVII, from section 332 to section 355, contains special provisions for registered non-profit organizations (RNPOs). All such special provisions for RNPOs are discussed below under the following headings:

| Sl. No. | Particulars | Section No. |
|---|---|---|
| I. | Procedure for Registration | 332, 333 |
| II. | Income of registered non-profit organization (RNPO) and application of income | 334 - 343 |
| III. | Commercial activities by registered non-profit organization (RNPO) | 344 - 346 |
| IV. | Compliances | 347 - 350 |
| V. | Violations | 351 & 353 |
| VI. | Tax on accreted income (Exit Tax) read with section 354A relating to merger of RNPO with any other RNPO | 352 & 354A |
| VII. | Application for approval for the purpose of section 133(1)(b)(ii) i.e., Deduction in respect of donations to RNPO's | 354 |
| VIII. | Interpretation | 355 |

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## I. Procedure for Registration

### 1. Persons Allowed to make application for Registration [Section 332(1)]

The following persons may, for the purposes of claiming benefits as RNPO, make an application in the prescribed form to Principal Commissioner of Income-tax (PCIT) or Commissioner of Income-tax (CIT) for registration:

(a) a public trust;

(b) a society registered under the Societies Registration Act, 1860, or under any law in force in India;

(c) a company registered under section 8 of the Companies Act, 2013 or under section 25 of the Companies Act, 1956 and deemed to have been registered in pursuance of section 465(2)(g) of the Companies Act, 2013;

(d) a university established by law or any other educational institution affiliated thereto or recognised by the Government;

(e) an institution financed wholly or in part by the Government or a local authority.

(f) any person as referred to in Schedule III (Table: Sl. No. 27) to (Table: Sl. No. 29) and (Table: Sl. No. 36)[1] or Schedule VII (Table: Sl. No. 17 to 19) and (Table: Sl. No. 42)

(g) any other person notified by the Board.

Entities referred to in Schedule VII (Table: Sl. No. 17 to 19) are eligible to get themselves registered as RNPO in terms of clause (f) above are as follows:

| Schedule VII Table Sl. No. | Eligible Person | Conditions |
|---|---|---|
| 17 | Any University or other educational institution wholly or substantially financed by the Government | Conditions applicable for these institutions |

[1] *Exemption provisions relating to entities referred to in Schedule III (Table: Sl. No. 27) to (Table: Sl. No. 29) and (Table: Sl. No. 36) and Schedule VII (Table: Sl. No. 42) are excluded from the syllabus by way of Study Guidelines.*

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| | | |
|---|---|---|
| 18 | Any hospital or other institution wholly or substantially financed by the Government. | have been discussed under the heading 10.2. above. |
| 19 | (a) Any University or other educational institution<br>(b) Any hospital or other institution. | |

***Note -*** *It may be noted that total income of above entities mentioned in Schedule III or Schedule VII is already exempt from tax under section 11. However, if these entities want to get approval for purpose of deduction under section 133(1)(b)(ii), they need to get themselves registered under section 332 as well as seek approval under section 354.*

## 2. Eligibility for Registration [Section 332(2)]

A person referred to in sub-section (1) is eligible for registration, if -

(a) such person is constituted/ registered/ incorporated in India for carrying out

- one or more charitable purposes, as referred to in section 2(23) or
- one or more public religious purposes.

and

(b) the properties of such person are held for the benefit of the general public under an irrevocable trust—

(i) wholly for charitable or religious purposes in India; or

(ii) partly for charitable or religious purposes in India, if such person was constituted or registered or incorporated prior to the commencement of the Income-tax Act, 1961.

**Meaning of certain terms**

| Term | Meaning |
|---|---|
| **Charitable Purpose [Section 2(23)]** | It includes –<br>(a) relief of the poor;<br>(b) education;<br>(c) yoga; |

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| | |
|---|---|
| | (d) medical relief;<br>(e) preservation of environment (including watersheds, forests and wildlife);<br>(f) preservation of monuments or places or objects of artistic or historic interest;<br>(g) the advancement of any other object of general public utility; |
| **Religious Purpose** | The Income-tax Act has not defined the term religious purpose. The shorter Oxford English Dictionary defines the term as follows:<br>"Devoted to religion; exhibiting the spiritual or practical effects of religion, following the requirements of religion; pious, godly, devout". |
| **Wholly for charitable or religious purposes [Section 355(p)]** | It means wholly for charitable purposes or wholly for religious purposes or wholly for charitable and religious purposes. |

### 3. Time Period for making application, for passing order thereon and validity period of registration [Section 332(3)]

Every application in respect of the cases specified in the Table below shall be made to the Principal Commissioner or Commissioner within the time provided below in the said Table, who shall, on receipt of such application, follow the procedure provided in this section and shall pass an order within the time specified in the said Table, and registration, if granted, shall be valid for a specified period.

| Sl. No. | Case | Time limit for furnishing application | Time limit for passing order | Validity of registration |
|---|---|---|---|---|
| 1 | Activities of the applicant have not commenced, and it has not been registered before making the application | Any time during the tax year from which registration is sought | 1 month from end of month in which application is made | 3 tax years commencing from the tax year in which application is made |

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|---|---|---|---|---|
| | | | | This shall be treated as "Provisional Registration". |
| 2 | Activities of the applicant commenced, and it is not registered earlier | Any time during the tax year from which registration is sought | 6 months from end of quarter of application | 5 tax years commencing from the tax year in which application is made |
| 3 | Provisional registration granted and activities of the applicant commenced | Within 6 months of commencement of activities | 6 months from end of quarter in which application is made | 5 or 10 tax years commencing from the tax year in which application is made **[Refer Note Below]** |
| 4 | Provisional registration is expiring, and activities have not commenced | At least 6 months before expiry of registration | 6 months from end of quarter in which application is made | 5 or 10 tax years following the tax year in which application is made **[Refer Note Below]** |
| 5 | Registration expiring (other than case 4) | At least 6 months before expiry of registration | 6 months from the end of the quarter of in which application is made | 5 or 10 tax years following the tax year in which application is made **[Refer Note Below]** |
| 6 | Registration has become inoperative due to switching over of regime under section 333 | Any time during tax year from which it is sought to be made operative | 6 months from the end the of quarter in which application is made | 5 or 10 tax years commencing from the tax year in which application is made |

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|---|---|---|---|---|
| 7 | Applicant, being a registered non-profit organisation has adopted or undertaken modification of objects which do not conform to the conditions of registration | Within 30 days of the date of such adoption or modification | 6 months from the end of the quarter of in which application is made | 5 or 10 tax years commencing from tax year of in which application is made |
| ***Note*** **-** *In cases mentioned at Sl. No. 3 to 7 above, if the total income of the applicant, without giving effect to the provisions of this Part, does not exceed ₹ 5 crores during each of the two tax years, preceding the tax year in which such application is made, the validity period of registration would be 10 years. In other cases, this period would be 5 years [Section 332(5)].* | | | | |

## 4. Delay in Filing Application

In case the application under any of the case mentioned in above table is made beyond the time allowed, the PCIT or CIT may, if he considers that there is a reasonable cause for delay in furnishing the application, condone such delay and such application shall be deemed to have been made within time [Section 332(4)]

Further, in case of Section 332(3) Table above

**- Sl. No. 3:** Provisional registration granted, and activities commenced.

**- Sl. No. 4:** Registration due to expire

**- Sl. No. 5:** Registration has become inoperative due to switching over of regime

**- Sl. No. 7:** Registered non-profit organization has adopted or undertaken modification

if application is not made within the specified time and the delay is not condoned by the PCIT/CIT, assessee shall be liable to pay tax on accreted income under section 352 [Section 332(6)]

## 5. Enquiries before Grant of Registration [Section 332(7)]

The PCIT/CIT shall, on an application made by an applicant in any of the cases specified in Sl. Nos. 2 to 7 in the table above, call for such documents or information or make such inquiries as he thinks necessary in order to satisfy

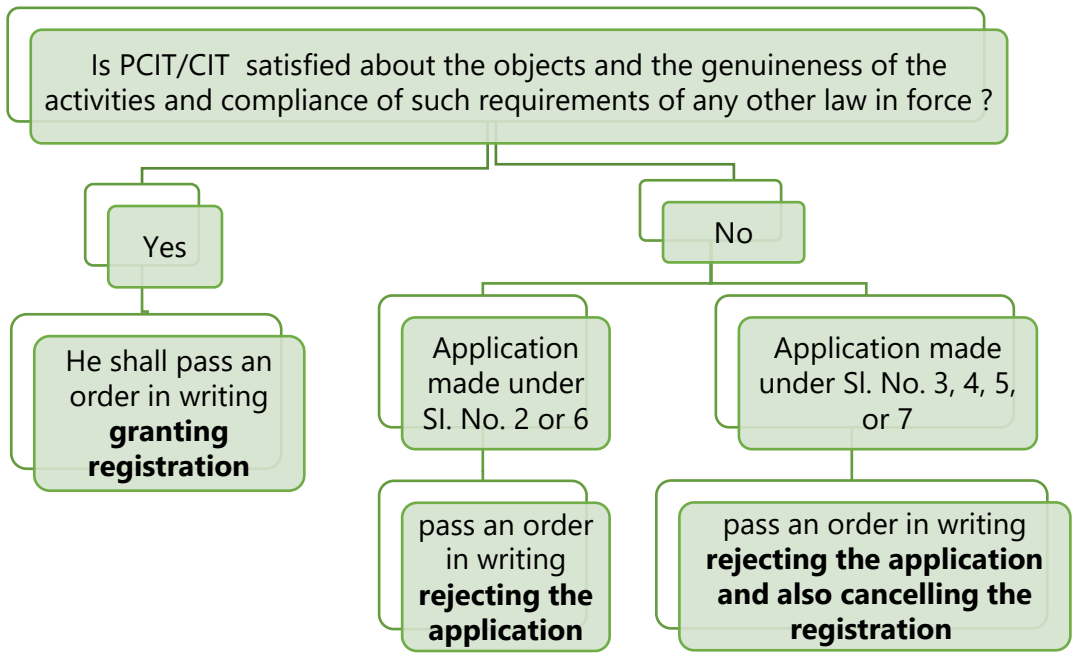
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himself about:

- the genuineness of activities of the applicant, and
- the compliance by applicant of such requirements of any other law as are material for the purpose of achieving its objects.

However, no such enquiries shall be made in case specified in Sl. No. 1 and a provisional registration shall be granted [Section 332(8)].

## 6. Order by PCIT/CIT [Section 332(7)]




- PCIT/CIT shall send a copy of the said order to the applicant and the Assessing Officer.
- Any order of rejecting the application shall be passed only after affording a reasonable opportunity of being heard to the applicant.

## 7. Switching Over of Regime (Section 333)

An RNPO shall not be entitled for exemption to any income under section 11 (read with Schedule II to Schedule VII) except following:

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- Schedule II (Table: Sl. No. 1) – Agricultural Income
- Schedule III (Table: Sl. Nos. 27 to 29 and 36)[2]
- Schedule VII (Table: Sl. Nos. 10 to 19 and 42 to 45)[3]: Table Sl. No., 17 to 19 with respect to university or other educational institution and hospital or medical institutions are already discussed earlier.

The registration under section 332 shall cease to operate:

- from the date on which the RNPO is notified as specified in -
  - Schedule III (Table: Sl. No. 27, 28, 29 or 36) or
  - Schedule VII (Table: Sl. No. 42),
- from the 1st April of the tax year for an RNPO which claims exemption under
  - Schedule VII (Table: Sl. No. 43, 44 or 45).

An RNPO, whose registration ceases to operate as above, may apply for registration under section 332.

The registration in this case shall be subject to the condition that the notification granting exemption to such person under Schedule III (Table: Sl. No. 27, 28, 29 or 36) or Schedule VII (Table: Sl. No. 42) shall cease to have effect from the date on which the said registration is granted.

After such registration, such RNPO shall not be entitled to exemption under the respective serial numbers of the said Schedules.

## ILLUSTRATION 3

*A public trust has commenced its activities of providing "relief to poor" in the year 2024-25. The trust intends to claim benefits of Chapter XVII-B from T.Y. 2026-27. It approaches you in October 2026. Total income of the trust for T.Y. 2024-25 and T.Y. 2025-26 was ₹20 lakhs and ₹45 lakhs, respectively. Advise the trust as to the time limit for making an application for registration, time limit for granting approval by the Principal Commissioner or Commissioner and the period for which the approval is valid.*

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[2] *Exemption provisions relating to entities referred to in Schedule III (Table: Sl. No. 27 to 29) and (Table: Sl. No. 36) are excluded from the syllabus by way of Study Guidelines.*

[3] *Exemption provisions relating to entities referred to in Schedule VII (Table: Sl. No. 10 to 16 and 42 to 45) are excluded from the syllabus by way of Study Guidelines.*

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## SOLUTION

In order to avail the benefits of Chapter XVII-B, the trust has to obtain registration under section 332. A trust which has already commenced its activities can directly apply for final registration. In the present case, the trust has to apply for registration after commencing its activities but on or before 31.3.2027 to avail the exemption for T.Y. 2026-27. Accordingly, the time limit for making application, time limit for granting registration and period of validity would be as follows:

| S. No | Particulars | Time Limit |
|---|---|---|
| 1 | Table Sl. No. 2 of section 332(3) applicable for the case | Since activities of the trust have commenced and it is not registered earlier, the case is covered in Table Sl. No. 2 of section 332(3). |
| 2 | Registration application to be filed online as prescribed under Rule 181 | Application for final registration to be made in Form 105 at any time during the tax year from which registration is sought. |
| 3 | Grant of registration by the Principal Commissioner (PC) or Commissioner (C) | Grant registration within 6 months from the end of the quarter in which application was received after satisfying himself about the genuineness of activities and compliance of other laws, as are material for the purpose of achieving its objects. For this purpose, the PC or C shall call for such documents or information and make inquiries as he thinks necessary.<br>If not satisfied, pass an order in writing rejecting such application after giving opportunity of being heard. |
| 4 | Validity period of the approval | Since total income without giving effect to the provisions of part B of Chapter XVII does not exceed ₹ 5 crores during each of the tax years 2024-25 and 2025-26 preceding the tax 2026-27, registration is valid **for ten years** effective from the T.Y. in which application is made. |

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**ILLUSTRATION 4**

*Help All, a trust created on 1st April 2025 for providing relief to the poor, applied for registration under section 332 on 28th February 2026. The Commissioner denied registration on the ground that the trust had not commenced any charitable activity, due to which he could not satisfy himself about the genuineness of the trust. Is the ground for denial of registration by the Commissioner justified in this case? Discuss.*

**SOLUTION**

Section 332 provides that in case of a trust seeking registration for first time, provisional registration will be provided for a period of three years without detailed enquiry by the prescribed income-tax authority even in cases where activities of the entity are yet to begin.

Hence, the Commissioner cannot deny registration on the ground that activities have not commenced. The Commissioner can make detailed enquires and call for information when the trust applies to convert its provisional registration into a final registration as stipulated in Table Sl. No. 3 of section 332(3) read with section 332(7).

## II. Income of Registered Non-Profit Organization

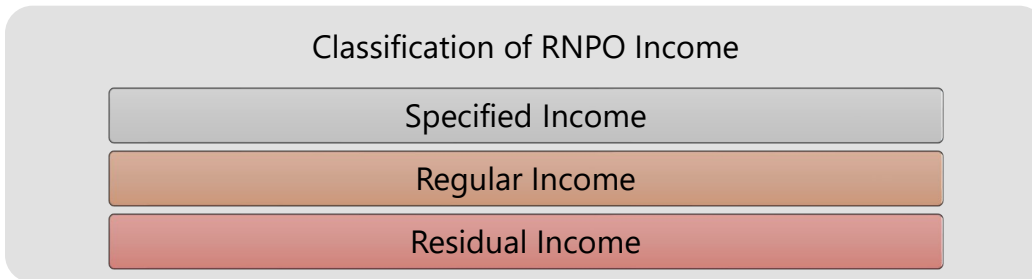
### 1. Categories of Income for an RNPO

All income of an RNPO is classified into 3 categories:

(a) Specified Income

(b) Regular Income

(c) Residual Income




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## 2. Tax on income of RNPO (Section 334)

The Income-tax payable by an RNPO on its total income for any tax year shall be the aggregate of the amounts calculated:

(a) at the rate of 30% on specified income for such tax year; and

(b) at the rate applicable on taxable regular income and any residual income for such tax year under other provisions of this Act.




## 3. Regular Income and Taxable Regular Income of RNPO

### 3.1 Regular Income (Section 335)

Regular income of any tax year of an RNPO means –

(a) **Income from any charitable or religious activity**, for which such non-profit organisation is registered, carried out by it in such tax year.

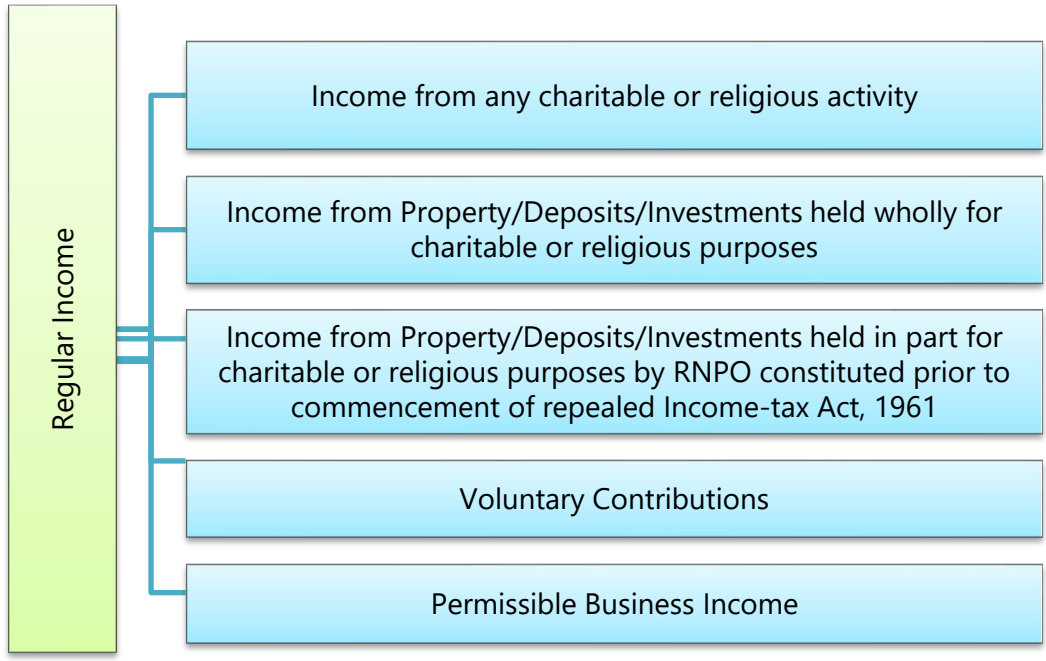
(b) **Income derived from any property, deposit or investment** held wholly for charitable or religious purposes by such RNPO in such tax year.

(c) **Income derived from any property, deposit or investment** held in part for charitable and religious purposes in such tax year by such RNPO, which was constituted or registered or incorporated prior to the commencement of the Income-tax Act, 1961.

(d) **Voluntary contributions** received by RNPO in such tax year.

(e) Gains of any **commercial activity** permissible under section 344, 345 and 346 carried out by RNPO. These gains are to be computed in the manner prescribed in Rule 182.

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## 3.2 Manner of Computing Gains from Permissible Commercial Activity (Rule 182)

For the purposes of section 335, gains of any permissible commercial activity carried out by a registered non-profit organisation for a tax year, shall be computed in the following manner:

(a) such commercial activity shall be treated as if it is entity separate from the registered non-profit organization,

(b) separate books of account are maintained for such activities, and

(c) gains from such commercial activity during the tax year shall be computed as per the provisions of Part D of Chapter IV of the Act (Profits and Gains of Business and Profession).

## 3.3 Income not to be included in Regular Income (Section 338)

While computing the regular income of a RNPO, the following income shall not be included:

**(a) Income applied outside India in case of an RNPO -**

(i) created before the 1st April, 1952 for charitable or religious purposes; or

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(ii) created on or after the 1st April, 1952 for charitable purposes where such application of income outside India tends to promote international welfare in which India is interested.

In both the cases, the CBDT should have, by general or special order, directed that such income shall not be included in the total income of the person in receipt of such income.

**(b)** **Corpus Donation** received by the RNPO under section 339 also shall not be included in the regular income of an RNPO.

**Meaning of Corpus Donation (Section 339)**

Corpus donation means any donation made with a specific direction by the donor that it shall form part of the corpus of the RNPO provided that such donation is invested or deposited in any of the modes permitted under section 350 maintained specifically for such corpus.

**Deemed Corpus Donation (Section 340)**

Where the property of an RNPO includes any temple, mosque, gurudwara, church or other place notified under section 133(1)(b)(vi), any donation received by such RNPO for the purpose of renovation or repair of such temple, mosque, gurudwara, church or other place, may, at its option, be deemed as corpus donation under section 339, if it -

(a) maintains such corpus as separately identifiable;

(b) applies such corpus only for the purpose for which the donation was made;

(c) invests or deposits such corpus in any of the modes permitted under section 350; and

(d) does not apply such corpus for making donation to any person.

## 3.4 Taxable regular income (Section 336)

The "taxable regular income" of an RNPO for any tax year shall be:

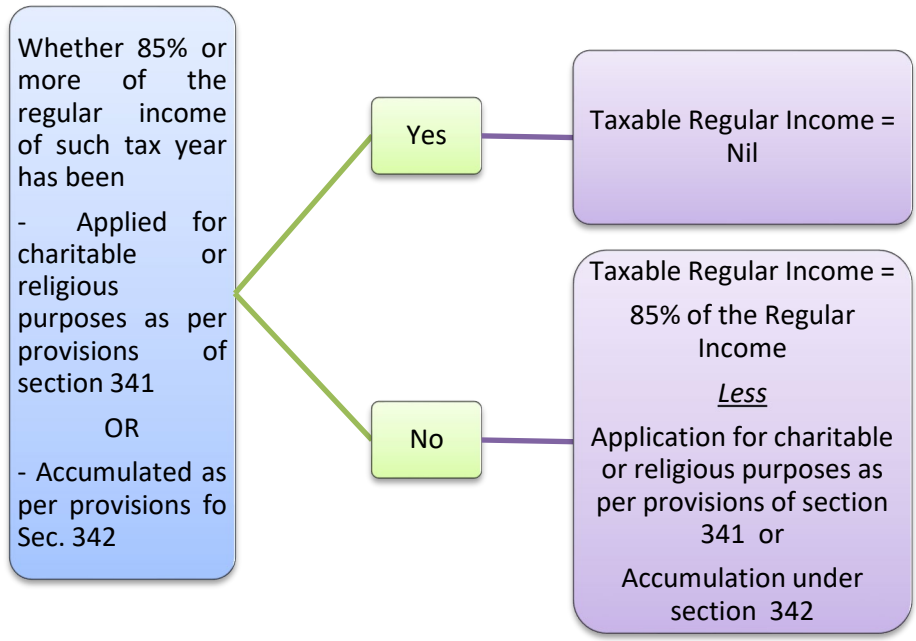
(a) NIL where 85% or more of the regular income of such tax year has been

- EITHER **applied** for charitable or religious purposes in India for which it is registered as per provisions of section 341.

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- OR **accumulated** under section 342 for charitable or religious purposes in such tax year as per the provisions of this Part.

(b) In any other case, 85% of the regular income for such tax year as reduced by its application for charitable or religious purposes as per provisions of section 341 or accumulation thereof under section 342 in such tax year as per the provisions of this Part.




## 3.5 Application of income (Section 341)

### 3.5.1 Sums allowed as Application [Section 341(1) and 341(2)]

**I. Application of Income [Section 341(1)]:** As per section 341(1), for the purposes of computation of Taxable Regular Income as discussed above, following sums shall be allowed as application of income to an RNPO:

(a) Any sum applied by RNPO **for charitable or religious purpose in India** for which it is registered, where such sum is paid during the tax year provided the provisions of section 35(b)(i) and section 36(4), (5), (6) and (7) shall apply in respect of such sum.

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**Following is important in this regard:**

(i) A sum shall be treated as "applied" in such tax year **in which it is actually paid.** If it is not actually paid but only payable at the end of the year, this shall not be treated as application for such tax year.

(ii) The following provisions in respect of such sum:

| Section | Provision |
|---|---|
| 35(b)(i) | In case where an expenditure is incurred for which sum is paid to a resident and on which tax as deductible at source under Chapter XIX-B has not been deducted or after deduction, has not been paid on or before the due date under section 263(1), 30% of sum paid would not be treated as application of income in that year. The same would be, however, be treated as application in the year in which tax is deducted and paid. |
| 36(4) | Where the RNPO incurs any expenditure in respect of which a payment or aggregate of payments made to a person in a day, otherwise than through specified banking or online mode, exceeds ₹ 10,000, the same would not be considered as application of income. |
| 36(7) | Circumstances where disallowance on account of payment not made through specified banking or online mode not applicable. |




*What is required for section 341(1) is the "application" for charitable/religious purposes. This application may be revenue in nature and may also be capital in nature.*

***For example:*** *If a capital asset has been purchased by RNPO to be used for charitable/religious purposes in India, the cost of such asset shall also be counted as "application" for the purposes of Section 341(1). However, as discussed subsequently, in such case the depreciation of such asset shall not be counted towards application.*

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## ILLUSTRATION 5

*VPS Foundation, a charitable institution registered under section 332 set up on 1st August 2023 is engaged in providing education in sports management. The Foundation follows accrual basis of accounting and during the tax year 2026-27, has accrued staff's salary expenses pertaining to the month of March 2027 amounting to ₹ 5 lakhs. The salary was paid during the first week of April 2027. KS, the tax advisor of the foundation has advised them that the salary expenses provided for in the accounts will not be treated as an application of income for the tax year 2026-27. Examine.*

## SOLUTION

Section 341(1)(a) provides that any sum payable by an RNPO shall be considered as an application of income only in the tax year in which such sum is actually paid by it. This is irrespective of the tax year in which the liability to pay such sum is incurred by the institution according to the method of accounting regularly employed by it. Therefore, the tax advisor's statement is correct.

(b) 85% of the sum paid by way of donation **(other than corpus donation)** made to any other registered non-profit organisation.



***Circular No. 3/2024 dated 06.03.2024***

The CBDT has, *vide* Circular No. 3/2024 dated 06.03.2024, reiterated that eligible donations made by a trust/institution to another trust/institution shall be treated as application for charitable or religious purposes only to the extent of 85% of such donations.

It means that when an RNPO donates ₹ 100 to another RNPO, it will be considered to have applied only 85% (₹ 85) for the purpose of charitable or religious activity.

It is clarified that under section 343, 15% (₹ 15) of such donations by the donor RNPO shall not be required to be invested in specified modes under section 350 as the entire amount of ₹ 100 has been donated to the other RNPO.

This is illustrated by the following example where Trust 1, Trust 2 and Trust 3 are Registered Non-profit Organisations. Further, Trust 1 is making non corpus donation to Trust 2 and Trust 2 is further making non corpus donation to Trust 3.

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| S. No | Particulars | Trust 1 | | Trust 2 | | Trust 3 | |
|---|---|---|---|---|---|---|---|
| 1. | Income (A) | 300 | | 100 | | 100 | |
| 2. | Income which is required to be applied (B = 85% of A) | | 255 | | 85 | | 85 |
| 3. | **Application of income** | | | | | | |
| 4. | Donation to other trusts (C) | 100 | | 100 | | | Nil |
| 5. | Amount to be considered as application of income against the donations at row no. 4 [as per Sec. 341(1)(b)] (D = 85% of C) | | 85 | | 85 | | |
| 6. | Balance amount available for application (E = A - C) | 200 | | Nil | | 100 | |
| 7. | Further Application required other than Sl. No. 4 (F = 85% of E) | | 170 | | Nil | | 85 |

**II. Other ways for considering income as application of Income [Section 341(2)]:** As per section 341(2), the application of income shall include -

(a) The **amount invested or deposited back** during the tax year in the corpus, where any sum had been applied for charitable or religious purpose in any earlier year from the corpus, if following conditions are satisfied:

(i) The amount is invested or deposited back in the modes permitted under section 350 maintained specifically for such corpus.

(ii) Such investment or depositing back is made **within five years from the end of the tax year in which such application of income was made** from the corpus.

(iii) The application of income from the corpus was made after the 31st March, 2021 and there was no violation of any provision of this Part, or any corresponding provision of the Income-tax Act, 1961 with respect to such application.

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**Corpus donations utilised by RNPO towards its objects shall not be treated as application of income [Section 341(4)]**

Corpus donations received by an RNPO are excluded from regular income, if the corpus donations are received with a specific direction from donor that they shall form part of the corpus and the said corpus contribution is invested in any of the modes permitted under section 350 maintained specifically for such corpus. [Section 338 and 339].

Therefore, any application made from corpus shall **not** be treated as application of income [Section 341(4)].

In this regards, Section 341(2)(a) provides that the amount not so treated as application of income, shall be treated as application for charitable or religious purposes in the tax year **in which the amount is invested or deposited back**, into one or more of the forms or modes specified in section 350 maintained specifically for such corpus, from the income of that year. This is subject to the satisfaction of following conditions:

i. RNPO invests or deposits back the amount into corpus **within 5 years** from the end of the tax year in which the application was made from the corpus.

ii. The application of income from corpus was made after 31.03.2021

iii. At the time of such application, there was no violation of any provision related with application of income i.e.

   (1) Application was in India.

   (2) Application was not by way of donation to the corpus of another RNPO.

   (3) TDS, if applicable, had been deducted on such application.

   (4) Application whereby payment or aggregate of payments made to a person in a day otherwise than through specified banking or online mode was not exceeding ₹ 10,000.

(b) The **amount repaid during the tax year towards any loan or borrowing**, where any sum had been applied for charitable or religious purpose in any earlier year out of such loan or borrowing, if following conditions are satisfied:

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(i) Such repayment is made **within five years** from the end of the tax year in which such application of income was made from the loan or borrowing and

(ii) The application of income from the loan or borrowing was made after the 31st March, 2021 and there was no violation of any provision of this Part, or any corresponding provision of the Income-tax Act, 1961 with respect to such application.

**Application out of loan/borrowings not to be treated as application of income**

Similar to application out of Corpus as discussed above, application from any loan or borrowing shall also not be treated as application of income for charitable or religious purposes [Section 341(4)].

Further similar to the case of corpus donation, section 341(2)(b) provides that the amount not so treated as application of income, shall be treated as application in the tax year in which the loan or borrowing is repaid from the income of that year to the extent of such repayment, subject to satisfaction of following conditions:

(i) Such repayment is **within 5 years** from the end of the tax year in which the application was made from the loan or borrowing.

(ii) The application of income from loan or borrowing was made after 31.03.2021.

(iii) At the time of such application, there was no violation of any provision related with application of income i.e.

(1) Application was in India.

(2) Application was not by way of donation to the corpus of another RNPO.

(3) TDS, if applicable, had been deducted on such application.

(4) Application whereby payment or aggregate of payments made to a person in a day otherwise than through specified banking or online mode was not exceeding ₹ 10,000.

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*As per section 341(4), an application from corpus, loan or borrowing, accumulated income, specified income or deemed accumulated income shall not be considered as application. The application from corpus or from loan/borrowing shall not be treated as application. However, the amount deposited back in the corpus and the amount of loan repaid is treated as application of income in the tax year of such deposit or repayment, subject to fulfilment of certain conditions.*

## ILLUSTRATION 6

*MSO Foundation, an RNPO is engaged in providing education in hotel management. The organization acquires a building in July 2026 for using the same for holding classes and office activities. It has approached you for your opinion on its eligibility to claim the cost of the building and also depreciation thereon in the current year and the subsequent year as application of income. Advise the institution indicating the reasons.*

*Would your advise change, if building has been acquired out of loan taken in July 2026 from bank, to be repaid in installments over a period of 7 years?*

## SOLUTION

For the purpose of section 341, application of the income can be for revenue or for capital purposes. As long as the expenditure is incurred out of income earned by the RNPO and for the purposes of carrying on the objects of the RNPO, it would be treated as application of income even if such expenditure is for capital purposes. Therefore, since the building is acquired by the organization for holding classes and office activities, which is for the purposes of carrying on the objects of the RNPO i.e., for providing education in hotel management, it can treat the cost of the building as application of income.

However, section 341(3)(a) provides that where the cost of building is claimed as application, its depreciation shall not be allowed as an application of income for the same or any other tax year.

**In case of Bank Loan**

If building has been acquired out of loan taken from bank, then, cost of building cannot be claimed as application. Repayment of loan would be treated as application in the year of repayment to the extent of amount repaid for a period

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of 5 years from the end of the tax year in which building was acquired. The repayment made within 5 years from the end of the tax year in which building was acquired i.e. upto 31.3.2032 would be eligible to be treated as application in the respective year of repayment. Repayment made thereafter i.e. from 1.4.2032 cannot be treated as application.

Alternatively, since cost of building is not claimed as application, depreciation on such building can be claimed as deduction. However, if deduction in respect of depreciation is claimed, then, it is possible to take a view that repayment of loan may not be eligible to be treated as application.

### 3.5.2 Claims not allowed as application [Section 341(3) and 341(4)]

As per section 341(3), the following claims shall not be allowed as application of income -

**(a)** **Depreciation:** Claim of deduction or allowance by way of depreciation or otherwise claimed in respect of an asset acquisition of which has been claimed as an application of income in the same or any other tax year under this Part or under any corresponding provision of the Income-tax Act, 1961, would not be allowed as application.

**(b)** **Set-off of excess application:** A claim of set off or deduction or allowance of any excess application of any of the years preceding the tax year would not allowed as application.

> No set off or deduction or allowance of any excess application of any of the year preceding the current tax year shall be allowed as application. For example, excess application in T.Y. 2025-26 cannot be treated as application of income for the T.Y. 2026-27.

**(c)** **Corpus donation to other RNPO:** Any sum paid as a corpus donation to any other registered non-profit organisation not allowed as application.

### 3.5.3 Deemed Application [Section 341(5) to 341(8)]

- Where in a tax year, the regular income applied by an RNPO towards charitable or religious purposes in India **is less than 85% of regular income**, the shortfall (or any part thereof) at the option of the RNPO, may be treated as **deemed application** for the original tax year. [Section 341(5)]

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- Any such deemed application shall be applied by the RNPO for its objects in India during the tax year as follows [Section 341(6)]:

| Reason of Shortfall | Tax year in which income is to be applied |
|---|---|
| Where such shortfall is for the reason that the whole or any part of the **income has not been received** during such tax year | During the tax year in which the income is received or in the tax year immediately succeeding such tax year |
| Where such **shortfall is for any other reason** | In the tax year immediately succeeding the tax year in which the income was derived |

- The application of income under section 341(1) shall include deemed application under section 341(5).
- **Procedural Formalities:** The option under section 341(5) shall be exercised in Form No. 108, on or before the due date specified in section 263(1) for furnishing the return of income for such tax year.




*During the tax year ending 31st March, 2027, an RNPO earned an income of ₹ 1,00,000 but it received only ₹ 60,000 in that year. The balance of ₹ 40,000 is received during the tax year 2027-28.*

| | ₹ |
|---|---|
| *Total income earned during the T.Y.2026-27* | *1,00,000* |
| *Amount needs to be applied during the T.Y.2026-27 being 85% of income* | *85,000* |
| *Less: Amount for which option of "Deemed Application" may be exercised (being the amount not received during the T.Y. 2026-27)* | *40,000* |
| *Amount which needs to be applied in the T.Y. 2026-27* | *45,000* |
| *Balance amount received in T.Y.2027-28 to be applied in the T.Y.2027-28 or T.Y.2028-29.* | *40,000* |

***Notes –***

*(1) Since ₹ 40,000, being the amount of deemed application is received during the T.Y. 2027-28, this can be applied in the T.Y.2027-28 or in the T.Y.2028-29.*

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*(2) The amount of deemed application i.e., ₹ 40,000 shall not be taken into account in calculating the application of income for the tax year in which the income is actually received i.e., T.Y. 2027-28 or during the immediately following tax year i.e., T.Y. 2028-29.*

*(3) Section 337 (Table Sl. No. 13) further provides that if any deemed application under section 341(5) is not actually applied by the RNPO for its objects in India within the period specified in section 341(6), the unapplied amount shall be treated as specified income of the RNPO for the tax year by which such application is required to be made.*

*Thus, if the amount of ₹ 40,000 received subsequently in the tax year 2027-28 is not applied to charitable purposes in the tax year 2027-28 or T.Y. 2028-29, it shall, by virtue of the provisions of section 337, be treated as specified income of the RNPO for the tax year 2028-29 and shall be taxable accordingly.*




*An RNPO receives a sum of ₹ 50,000 on 30th March, 2027. Its tax year ends on 31-3-2027.*

*It is obvious that it is almost impossible to apply the requisite sum within one day. Therefore, it has been provided that such sum can be applied at any time during the immediately following tax year i.e., up to 31-3-2028.*

### 3.5.4 Income from capital gains to be deemed as application of income [Section 341(9)]

(a) **Property held <u>wholly</u> for charitable or religious purposes:** If there is transfer of a capital asset, being property held under trust **<u>wholly</u>** for charitable or religious purposes and the whole or any part of the net consideration **is utilised for acquiring another capital asset** to be so held, following income from capital gains shall be deemed as application of income -

| | |
|---|---|
| If the whole of the net consideration is utilised in acquiring the new capital asset | the whole of such capital gain shall be deemed as application of income. |
| If only a part of the net consideration is utilised for acquiring the new capital asset | the excess of amount so utilised over the cost of the transferred asset shall be deemed as application of income. |

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*Original cost of capital asset transferred* ₹ *1,00,000*

*Consideration for which it is transferred* ₹ *1,50,000*

*Situation 1 Cost of new capital asset acquired* ₹ *1,50,000*

*Situation 2 Cost of new capital asset acquired* ₹ *1,20,000*

*Amount that will be deemed to have been applied for charitable purposes.*

*Situation 1* ₹ *50,000*

*Situation 2* ₹ *20,000 [Excess amount over cost of transferred asset (₹ 1,20,000 – ₹ 1,00,000)*

(b) **Property held <u>partly</u> for charitable or religious purposes:** If there is transfer of a capital asset, being property held under trust partly for charitable or religious purposes, only the "appropriate fraction" of the capital gain arising from the transfer shall be deemed to have been applied to charitable or religious purposes.

(I) Where the **whole of the net consideration is utilised** in acquiring the new capital asset, the **whole of the appropriate fraction** of such capital gain shall be deemed to have been so applied.

(II) In any other case, the amount deemed as application of income shall be so much of the appropriate fraction of the amount utilised for acquiring the new asset **as exceeds the appropriate fraction** of the cost of the transferred asset.

"Appropriate fraction" means the fraction which represents the extent to which the income derived from the capital asset transferred was applicable to charitable or religious purposes before such transfer.




*A capital asset is being held under trust. Two-thirds of the income derived from such capital asset are being utilised for the charitable purposes of the trust. The asset is being transferred.*

*Cost of transferred asset* ₹ *1,20,000*
*Appropriate fraction 2/3rd*

*Net consideration* ₹ *1,80,000*

*Cost of new asset acquired* ₹ *1,50,000*

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| | |
|---|---|
| *Capital gains [₹ 1,80,000 – ₹ 1,20,000]* | *₹ 60,000* |
| *Income represented by 'appropriate fraction' = 2/3rd of ₹ 60,000* | *= ₹ 40,000* |
| *Since the entire net consideration has not been utilised in acquiring the new asset, the amount deemed to have been utilised for charitable purpose will be (2/3rd of ₹ 30,000, being the difference between cost of new asset and cost of transferred asset)* | *= ₹ 20,000.* |

## 3.6 Accumulated Income (Section 342)

As discussed above, for the purpose of computation of "Taxable Regular Income" under section 336, both the amounts applied for charitable/ religious income under section 341 as well as amounts accumulated under section 342 are to be reduced from the regular income. While the provisions regarding "application" have been given in section 341 (discussed above), following are the provisions regarding "accumulation" as given in section 342.

(1) An RNPO may accumulate or set apart any part of its regular income during any tax year by furnishing a statement to the Assessing Officer in Form No. 109.

(2) In Form No. 109, the purpose and period for which the income is being accumulated or set apart, is required to be stated.

(3) This form is to be furnished on or before the due date specified in section 263(1) for furnishing the return of income for such tax year.

(4) Maximum period of accumulation cannot exceed five years and the accumulated income is required to be utilised for the purpose stated in the Form 109 within this period.




*The amount credited or paid by RNPO to any other registered non-profit organisation out of its income accumulated or set apart, shall not be treated as application of income.*

*The period during which the income is not applied for the purpose for which it is so accumulated or set apart* ***pursuant to an order or injunction of any court, shall be excluded*** *from the said period of five years.*

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(5) Till the accumulated amount is applied for the stated purposes, it shall be invested or deposited in any of the modes permitted under section 350.

(6) The RNPO may make an application to the Assessing Officer for the change of purpose for which income has been accumulated or set apart. The Assessing Officer may, on such an application, allow the RNPO to apply its income for such other charitable or religious purposes in India which are in conformity with its objects.

(7) Where an RNPO is dissolved, the Assessing Officer may, on an application made by such RNPO, allow application of such income to be made to any other RNPO for the year in which it is dissolved.




*If there is any violation of conditions related with accumulated income, the amount of violation shall be treated as specified income under section 337(discussed below).*

## ILLUSTRATION 7

A charitable institution registered under section 332 of the Income-tax Act, 2025 filled in Form No.109 for seeking permission to accumulate unapplied income under section 342 of the Act for the objects of the institution and submitted it to the Assessing Officer along with the resolution for accumulation. The Assessing Officer found that the objects for which accumulation was sought were not particularised in as much as they covered the entire range of objects of the institution. Can the Assessing Officer deny the benefit of accumulation in such a case?

## SOLUTION

Section 342 permits an RNPO to accumulate its unspent income where 85% of the income is not applied or is not deemed to have been applied to charitable or religious purposes in India during the tax year. The RNPO has to specify, in the statement furnished to the Assessing Officer, the purpose for which the income is being accumulated or set apart and the period for which such income is to be accumulated or set apart.

In the given case, the assessee institution sought the permission of the Assessing Officer to accumulate unapplied income for the objects of the institution. The institution had not stated any objects in particular for which the unspent income was sought to be accumulated or set apart. In *Bharat Krishak Samaj vs. Deputy*

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*Director of Income-tax (Exemption) (2008) 306 ITR 153 (Del.)*, it was held that it is not necessary for a charitable trust to particularize each and every object for which accumulation is sought. It is enough if the assessee seeks permission for accumulation for the objects of the trust. Therefore, the Assessing Officer cannot deny the benefit of accumulation in such a case.

### 3.7 Deemed Accumulated Income (Section 343)

The regular income, as reduced by the application of income as per the provisions of section 341 and accumulated or set apart income under section 342, to the extent of 15% of regular income, shall be considered as deemed accumulated income.

Where such deemed accumulated income is invested or deposited, it shall be invested or deposited in any of the modes permitted under section 350.

## 4. Specified Income of RNPO (Section 337)

The specified income of an RNPO shall mean the income as specified in the Table below. This income is taxable in the year provided therein the table. Further, as per section 334, "specified income" of an RNPO is taxed @ 30%.

| Sl. No. | Specified Income | Tax Year |
|---|---|---|
| 1. | **Anonymous donation:** Any anonymous donation received by an RNPO (excluding the anonymous donations up to ₹ 1,00,000 or 5% of the total donations received by it during the tax year, whichever is higher).<br>However, anonymous donation received by following RNPOs shall not be treated as Specified Income:<br>i. an RNPO created or established **wholly for religious purposes**, or<br>ii. an RNPO created or established **wholly for charitable and religious purposes.** However, if anonymous donation has been received with a specific direction that such donation is | Tax year in which such anonymous donation is received. |

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| | | |
|---|---|---|
| | for any university or other educational institution or any hospital or other medical institution run by such RNPO, such donation shall be treated as anonymous donation for the purposes of specified income determination)<br>**Meaning of "Anonymous donation"**<br>It means any voluntary contribution referred to in section 2(49)(c) (i.e., the definition of income), where a person receiving such contribution does not maintain a record of the identity indicating the name and address of the person making such contribution and such other particulars, as may be prescribed [Section 355(a)].<br>***Note -*** *For a numerical explanation of taxable amount in case of anonymous donation, refer the next table below.* | |
| **2.** | **Income applied for the benefit of any related person:** Any portion of income applied by it, for the benefit of any related person, computed in the manner, as prescribed in Rule 183. | Tax year in which such application is made. |
| **3.** | **Income applied outside India:** Any portion of income applied by it outside India in contravention to the provisions of section 338(a). | Tax year in which such application of income is made. |
| **4.** | **Investment or deposit made in contravention to section 350:** Any investment or deposit made in contravention to the provisions of section 350 out of any income, accumulated income, deemed accumulated income, corpus, deemed corpus, or any other fund. | Tax year in which such investment or deposit is made. |
| **5.** | **Deemed corpus donation:** Any deemed corpus donation in respect of which any of the conditions specified in section 340 is violated. | Tax year in which such violation is made. |

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| | | |
|---|---|---|
| **6.** | **Accumulated income applied for purposes other than for which it is accumulated:** Any portion of accumulated income, if it is applied to purposes other than charitable or religious purposes for which it is accumulated or set apart. | Tax year in which it is so applied. |
| **7.** | **Accumulated income ceases to be accumulated:** Any portion of accumulated income, if it ceases to be accumulated or set apart for application to such purposes as specified under section 342(1). | Tax year in which it ceases to be so accumulated or set apart. |
| **8.** | **Accumulated income not applied within the specified period for accumulation:** Any portion of accumulated income, if it is not applied as per the provisions of section 341(1) to (4) for which it is accumulated or set apart within the period for which it was accumulated or set apart as specified in section 342(1). | Last of the tax years for which income was so accumulated or set apart. |
| **9.** | **Accumulated income credited or paid to any other RNPO:** Any portion of accumulated income, if it is credited or paid to any other registered non-profit organisation. | Tax year in which it is so credited or paid. |
| **10.** | **Income applied to purposes other than charitable or religious purposes:** Any income applied to purposes other than charitable or religious purposes for which it is registered. | Tax year in which it is so applied. |
| **11.** | **Excess income with respect to business undertaking:** Any income determined by the Assessing Officer under section 344 in excess of income shown in the books of account of such business undertaking. | Tax year to which such income relates. |
| **12.** | **Asset not held in forms or modes specified under section 350:** Fair market value of any asset, where it is not held in | Tax year immediately following the expiry of one year from the end of |

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| | | |
|---|---|---|
| | forms or modes specified in paragraph 1(1) to (30) of Schedule XVI even after the expiry of one year from the end of the tax year in which such asset is acquired. | the tax year in which such asset is acquired. |
| **13.** | **Deemed application not actually applied by RNPO:** Any deemed application under section 341(5) not actually applied by the registered non-profit organization for its objects in India within the period specified in section 341(6). | Tax year specified in section 341(6) by which such application is required to be made. |

## Taxability of Anonymous donations [Section 337 (Table Sl. No. 1)]

The following table illustrates the calculation of anonymous donations liable to tax @30% under Table Sl. No. 1 above –

| I | II | III | IV | V | VI |
|---|---|---|---|---|---|
| **Situation** | **Total donations during the year (₹)** | **Anonymous donations received during the year (₹) (included in II)** | **Exclusion [5% of total donations or ₹ 1,00,000, whichever is higher] (₹)** | **Anonymous donations taxable@30 % (₹)** | **Donations to be treated as Regular Income (₹)** |
| A | 15,00,000 | 4,00,000 | 1,00,000 | 3,00,000 | 12,00,000 |
| B | 30,00,000 | 7,00,000 | 1,50,000 | 5,50,000 | 24,50,000 |
| C | 40,00,000 | 10,00,000 | 2,00,000 | 8,00,000 | 32,00,000 |

### ILLUSTRATION 8

*The following trusts claim that anonymous donations received by them during the tax year 2026-27 are not liable to tax as specified income under section 337:*

*(i) A charitable trust referred to in section 332 which applied the entire amount of anonymous donations for purposes of the trust during the relevant financial year.*

*(ii) A trust established wholly for religious purposes which applied 85% of the amount of anonymous donations for the purposes of the objects of the trust during the relevant financial year.*

*Examine the validity of the claim made by the trusts.*

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## SOLUTION

(i) Section 337 (Table SI. No. 1) provides that anonymous donation received by an RNPO, which is in excess of 5% of the total donations received by the RNPO or ₹ 1 lakh, whichever is higher, shall be treated as "specified income" of RNPO. As per section 334, all "specified income" of RNPO is taxed @30%.

The amount applied for the purposes of the RNPO can be claimed as deduction only against Regular Income and not against Specified Income.

Accordingly, the claim of the trust that entire anonymous donations received by them is not liable to tax, is not tenable.

Only the amount excluded from the anonymous donation i.e. of 5% of the total donations received by the RNPO or ₹ 1 lakh, whichever is higher, can be treated as Regular Income and amount applied by RNPO for charitable purposes can be claimed as deduction against this.

(ii) Section 337 (Table SI. No. 1) provides that the anonymous donations received by a RNPO created or established wholly for religious purposes shall not be treated as specified income. Accordingly, for the trust established wholly for religious purposes, anonymous donations received by it shall not be treated as "specified Income" but shall be treated as "regular income". Since 85% of this amount has been applied for the purposes of the objects of the trust, nothing would be taxable for the trust.

## ILLUSTRATION 9

*An RNPO registered under section 332 of the Income-tax Act, 2025 for the tax year ended 31 March 2027, filled in Form No.109 for seeking permission to accumulate unapplied income for a period of five years under section 342 of the Act for the objects of the institution and submitted it to the Assessing Officer along with the resolution for accumulation. The RNPO could not utilise the accumulated income within the period of five years. Examine the consequences of the same for the RNPO with regards to the accumulated income.*

## SOLUTION

Section 337 (Table SI. No. 8) provides for consequences when an assessee registered under section 332 fails to apply any portion of accumulated income within the period for which it has been accumulated.

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In this regard, the RNPO has not utilised the accumulated income of T.Y. 2026-27 within a period of five years as specified in Form 109. Hence, by virtue of section 337, the said income will be treated as "specified income" of the charitable institution of the tax year, being the last tax year of the period for which the income accumulated is not utilised. Hence, the said income will be taxable as "specified income" in the 5th year as it is the last tax year of the period of accumulation. As per section 334, specified income of an RNPO is taxed @30%.

### Income Applied for the benefit of any related person [Section 337 (Table Sl. No. 2) read with (Rule 183)]

As per section 337 [Table: Sl. No. 2] discussed above, if any income of RNPO is applied directly or indirectly for the benefit of any related person during the tax year, is treated as "Specified Income" of the RNPO.

As per rule 183(1), income shall be treated as applied for the benefit of a related person in following circumstances:

(a) **Loan without adequate interest or adequate security -** If any part of the income or the property of the RNPO is or continues to be lent to any related person for any period during the tax year without either adequate security or adequate interest or both.

(b) **Allowing use of property without adequate rent -** If any land, building or other property of the RNPO is or continues to be, made available for the use of any related person for any period during the tax year without charging adequate rent or other compensation.

(c) **Excess payment for services -** If any amount is paid by way of salary, allowance or otherwise to any of the related persons out of the resources of the RNPO for services rendered by that person to such RNPO but such amount is in excess of a reasonable sum payable for such services.

(d) **Inadequate consideration for services rendered -** If the services or goods or both are made available by the RNPO to any related person during the tax year without adequate consideration or other compensation.

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(e) **Excess payment for purchase of property -** If any share, security or other property is purchased by or on behalf of the RNPO from any related person during the tax year for a consideration which is more than adequate.

(f) **Inadequate consideration for property sold -** If any share, security or other property is sold by or on behalf of the RNPO to any related person during the tax year for a consideration which is less than adequate.

(g) **Diversion of income or property exceeding ₹ 1,000 -** If any income or property of the RNPO, where the value of such income or property exceeds ₹ 1,000, is diverted during the tax year in favour of any related person.

(h) **Investment in substantial interest concerns** - If any funds of the RNPO are, or continue to remain invested for any period during the tax year in any concern in which any related person has a substantial interest.

As per Rule 183(2), the specified income in above circumstances shall be the value of any benefit or facility granted or provided free of cost or at concessional rate to the related person.

**Meaning of Related Person [Section 355(h)]**

For the purpose of Table Sl. No. 2 of section 337 read with rule 183 discussed above, the following persons shall be treated as "Related Person":

(1) The author or the founder of the RNPO.

(2) Any person whose total contribution to the RNPO, during the relevant tax year exceeds ₹ 1 lakh, or, in aggregate up to the end of the relevant tax year exceeds ₹ 10 lakh rupees, as the case may be.

(3) Where the author, founder or the person is a HUF, any member of the family.

(4) Any trustee or manager (by whatever name called) of the RNPO.

(5) Any relative of any such author, founder, member of HUF, trustee or manager as referred above.

(6) Any concern in which any of the persons referred to in clauses (1) to (5) except (2) above has a substantial interest.

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## Meaning of Relative [Section 355(i)]

The term "relative", in relation to an individual, means –

(a) spouse of the individual;

(b) brother or sister of the individual;

(c) brother or sister of the spouse of the individual;

(d) any lineal ascendant (maternal or paternal) or descendant of the individual;

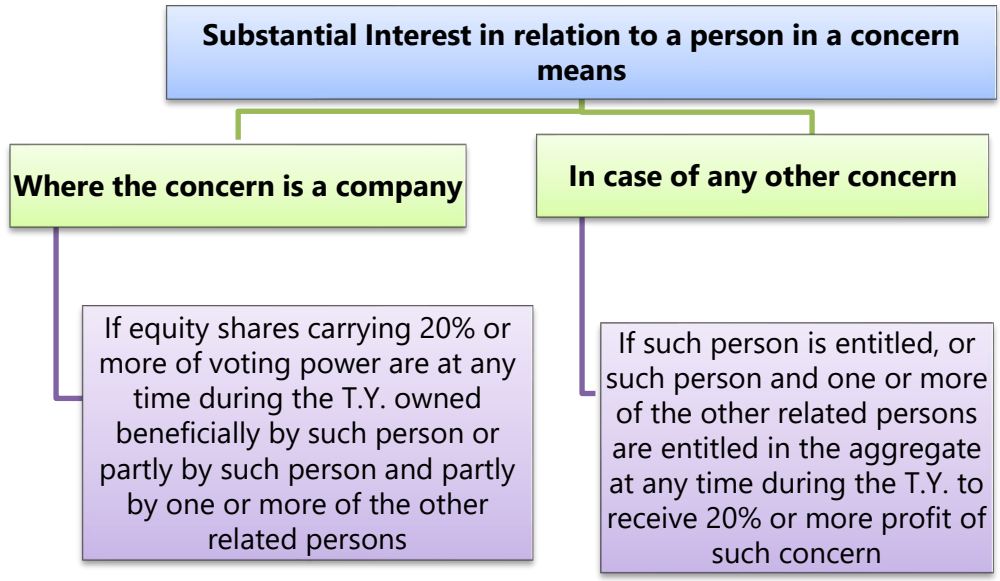
(e) any lineal ascendant (maternal or paternal) or descendant of the spouse of the individual;

(f) spouse of a person referred to in (b), (c), (d) or (e) above;

(g) any lineal descendant of a brother or sister of either the individual or of the spouse of the individual;

## Meaning of Substantial Interest [Section 355(n)]

For above provisions, substantial interest in a concern is defined as follows:




### ILLUSTRATION 10

*SR Trust is a registered non-profit organisation under section 332. During the T.Y. 2026-27, the trust had applied ₹ 5 lakh for the benefit of the trustee and*

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*₹ 3 lakhs for the benefit of Mr. Satish, who has donated ₹ 15 lakh to the trust upto 31.3.2026. Also, an amount of ₹ 2 lakh set apart in the T.Y. 2023-24 by the trust for charitable purposes has been utilized in the T.Y. 2026-27 for making donation to another registered charitable trust with similar object as SR Trust. What is the amount of "specified income" liable to tax@30% under section 337 for T.Y. 2026-27?*

**SOLUTION**

Section 337 provides for levy of tax @ 30% on "specified income" of a RNPO. "Specified income" includes income which has been applied for the benefit of "related persons".

Related Person includes, *inter alia*, trustee of the RNPO and a person who has made substantial contribution to the trust (i.e., whose total contribution during the relevant T.Y. exceeds ₹ 1 lakh or in aggregate upto the end of relevant tax year is more than ₹ 10,00,000).

Specified income also include amount paid to another RNPO out of accumulated income.

Accordingly, "specified income" of SR Trust liable to tax@30% under section 337 for T.Y. 2026-27 would be ₹ 10 lakh [₹ 5 lakh (amount applied for the benefit of the trustee) + ₹ 3 lakh (amount applied for the benefit of Mr. Satish) + ₹ 2 lakh (donation made to another trust out of accumulated income of an earlier tax year].

### 5. Residual Income of RNPO

As per Section 334, while "specified income" of an RNPO is taxed @ 30%, its "taxable regular income" and "residual income" is taxed at the applicable rates.

In this context, "residual income" has been defined by section 355(j) to mean the total income without giving effect to the provisions of this part (Part B of Chapter XVII), as reduced by regular income and specified income.

## III. Commercial activities by registered non-profit organization

A registered non-profit organization (RNPO) may carry out a commercial activity only when certain conditions are fulfilled. Following are the conditions which are to be fulfilled in this regard by different types of RNPOs:

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| Type of RNPO | RNPO, carrying out advancement of any other object of general public utility (Section 346) | Other RNPO (Section 345) |
|---|---|---|
| **Conditions to be fulfilled for commercial activities** | An RNPO, carrying out advancement of any other object of general public utility, may carry out a commercial activity only if following conditions are fulfilled -<br>(a) such commercial activity is undertaken in the course of actual carrying out of advancement of any object of the general public utility.<br>(b) the aggregate receipts from such commercial activity or activities do not exceed 20% of the total receipts of such RNPO of the relevant tax year; and<br>(c) separate books of account are maintained for such activities. | An RNPO (other than an RNPO mentioned in section 346) may carry out a commercial activity only if following conditions are fulfilled -<br>(a) such commercial activity is incidental to the attainment of the objectives of the RNPO and<br>(b) separate books of account are maintained for such activities.<br>**For example:** An RNPO having promotion of Yoga as its objects, may sell Yoga Mats etc. as this is incidental to the attainment of its objectives. Separate books of accounts would be required to be maintained for this activity. |

## Business Undertaking held as Property [Section 344]

Section 344 provides that where the property held by an RNPO includes a business undertaking, and where a claim is made that the income of any such undertaking is eligible for benefits under this Part, then the Assessing Officer shall have the power to determine the income of such business undertaking as per the provisions of this Act.

Section 337 (Table Sl. No.11) further provides that any income determined by the Assessing Officer under section 344 in excess of income shown in the books of account of such business undertaking shall be treated as "specified income" of the RNPO.

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## Meaning of Commercial Activity [Section 355(e)]

"Commercial activity" means any activity

- in the nature of trade, commerce or business,
- or any activity of rendering any service in relation to any trade, commerce or business,

for a cess or fee or any other consideration, irrespective of the nature of use or application, or retention, of the income from such activity.

### ILLUSTRATION 11

*NSN, a charitable educational trust approved under section 332 is running a school. It operates a stationery shop outside the school campus. A sum of ₹ 75 lakhs has been derived as net income from such business activity, which has been applied towards the objectives of the trust in providing education. The trust maintains separate books of accounts for the business activity. Examine the taxability of application of the income, if the income so derived relates to the tax year 2026-27.*

### SOLUTION

The trust objective of providing education is a charitable purpose as per section 2(23). The trust in the given case runs a stationery shop business, whose income is applied towards the objectives of the trust. In this case, the business income from the stationery shop will be treated as Regular Income of the trust, if such business is incidental to the attainment of the objectives of the trust and separate books of account are maintained in respect of such business.

Therefore, in the given case, the profit from the business shall be part of regular income under section 335, assuming that the said business is incidental to the attainment of the objects of the trust (i.e., education) and books of account for such business activity is maintained separately. If 85% of more of regular income has been applied by the trust for charitable or religious purposes as per the provisions of Chapter XVII-B, nothing would be taxable in the hands of the trust.

## Advancement of any other object of general public utility

The definition of "charitable purpose" in section 2(23) includes "advancement of any other object of general public utility". The question arises as to what is an object of "general public utility"? This expression has not been defined anywhere in the Act.

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In *CIT v. Gujarat Maritime Board (2007) 295 ITR 561*, the Supreme Court observed that the Gujarat Maritime Board was established for the predominant purpose of development of minor ports within the State of Gujarat, the management and control of the Board was essentially with the State Government and there was no profit motive. The assessee, Gujarat Maritime Board, was under a legal obligation to apply its income which was directly and substantially from the business held under trust for the development of minor ports in Gujarat. Therefore, the Supreme Court held that the assessee was entitled to be registered as "charitable trust" under section 332.

A number of entities functioning on commercial basis may claim special treatment under chapter XVII-B on the foundation that they are charitable institutions. This is based on the contention that they are engaged in the "advancement of an object of general public utility" as is included in the clause (g) of the definition of "charitable purpose". However, such a claim in respect of an activity carried out on commercial basis, goes against the basic intention of the provision.

In order to limit the benefits of this part getting extended to commercial activities under the shelter of "advancement of any other object of general public utility", section 346 provides that an RNPO, carrying out advancement of any other object of general public utility, may carry out a commercial activity only if following conditions are fulfilled–

(1) such commercial activity is undertaken in the course of actual carrying out of such advancement of any other object of general public utility; **and**

(2) the aggregate receipts from such activity or activities, during the relevant tax year, **does not exceed 20% of the total receipts**, of the RNPO undertaking such activity or activities.

## Consequences of Violation

In case there is violation of section 345, this shall be treated as "Specified violation" under section 351.In case there is violation of section 346, this shall be treated as "Other violation" under section 353.

Provisions related with both the above types of violations are discussed later under the heading "Violations".

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## IV. Compliances by RNPO

Sub-part 4 of Chapter XVII-B lists following 4 compliances for an RNPO:

1. Books of Accounts (Section 347)
2. Audit (Section 348)
3. Return of Income (Section 349)
4. Permitted mode of Investments (Section 350)

These provisions are discussed hereunder:

### 1. Books of account (Section 347)

Where the total income of an RNPO, without giving effect to the provisions of this Part, exceeds the maximum amount which is not chargeable to income-tax in any tax year, such RNPO is required to keep and maintain certain books of account and other documents. The form, manner and place of maintenance of these books and documents is prescribed under Rule 187.

**Meaning of "Books of Accounts"**

The term "books or books of account" as defined in section 2(19) includes ledgers, day-books, cash books, account-books and other books, **whether kept -**

(a) **in the written form or**

(b) **in electronic or any digital form, or on cloud based storage, or on any electromagnetic data storage device,** such as floppy, disc, tape, portable data storage device, external hard drives, or memory cards; or

(c) **as print-outs of data** stored in electronic or digital form or on storage devices mentioned in sub-clause (b)

**Prescribed books of account and documents**

As per Rule 187, every RNPO which is required to keep and maintain books of account and other documents under section 347 shall keep and maintain the following-

(a) books of account, including the following, namely: -

(i) cash book;

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(ii) ledger;

(iii) journal;

(iv) copies of bills, whether machine numbered or otherwise serially numbered, wherever such bills are issued by the assessee, and copies or counterfoils of machine numbered or otherwise serially numbered receipts issued by the assessee;

(v) original bills wherever issued to the person and receipts in respect of payments made by the person;

(vi) any other book that may be required to be maintained in order to give a true and fair view of the state of the affairs of the person and explain the transactions effected;

(b) books of account, as referred in clause (a), for business undertaking referred in section 344;

(c) books of account, as referred in clause (a), for business carried on by the assessee other than the business undertaking referred in section 344;

(d) other documents for maintaining,

(i) record of all the projects and institutions run by the person containing details of their name, address and objectives

(ii) record of income of the person during the tax year, in respect of-

(I) charitable or religious activity, for which it is registered;

(II) any property, deposit or investment held by such registered non-profit organization;

(III) voluntary contributions received;

(IV) any commercial activity permissible under sections 344, 345 and 346;

(V) specified income, as referred to in section 337; and

(VI) residual income as referred in section 355(j)

(iii) record of the following, out of the income of the person during the tax year, namely:-

I. application of income, in India, containing details of amount of application, name and address of the person to whom any credit

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or payment is made and the object for which such application is made.

II. amount credited or paid to any registered non-profit organisation, containing details of their name, address, permanent account number and the object for which such credit or payment is made.

III. application of income outside India containing details of amount of application, name and address of the person to whom any credit or payment is made and the object for which such application is made.

IV. deemed application of income referred to in section 341(5) containing details of the reason for availing such deemed application.

V. income accumulated or set apart as per the provisions of section 342(1) which has not been applied or deemed to be applied containing details of the purpose for which such income has been accumulated.

VI. money invested or deposited in the forms and modes referred to in section 350.

VII. money invested or deposited in the forms and modes other than those referred to in section 350.

(iv) record of the following, out of the income of the person of any tax year preceding the current tax year, namely -

(I) application out of the income accumulated or set apart containing details of year of accumulation, amount of application during the tax year out of such accumulation, name and address of the person to whom any credit or payment is made and the object for which such application is made;

(II) application out of the deemed application of income referred in section 341(5), for any preceding tax year, containing details of year of deemed application, amount of application during the tax year out of such deemed application, name and address of the person to whom any credit or payment is made and the object for which such application is made;

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(III) application, other than the application referred in items (I) and (II), out of income accumulated during any preceding tax year containing details of year of accumulation, amount of application during the tax year out of such accumulation, name and address of the person to whom any credit or payment is made and the object for which such application is made;

(IV) money invested or deposited in the forms and modes specified in section 350;

(V) money invested or deposited in the forms and modes other than those specified in section 350;

(v) record of donations made with a specific direction that they shall form part of the corpus, in respect of-

(I) the donations received during the tax year containing details of name of the donor, address, Permanent Account Number (if available) and Aadhaar number (if available);

(II) application out of such donations referred to in item (I) containing details of amount of application, name and address of the person to whom any credit or payment is made and the object for which such application is made;

(III) amount credited or paid towards corpus to any registered non-profit organisation, out of such donation received during the tax year containing details of their name, address, Permanent Account Number and the object for which such credit or payment is made;

(IV) the forms and modes referred to in section 350 in which such voluntary contribution, received during the tax year, is invested or deposited;

(V) money invested or deposited in the forms and modes other than those referred to in section 350 in which such donation, received during the tax year, is invested or deposited;

(VI) application out of such donation, received during any tax year preceding the tax year, containing details of the amount of application, name and address of the person to whom any credit or payment is made and the object for which such application is made;

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(VII) amount credited or paid towards corpus to any registered non-profit organisation, out of such donation received during any tax year preceding the tax year, containing details of their name, address, Permanent Account Number and the object for which such credit or payment is made;

(VIII) the forms and modes referred to in section 350 in which such voluntary contribution, received during any tax year preceding the tax year, is invested or deposited;

(IX) money invested or deposited in the forms and modes, other than those referred to in section 350 in which such voluntary contribution, received during any tax year preceding the tax year, is invested or deposited; and

(X) amount invested or deposited back into a donation (which was applied during any preceding tax year and not claimed as application) including details of the forms and modes referred to in section 350 in which such voluntary contribution is invested or deposited;

(vi) record of donations received for the purpose of renovation or repair of temple, mosque, gurdwara, church or other place notified under section 133(1)(b)(vi) which is being treated as corpus as referred to in section 340, in respect of, -

(I) the donations received during the tax year containing details of name of the donor, address, Permanent Account Number (if available) and Aadhaar number (if available);

(II) donation received during any tax year preceding the tax year, treated as corpus during the tax year, containing details of name of the donor, address, Permanent Account Number (if available) and Aadhaar number (if available);

(III) application out of such donation referred to in items (I) and (II) containing details of amount of application, name and address of the person to whom any credit or payment is made and the object for which such application is made;

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(IV) amount credited or paid towards corpus to any registered non-profit organisation, out of such donation received during the tax year containing details of their name, address, Permanent Account Number and the object for which such credit or payment is made;

(V) the forms and modes referred to in section 350 in which such corpus, received during the tax year, is invested or deposited;

(VI) money invested or deposited in the forms and modes other than those referred to in section 350 in which such corpus, received during the tax year, is invested or deposited;

(VII) application out of such corpus, received during any tax year preceding the tax year, containing details of amount of application, name and address of the person to whom any creditor payment is made and the object for which such application is made;

(VIII) amount credited or paid towards corpus of any registered non-profit organisation, out of such donation received during any tax year preceding the tax year, containing details of their name, address, Permanent Account Number and the object for which such credit or payment is made;

(IX) the forms and modes referred to in section 350 in which such corpus, received during any tax year preceding the tax year, is invested or deposited; and

(X) the money invested or deposited in the forms and modes other than those referred to in section 350 in which such corpus, received during any tax year preceding the tax year, is invested or deposited;

(vii) record of loan and borrowings-

(I) containing information regarding amount and date of loan or borrowing, amount and date of repayment, name of the person from whom was loan taken, address of lender, Permanent Account Number and Aadhaar number (if available) of the lender;

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(II) application out of such loan or borrowing containing details of amount of application, name and address of the person to whom any credit or payment is made and the object for which such application is made;

(III) application out of such loan or borrowing, received during any tax year preceding the tax year, containing details of amount of application, name and address of the person to whom any credit or payment is made; and

(IV) repayment of such loan or borrowing (which was applied during any preceding tax year and not claimed as application) during the tax year

(viii) record of properties held by the assessee, with respect to the following:

(I) immovable properties containing details of -

(A) nature, address of the properties, cost of acquisition of the asset, registration documents of the asset; and

(B) transfer of such properties, the net consideration utilised in acquiring the new capital asset; and

(II) movable properties including details of the nature and cost of acquisition of the asset;

(ix) record of related person as referred to in section 355(h),

(I) containing details of their name, address, Permanent Account Number and Aadhaar number (if available);

(II) transactions undertaken by the registered non-profit organisation with related personas referred to in section 355(h) containing details of date and amount of such transaction, nature of the transaction and documents to the effect that such transaction is, directly or indirectly, not for the benefit of such specified person; and.

(x) any other documents containing any other relevant information

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### Place of maintenance of books of account and other documents [Rule 187(3 & 4)]

The books of account and other documents shall be kept and maintained by RNPO at its registered office.

Such books of accounts may be kept at such other place in India as the management may decide by way of a resolution and where such a resolution is passed, the RNPO must, within seven days thereof, intimate the jurisdictional Assessing Officer in writing giving the full address of that other place and such intimation shall be duly signed and verified by the person who is authorized to verify the return of income.

### Time period [Rule 187(5)]

These books of account and other documents shall be kept and maintained for a period of 6 years from the end of the relevant tax year.

However, where the assessment in relation to any tax year has been reopened under section 279, the books of account and other documents which were kept and maintained at the time of reopening of the assessment shall continue to be so kept and maintained till the assessment so reopened has become final.

## 2. Audit (Section 348)

Where the total income of an RNPO, without giving effect to the provisions of this Part, exceeds the maximum amount which is not chargeable to income-tax in any tax year, the accounts of such RNPO for that tax year are required to be audited by an accountant and the person in receipt of the income shall be required to furnish a report of an audit of such income by such date in the prescribed form, duly signed and verified by such accountant.

As per Rule 188, the audit report is to be furnished in Form No. 112, **one month prior to the due date of furnishing the return of income** under section 263(1).

## 3. Return of income (Section 349)

Where the total income of an RNPO, without giving effect to the provisions of this Part, exceeds the maximum amount which is not chargeable to income-tax in any tax year, it is required to furnish the return of income for that tax year within the time limit allowed under section 263(1)(c) or under section 263(4) i.e., belated return.

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**Consequences of Violation**

In case there is a violation of section 347 (books of account), Section 348 (Audit) or Section 349 (return of income), this shall be treated as "Other violation" under section 353. Provisions of section 353 are discussed later under the heading "Violations".

## 4. Permissible Modes of Investments (Section 350)

As per section 350, the permissible modes of investing or depositing the money for an RNPO is as specified -

- in Schedule XVI
- by the Central Government, by notification

**Modes of investment specified in Schedule XVI**

(1) Investment in Government Saving Certificates or any other securities or certificates issued by the Government under Small Savings Scheme.

(2) Deposits with Post Office Savings Banks.

(3) Deposit with Scheduled banks or Co-operative Banks.

(4) Investment in units of the Unit Trust of India.

(5) Investment in Central or State Government Securities.

(6) Investments in debentures issued by or on behalf of any company or corporation. However, both the principal and interest thereon must have been guaranteed by the Central or the State Government.

(7) Investment or deposits in any public sector company.

Where an investment is made in the shares of any public sector company and such public sector company ceases to be a public sector company, the investment so made shall be deemed to be an investment made for a period of three years from the date of such cessation and in the case of any other investment or deposit, till the date of its maturity.

(8) Investment in bonds of approved financial corporation providing long term finance for industrial development in India and eligible for deduction under section 32(e).

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(9) deposits with or investment in any bonds issued by a public company formed and registered in India with the main object of carrying on the business of providing long-term finance for construction or purchase of houses in India for residential purposes and which is eligible for deduction under section 32(e).

(10) Deposits with or investment in any bonds issued by a public company formed and registered in India with the main object of carrying on the business of providing long-term finance for urban infrastructure in India.

"Long-term finance" means any loan or advance where the terms under which moneys are loaned or advanced provide for repayment along with interest thereof during a period of not less than five years.

"Urban infrastructure" means a project for providing potable water supply, sanitation and sewerage, drainage, solid waste management, road, bridges and flyovers or urban transport.

(11) Investment in immovable property.

(12) Deposits with Industrial Development Bank of India.

(13) Investments in units issued under any scheme of mutual fund referred to in schedule VII (Table SI. No. 20 or 21).

(14) Any transfer of deposits to Public Account of India;

(15) Deposits made with an authority constituted in India or under any law enacted either for the purpose of dealing with and satisfying the need for housing accommodation or for the purpose of planning, development or improvement of cities, towns and villages, or for both;

(16) investment by way of acquiring equity shares of a 'depository';

(17) investment made by a recognised stock exchange referred to in section 2(f) of the Securities Contracts (Regulation) Act, 1956 (herein referred to as investor) in the equity share capital of a company (herein referred to as investee) –

- which is engaged in dealing with securities or mainly associated with the securities market;
- whose main object is to acquire the membership of another recognised stock exchange for the sole purpose of facilitating the

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members of the investor to trade on the said stock exchange through the investee as per the directions or guidelines issued under the Securities and Exchange Board of India Act, 1992 by the Securities and Exchange Board of India established under section 3 of that Act; and

- in which at least 51% of equity shares are held by the investor and the balance equity shares are held by members of such investor;

(18) investment made by a person, authorised under section 4 of the Payment and Settlement Systems Act, 2007, in the equity share capital or bonds or debentures of a company -

- which is engaged in operations of retail payments system or digital payments settlement or similar activities in India and abroad and is approved by the Reserve Bank of India for this purpose; and
- in which at least 51% of equity shares are held by National Payments Corporation of India.

(19) investment made by a person, authorised under section 4 of the Payment and Settlement Systems Act, 2007, in the equity share capital or bonds or debentures of Open Network for Digital Commerce Ltd, being a company incorporated under section 7(2) read with section 8(1) of the Companies Act, 2013, for participating in network based open protocol models which enable digital commerce and interoperable digital payments in India;

(20) investment by way of acquiring equity shares of an incubatee by an incubator;

(21) investment by way of acquiring shares of National Skill Development Corporation;

(22) investment in debt instruments issued by any infrastructure finance company registered with RBI;

(23) investment in Stock Certificate as defined in of Sovereign Gold Bonds Scheme, 2015.

(24) investment by way of acquiring units of Powergrid Infrastructure Investment Trust.

(25) shares in a public sector company;

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(26) any assets held by the trust or institution where such assets form part of the corpus of the trust or institution as on the 1st June, 1973;

(27) any asset, being equity shares of a public company, held by any university or other educational institution or any hospital or other medical institution where such assets form part of the corpus of any University or other educational institution or any hospital or other medical institution as on the 1st June, 1998, where it was approved at that time under the provisions of section 10(23C) of the Income-tax Act, 1961;

(28) any accretion to the shares, forming part of the corpus mentioned in sub-paragraph (26) or (27), by way of bonus shares allotted to the trust or institution;

(29) any assets (being debentures issued by, or on behalf of, any company or corporation) acquired by the trust or institution before the 1st March, 1983;

(30) voluntary contributions received and maintained in the form of jewellery, furniture or any other article as the Board may, by notification specify;

(31) any asset, not being an investment or deposit in any of the forms or modes specified in sub-paragraphs (1) to (30), **where such asset is not so held up to one year from the end of the tax year** in which such asset is acquired;

(32) any funds representing the profits and gains of business, being profits and gains of any tax year relevant to the tax year commencing on the 1st April, 1984 or any subsequent tax year so, however, where it has any other income in addition to profits and gains of business, these provisions shall not apply unless it maintains separate books of account in respect of such business.

## V. Violations

Sub part 5 of Chapter XVII-B contains the cases which would constitute violations by a Registered Non-profit Organisation. The cases of violations are classified into two categories:

- Specified Violations [Section 351]
- Other Violations [Section 353]

The part also contains provisions regarding tax on "accreted income" where tax is levied at the maximum marginal rate.

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All these provisions are discussed below.

## 1. Specified Violations [Section 351]

### 1.1 What is a Specified Violation [Section 351(1)]

The following shall constitute specified violation by an RNPO:

(a) where any income of the RNPO **has been applied, other than for its objects**; or

(b) it carries out any **commercial activity in contravention of the provisions of section 345** or

(c) where it has applied any part of its total income for **private religious purposes**, which does not ensure for the benefit of the public; or

(d) where an RNPO, created or established after the commencement of this Act for charitable purpose, has applied any part of its income for the **benefit of any particular religious community or caste** other than the Scheduled Castes or the Scheduled Tribes or backward classes or women and children; or

(e) where any activity being carried out by the RNPO is **not genuine** or is not being carried out in accordance with all or any of the conditions subject to which it was registered; or

(f) the RNPO has **not complied with the requirements of any other law** as referred under section 332(7)(*a*) and the order, direction or decree, holding that such non-compliance has occurred, has either not been disputed, or has attained finality; or

(g) the application for its registration in section 332(1) contains any **false or incorrect information**.

### 1.2 Procedure by PCIT/CIT on noticing the violation [Section 351(2) & (3)]

The Principal Commissioner of Income-tax (PCIT) or Commissioner Income-tax (CIT) can cancel registration or provisional registration of an RNPO granted u/s. 332.

**Situations in which registration can be cancelled**

The registration can be cancelled in the following situations:

(a) the PCIT or CIT has **noticed occurrence of one or more specified violations** during any tax year;

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(b) the PCIT or CIT has **received a reference from the Assessing Officer** under section 270(13) for any tax year; or

(c) an RNPO's **case has been selected as per the risk management strategy** formulated by the Board for any tax year,

**Procedure for cancellation**

The PCIT or CIT shall:

i. **call for such documents or information from the RNPO**, or make such inquiry as he thinks necessary in order to satisfy himself about the occurrence of any specified violation.

ii. **pass an order in writing, cancelling the registration** of such RNPO for such tax year and all subsequent tax years, if he is satisfied that one or more specified violations have taken place. Such an order can be passed only after affording to RNPO a reasonable opportunity of being heard.

iii. **pass an order in writing, not cancelling the registration** of such RNPO, if he not satisfied about the occurrence of any specified violation.

iv. forward a copy of the order to the Assessing Officer and to such RNPO.

**Time limit for passing the order**

The order mentioned above shall be passed **before the expiry of six months from the end of the quarter** in which the first notice is issued by the Principal Commissioner or Commissioner, calling for any document or information, or for making any inquiry.

## 2. Other violations (Section 353)

As per section 353(1) following shall be treated as cases of "Other Violations" by an RNPO during any tax year -

(a) failure to maintain books of account under section 347; or

(b) failure to get books of account audited under section 348; or

(c) failure to furnish its return of income under section 349; or

(d) carrying out any commercial activity in contravention of the provisions of section 346 where RNPO is engaged in carrying out advancement of any other object of general public utility,

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In case of "Other Violations" by an RNPO, its regular income for such tax year shall be reduced by the expenditure referred to in section 353(3) and balance shall be treated as "taxable regular income" chargeable to tax at the applicable rate as per the provisions of section 334.

In this regard, section 353(2) further provides that irrespective of the provisions of section 338, any specified income and residual income of the registered non-profit organisation, which is not included in sub-section (1) shall also be chargeable to tax under the provisions of section 334.

As per section 353(3), the expenditure to be reduced from regular income in case of "other violations", shall be such expenditure which fulfil following conditions:

(a) expenditure is not a capital expenditure.

(b) such expenditure has been incurred in India.

(c) such expenditure is for the objects of the RNPO.

(d) such expenditure is not made from the corpus standing to the credit of the RNPO as on the end of the tax year immediately preceding tax year for which income is being computed.

(e) such expenditure is not out of any loan or borrowing.

(f) in case of claim of depreciation, it is not in respect of an asset, acquisition of which has been claimed as application of income, in any tax year.

(g) such expenditure is not in the form of any contribution or donation to any person.

(h) such expenditure is not on account of a payment or aggregate of payments made to a person in contravention to provisions of section 36(4) to 36(7) (Disallowance of expenditure exceeding ₹ 10,000 not made through specified banking or online mode)

(i) such payment is allowable under section 35(b)(i) (Disallowance of 30% of any sum payable to a resident when there is default with respect to TDS).

Section 353(4) clarifies that no set off or deduction or allowance of any application or expenditure shall be allowed, other than those referred to in sub-section (3).

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## ILLUSTRATION 12

*An institution having its main object as "advancement of general public utility" received ₹ 30 lakhs in aggregate during the T.Y.2026-27 from an activity in the nature of trade. The total receipts of the institution, including donations, was ₹ 140 lakhs. It applied 85% of its total receipts from such activity during the same year for its main object i.e., advancement of object of general public utility.*

*(i) What would be the tax consequence of such receipt and application thereof by the institution?*

*(ii) Would your answer be different if the institution's total receipts had been ₹ 150 lakhs (instead of ₹ 140 lakhs) in aggregate during the T.Y.2026-27?*

*(iii) What would be your answer if the main object of the institution is "relief of the poor" and the institution receives ₹ 30 lakhs from a trading activity, when its total receipts are ₹ 140 lakhs and applies 85% of the said receipts for its main object?*

## SOLUTION

(i) As the RNPO is carrying out "advancement of any other object of general public utility" and its aggregate receipts from commercial activities is ₹ 30 lacs exceeding 20% of its total receipts of ₹ 28 Lacs (being 20% of ₹ 140 Lacs), this is a case of "other violations" under section 353 read with section 346.

Accordingly, its taxable regular income shall be calculated as per section 353, after allowing all such expenditure which fulfil the conditions specified in section 353(3).

(ii) The aggregate receipts from commercial activities being not more than 20% of total receipts, there is no violation by the RNPO. Since 85% of the total receipts has been applied for the objects of the RNPO, no income shall be taxable for it.

(iii) Since RNPO is not carrying out "advancement of any other object of general public utility", the restrictions of section 346 are not applicable. Assuming there is compliance with section 345 i.e., trading activity is incidental to the attainment of the objectives of RNPO, and separate books of accounts have been maintained for such trading activity, there is no violation by the RNPO. Since 85% of the total receipts has been applied for the objects of the RNPO, no income shall be taxable for it.

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## VI. Tax on accreted income (Exit Tax) [Section 352]

The provisions of tax on accreted income are applicable on any person which is registered under section 332 of this Act or under section 12A/12AA/12AB or 10(23C) of the Income-tax Act, 1961, at any time since its incorporation or creation. These provisions are called "specified provisions" as defined under section 355(m) and the person so registered is called "specified person" as defined in section 355(l).

Every specified person in addition to the income-tax chargeable in respect of his total income, is liable to pay additional income-tax on "accreted income" in certain cases as specified in Table to section 352(4).

The tax on accreted income is payable at the Maximum Marginal Rate.

**Meaning of Maximum Marginal Rate**

As per section 2(70), "maximum marginal rate" means the rate of income-tax (including surcharge on income-tax) applicable in relation to the highest slab of income for an individual, association of persons or body of individuals, as specified in the Finance Act of the relevant year.

### Computation of Accreted Income

The accreted income shall be computed using the formula **A = B – C** where, -

| | |
|---|---|
| A = | Accreted income; |
| B = | Aggregate fair market value of the total assets of the specified person as on the specified date, computed in accordance with method of valuation prescribed in Rule 189. |
| C = | Total liability of such specified person as on the specified date, computed in accordance with method of valuation prescribed in Rule 189. |

The value of Assets and amount of liability is to be taken as on the "specified date". The "specified date" is given in the Table to Section 352(4) given below.

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## Specified assets and liabilities do not form part of Accreted Income

The accreted income computed as above shall be **reduced** by such amount of accreted income as is attributable to the specified assets and liabilities mentioned below.

As per section 355(k), **"Specified asset"** means any asset which is established to have been directly acquired by the specified person -

(i) out of its income of the nature referred to in Schedule II (Table: Sl. No. 1) i.e., agricultural income

(ii) during the period beginning from the date of its creation or establishment and ending on the date from which the registration under specified provision became effective, if the specified person has not been allowed any benefit –

- under chapter XVII-B of the Income-tax Act, 2025 or
- under sections 11 and 12 or section 10(23C)(iv) or (v) or (vi) or (via) of the Income-tax Act, 1961

during the said period,

(iii) has been transferred to any other specified person **within twelve months from the end of the month** in which the dissolution takes place in respect of a case specified below in Table: Sl. No. 9 in section 352(4).

## Payment of tax on accreted income

As per section 352(4), the specified person and the principal officer or trustee of such specified person shall be liable to pay the tax on accreted income to the credit of the Central Government **within fourteen days from the due date specified** in the Table in section 352(4).

## No credit available for tax paid on accreted income

The tax on accreted income shall be treated as final payment of tax in respect of such income for which no credit can be taken by, or any deduction be allowed to, the specified person or any other person in respect of the amount of tax so paid. [Section 352(5)]

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### Interest for non-payment of tax within prescribed time

In case of failure of payment of tax within the prescribed time, **a simple interest @1% p.m. or part** of it shall be applicable on the amount of tax on accreted income. Accordingly, interest would be computed in the following manner:

| **I = 1% of (T × P)** | |
|---|---|
| I = | Interest |
| T = | Tax on accreted income; and |
| P = | Number of months beginning on the date immediately after the last date on which such tax was payable and ending with the date on which the tax is actually paid including part thereof. |

### Circumstance when specified person is deemed to be assessee-in-default

The specified person and principal officer or the trustee of specified person shall be deemed to be assessee-in-default for non-payment of tax and all provisions related to the recovery of taxes shall apply.

Further, in the case of transfer of assets upon dissolution of the specified person to a recipient, which is not an RNPO, the recipient of assets shall also be liable to be held as assessee-in-default in case of non-payment of tax and interest.

However, in such a case, the recipient's liability shall be limited to the extent to which the assets received by him is capable of meeting the liability.

### Cases where Tax on Accreted Income is payable, Specified Date in relation thereto and due date of payment of tax [Table in section 352(4)

| **Sl. No. (A)** | **Case (B)** | **Specified date (C)** | **Due date for payment of tax (D)** |
|---|---|---|---|
| **Registration cancelled or withdrawn** | | | |
| 1 | The registration granted to the specified person under any specified provision has been cancelled or withdrawn **AND** the specified person has preferred an appeal against the order of cancellation. | The date of the order cancelling the registration. | Date of receipt of the order in appeal, confirming the cancellation of registration. |

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| | | | |
|---|---|---|---|
| 2 | The registration granted to the specified person under any specified provision has been cancelled or withdrawn **AND** the specified person has **not** preferred an appeal against such order. | The date of the order cancelling the registration. | The date on which the period for filing appeal against the order cancelling the registration expires. |
| **Modification of objects not in conformity of conditions of registration** | | | |
| 3 | The specified person has adopted or undertaken modification of its objects during any tax year where such modified objects do not conform to conditions of registration AND the specified person has **not** applied for fresh registration under any specified provision in such tax year. | The date of adoption or modification of objects. | The end of such tax year. |
| 4 | The specified person has adopted or undertaken modification of its objects in any tax year where such modified objects do not conform to conditions of registration **AND** the specified **person has applied for fresh registration** under any specified provision in such tax year.<br>However, such **application has been rejected AND appeal has been preferred** against such order of rejection where the rejection has been confirmed | The date of adoption or modification of any object. | Date of receipt of the order of appeal confirming cancellation of the registration |
| 5 | The specified person has adopted or undertaken modification of its objects in any tax year where such modified | The date of adoption or modification of any object. | The date on which the period for filing appeal against the order |

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| | | | |
|---|---|---|---|
| | objects do not conform to conditions of registration AND the specified person has applied for fresh registration under any specified provision in such tax year.<br>However, such application has been rejected AND **no appeal preferred against such rejection**. | | of cancelling the registration expires. |
| **Fails to make an application for registration** | | | |
| 6 | The specified person fails to make an application as required under section 332(3) (Table Sl. No. 3, 4, 5 or 7) or under section 10(23C) or 12A of the repealed Income-tax Act, 1961. | The last date for making application for registration. | The end of such tax year. |
| **Converted into a form not eligible for registration** | | | |
| 7 | Where a specified person converts itself into a form which is not eligible for grant of registration during any tax year. | The date of such conversion. | The end of such tax year. |
| **Merger** | | | |
| 8 | The specified person has merged with any other<br>a) entity other than an RNPO; or<br>b) RNPO having objects same or similar to it but the said merger does not fulfil prescribed conditions, or<br>c) any other RNPO that does not have same or similar objects.<br>In this regards, section 354A provides that where any RNPO merges with any other RNPO, | The date of merger. | The date of merger. |

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| | | | |
|---|---|---|---|
| | the provisions of section 352 shall not apply if, -<br>(a) the other RNPO has same or similar objects and<br>(b) the said merger fulfils prescribed conditions | | |
| **Failed to transfer its assets within specified time on dissolution** | | | |
| 9 | The specified person has failed to transfer upon dissolution, all its assets to any other RNPO within 12 months from the end of the month in which the dissolution takes place. | The date of dissolution. | The date on which such period of 12 months expires. |

## Method of valuation for the purposes of section 352 (Rule 189)

| Rule | Provision |
|---|---|
| (1) | The aggregate fair market value of the total assets of the RNPO, shall be the aggregate of the fair market value of all the assets in the balance sheet **as reduced by**—<br>(i) tax paid, and<br>(ii) any amount shown as asset including the unamortised amount of deferred expenditure which does not represent the value of any asset. |
| (2) | The fair market value of the asset shall be determined in the following manner, namely – |

| **(I) Shares and securities** | | | |
|---|---|---|---|
| **(a)** | **Quoted shares and securities** | (i) | the **average of the lowest and highest price of such shares and securities** quoted on a recognised stock exchange as on the specified date; or |
| | | (ii) | where on the specified date, there is **no trading** in such shares and securities on a recognised stock exchange, the **average of the lowest and highest price of such shares and securities on a recognised stock exchange on a date immediately preceding the specified date** when such |

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| | | | |
|---|---|---|---|
| | | | shares and securities were traded on a recognised stock exchange, |
| | **(b)** | **Unquoted equity shares** | $\frac{(A+B-L)\times(PV)}{PE}$<br>where,<br>A = book value of all the assets in the balance sheet (other than bullion, jewellery, precious stone, artistic work, shares, securities, and immovable property) as reduced by-<br>(i) tax paid; and<br>(ii) any amount shown in the balance sheet as asset including the unamortised amount of deferred expenditure which does not represent the value of any asset;<br>B = fair market value of bullion, jewellery, precious stone, artistic work, shares, securities and immovable property as determined in the manner provided in this rule;<br>L= book value of liabilities shown in the balance sheet, but not including the following amounts, namely: —<br>(i) representing contingent liabilities other than arrears of dividends payable in respect of the paid-up capital in respect of equity shares;<br>(ii) the amount set apart for payment of dividends on preference shares and equity shares;<br>(iii) reserves and surplus, by whatever name called, even if the resulting figure is negative, other than those set apart towards depreciation;<br>(iv) any amount representing provision for taxation, other than tax paid , to the extent of the excess over the tax |

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| | | | |
|---|---|---|---|
| | | | payable with reference to the book profits in accordance with the law applicable thereto;<br>(v) any amount representing provisions made for meeting liabilities, other than ascertained liabilities;<br>(vi) any amount of cumulative preference shares;<br>PE = total amount of paid up equity share capital as shown in the balance-sheet;<br>PV = the paid up value of such equity share. |
| | **(c)** | **Shares and securities other than equity shares** | The fair market value of shares and securities other than equity shares shall be estimated to be price it would fetch if sold in the open market on the specified date on the basis of the valuation report from a merchant banker or an accountant in respect of such valuation. |
| | **II. Immovable property** | | |
| | | | The fair market value of an immovable property shall be higher of the following:<br>(a) price that the property shall ordinarily fetch if sold in the open market on the specified date on the basis of the valuation report from a registered valuer; and<br>(b) stamp duty value as on the specified date. |
| | **III. A business undertaking** | | |
| | | | The fair market value of a business undertaking, held by a specified person, shall be its net assets determined in accordance with the following formula:<br>Fair market value = (A + B - L),<br>The value of A, B and L would be determined in the same manner as discussed above in the case of unquoted equity shares. |
| | **IV. Any other asset** | | |
| | | | The fair market value of any asset, other than those referred to in (I), (II) and (III), shall be the price that the asset shall ordinarily fetch if sold in the open market on the specified date on the basis of valuation report from a registered valuer. |

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| | | |
|---|---|---|
| | | However, in case no valuer is registered for valuation of such assets, the valuation report shall be obtained from a valuer who is a member of any one of the professional valuer bodies viz. Institution of Valuers, Institution of Surveyors (Valuation Branch), Institution of Government Approved Valuers, Practicing Valuers Association of India, the Indian Institution of Valuers, Centre for Valuation Studies, Research and Training, Royal institute of Chartered Surveyors; India Chapter, American Society of Appraisers, USA; Appraisal institute, USA or a valuer who is appointed by any public sector bank or public sector undertakings for valuation purposes. |
| (3) | The total liability of the specified person shall be the book value of liabilities in the balance sheet on the specified date but not including the following amounts, namely -<br>(i) capital fund or accumulated funds or corpus, by whatever name called;<br>(ii) reserves or surpluses or excess of income over expenditure, by whatever name called;<br>(iii) any amount representing contingent liability;<br>(iv) any amount representing provisions made for meeting liabilities, other than ascertained liabilities;<br>(v) any amount representing provision for taxation, other than tax paid to the extent of the excess over the income-tax payable with reference to the income in accordance with the law applicable thereto. | |
| **4** | **Meaning of certain terms** | |

| Term | Meaning |
|---|---|
| **Accountant** | It shall have the meaning as assigned to it in section 515(3)(b). |
| **Balance sheet** | The Balance Sheet of such specified person (including the notes annexed thereto and forming part of the accounts) as drawn up on the specified date which has been audited by an accountant. |
| **Quoted share or security** | A share or security quoted on any recognised stock exchange with regularity from time to time, where the quotations of such shares or securities are based on current transaction made in the ordinary course of business; |

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| | | |
|---|---|---|
| | **Stamp duty value** | The value adopted or assessed or assessable by any authority of the Central Government or a State Government for the purpose of payment of stamp duty in respect of an immovable property. |
| | **Tax Paid** | Any amount of income-tax paid as deduction or collection at source or as advance tax payment, as reduced by the amount of income-tax claimed as refund under the Act |
| | **Unquoted share and security** | Share or security which is not a quoted share or security. |

## VII. Application for approval for the purpose of section 133(1)(b)(ii)

### Conditions to be satisfied for seeking approval [Section 354(1)]

A registered non-profit organisation or a person referred to in Schedule VII (Table: Sl. No. 1)[4] may, for the purpose of section 133(*1*)(*b*)(*ii*), make an application for approval in such form and manner, as may be prescribed, to the Principal Commissioner or Commissioner, subject to the following conditions: -

(a) it is not expressed to be for the benefit of any particular religious community or caste;

(b) it is established in India for a charitable purpose and does not incur any expenditure of an amount exceeding 5% of its total income during a tax year which is of a religious nature;

(c) the instrument under which it is constituted does not, or the rules governing it do not, contain any provision for the transfer at any time of the whole or any part of its assets for any purpose other than a charitable purpose;

(d) it maintains regular accounts of its receipts and expenditure;

(e) it prepares such statement for such period, as may be prescribed, and deliver or cause to be delivered to the prescribed income-tax authority or the person authorised by such authority such statement in such form and

[4] *Entry at Sl. No. 1 of Schedule VII is excluded from the syllabus by way of study guidelines.*

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verified in such manner and setting forth such particulars and within such time, as may be prescribed;

(f) it delivers to the said prescribed authority, a correction statement for rectification of any mistake or to add, delete or update the information furnished in the statement delivered under clause (e) in such form and verified in such manner, as may be prescribed; and

(g) it furnishes a certificate to the donor specifying the amount of donation within such period from the date of receipt of the donation containing the requisite particulars in manner, as may be prescribed.

**Time Limits for filing application for approval [Section 354(2)]**

The application under sub-section (*1*) shall be made in respect of the cases referred to in column B of the Table below within the time limit provided in column C of the said Table and the Principal Commissioner or Commissioner, on receipt of such application, shall follow the procedure provided in sub-sections (*3*) and (*4*), and shall pass an order in writing within the time limit provided in column D and approval, if granted, shall be valid for a period provided in column E of the said Table.

| Sl. No. | Case | Time limit for furnishing application | Time limit for passing the order | Validity of approval |
|---|---|---|---|---|
| A | B | C | D | E |
| 1. | Where the activities of the applicant have not commenced. | At any time during the tax year from which approval is sought. | One month from the end of the month in which application is made. | Three tax years commencing from the tax year in which such application is made. |
| 2. | Where the activities of the applicant have commenced. | At any time during the tax year from which approval is sought. | Six months from the end of the quarter in which application is made. | Five tax years commencing from the tax year in which such application is made. |

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| | | | | |
|---|---|---|---|---|
| 3. | Where the applicant has provisional approval and activities have commenced. | Within six months of the commencement of activities. | Six months from the end of the quarter in which application is made. | Five tax years commencing from the tax year in which such application is made. |
| 4. | Where the provisional approval of the applicant is due to expire and activities have not commenced. | At least six months prior to the expiry of the provisional approval. | Six months from the end of the quarter in which application is made. | Five tax years following the tax year in which such application is made. |
| 5. | Where the period for approval of a registered non-profit organisation is due to expire. | At least six months prior to the expiry of the said approval. | Six months from the end of the quarter in which application is made. | Five tax years following the tax year in which such application is made. |

**Procedure for granting approval [Section 354(3)]**

Where an application has been made in any of the cases specified under sub-section (2) (Table: Sl. No. 2 to 5), the Principal Commissioner or Commissioner shall call for such documents or information or make such inquiries as he thinks necessary in order to satisfy himself about the genuineness of the activities, and compliance of such requirements of any other law in force, as are material for the purposes of achieving its objects, and -

(a) if he is so satisfied about the objects and the genuineness of the activities and compliance of such requirements of any other law in force, he shall pass an order in writing approving it; or

(b) if he is not so satisfied, after affording a reasonable opportunity of being heard, -

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(i) shall pass an order in writing rejecting the application, where the application was made in any of the cases specified in sub-section (*2*) (Table: Sl. No. 2); and

(ii) in any other case, shall pass an order in writing rejecting the application and also cancelling the approval,

and send a copy of the order to the applicant and the Assessing Officer.

**Pass an order in writing [Section 354(4)]**

Where an application has been made in any of the cases specified in sub-section (*2*) (Table: Sl. No. 1), the Principal Commissioner or Commissioner shall pass an order granting provisional approval.

## 10.4 TAXATION OF DISCRETIONARY TRUSTS

Section 307 deals with taxation of trustees of discretionary trusts. This section applies in the case of a representative assessee referred to in section 303(1)(c)/(d) in a case where:

- any income or part thereof is not specifically receivable on behalf of or for the benefit of any one person or
- where the individual shares of the persons on whose behalf or for whose benefit such income or such part thereof is receivable are indeterminate or unknown.

The representative assessees referred to in section 303(1)(c)/(d) are the Court of Wards, the Administrator General, the Official Trustee or any receiver or manager including any person whatever his designation who in fact manages the property on behalf of another, appointed by or under any order of a Court and a trustee appointed under a trust declared by a duly executed instrument in writing whether testamentary or otherwise (including any Wakf Validating Act, 1913).

Such a discretionary trust will be liable to tax at the maximum marginal rate of income-tax on their entire income.

However, following are the cases where the trust would not be taxed at the maximum marginal rate. The exceptions are as under:

(1) Where none of the beneficiaries has any other income chargeable to tax

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exceeding the maximum amount not chargeable to income-tax in the case of an AOP and none of the beneficiaries is a beneficiary under any other trust; or

(2) Where the relevant income or part of the relevant income is receivable under a trust declared by any person by a will and such trust is the only trust so declared under the will.

(3) the relevant income or part of relevant income is receivable under a trust created before 1.3.1970 by a non-testamentary instrument and the Assessing Officer is satisfied that the trust was so created bona fide exclusively for benefit of the dependent relatives of settlor or where the settlor is a HUF for the benefit of the members of such families in circumstances where such relatives or members are mainly dependent on the settlor for their support and maintenance.

(4) In cases where the relevant income is receivable by the trustee on behalf of provident fund, superannuation fund, gratuity fund, pension fund or any other fund created bona fide by a person carrying on a business or profession exclusively for the benefit of persons employed in such business or professions.

In the above four cases the income of the trust will not be taxed at the maximum marginal rate. The relevant income or part of relevant income will be taxable as if it were the total income of an AOP.

Where any income in respect of which a trustee appointed under a trust declared by a duly executed instrument in writing whether testamentary or otherwise, is liable as a representative assessee consists of, or includes, profits and gains of business, the above concessional treatment i.e. assessing the income at the rate applicable to an AOP will apply only if such profits and gains are receivable under a trust declared by any person by will exclusively for the benefit of any relative dependent on him for support and maintenance and such trust is the only trust so declared by him.

For the purposes of these provisions, a trust under which a discretionary power is given to the trustees to decide the allocation of the income every year or a right is given to the beneficiary to exercise the option to receive the income or not each year will all be regarded as discretionary trusts and assessed accordingly.

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This is made clear in section 307(5) which provides as under:

(a) Any income in respect of which the Court of Wards, the Administrator General, the Official Trustee, receiver, manager or trustee appointed under a trust declared by a duly executed instrument in writing (including Wakf deed) is liable as a representative assessee or any part thereof shall be regarded as not being specifically receivable on behalf or for the benefit of any person unless the person on whose behalf or for whose benefit such income or such part thereof is receivable during the tax year is expressly stated in the order of the Court or the instruments of trust or wakf deed, as the case may be, and is identifiable as such on the date of such order, instrument or deed.

(b) The individual shares of the person on whose behalf or for whose benefit such income or part thereof is receivable will be regarded as indeterminate or unknown unless the individual shares of such persons are expressly stated in the order of the court or the instrument of trust or wakf deed, as the case may be, and are ascertainable as such on the date of such order, instrument or deed.

This provision seeks to prevent trustees and beneficiaries from manipulating the arrangements in such a manner that a discretionary trust is converted into a specific trust whenever it suits them tax-wise.

## Taxation of Oral Trusts [Section 308]

Oral Trust is a trust which is not declared by a duly executed instrument in writing. As per section 308, any income which a trustee receives or is entitled to receive on behalf of or for the benefit of any person under an oral trust will be chargeable to income tax at the maximum marginal rate.

However, by virtue of section 303(2), such trust shall be deemed to be a trust declared by a duly executed instrument in writing if a statement in writing, signed by the trustee or trustees, setting out the purpose or purposes of the trust, particulars as to the trustee or trustees, the beneficiary or beneficiaries and the trust property, is forwarded to the Assessing Officer within three months from the date of declaration of the trust.

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**Case where part of trust income is chargeable [Section 304(4)]**

In cases where only some portion of the trust's income to which the beneficiary or beneficiaries is/are entitled is taxable and the other portion is not taxable, then the proportion of income receivable by a beneficiary from such trust derived from the chargeable part shall be determined as follows:—

$$\frac{A}{B} \times C,$$

Where,

A = the chargeable part of the income of the trust.

B = the whole income of the trust; and

C = the income receivable by the beneficiary from the trust.

In other words, where a part only of the trust income is chargeable to tax under this Act, the beneficiaries' share of the income should be taken to be that derived proportionately from the chargeable and non-chargeable portions of the trust income.

## 10.5 SPECIAL PROVISIONS RELATING TO INCOME OF POLITICAL PARTIES AND ELECTORAL TRUSTS [SECTION 12]

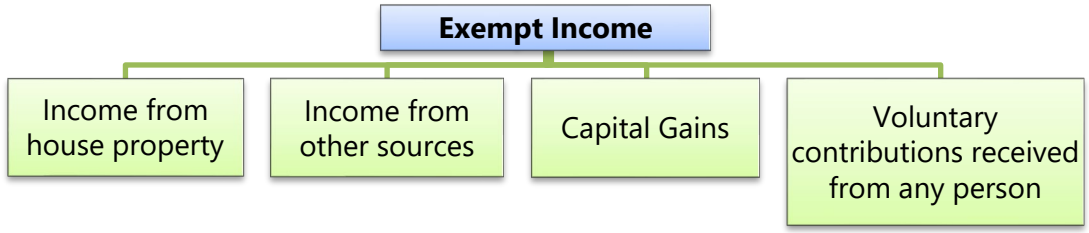
Section 12 of the Income-tax Act, 2025 grants exemption from tax to political parties and electoral trusts in respect by providing that in computing the total income of any political party or an electoral trust for a tax year under this Act, any income enumerated in Schedule VIII shall not be included, subject to fulfilment of conditions specified therein.

It has been further provided that wherever the conditions referred to in Schedule VIII are not satisfied in any tax year in respect of any income enumerated in the said Schedule, **such income** shall be charged to tax under this Act for that tax year.

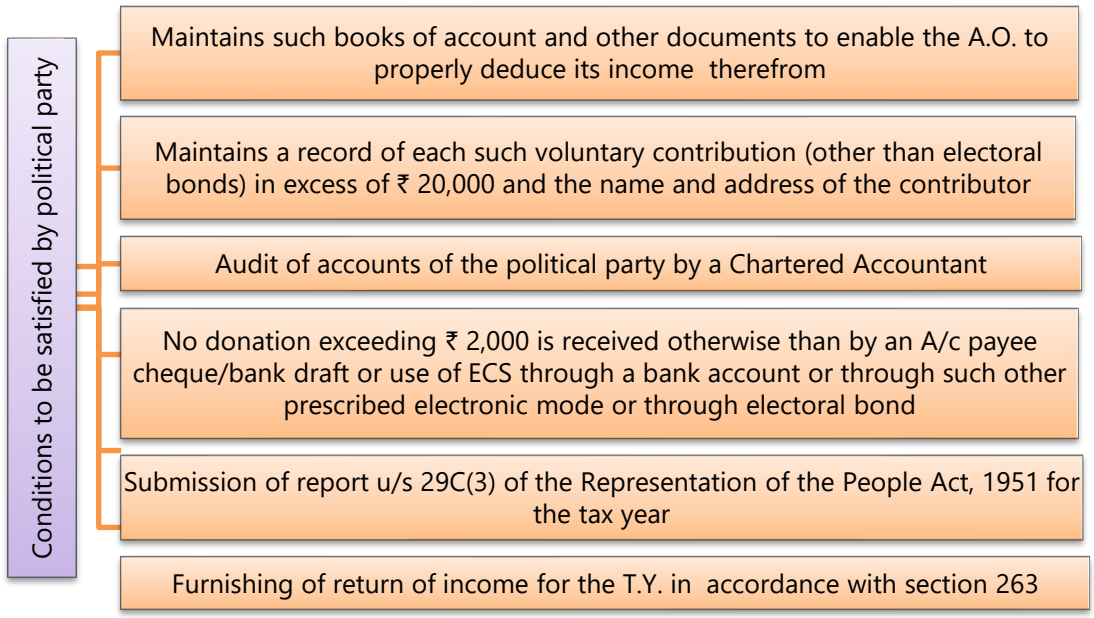
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## Exempt Income for Political Parties

As per Table Sl. No.1 of the Schedule VIII, following income of a political party shall not be included in its total income:




The aforesaid categories of income would qualify for exemption provided the following additional conditions are satisfied:




**Meaning of "Political Party" and "Electoral bond":**

| | |
|---|---|
| **Political Party** | A political party registered under section 29A of the Representation of the People Act, 1951 |
| **Electoral Bond** | A bond issued by a scheduled bank (as authorised by the Central Government) under a scheme notified by the Central Government. |

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## ILLUSTRATION 13

*Explain in the context of provisions of the Act, whether rent of ₹ 1,25,000 per month of one of its building let out to a bank from 01.06.2026 earned by a political party, duly registered under section 29A of the Representation of the People Act, 1951, received shall be subject to tax in the T.Y. 2026-27.*

## SOLUTION

Rent received by the political party from the bank is an income chargeable under the head "Income from house property".

However, according to the provisions of section 12 read with Schedule VIII, income from*, inter alia*, house property shall not be included in total income of a political party registered under section 29A of the Representation of the People Act, 1951, provided the political party fulfils the conditions as specified in the said Schedule.

If the stipulated conditions are fulfilled by the political party, rent of ₹ 1,25,000 per month received by the registered political party from letting out of its building to a bank would not be included in its total income.

## ILLUSTRATION 14

*The books of account maintained by a National Political Party registered with Election Commission for the year ended on 31.3.2027 discloses the following receipts:*

| | | ₹ |
|---|---|---|
| *(a)* | *Rent of property let out to a departmental store at Chennai* | *6,00,000* |
| *(b)* | *Interest on deposits other than banks* | *5,00,000* |
| *(c)* | *Contribution of ₹ 21,000 each from 100 persons (who have secreted their names)* | *21,00,000* |
| *(d)* | *Contribution from 10 persons by way of electoral bonds of ₹ 25,000 each* | *2,50,000* |
| *(e)* | *Cash contribution @ ₹ 2,100 each from 1,000 members (recorded in books of account)* | *21,00,000* |
| *(f)* | *Net profit of cafeteria run in the premises at Delhi* | *3,00,000* |

*Compute the total income of the political party for the tax year 2026-27, with reasons for inclusion or otherwise.*

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## SOLUTION

The total income of a political party registered with the Election Commission is to be computed as per section 12 read with Sch. VIII under which the income derived from house property, income from capital gains, income from other sources and income by way of voluntary contributions received from any person, on fulfilling of certain conditions, are exempt from tax. Further if the conditions referred to in Schedule VIII are not satisfied in any tax year in respect of any income enumerated in the said Schedule, **such income** shall be charged to tax under this Act for that tax year.

In this case, since cash contribution in excess of ₹ 2,000 is received from 1000 persons, the political party has violated the condition of receipt of donation through account payee cheque/draft or prescribed electronic modes. Further, the political party has also violated the condition of maintenance of records in case of donations exceeding ₹ 20,000 received otherwise than by way of electoral bonds. Accordingly, its total income shall be calculated as follows :

**Computation of total income of National Political Party**

| | Particulars | ₹ |
|---|---|---|
| (a) | Rent of the property of ₹ 6 lacs located at Chennai | Exempt |
| (b) | Interest received on deposits | Exempt |
| (c) | Contribution from 100 persons (who have secreted their names) of ₹ 21,000 each | 21,00,000 |
| (d) | Contribution from 10 persons by way of electoral bonds of ₹ 25,000 each | Exempt |
| (e) | Cash contribution @ ₹ 2,100 each from 1,000 members (recorded in books of account) | 21,00,000 |
| (f) | Net profit of cafeteria at Delhi | 3,00,000 |
| | **Total Income** | **45,00,000** |

***Note:*** *It is presumed that the conditions regarding maintenance of books of account, audit, submission of report under section 29C of the Representation of the People Act, 1951 and filing of return of income under section 263 are fulfilled by the political party, and hence it is eligible for exemption of income under section 12.*

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## Exempt Income for Electoral Trust

As per Schedule VIII [Table Sl. No. 2], any voluntary contributions received by an electoral trust shall not be included in its total income, if following conditions are fulfilled:

(1) Such electoral trust distributes to a registered political party during the tax year, **95% of the aggregate donations received by it during the said tax year** along with the surplus, if any, brought forward from any earlier tax year and

(2) functions in accordance with the rules made by the Central Government.

**Functions of an electoral trust**

Accordingly, the Central Government has notified Rule 289 which provides that the following shall be the functions of an electoral trust referred to in Schedule VIII [Table: Sl. No. 2] –

(i) The electoral trust may receive voluntary contributions from

- (a) an individual who is a citizen of India;
- (b) a company which is registered in India; and
- (c) a firm or Hindu undivided family or an Association of persons or a body of individuals, resident in India.

(ii) A receipt indicating the following shall be issued by the trust immediately on receipt of any contribution indicating the following:

- (a) name and address of the contributor;
- (b) Permanent account number of the contributor or passport number in the case of a citizen who is not a resident;
- (c) amount and mode of contribution including name and branch of the Bank and date of receipt of such contribution;
- (d) name of the electoral trust;
- (e) Permanent account number of the electoral trust;
- (f) date and number of approval by the prescribed authority; and
- (g) Name and designation of the person issuing the receipt.

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(iii) The electoral trust shall not accept contributions-

(a) from an individual who is not a citizen of India or from any foreign entity whether incorporated or not;

(b) from any other electoral trust which has been registered a company under section 8 of the Companies Act, 2013 and approved as an electoral trust under the Electoral Trusts Scheme, 2013;

(c) from a Government company as defined in section 2(45) of the Companies Act, 2013; and

(d) from a foreign source as defined in section 2(j) of the Foreign Contribution (Regulation) Act, 2010.

(iv) The electoral trust shall accept contributions only by way of an account payee cheque drawn on a bank or account payee bank draft or by electronic transfer to its bank account and shall not accept any contribution in cash.

(v) The electoral trust shall not accept any contribution without the PAN of the contributor, who is a resident and the passport number in the case of a citizen of India, who is not a resident.

(vi) A political party registered under section 29A of the Representation of the People Act, 1951 shall be an eligible political party and an electoral trust shall distribute funds only to the eligible political parties.

(vii) (a) The electoral trust may, for the purposes of managing its affairs, spend upto 5% of the total contributions received in a year subject to an aggregate limit of ₹ 5 lakh in the first year of incorporation and ₹ 3 lakh in subsequent years;

(b) the total contributions received in any financial year alongwith the surplus from any earlier financial year, if any, as reduced by the amount spent on managing its affairs, shall be the distributable contributions for the financial year;

(c) an electoral trust shall be required to distribute the distributable contributions received in a tax year, referred to in point (b) above, to the eligible political parties before 31$^{st}$ March of the said tax year, subject to the condition that at least 95% of the total contributions

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received during the tax year along with the surplus brought forward from earlier financial year, if any, are distributed.

(viii) The trust shall obtain a receipt from the eligible political party indicating the name of the political party, its permanent account number, registration number, amount of fund received from the trust, date of the receipt and name and designation of person signing such receipt.

(ix) The electoral trust shall not utilize any contributions for the direct or indirect benefit of the members or contributors, or for any of the following persons, namely:

(a) the members (including members of its Executive Committee, Governing Committee or Board of Directors) of the electoral trust;

(b) any relative of such Members;

(c) where such member or contributor is a Hindu undivided family, a member of that Hindu undivided family;

(d) any person who has made a contribution to the trust;

(e) any person referred in section 355(h); and

(f) any concern in which any of the persons referred to in clauses (a),(b),(c),(d) and (e) has a substantial interest.

(x) (a) An electoral trust shall keep and maintain such books of account and other documents in respect of its receipts, distributions and expenditure as may enable the computation of its total income in accordance with the provisions of the Act;

(b) The electoral trust shall also maintain a list of persons from whom contributions have been received and to whom the same have been distributed, containing the name, address and permanent account number (PAN) of each such person along with the details of the amount and mode of its payment including the name and branch of the bank.

(xi) Every electoral trust shall get its accounts audited by an accountant as defined in section 515(3)(b) and furnish the audit report electronically in Form No.181 along with particulars forming part of its Annexure, to the

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Director General of Income-tax (Systems) on or before the due date specified for furnishing the return of income under section 263.

(xii) An electoral trust shall maintain a regular record of proceedings of all meetings and decisions taken therein.

(xiii) Every electoral trust shall furnish a certified copy of list of contributors and a list of political parties, to whom sums were distributed in the manner prescribed in (vii) above, to the Director General of Income-tax (Systems), every year along with the audit report;

(xiv) Any change in the shareholders, subsequent to the approval granted under the Electoral Trusts Scheme, 2013 shall be intimated to the Board within thirty days of such change.

**Section 2(43) defines 'Electoral Trust' to mean a trust so approved by the CBDT, in accordance with the scheme made in this regard by the Central Government.**

The Central Government, has through ***Notification No.9/2013 dated 31.1.2013*, notified the Electoral Trusts Scheme, 2013** lay down the procedure for grant of approval to an electoral trust which will receive voluntary contributions and distribute the same to political parties.

**Eligibility**

A company registered for the purposes of section 8 of the Companies Act, 2013 satisfying all of the following conditions shall be eligible to make an application for approval as an electoral trust, namely–

1. The company should be registered on or after 1.4.2012 for the purposes of section 8 of the Companies Act, 2013;
2. The name of the company registered for the purposes of section 8 of the Companies Act, 2013 has to include the phrase "electoral trust";
3. The sole object of the electoral trust should be to distribute the contributions received by it to the political party, registered under section 29A of the Representation of the People Act, 1951;
4. The electoral trust should have a permanent account number.

**Criteria for Approval**

An electoral trust shall be considered for approval if it fulfills all of the following conditions, namely –

1. The company registered for the purposes of section 8 of the Companies Act, 2013, which satisfies the above conditions;

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2. The object of the electoral trust shall not be to earn any profit or pass any direct or indirect benefit to its members or contributors, or to any person referred to in section 355(h) or any person referred to in Rule 289(10) of the Rules;
3. It has made adequate arrangement for recording the receipts from the contributors in accordance with Rule 289;
4. The stipulations contained in Rule 289 for functioning of the electoral trust are specifically included in the articles of association of the company registered for the purposes of section 8 of the Companies Act, 2013.

**Renewal of approval**

1. The approval shall be valid for the tax year in which such application has been made and for a further period, not exceeding three tax years, as may be specified in the approval.
2. The electoral trust may apply for renewal of approval at any time during the last tax year, for which the approval has been originally granted, and such renewal of approval may be granted after examining the application in the same manner as laid out for approval in this scheme.

**Withdrawal of approval**

1. The CBDT may withdraw the approval granted under this Scheme if it is satisfied that the electoral trust has ceased its activities or its activities are not genuine or are not carried out in accordance with all or any of the conditions laid down under this Scheme or the provisions of Rule 289 of the Rules, or any other condition imposed in the approval granted.
2. In order to ascertain whether an electoral trust, after its approval, is functioning in accordance with the provisions of Rule 289, the CBDT may call for information or documents as it may deem fit from the electoral trust or may get an enquiry conducted in this regard by an income-tax authority or any other agency.
3. If the Commissioner of Income-tax or the Director of Income-tax is satisfied that an approved electoral trust is not fulfilling any of the conditions specified under this Scheme or the conditions subject to which approval was granted to it or does not function in accordance with Rule 289, he may, after making appropriate enquiries, furnish a report to the CBDT in this regard and the Board may take such action on the report as it may deem fit.

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4. An order for withdrawal of the approval shall be passed after giving the electoral trust an opportunity of being heard, and shall record the reasons in writing for the withdrawal of approval.
5. A copy of the order withdrawing the approval shall be sent to the applicant, the Assessing Officer and the Commissioner of Income-tax or the Director of Income-tax, as the case may be.

## 10.6 TAXATION REGIME FOR SECURITIZATION TRUSTS AND ITS INVESTORS [SECTION 221]

Securitisation is the process of converting future cash flows arising from loans or receivables (such as home loans, vehicle loans, etc.) into marketable securities. In this process, the lender (called the originator) transfers a pool of loans or receivables to a Securitisation Trust or Special Purpose Vehicle (SPV). The trust finances the acquisition of these assets by issuing securitised debt instruments to investors. The repayments received from the borrowers are subsequently distributed to the investors.

A Securitisation Trust is a trust established solely for the purpose of acquiring such loans or receivables and issuing securities backed by them. It may be constituted under the SEBI Regulations, the RBI guidelines on securitisation, or by a securitisation company or reconstruction company in accordance with the SARFAESI Act, 2002, subject to the prescribed conditions.

**(1) Meaning of Securitisation Trust [Section 221(6)(d)]:** "Securitisation trust" means a trust being a :

(i) "special purpose distinct entity" as defined in regulation 2(1)(u) of the Securities and Exchange Board of India (Public Offer and Listing of Securitised Debt Instruments) Regulations, 2008; or

**Meaning of certain terms**

As per regulation 2(1)(u), "special purpose distinct entity" means a trust which acquires debt or receivables out of funds mobilized by it by issuance of securitised debt instruments through one or more schemes, and includes any trust set up by the National Housing Bank or by the National Bank for Agriculture and Rural Development.

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"Securitisation" means acquisition of debt or receivables by any special purpose distinct entity from any originator or originators for the purpose of issuance of securitised debt instruments to investors based on such debt or receivables.

Securitised debt instrument" means any certificate or instrument, issued by a special purpose distinct entity.

(ii) "Special Purpose Vehicle" as defined in, and regulated by, the guidelines on securitisation of standard assets issued by the Reserve Bank of India; or

(iii) trust set-up by a securitisation company or a reconstruction company formed, for the purposes of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002, or in pursuance of any guidelines or directions issued for the said purposes by the Reserve Bank of India,

which fulfils such conditions, as may be prescribed.

**(2) Exemption of income of securitisation trust from the activity of securitisation:** The income of securitisation trust from the activity of securitisation shall be exempt under Schedule III (Table Sl. No. 26).

**(3) Taxability of income from securitisation trust in the hands of the investor [Section 221(1)]:** Section 221(1) provides that any income accruing or arising to, or received by, a person, being an investor from the securitisation trust, out of investments made in the securitisation trust, shall be taxable in the hands of investor in the same manner as if the investor had made investment directly in the underlying assets and not through the trust.

**(4) Nature of income paid or credited by securitisation trust in the hands of the investor [Section 221(2)]:** The income paid or credited by the securitisation trust shall be deemed to be of the same nature and in the same proportion in the hands of the investor of the securitisation trust, as if it had been received by, or had accrued and arisen to, the securitisation trust during the tax year.

**(5) Deemed credit to investor [Section 221(3)]:** If the income accruing or arising to, or received by, the securitisation trust, during a tax year has not

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been paid or credited to the investor, the same shall be deemed to have been credited to the account of the said person

- on the last day of the tax year
- in the same proportion in which such person would have been entitled to receive the income had it been paid in the tax year.

**(6) Statement specifying the details of nature of income to be furnished to investor and prescribed income-tax authority [Section 221(4)]:** The securitisation trust shall provide details of the nature of the income paid or credited during the tax year and such other relevant details to the investors and also to the prescribed income-tax authority in the prescribed form and verified in the prescribed manner, within the prescribed period.

**(7) Income taxed in the year of accrual not taxable again in the year of payment [Section 221(5)]:** Where income has been included in the total income of the investor in a tax year, on account of it having accrued or arisen in the said tax year, the same shall not be included in the total income of such person in the tax year in which such income is actually paid to him by the securitisation trust.

**(8) Deduction of tax at source in respect of income payable to investor [Section 393]:** Tax deduction at source under section 393 shall be effected by the securitisation trust at the time of payment or credit of income to the account of the investor, whichever is earlier.

| S. No | Payee | Table Sr. No. | Rate of TDS |
|---|---|---|---|
| (i) | Resident payees | Section 393(1) [Table Sl. No. 4(iv)] | **10%** |
| (ii) | Non-corporate non-resident (NCNR) or a foreign company | Section 393(2) [Table Sl. No.9] | Rates in force i.e. [5], - 30% [NCNR] - 35% [Foreign Co.] |

[5] *These rates are specified in the Finance Act.*

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**(9) Meaning of certain terms:**

| Term | Meaning |
|---|---|
| Investor | A person who is holder of any securitised debt instrument or securities, or security receipt issued by the securitisation trust |
| Securities | Debt securities issued by a Special Purpose Vehicle as referred to in the guidelines on securitisation of standard assets issued by RBI |
| Securitised debt instrument | Same meaning as assigned to it in regulation 2(1)(*s*) of the Securities and Exchange Board of India (Public Offer and Listing of Securitised Debt Instruments) Regulations, 2008 |

## 10.7 SCHEME FOR TAXATION OF REAL ESTATE INVESTMENT TRUST (REIT) AND INFRASTRUCTURE INVESTMENT TRUST (INVIT) [SECTION 223]

The SEBI has notified the regulations relating to two categories of investment vehicles namely, the Real Estate Investment Trust (REIT) & Infrastructure Investment Trust (Invit).

The SEBI (Real Estate Investment Trusts) Regulations, 2014 ("REIT Regulations") provide a framework for registration and regulation of Real Estate Investment Trusts ("REIT's").

**Salient features of the REIT Regulations, as approved by the SEBI**

- REITs shall be set up as a trust and registered with SEBI. It shall have parties such as Trustee, Sponsor group, inducted sponsor and Manager.
- The trustee of a REIT means a person who holds the REIT assets in trust for the benefit of the unit holders, in accordance with these regulations. The trustee has to registered with the Board as Debenture Trustee and should not be an associate of the sponsor(s) or manager.

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- REIT shall invest in commercial real estate assets, on a freehold or leasehold basis, either directly or through a holdco and/or special purpose vehicles (SPVs). Real estate for the purpose of REIT Regulations means land and any permanently attached improvements to it, whether leasehold or freehold and includes buildings, sheds, garages, fences, fittings, fixtures, warehouses, car parks, etc. and any other assets incidental to the ownership of real estate but does not include mortgage.
- Once registered, the REIT shall raise funds through an initial offer. Subsequent raising of funds may be through follow-on offer, rights issue, qualified institutional placement, etc.
- Units of REITs shall be mandatorily listed on a recognized Stock Exchange and REIT shall make continuous disclosures in terms of the listing agreement.
- Not less than 80% of the value of the REIT assets shall be invested in completed and rent and/or income generating properties. Upto 20% of the value of REIT assets shall be invested *inter alia in*:
  - properties, whether directly or through a company or LLP, which are:
    - (i) under-construction properties which shall be held by the REIT for not less than three years after completion;
    - (ii) under-construction properties which are a part of the existing income generating properties owned by the REIT which shall be held by the REIT for not less than three years after completion;
    - (iii) completed and not rent generating properties which shall be held by the REIT for not less than three years from date of purchase;
  - mortgage backed securities;
  - listed/unlisted debt of companies/body corporates in real estate sector. However, it should not include any investment made in debt of the holdco and/or SPVs;
  - equity shares of companies which are listed on a recognized stock exchange in India which derive not less than 75% of their operating income from Real Estate activity;
  - government securities;

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- unutilized FSI of a project where it has already made investment;
- TDR acquired for the purpose of utilization with respect to a project where it has already made investment;
- money market instruments or cash equivalents.

- REIT shall distribute not less than 90% of the net distributable cash flows, subject to applicable laws, to its unitholders, at-least on a half yearly basis.
- A REIT shall not invest in units of other REITs

**Small and Medium (SM) REITs**

SEBI (Real Estate Investment Trusts) Regulations, 2014 ("REIT Regulations") were amended on March 08, 2024 to facilitate introduction of Small and Medium (SM) REITs.

Similar to REITs, SM REITs are required to be set up as a Trust under the Indian Trust Act, 1882 and it must be registered under the REIT Regulations. Unlike traditional REITs, which generally own large commercial real estate portfolios, an SM REIT invests in completed and revenue-generating real estate properties of a comparatively smaller value through one or more special purpose vehicles or directly, in accordance with the SEBI regulations.

It enables investors to participate in the ownership of income-generating real estate with a relatively lower investment amount, while earning returns primarily from rental income and appreciation in the value of the underlying assets.

To provide a stable stream of cash flows to the investors, a scheme of the SM REIT is required to invest at least 95% of the value of its assets in completed and revenue generating properties and distribute at least 95% of the net distributable cash flows generated at the asset / SPV level to the investors on a quarterly basis.

Likewise, the SEBI (Infrastructure Investment Trusts) Regulations, 2014 ("InvIT Regulations") provide a framework for registration and regulation of Infrastructure Investment Trusts ("InvITs").

## Taxability of Income of the Business Trust

Section 223 of the Income-tax Act, 2025 deals with the taxability of –

(i) income in the hands of business trusts; and

(ii) income distributed by such business trusts in the hands of the unit holders.

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**Meaning of Business Trust**

Section 2(21) of the Income-tax Act, 2025 defines a business trust to mean a trust registered:

- as an Infrastructure Investment Trust (Invit) under SEBI (Infrastructure Investment Trusts) Regulations, 2014 or
- as a Real Estate Investment Trust (REIT) under SEBI (Real Estate Investment Trusts) Regulations, 2014

**(1) Income distributed by a business trust to its unit holders shall be deemed to be of the same nature in the hands of unitholders:** Section 223(1) contains the special provisions relating to business trusts and provides that any income distributed by a business trust to its unit holders shall be deemed to be of the same nature and in the same proportion in the hands of the unit holder, as it had been received by, or accrued to the business trust.

However, as per section 223(4), provisions of sub section 1 shall not apply to any sum which is chargeable to tax under section 92(2)(k) in the hands of unitholders and the same shall be taxable as "Income from Other Sources".

Such sum chargeable to tax under section 92(2)(k) would include repayment of debt or amount paid against redemption of units to the unit holders as reduced by certain amounts mentioned in that section.

**(2) Exemption of certain income to business trust [Schedule V (Table: Sl. No. 3)]:** Schedule V (Table: S. No. 3) exempts any income of a business trust by way of-

- interest or
- dividend

received or receivable from a Special Purpose Vehicle (SPV).

Thus, the business trust enjoys a pass-through status in respect of interest or dividend received or receivable from a SPV.

**Meaning of Special Purpose Vehicle**

"SPV" means any Indian company in which the business trust holds controlling interest and any specific percentage of shareholding or interest, as may be required by the law under which such trust is granted registration [Note 2 to Schedule V].

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**(3) Exemption of Rental income of REIT from directly owned real estate asset [Schedule V (Table: Sl. No. 4)]:** Any income of a business trust, being a REIT, by way of renting or leasing or letting out any real estate asset owned directly by such business trust is exempt in the hands of the business trust.

**(4) Any distributed income referred to in section 223 received by unit holders is exempt in their hands as per schedule V (Table: Sl. No. 5) to the extent it does not comprise of**

- interest received or receivable from a special purpose vehicle by the business trust or
- income of a business trust, being a real estate investment trust, by way of renting or leasing or letting out any real estate asset owned directly by such business trust.




*With effect from 1.4.2026, vide the Taxation and Other Laws (Amendment) Act, 2026, dividend received or receivable from a special purpose vehicle (SPV) and distributed by the business trust to its unit holders is also exempt in the hands of the unit holders, irrespective of whether the SPV has exercised the option under section 200, i.e., the concessional tax regime at the rate of 22%. This amendment is consequent to the enhancement of the surcharge rate applicable in the hands of an SPV opting for the concessional regime under section 200 from 10% to 25%.*

*In effect, dividend income received or receivable from an SPV is exempt both in the hands of the business trust and the unit holders.*

**(5)** Section 223(2) provides that subject to the provisions of sections 196 [Special rate of tax on STCG], 197 [Tax on LTCG] and 198 [Special rate of tax on LTCG], the total income of a business trust shall be chargeable to tax at the maximum marginal rate.

**(6)** Section 92(2)(k) provides that any specified sum received by a unit holder from a business trust during the tax year with respect to unit held by him at any time during the tax year would be chargeable to tax in the hands of unit holder under the head "Income from other sources.

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**Specified sum is to be computed in the following manner:**

| **Specified sum** = A (-) B (-) C (which shall be zero if sum of B and C is greater than A) | |
|---|---|
| A | aggregate of sum distributed by the business trust with respect to such unit, during the tax year or during any earlier tax year or years, to such unit holder, who holds such unit on the date of distribution of sum or to any other unit holder who held such unit at any time prior to the date of such distribution, which is -<br>(a) not in the nature of interest and dividend referred to in schedule V (Table: Sl. No. 3) and rental income referred to in schedule V (Table: Sl. No. 4); and<br>(b) not chargeable to tax in the hands of the business trust under section 223(2). |
| B | amount at which such unit was issued by the business trust and |
| C | amount charged to tax under this clause in any earlier tax year. |

(7) Section 223(3) provides that if in any tax year, the distributed income or any part thereof, received by a unit holder from the business trust is of the nature of

- interest received by the business trust from the SPV as referred to in Schedule V (Table: Sl. No. 3)
- rental income (Table: Sl. No. 4), then,

such distributed income or part thereof shall be deemed to be income of such unit holder and shall be charged to tax as income of the tax year.

(8) Any person responsible for making payment of income distributed on behalf of the business trust to a unit holder is required to furnish a statement to the unit holder and the prescribed authority within the prescribed time.

The statement should be in the prescribed form and manner. It should contain the particulars of the nature of income paid during the tax year as well as the other details as may be prescribed [Section 223(4)].

(9) Under section 263, a business trust is mandatorily required to furnish a return of its income or loss in every tax year.

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**Scheme of taxability of income in the hands of the business trust, unit holders, sponsors etc. is briefed here in the below table**

| | Transaction | Section | Tax and TDS implications |
|---|---|---|---|
| **(1)** | **Transfer of listed units of the business trust by the unit holders** | **Tax implications in the hands of unit holders:** STT leviable on trading of listed units on a recognized stock exchange. | |
| | | 2(101) | The period of holding of units of business trust to qualify as "long-term capital assets" is "more than 12 months". |
| | | 198 | Long-term capital gains upto ₹ 1.25 lakh would be exempt in the hands of the unitholders; Long-term capital gain exceeding ₹ 1.25 lakh would be taxable @12.5% *plus* surcharge, if applicable, and health and education cess @4%. |
| | | 196 | **Short-term capital gains** would be subject to tax @ 20% (*plus* surcharge, if applicable, and *cess@4%*). |
| **(2)** | **Exchange of shares in SPV by sponsor for units of Business Trust** | **Tax implications in the hands of the sponsor:** | |
| | | 70(zh) | Such exchange is not treated as a transfer. Hence, taxability of capital gains on such transfer deferred to the time of disposal of units by the sponsor. |
| | | 198 & 196 | The sponsor would get the same tax treatment on offloading of units under an Initial offer on listing of units as it would have been available had he offloaded the underlying shareholding through an IPO. STT shall be levied on sale of such units of business trust which are acquired in lieu of shares of SPV, under an initial offer at the time of listing of units of business trust in the like manner as in the case of sale of unlisted equity shares under an IPO. |

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| | | | |
|---|---|---|---|
| | | | The benefit of concessional tax regime of tax @ 20%, as the case may be, on STCG and @ 12.5%, as the case may be, on LTCG exceeding ₹ 1.25 lakh under section 198 shall be available to the sponsor on sale of units received in lieu of shares of SPV subject to levy of STT. |
| | | 73 | For computing capital gains in the hands of the sponsor, cost of acquisition of units would be deemed to be the cost of acquisition of shares to the sponsor; |
| | | 2(101) | For computing capital gains in the hands of the sponsor, the period of holding of units to include the period of holding of shares for determining whether the capital gains are long-term or short-term. |
| **(3)** | **Interest income of business trust from SPV** | **Tax implications in the hands of the business trust & unit holders and TDS implications in the hands of the SPV & business trust**: Pass-through status for interest received by business trust from SPV: | |
| | | Schedule V (Table: Sl. No. 3) | Interest income is not taxable in the hands of the business trust; and |
| | | 393(4) [Table Sl. No. 6] r.w. section 393(1) [Table Sl. No. 5(i)] | SPV is not required to deduct tax at source on interest paid to business trust. |
| | | **Tax consequences on distribution of such income by the business trust to the unitholders:** | |
| | | 223(3) | If the distributed income or any part thereof, received by a unit holder from the business trust is of the nature as |

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| | | | |
|---|---|---|---|
| | | | referred to in Schedule V (Table: Sl. No. 3) or (Table: Sl. No. 4), then, such distributed income or part thereof **shall be deemed to be income of such unit holder** and shall be charged to tax as income of the tax year. |
| | | 207(1) [Table SL. No. 6] | Interest income taxable in the hands of the unit holders –<br>- @5% as referred in section 393(2) Table Sl. No. 6], in case of unit holders, being non-corporate non-residents or foreign companies; and<br>- At normal rates of tax, in case of resident unit holders. |
| | | 393(1) and (2) | Business trust to deduct tax at source on interest component of income distributed to unit holders at the time of payment or credit of income to the account of the unit holder, whichever is earlier:<br>- @5% as referred in section 393(2) Table Sl. No. 6], in case of unit holders, being non-corporate non-residents or foreign companies; and<br>- @10% as referred in section 393(2) [Table Sl. No. 4(ii)], in case of resident unit holders. |
| **(4)** | **Interest payments to non-resident lenders on ECBs by the business trust** | **TDS implications in the hands of business trust**: | |
| | | 393(2) | An Indian Company or a business trust paying interest income to a non-resident, not being a company, or to a foreign company is liable to deduct TDS@5% [Such interest would attract tax in the hands of the non-resident lenders @5% as per section 207].<br>The above concessional rate of TDS@5% is applicable to interest in respect of |

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| | | | |
|---|---|---|---|
| | | | money borrowed by the Indian Company or the business trust in foreign currency from a source outside India –<br>(i) Under a loan agreement or issue of long-term infrastructure bond on or after 1st July 2012 but before 1st July, 2023.<br>(ii) By issue of long-term bond between 1st October 2014 and 30th June, 2023<br>which is approved by the Central Government.<br>TDS@5% is also deductible on interest income payable on money borrowed by way of issue of rupee denominated bond on or before 30th June, 2023.<br>However, tax is required to be deducted @4% in respect of monies borrowed by it from a source outside India by way of issue of any long-term bond or rupee denominated bond between 1st April, 2020 and 30th June, 2023, which is listed only on a recognised stock exchange located in any IFSC [Such interest would attract tax in the hands of the non-resident lenders @4% as per section 207].<br>Further, tax is required to be deducted @9% in respect of monies borrowed by it from a source outside India by way of issue of any long-term bond or rupee denominated bond on or after 1st July, 2023, which is listed only on a recognised stock exchange located in any IFSC [Such interest would attract tax in the hands of the non-resident lenders @9% as per section 207] |

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<table>
<tr><td rowspan="3">(5)</td><td rowspan="3">Dividend received by the business trust from SPV</td><td colspan="2"><u>Tax implications in the hands of the SPVs, business trust and unit holders and TDS implications in the hands of the SPV & business trust</u>:</td></tr>
<tr><td>Schedule V (Table: Sl. No. 3) & 393(4) [Table Sl. No. 10] r.w. section 393(1) [Table Sl. No. 7)]</td><td>Pass-through status for dividend received by business trust from SPV:<br>Dividend received or receivable from a special purpose vehicle, by the business trust would be exempt in its hands;<br>Consequently, SPV is not required to deduct tax at source on dividend paid to business trust.</td></tr>
<tr><td>223(3)</td><td>Tax consequences on distribution of such income by the business trust to the unitholders:<br>The distributed income or any part thereof, received by a unit holder from the business trust, which is in the nature of dividend received or receivable from a SPV is exempt in the hands of unit holder.</td></tr>
<tr><td rowspan="2">(6)</td><td rowspan="2">Capital gains on disposal of assets by the Business Trust</td><td colspan="2"><u>Tax implications in the hands of the Business Trust and Unit holders</u>:</td></tr>
<tr><td>223(2)</td><td>Capital gains is chargeable at the applicable rates in the hands of the Business Trust:<br>• In case of long-term capital gains, the provisions of section 197 or 198, as the case may be would apply<br>• In case of short-term capital gains on sale of listed shares, the provisions of section 196 would apply<br>• Short-term capital gains, other than the gains subject to tax under section 196, would be subject to maximum marginal rate.</td></tr>
</table>

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| | | | |
|---|---|---|---|
| | | Schedule V (Table: Sl. No. 5) | If such capital gains are further distributed to unitholders, the component attributable to capital gains would be exempt in the hands of the unit holders. |
| **(7)** | **Rental income arising to REIT from real estate property directly held by it** | **Rental income of REIT from directly owned real estate asset** | |
| | | Schedule V (Table: Sl. No. 4) | Any income of a business trust, being a REIT, by way of renting or leasing or letting out any real estate asset owned directly by such business trust is exempt in the hands of the business trust |
| | | **Rental income received or credited to a REIT** | |
| | | 393(4) [Table Sl. No. 2] r.w. section 393(1) [Table Sl. No. 2(ii)] | Where the income by way of rent is credited or paid to a business trust, being a REIT, in respect of any real estate asset, owned directly by such business trust, tax is **not** deductible at source. |
| | | **Distributed income received by unit holder** | |
| | | 223(3) | The distributed income or any part thereof, received by a unit holder from the Business Trust, which is in the nature of income by way of renting or leasing or letting out any real estate asset owned directly by such Business Trust is deemed as income of unit holder. |
| | | 393(1) & 393(2) | **Distribution by REIT to unit holders of rental income from real estate assets directly owned by it**<br>- TDS@10% in case of distribution to a resident unit holder [Section 393(1) Table Sl. No. 4(ii)]<br>- TDS at rates in force i.e., 30% for non-corporate non-resident or 35% |

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| | | | |
|---|---|---|---|
| | | | for foreign company in case of distribution to a non-resident unit holder [Section 393(2) Table Sl. No. 7]. |
| **(8)** | **Repayment of debt / Amount paid against redemption of units to unitholders** | 92(2)(k) | Any sum other than the following components of income –<br>(a) Interest and dividend received from SPV and distributed to unitholders<br>(b) Rental income from real estate assets directly owned by it; and<br>(c) Income chargeable to tax in the hands of the business trust u/s 223(2)<br>received by a unitholder from a business trust is chargeable to tax in the hands of unit holder under the head "Income from other sources". It would be computed in the manner specified under section 92(2)(k). |
| **(9)** | **Income of business trust [Other than interest and dividend from SPV, rental income from real estate property]** | **Tax implication in the hands of the Business Trust and Unit holders**: | |
| | | 223(2) | ▪ Long-term capital gains chargeable to tax u/s 197 or u/s 198<br>▪ Short-term capital gains chargeable to tax u/s 196<br>▪ Any other income of the trust is chargeable to tax at the maximum marginal rate. |
| | | Schedule V (Table: Sl. No. 5) | The above income distributed to unit holders would be exempt in their hands. |

## ILLUSTRATION 15

*A business trust, registered under SEBI (Real Estate Investment Trusts) Regulations, 2014, gives particulars of its income for the T.Y.2026-27:*

*(1) Interest income from Beta Ltd. – ₹4 crore;*

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*(2) Dividend income from Beta Ltd. – ₹ 2 crore;*

*(3) Short-term capital gains on sale of listed shares of Beta Ltd.– ₹ 1.5 crore;*

*(4) Short-term capital gains on sale of developmental properties – ₹ 1 crore*

*(5) Interest received from investments in unlisted debentures of real estate companies – ₹ 10 lakh;*

*(6) Rental income from directly owned real estate assets – ₹ 2.50 crore*

*Beta Ltd. is an Indian company in which the business trust holds 70% of the shareholding.*

*Discuss the tax consequences of the above income earned by the business trust in the hands of the business trust and the unit holders, assuming that the business trust has distributed ₹ 10 crore to the unit holders in the T.Y.2026-27.*

## SOLUTION

Tax consequences in the hands of the business trust and its unit holders:

(1) **Interest income of ₹ 4 crore from Beta Ltd.:** There would be no tax liability in the hands of business trust due to pass-through status enjoyed by it in terms of schedule V (Table: Sl. No. 3) in respect of interest income from Beta Ltd., being the special purpose vehicle. Therefore, Beta Ltd. is not required to deduct tax at source on interest payment to the business trust.

The distributed income or any part thereof, received by a unit holder from the REIT, which is in the nature of interest income received or receivable from a SPV is deemed income of the unit holder as per section 223(3).

The business trust has to deduct tax at source under section 393 –

- @ 10%, on interest component of income distributed to resident unit holders; and
- @ 5%, on interest component of income distributed to non-corporate non-resident and foreign companies' unit holders.

The interest component of income received from the business trust in the hands of each unitholder would be determined in the proportion of 4/11.1, by virtue of section 223(1).

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(2) **Dividend income of ₹ 2 crore from Beta Ltd.:** The dividend distributed by the SPV to the business trust is exempt by virtue of schedule V (Table: Sl. No. 3). Any distributed income referred to in section 223, which is in the nature of dividend income is also exempt in the hands of unitholders. Consequently, business trust is not required to deduct tax at source on the dividend component distributed to the unitholders.

(3) **Short-term capital gains of ₹ 1.50 crore on sale of listed shares of Beta Ltd.:** As per section 223(2), the business trust is liable to pay tax@20% under section 196 in respect of short-term capital gains on sale of listed shares of special purpose vehicle. There would, however, be no tax liability on the capital gain component of income distributed to unit holders, by virtue of the exemption contained in Schedule V (Table: Sl. No. 5).

(4) **Short-term capital gains of ₹ 1 crore on sale of developmental properties:** It is taxable at maximum marginal rate in the hands of the business trust as per section 223(2). There would be no tax liability in the hands of the unit holders on the capital gain component of income distributed to them, by virtue of the exemption contained in Schedule V (Table: Sl. No. 5).

(5) **Interest of ₹ 10 lakh received in respect of investment in unlisted debentures of real estate companies:** Such interest is taxable at maximum marginal rate, in the hands of the business trust, as per section 223(2)**.** However, there would be no tax liability in the hands of the unit holders on the interest component of income distributed to them, by virtue of schedule V (Table: Sl. No. 5).

(6) **Rental income of ₹ 2.50 crore from directly owned real estate assets:** Any income of a business trust, being a REIT, by way of renting or leasing or letting out any real estate asset owned directly by such business trust is exempt in the hands of the trust as per schedule V (Table: Sl. No. 4).

Where the income by way of rent is credited or paid to a business trust, being a REIT, in respect of any real estate asset held directly by such REIT, no tax is deductible at source under section 392.

The distributed income or any part thereof, received by a unit holder from the REIT, which is in the nature of income by way of renting or leasing or

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letting out any real estate asset owned directly by such REIT is deemed income of the unit holder as per section 223(3). The business trust has to deduct tax at source@10% under section 393 in case of distribution to a resident unit holder and at rates in force in case of distribution to a non-resident unit holder. The rental income component received from the business trust in the hands of each unitholder would be determined in the proportion of 2.5/11.1, by virtue of section 223(1).

## 10.8 SPECIAL TAXATION REGIME FOR INVESTMENT FUNDS AND INCOME RECEIVED FROM SUCH FUNDS [SECTION 224]

**(1) Tax liability of the unit holders:** Any income accruing or arising to, or received by, a person, being a unit holder of an investment fund, out of investments made in the investment fund shall be chargeable to income-tax in the same manner as if it were the income accruing or arising to, or received by, such person had the investments made by the investment fund, been made directly by him [Section 224(1)].

***Note –*** *Accordingly, income in the hands of the non-resident investor from offshore investments routed through Category I or Category II AIFs, being a deemed direct investment outside India by the non-resident investor, is not taxable in India under section 5(2) of the Act [Circular No. 14/2019, dated 3.7.2019].*

**(2) Exemption of income of investment fund other than income under the head profits and gains from business and profession [Schedule V (Table: Sl. No. 1)]:** The provision provides for exemption of income, other than income chargeable under the head "Profits and gains of business or profession", in the hands of investment fund. The income in the nature of profits and gains of business or profession shall be taxable in the hands of the investment fund.

**(3) Exemption to unit holder of income under the head "Profits and gains from business or profession" of investment fund [Schedule V (Table: Sl. No. 2)]:** Income accruing or arising to, or received by, a unit holder of an investment fund, being that proportion of income which is of the same

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nature as income chargeable under the head "Profits and gains of business or profession" at investment fund level, shall be exempt under **Schedule V (Table: Sl. No. 2)**. This implies that all income from investment fund is taxable in the hands of unit holders except income under the head "PGBP".

**(4) TDS in respect of income of units of investment fund to unit holders:** Investment fund to deduct tax at source on any income (other than the proportion of income which is of the same nature as income chargeable under the head "Profits and gains of business or profession" which is taxable at investment fund level) payable by the investment fund to a unit holder:

- @10%, in case of payable to a resident unit holder [Section 393(1) Table Sl. No. 4(iii)]
- at rates in force in case of payable to a non-corporate non-resident or foreign company unit holder [Section 393(2) Table Sl. No. 8)]

In case of income payable to a non-corporate non-resident or foreign company unit holder, no tax is to be deducted in respect of any income that is not chargeable to tax under the Act [Section 393(4) Table Sl. No. 14].

Such tax has to be deducted at the time of credit of such income to the account of the payee or at the time of payment, whichever is earlier.

For this purpose, any such income credited to any account, whether called "suspense account" or by any other name, in the books of account of the person liable to pay such income, such crediting shall be deemed to be the credit of such income to the account of the payee, and the provisions of section 393 shall apply accordingly.

**(5) Pass-through status for current year losses:** If in any tax year there is a loss, the net result of computation of total income of the investment fund without giving effect to the exempted provisions of Schedule (Table Sl. No. 1), is a loss under any head of income and such loss cannot be or is not wholly set-off against income under any other head of income of the said tax year, then out of such loss,

(i) the loss arising to the Investment Fund under the head "Profits & Gains of Business or Profession" shall be

- allowed to be carried forward and it can be set off against

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income of the next year in accordance with the provisions of Chapter VII and will not be pass through the unitholders.

(ii) loss other than loss under the head "profits and gains from business or profession" would not be allowed be passed through to the investors if such loss has arisen in respect of a unit which has not been held by the unit holder for a period of at least 12 months [Section 224(2)].




*By implication, losses other than those referred to in (i) and (ii) above, which cannot be wholly set-off against current year income, would be passed on to the unit holders to be carry forward and set-off in their individual hands in accordance with the provisions of Chapter VII.*

**(6) Pass through status for losses accumulated as on 31.3.2019:** Losses, other than loss under the head "profits and gains from business or profession", if any, accumulated at the level of investment fund as on 31.3.2019, shall be

- deemed to be the loss of a unit holder who held the unit as on 31.3.2019 in respect of the investment made by him in the investment fund in the same manner as it were the loss incurred by him had he made such investments directly and
- shall be allowed to be passed through to the investors for the remaining period calculated from the year in which the loss has occurred for the first time taking that year as the first year and set off against their income in accordance with the provisions of Chapter VII.

Further, such accumulated losses shall not be available to the investment fund on or after 1.4.2019.

**(7) Nature of income in the hands of unitholders:** The income paid or credited by the investment fund shall be deemed to be of the same nature and in the same proportion in the hands of the unit holder as if it had been received by, or had accrued or arisen to, the investment fund during the tax year. [Section 224(5)].

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**(8) Tax on total income:** As per section 224(6), the total income of the investment fund is chargeable to tax as follows:

| Investment Fund | Rate of tax |
|---|---|
| A company or a firm | Rate or rates specified in the Finance Act of the relevant year (30%/25%, as the case may be, for a company and 30% for firm for T.Y. 2026-27) |
| Other than a company or a firm | Maximum marginal rate |

**(9) Deemed credit on the last day of the tax year:** If the income accruing or arising to, or received by, an investment fund, during a tax year is not paid or credited to the unitholders, it shall be deemed to have been credited to the account of the unit-holder on the last day of the tax year in the same proportion in which such person would have been entitled to receive the income had it been paid in the tax year [Section 224(7)].

Income taxed in the year of accrual not taxable again in the year of payment [Section 224(8)]:

It has been clarified that any income which has been included in the total income of the unit holder of an investment fund in a tax year, on account of it having accrued or arisen in the said tax year, would not be included in his total income in the tax year in which such income is actually paid to him by the investment fund.

**(10) Statement to be furnished:** The person responsible for crediting or making payment of the income on behalf of an investment fund and the investment fund are required to furnish, within the prescribed time, to the person who is liable to tax in respect of such income and to the prescribed income-tax authority, a statement in the prescribed form and verified in the prescribed manner. Such statement should give details of the nature of the income paid or credited during the tax year and such other relevant details as may be prescribed [Section 224(9)].

**(11)** Every investment fund has to compulsorily file its return of income or loss under section 263.

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**Summary of the above provisions**

| | Particulars | Investment Fund | Unit holder |
|---|---|---|---|
| (i) | **Income under the head "Profits and gains of business or profession"** of the Investment Fund | Taxable | Exempt |
| (ii) | Income, **other than profits and gains of business or profession** | Exempt.<br>Tax to be deducted on such income distributed to unitholders<br>- @10%, in case of resident payee<br>- at rates in force in case of non-resident payee | Taxable, as if he had directly made the investment. |
| (iii) | **Loss** under the head "**Profits and gains of business or profession"** incurred by the investment fund | To be carried forward for set-off as per Chapter VII at the Fund level | Not passed on to investors |
| (iv) | Loss (other than loss referred to in (iii) above) where such loss has arisen in respect of unit which has not been held by the **unit holder for a period of at-least 12 months** | The Act is silent relating to the permissibility or otherwise of carry forward of these losses in the hands of investment funds. | Not allowed to be carried forward by the unitholder. He cannot set-off such losses against his income. |
| (v) | Losses (other than losses referred to in (iii) and (iv) above) remaining after set-off against current year income. | Not allowed to be carried forward for set-off by the Investment Fund | Unit-holder can carry forward and set-off such losses against his income as per Chapter VII |

***Note –*** *Losses, other than business losses, accumulated at the level of the investment fund as on 31.3.2019 would be deemed to be the loss of the unit holder*

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*who held the unit as on 31.3.2019 in respect of the investments made by him in the investment fund, in the same manner as it were the loss incurred by him had he made such investments directly. Such loss can be carried forward by the unitholder for the remaining period calculated from the year in which the loss had occurred for the first time taking that year as the first year. Accordingly, he can set-off such loss in accordance with the provisions of Chapter VII. The loss so deemed to be the loss of the unitholder shall not be available to the investment fund on or after 1.4.2019.*

**Meaning of certain terms**:

| Term | Meaning |
|---|---|
| Investment fund [Section 224(10)(a)] | Any fund established or incorporated in India in the form of a trust or a company or a limited liability partnership or a body corporate which has been granted a certificate of registration as a Category I or a Category II Alternative Investment Fund and is regulated under the<br>- SEBI (Alternative Investment Fund) Regulations, 2012, made under the SEBI Act, 1992 or<br>- IFSCA (Fund Management) Regulations, 2022 made under the IFSCA, 2019; |
| Trust [Section 224(10)(b)] | A trust established under the Indian Trusts Act, 1882 or under any other law for the time being in force. |
| Unit [Section 224(10)(c)] | Beneficial interest of an investor in the investment fund or a scheme of the investment fund and shall include shares or partnership interests. |

## ILLUSTRATION 16

*The following are the particulars of income of four investment funds for T.Y.2026-27:*

| *Particulars* | *A* | *B* | *C* | *D* |
|---|---|---|---|---|
| | *₹ in lakh* | | | |
| *Business Income* | | *2* | *(2)* | *5* |
| *Capital Gains* | *16* | *14* | *(6)* | *20* |
| *Income from other sources* | *4* | *4* | *8* | *(2)* |

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*Compute the total income of the investment funds and each unitholder for T.Y. 2026-27, assuming that:*

*(1) each investment fund has 20 unitholders each having one unit held by them for a period exceeding 24 months; and*

*(2) income from investment in the investment fund is the only income of the unitholder.*

*If Investment Fund C has the following income components for T.Y. 2027-28, what would be the total income of the fund and the unit holder for that year?*

*Business Income ₹2 lakh*

*Capital Gains ₹9 lakh*

*Income from Other Sources ₹8 lakh.*

## SOLUTION

**Computation of total income of the investment fund for T.Y. 2026-27**

| Particulars | A | B | C | D |
|---|---|---|---|---|
| | ₹ | | | |
| Business Income | Nil | 2,00,000 | Nil | 3,00,000 |
| **Total Income** | **Nil** | **2,00,000** | **Nil** | **3,00,000** |

**Computation of total income of a unit holder of the following Investment funds for T.Y. 2026-27**

| Particulars | A | B | C | D |
|---|---|---|---|---|
| | ₹ | | | |
| Capital Gains | 80,000 | 70,000 | - | 1,00,000 |
| Income from other sources | 20,000 | 20,000 | 30,000 | - |
| **Total Income** | **1,00,000** | **90,000** | **30,000** | **1,00,000** |

**Notes:**

(i) The total income of Investment Fund B would be chargeable to tax @30% if the fund is a firm and @30%/25%, as the case may, if the fund is a company and at the maximum marginal rate, in any other case.

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(ii) In case of Investment Fund D, the loss from other sources ₹ 2 lakh is set-off against business income of ₹ 5 lakh.

(iii) In case of Investment Fund C, the business loss of ₹ 2 lakh is set-off against income from other sources of ₹ 8 lakh. Loss of ₹ 6 lakh under the head "Capital gains" cannot be set-off against income under any other head. The same can be carried forward by the Unitholder for set-off in the subsequent years since, the units are held for a period of 12 months or more.

For T.Y. 2027-28, brought forward capital loss of ₹ 30,000 [₹ 6 lakh/20] can be set-off against capital gains of ₹ 45,000 [₹ 9 lakh/20] by the unit-holder since, the period of holding of units is 24 months or more. Business income of ₹ 2 lakh would be taxable in the hands of the Investment Fund. Income from other sources of ₹ 40,000 (₹ 8 lakh/20) would be taxable in the hands of the unitholders.

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# TEST YOUR KNOWLEDGE

## Questions

1. *A trust, unless created for "charitable or religious purposes", does not qualify for the special provisions under Chapter XVII-B of the Act. In this context, explain the meaning of "charitable purpose" and examine whether rural reconstruction and upliftment of the masses through Cottage Industry would constitute charitable purpose.*

2. *Ramji Charitable Trust has filed return of income for the Tax Year 2026-27 in December 2027 and applied only 50% of its income for specified purposes. It intends to accumulate the balance 35% of income to be spent in future years. Accordingly, it filed its Statement in Form 109 in August, 2027 and deposited the money so accumulated in post office savings bank account. While completing the assessment, the Assessing Officer disallowed the accumulated income of 35% and taxed the same on the ground that the trust has filed its return of income after the due date for filing return of income. Discuss the validity of the action of the Assessing Officer in this case.*

3. *An institution operating for promotion of education and registered u/s 332 furnishes the following data for the tax year 2026-27:*

| S. No. | Particulars | ₹ in crores |
|---|---|---|
| (i) | Fees collected from students | 14 |
| (ii) | Construction of a new computer science laboratory | 0.50 |
| (iii) | Land acquired to be used as a cricket field for the students | 2 |
| (iv) | Amount earmarked and set apart for construction of an arts block within the next 4 years. | 4 |

*Compute the total income of the institution for the T.Y.2026-27.*

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4. *A public charitable trust registered under section 332, for the tax year ending 31.3.2027, derived gross income of ₹ 21 lakhs, which consists of the following:*

| | | (₹ in Lacs) |
|---|---|---|
| (a) | Income from properties held by trust (net) | 10 |
| (b) | Income (net) from business (incidental to main objects) | 4 |
| (c) | Voluntary contributions from public | 7 |

*The trust applied a sum of ₹ 11.60 lacs towards charitable purposes during the year which includes repayment of loan taken for construction of orphanage ₹ 3.60 lacs. The entire expenditure incurred on construction of orphanage was allowed as application of income in the T.Y. 2020-21.*

*Determine the taxable income of the trust for the tax year 2026-27.*

5. *Work out, from the following particulars, the amount of capital gain which shall be deemed to have been applied for charitable or religious purpose arising out of sale of a capital asset utilized for the purposes of trust to the extent of 60%:*

| Particulars | ₹ |
|---|---|
| Cost of transferred asset | 2,40,000 |
| Sale consideration | 3,60,000 |
| Cost of new asset purchased | 3,00,000 |

6. *An electoral trust approved by the CBDT is not liable to income-tax in respect of voluntary contribution received and other income - Examine the correctness of the statement.*

7. *HelpAge is a charitable trust set up on 1.4.2010 with the object of providing relief to the poor. Later on, in April, 2012, it changed its object to medical relief. It applied for registration on the basis of its new object, i.e., medical relief, on 1.9.2012 and was granted registration under section 12AA of the Income-tax Act, 1961 on 1.2.2013.*

*On 1.4.2026, HelpAge, a registered non-profit organization got merged with Poor Aid which is not eligible for registration under section 332. All the assets and liabilities of the erstwhile trust became the assets and liabilities of Poor*

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*Aid. The trust appointed a registered valuer for the valuation of its assets and liabilities. From the following particulars (including the valuation report), calculate the tax liability in the hands of the trust arising as a result of such merger:*

***(i) Land***

| Location | Date of purchase | Stamp duty value on 1.4.2026 | Value which the land would fetch, if sold in the open market on 1.4.2026 | Book Value on 1.4.2026 |
|---|---|---|---|---|
| | | ₹ | ₹ | ₹ |
| Noida | 1.9.2010 | 55 lakhs | 58 lakhs | 50 lakhs |
| Gurgaon | 1.9.2013 | 100 lakhs | 120 lakhs | 110 lakhs |

***(ii) Shares***

| Type of shares | Date of purchase | Face value of each share | Purchase price of each share | Price at which each share is quoted on BSE as on 1.4.2026 | | Open market value as on 1.4.2026# |
|---|---|---|---|---|---|---|
| | | | | Highest price | Lowest price | |
| | | ₹ | ₹ | ₹ | ₹ | ₹ |
| 5000 Quoted equity shares of A Ltd. | 1.5.2014 | 100 | 110 | 320 | 300 | |
| 2000 Preference shares of B Ltd. | 1.9.2015 | 100 | 100 | - | - | 180 |

# on the basis of report of Merchant Banker

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***(iii) Liabilities***

*Book value of liabilities on 1.4.2026 = ₹ 120 lakhs. This includes –*

*(a) Corpus fund ₹ 12 Lakhs.*

*(b) Provision for taxation ₹ 8 lakhs; and*

*(c) Reserves and* Surplus ₹ 18 lakhs

8. *"Serving the poor", a charitable trust, is a registered non-profit organisation. On 1.4.2026, it got merged with another entity not eligible for registration under section 332.*

*All the assets and liabilities of the erstwhile trust became the assets and liabilities of the merged entity.*

*The trust appointed a registered valuer for the valuation of its assets and liabilities. From the following particulars (including the valuation report), calculate the tax liability in the hands of the trust arising as a result of such merger:*

*(i) Stamp duty value of land held ₹ 15 lakhs. However, if this land is sold in the open market, it would ordinarily fetch ₹ 17 lakhs. The book value of the land is ₹ 20 lakhs.*

*(ii) 75,000 equity shares in Ink Ltd. traded in Delhi Stock Exchange. The lowest price per share on 1.4.2026 was ₹ 75 and the highest price on that day was ₹ 85. The book value was ₹ 67 lakhs.*

*(iii) 55,000 preference shares held in N Ltd. The shares will fetch ₹ 44 lakhs, if they are sold in the open market on 1.4.2026 Book value was ₹ 25 Lakhs.*

*(iv) Corpus fund as on 1.4.2026 ₹ 15 Lakhs.*

*(v) Outside liabilities ₹ 90 lakhs*

*(vi) Provision for taxation ₹ 5 lakhs.*

*(vii) Liabilities in respect of payment of various utility bills ₹ 6 lakhs.*

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## Answers

**1.** Section 2(23) defines "charitable purpose" to include relief of the poor, education, medical relief, yoga, preservation of environment (including watersheds, forests and wildlife) and preservation of monuments or places or objects of artistic or historic interest and the advancement of any other object of general public utility.

The Supreme Court has, in *Thiagarajar Charities vs. Addl. CIT (1997) 225 ITR 1010,* observed that "cottage industry" is associated with the idea of a small, simple enterprise or industry in which employees work in their own houses or in a small place, gathered together for the purpose, using their own equipments and is usually found in rural areas or so carried on, by the poorer section of the society. In substance, the activity of rural reconstruction and upliftment of masses through cottage industry is to afford relief to the poor and consequently, it is for charitable purpose.

**2.** Section 336 provides that an RNPO has to apply 85% of its income to charitable purposes and where 85% of its income is not applied for such purposes, the RNPO may accumulate or set apart under section 342 either the whole or part of its income for future application for such purposes in India. The requirement of the Act is that the RNPO has to make an application/intimation in the prescribed form, for accumulation of income, specifying the purpose and the period (not exceeding 5 years).

The application should be filed or furnished before the assessing authority on or before the due date specified under section 263(1). Further, the money so set apart or accumulated should be invested/deposited in any one or more of these modes or forms specified under section 350.

In case the statement in Form 109 is submitted in August, 2026 and the amount accumulated was deposited in post office savings bank account, which is a mode specified in section 350 read with Schedule XVI.

Further, section 349 provides that an RNPO may file its return within the time allowed under section 263(1)(c ) or 263(4) i.e. belated return where return can be filed within 9 months from the end of the tax year. Return filed after this date is considered to be case of "other violations" under section 353 when benefit of accumulation cannot be availed.

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In this case, as the return has been filed upto 31.12.2027, there is no violation by the RNPO. Since all the requirements of accumulation has been fulfilled and there is no violation, the RNPO is entitled for the benefit of accumulation. Therefore, the action of the Assessing Officer, in this case, is not valid.

**3. Computation of total income of the institution for the T.Y. 2026-27**

| Particulars | ₹ (in crores) |
|---|---|
| Fees received being Regular Income (Income from charitable activity) | 14.00 |
| 85% of the Regular Income (A) | 11.90 |
| Amount applied for charitable purposes | |
| • Actual amount spent on construction of computer science lab **(See Note 1)** | 0.50 |
| • Actual amount spent on purchase of land for cricket field **(See Note 1)** | 2.00 |
| Amount Accumulated for specified purpose **(See Note 2)** | 4.00 |
| Total Application and Accumulation (B) | **6.50** |
| **Taxable Regular Income being Total Income (A-B)** | **5.40** |

**Notes**:

(1) The institution can apply its income either for revenue expenditure or for capital expenditure provided the expenditure is incurred for promoting the objects of the institution. Land acquired and meant for use as cricket field for students is a capital expenditure incurred for promoting the objects of the institution and hence, eligible as application. Likewise, the amount spent on construction of computer science laboratory is also eligible as application.

(2) Section 342 provides that an RNPO can accumulate or set apart its income for a specified purpose by furnishing statement in prescribed format to the concerned Assessing Officer. However, the period for which the funds can be accumulated cannot exceed 5 years. The amount so accumulated should be invested in the forms and modes specified in section 350. In this case, the institution has to furnish

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statement in Form 109 on or before the due date of filing return of income to the Assessing Officer, stating the purpose for which the income is being accumulated or set apart and the period for which the income is being accumulated or set apart, which shall, in no case, exceed five years. Further, the institution has to invest ₹ 4 crore in the specified forms and modes.

(3) As per section 336(b), 85% of the regular income of RNPO as reduced by application for charitable or religious purposes as per provisions of section 341 and accumulation thereof under section 342 is to be treated as Taxable Regular Income of the RNPO.

**4. Computation of taxable income of public charitable trust**

| | Particulars | ₹ |
|---|---|---|
| (i) | Income from property held under trust (net) | 10,00,000 |
| (ii) | Income (net) from business (incidental to main objects) | 4,00,000 |
| (iii) | Voluntary contributions from public | 7,00,000 |
| | **Total Regular Income** | **21,00,000** |
| | **85% of Regular Income** | **17,85,000** |
| | *Less:* Amount applied for the objects of the trust | |
| | (i) Amount spent for charitable purposes (₹ 11,60,000 - ₹ 3,60,000) | 8,00,000 |
| | (ii) Repayment of loan for construction of orphan home (See Note below) | - |
| | **Taxable Regular Income** | **9,85,000** |

**Note -** As per section 341(4), any application for charitable or religious purposes, from any loan or borrowing shall not be treated as application of income for charitable or religious purposes. However, the amount not so treated as application, shall be treated as application in the year in which the loan is repaid. Section 341(2)(b)(ii) clarifies that this provision will apply only when application is from loan or borrowing made after 31.3.2021.

Since the amount spent on construction of orphanage was allowed as deduction in the T.Y. 2020-21, repayment of loan taken for such purposes will not be allowed as application as it would tantamount to double deduction.

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**5.** In this case, since the asset which is transferred is utilized for the purposes of the trust only to the extent of 60%, only the proportionate amount (i.e., 60%) of the capital gain would be regarded as having been applied for charitable or religious purposes.

As per section 341, where a capital asset held under trust is transferred, and only a part of the net consideration is utilized for acquiring a new capital asset, only so much of the capital gain as is equal to the amount, if any, by which the amount so utilized exceeds the cost of the transferred asset shall be considered to have been applied for the objects of the trust.

In this case, only a part of the net consideration of ₹ 3,60,000 is utilized for acquiring the new capital asset costing ₹ 3,00,000. The amount utilized in acquiring the new asset (i.e., ₹ 3,00,000) exceeds the cost of the transferred asset (i.e., ₹ 2,40,000) by ₹ 60,000.

Therefore, only 60% of (₹ 3,00,000 – ₹ 2,40,000) = 60% of ₹ 60,000 = ₹ 36,000 is deemed to be applied for the objects of the trust.

**6.** Section 12 provides exemption in respect of voluntary contribution received by an electoral trust approved by the CBDT in accordance with the scheme to be made by the Central Government.

Voluntary contribution received by an electoral trust would be treated as its income under section 2(49), but shall be exempt under section 12 if the trust distributes to a registered political party during the year, 95% of the aggregate donations received by it during the year along with surplus brought forward from any earlier years. Another condition for availing the benefit under this section is that the electoral trust should function in accordance with the rules framed by the Central Government.

It may be noted that the exemption under section 12 will be available only in respect of voluntary contribution received by an electoral trust. The exemption cannot be claimed in respect of any other income of the electoral trust.

Therefore, the given statement is not correct.

**7.** As per section 352, the accreted income of "HelpAge", an RNPO, which is merged with Poor Aid, an entity which is not eligible for registration under section 332, would be chargeable to tax at the rate of 34.944% [30% plus surcharge @12% plus cess@4%].

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**Computation of accreted income and tax liability in the hands of the HelpAge trust arising as a result of merger with Poor Aid**

| Particulars | Amount (₹) |
|---|---|
| **Accreted Income (A) = (B) – (C)** | |
| (B) Aggregate FMV of total assets as on 1.4.2026, being the specified date (date of merger) **[See Working Note 1]** | 1,39,10,000 |
| (C) Total liability computed in accordance with the prescribed method of valuation **[See Working Note 2]** | 82,00,000 |
| **Accreted Income = (B) – (C)** | **57,10,000** |
| Tax Liability @ 34.944% of ₹ 57,10,000 (rounded off) | **19,95,300** |
| **Working Notes:** | |
| **(1) Aggregate fair market value of total assets on the date of merger** | |
| - **Land at Noida, being immovable property, purchased on 1.9.2010**<br>Since the trust was registered only on 1.2.2013 and benefit of section 11 and 12 of the Income-tax Act, 1961 was available to the trust only from T.Y. 2012-13, being the tax year in which the application for registration is made, the value of land purchased in T.Y. 2010-11, in respect of which benefit under sections 11 and 12 of the Income-tax Act, 1961 was not availed, has to be ignored for computing accreted income. | - |
| - **Land at Gurgaon, being an immovable property, purchased on 1.9.2013**<br>[The fair market value of land would be higher of ₹ 120 lakhs i.e., price that the land would ordinarily fetch if sold in the open market and ₹ 100 lakhs, being stamp duty value as on the specified date, i.e., 1.4.2026] | 1,20,00,000 |

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| | | |
|---|---|---|
| - | **Quoted equity shares of A Ltd. [5,000 x ₹ 310 per share]**<br>[₹ 310 per share, being the average of the lowest (₹ 300) and highest price (₹ 320) of such shares on the specified date] | 15,50,000 |
| - | **Preference shares of B Ltd. [2,000 x ₹ 180 per share]**<br>[The fair market value which it would fetch if sold in the open market on the specified date i.e., FMV on 1.4.2026] | 3,60,000 |
| | | **1,39,10,000** |
| **(2)** | **Total liability** | |
| - | Reserves and Surplus ₹ 18 lakhs [not includible] | - |
| - | Corpus Fund of ₹ 12 lakhs [not includible] | - |
| - | Provision for taxation ₹ 8 lakhs [not includible] | - |
| - | Other Liabilities<br>[₹ 120 lakhs - ₹ 18 lakhs - ₹ 12 lakhs - ₹ 8 lakhs] | 82,00,000 |
| | | **82,00,000** |

**8.** As per section 352, the accreted income of "Serving the poor", an RNPO which merged with an entity not entitled for registration under section 332, would be chargeable to tax at maximum marginal rate @ 34.944% [30% plus surcharge @12% plus cess@4%].

**Computation of accreted income and tax liability in the hands of the trust arising as a result of merger with the "not eligible" entity for T.Y. 2026-27**

| Particulars | Amount (₹) |
|---|---|
| **Accreted Income (A) = (B) – (C)** | |
| (A) Aggregate FMV of total assets as on 1.4.2026, being the specified date (date of merger) **[See Working Note 1]** | 1,21,00,000 |
| (B) Total liability computed in accordance with the prescribed method of valuation **[See Working Note 2]** | 96,00,000 |

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| | | |
|---|---|---|
| **Accreted Income (A) = (B) – (C)** | | **25,00,000** |
| Tax Liability @ 34.944% of ₹ 25,00,000 | | **8,73,600** |
| **Working Notes:** | | |
| **(1)** | **Aggregate fair market value of total assets on the date of merger** | |
| - | **Land, being an immovable property**<br>[The fair market value of land would be higher of ₹ 17 lakhs i.e., price that the land would ordinarily fetch if sold in the open market and ₹ 15 lakhs, being stamp duty value as on the specified date] | 17,00,000 |
| - | **Quoted equity shares in Ink Ltd. [75,000 x ₹ 80 per share]**<br>[₹ 80 per share, being the average of the lowest (₹ 75) and highest price (₹ 85) of such shares on the date of merger] | 60,00,000 |
| - | **55,000 preference shares of N Ltd.**<br>[The fair market value which it would fetch if sold in the open market on the date of merger i.e., FMV on 1.4.2026] | 44,00,000 |
| | | **1,21,00,000** |
| **(2)** | **Total liability** | |
| - | Outside liabilities | 90,00,000 |
| - | Corpus Fund of ₹ 15 lakhs [not includible] | - |
| - | Provision for taxation ₹ 5 lakhs [not includible] | - |
| - | Liabilities in respect of payment of various utility bills [since this liability is an ascertained liability] | 6,00,000 |
| | | **96,00,000** |

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