

ESSENTIAL COMPLIANCE NGO CHECKLIST- BEFORE 31ST MARCH 2025

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What to do before 31st March 2025

- Key Considerations determining 85% Utilization Limit.
- MSME act.
- 12A & 80G.
- File Updated Income Tax Return.
- GST amnesty scheme and Rectification of Order.
- FCRA for NGO

NGO Receipts

- (A) Voluntary contribution
- (B) Voluntary contribution –Corpus
- (C) Voluntary contribution- Anonymous
- (D) Donations in kind
- (E) Income from Grant
- (F) Interest income bank /Investment income.
- (G) Deemed income u/s12
- (H) Income from capital gain
- (I) Income from business which are incidental to achieve objects
- (J) Defaults of form 9a & 10





VOLUNTARY CONTRIBUTION

Voluntary contribution received in kind or cash which is not bifurcated to Corpus or anonymous donation will be treated as general and provisions of Section 11 Apply on this donation.

What is Voluntary contribution

For voluntary contributions, the inherent nature of 'voluntary' must be present. The contributions are voluntary and are made willingly and without compulsion. Money is to be gifted or is given gratuitously without consideration. These tests should be satisfied for contribution. However, when there is a compulsion to pay.

No pre-conditions for voluntary contributions

in case of membership fee or subscription to a society or a trust, there is a force to pay fees by way of membership fee or subscription amount to the society. Thereby, the amount of subscription paid by a member to the society can never be considered as gratuitous payment made by the member to the society or as a payment without consideration.



CASH DONATION LIMIT



Key Points on Donations and Tax Deductions (Section 80G, Income Tax Act, 1961):

To claim tax deductions under Section 80G, cash donations above ₹2,000 are not eligible. Donations must be made through cheque, demand draft, or electronic transfer to qualify for tax benefits.

Trust Compliance for Cash Donations:

If a trust receives cash donations exceeding ₹1,99,999, there will be a violation of section 269ST and a penalty will be charged under 271DA, 100% of the amount received.

It must maintain proper documentation and collect the donor's PAN details. This ensures compliance with anti-money laundering regulations and promotes transparency in financial transactions.

These rules aim to encourage digital transactions and uphold accountability while supporting charitable causes.

CORPUS DONATION



The provision applies to donations which are claimed as Corpus Donations. It does not apply to other self created corpus, such as:

- (a) Corpus out of basic accumulation of 15%.
- (b) At the time of creation of trust corpus may come as cash ,property or even business.
- (C) Corpus donation from any other exempt income not subject to application under section 11.



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ISSUES



1. Income collected through donation boxes is not considered as corpus even if the boxes are marked "donation towards corpus".
2. Voluntary Contributions received for the renovation and repair of temples, mosques, gurudwaras, churches, etc. notified under section 80G(2)(b), may, at its option, be treated by such trust or institution as forming part of the corpus of the trust or the institution subject to certain conditions.
3. If the donor declare that interest earned from the corpus will also be treated as corpus than it will be considered accordingly.



ANONYMOUS DONATION

1Lac or 5% of total gross Receipts which is higher....In excess-taxes will be levy.



ANONYMOUS DONATIONS

- Thus exemptions available under section 11 are not available to the taxable portion of anonymous donation and are to be taxed as per section 115BBC.
- This donation is chargeable to tax 30% under section 115BBC only if when it is exceeding 5% of total donation or 100,000/- which is higher.
- Anonymous donation either in Revenue nature or capital nature it will be tax U/s 115BBC.

NOT APPLY TO

- The educational and medical institution which is financed by Government are not under the preview of Section 115BBC.
- Religious Trust also are out of preview of Anonymous donation under section 115BBC.
- In case of partly charitable or religious trust, charitable will be taxable while Religious will be exempt.

Difference between Sec.68 or anonymous donation

PMLA APPLY?

Identify & Segregate Anonymous Donations





DONATIONS IN KIND

The donations received in kind normally comprise of the following:

- (a) Consumable items such as clothes, grains, and drugs;
- (b) Books and hospital equipment, building for the use of school etc which are capital assets to be used for the charitable purpose.
- (c) Shares, units of a mutual fund, debentures and other items, which are income-yielding asset.

Donation in kind of assets in the form of impermissible mode of investment as per section 11(5) may include shares, debenture of a company or jewelry to a charitable institution. Such donations are subject to section 13(1)(d), which requires the funds to be invested or held or deposited in any mode as specified under section 11(5) of the Act within the expiry of one year from the end of the previous year in which such asset is acquired, and any violation thereof shall result in taxation of the amount of income equivalent to the amount of investment at the rate of 30% under section 115BBL

Schedule J of form ITR-7 contains the statement showing the funds and investments as on the last day of the previous year. This schedule also seeks the details of the voluntary contributions/donations received in kind but not converted into investments in the specified modes under section 11(5) within the specified time.





REPORTING IN ITR - 7

Implications under different scenarios:

There could be various scenarios of donations in kind, which are discussed below:

(a) If an assessee already possesses or controls an asset/property/stock-in-trade and subsequently transfers it as a donation, it will be considered a donation in kind and will not be eligible for a deduction.

(b) In cases where an assessee purchases an asset/property/equipment from party and by way of gift takes place after the acquisition of the asset/property/equipment. Therefore, it will not be eligible for a deduction unless the donee organization identifies the vendor and directly collects the goods, and only payment is made by the donor.

(c) Sometimes, a donee institution may require a specific asset/property/equipment and may approach the donor to fund its acquisition/purchase. In this case, the donee institution places an order directly with the supplier of the asset/property/equipment, and the supplier supplies and installs the equipment directly at the premises of the donee institution. This will qualify for a deduction as the transfer is in the form of money and not property in kind.

- Whether such donation is eligible for 80G deduction?

- can we apply DONATION UNDER FROM 10-Sec11(2)?

DONATION IN KIND



INCOME FROM GRANTS



Grant in aid Received from donor agency or the Government is voluntary contribution unless it is with specific restrictions and in the shape of Legal obligation.

Project grants which is Government and Private can be Types of Monetary & Non-monetary , Further it can be Temporary restricted Grants ,Restricted or Unrestricted Grants.

Accounting Treatment :-

It could be Through Income approach or capital approach

(a) under the income approach When the grant is not received as project was for more than 1 years than become difficult to utilize 85% of Grant received. Organizations want to take the benefit of section 11(2) in this case however the same is not needed.

(b) Under the Capital approach When the grant is spent or applied than such portion recognized in income expenditure account as income against the expense incurred , however remaining portion remain in liability side.

Note :- Grant which is restricted and Temporary restricted , recognize such in Income is same is year is wrong approach and organization may increase their filing work unnecessarily.



HOW TO RECOGNIZE - GRANTS DIFFERENT TYPE

Restricted grants

When cash is received upfront (restricted grant):

Dr. Cash

Cr. Deferred Grant Revenue (Liability)

The income is recognized only when expenses are incurred

Dr. Grant Revenue (Income)

Cr. Deferred Grant Revenue (Liability)

b) Unrestricted Grants

If there are no conditions, revenue is recognized immediately

Dr. Cash

Cr. Grant Revenue





ACCOUNTING FOR TEMPORARILY RESTRICTED GRANTS

Temporarily restricted grants are funds received with donor-imposed restrictions that expire over time or upon fulfilling specific conditions (e.g., funds for a scholarship program, research, or capital projects)

1. Recognition of Temporarily Restricted Funds

Under **accrual accounting**, these grants are recorded as **restricted revenue** when received but are not recognized as income until the restriction is satisfied.

(a) When the Grant is Received (Restricted)
Dr. Cash
Cr. Temporarily Restricted Net Assets (Liability/Equity)

The grant is initially classified as **restricted net assets** (or deferred revenue in some cases) until conditions are met.

(b) When Funds are Used for the Intended Purpose
Dr.
Temporarily Restricted Net Assets
Cr. Unrestricted Revenue (Grant Income)

RECOGNIZE GRANT AS PER AS -12

AND AVOID

**UNNECESSARY FILING
FORM 9A & FORM 10**



INVESTMENT INCOME

Bank interest, Dividend, Tax Refund and other interest-It should be utilized for 85% of total income Because these income arises only because of Income Held under Property of Trust.

Issue 1:-

Exemption u/s11(7) NGO registered under section 11 can not claim exemption of section 10 which is claimed by trust which are registered under section 10(1)/10(23c)/10(23ec)/10(46)/10(46a) like Interest on NSC, Interest from tax free bonds etc.



Issue 2:-

The Supreme Court of India in the case of [CIT v. Mata Amrithanandamayi Math Amritapuri](#) [2018] 94 taxmann.com 82/256 Taxman 62 held that where assessee received corpus donation on which it earned interest, in view of specific direction of donors that said interest would also form part of corpus, assessee's claim for exemption under section 11 in respect of interest so earned was to be allowed.

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DEEMED INCOME U/S 12

Section 12(2) in The Income Tax Act, 1961

The value of any services, being medical or educational services, made available by any charitable or religious trust running a hospital or medical institution or an educational institution, to any person referred to in clause (a) or clause (b) or clause (c) or clause (cc) or clause (d) of sub-section (3) of section 13, shall be deemed to be income of such trust or institution derived from property held under trust wholly for charitable or religious purposes during the previous year in which such services are so provided and shall be chargeable to income-tax notwithstanding the provisions of sub-section (1) of section 11.

Explanation. - For the purposes of this sub-section, the expression "value" shall be the value of any benefit or facility granted or provided free of cost or at concessional rate to any person referred to in clause (a) or clause (b) or clause (c) or clause (cc) or clause (d) of sub-section (3) of section 13.

Note:- It may be noted the value determined under 12(2) will not subject to application and exemption, take benefit U/S 11(1).



INCOME FROM CAPITAL GAIN



Capital assets which is held under trust as property than on transfer of such capital asset if net consideration has been Invested in acquiring capital asset for Such Trust than capital gain will be exempt.

However under the capital gain there is no distinction has been provided for the Long term /short term as period of Holding is not mentioned. However if the Trust not purchased any Capital asset Within year than such will be taxable at rate of 20% u/s 112(1)(d).

11(1)(a) does not specified any time limit for capital gain invested, also the time limit under which it shall remain invested, however as per various experts view it is clear the amount of net consideration should be invested u/s11(5) upto time asset is not purchased by trust.

Note :- Purchase capital assets before 31st march or invest u/s11(5).

INCOME FROM ACTIVITIES

When is Running a School Covered Under the Income Tax Act?

✓ **If the school is purely charitable (Section 11(1))**

If a registered trust runs a school as part of its charitable activities (without a profit motive), the income is exempt under Section 11(1).

Example: A charitable trust runs a free or low-cost school for underprivileged children.

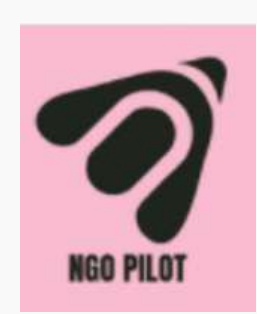
✓ **If the school is operated as a business (Section 11(4))**

If the school charges high fees, competes with private schools, and generates significant revenue, it may be classified as a business activity.

For exemption under Section 11(4)), the school must:

- Surplus must be used for Charitable activities of Trust.
- **Maintain separate books of accounts for fee-based operations.**





Combined example education, 11(4), 11(4a)

A charitable trust, "ABC Educational Trust," runs an educational institution and owns a printing press used for publishing books and study materials for students. It also operates a cafeteria within the campus.

Application of Sections:

Section 11(4) - Business Held as Trust Property:

The printing press is directly held as an asset of the trust.

Since it is used solely for educational purposes (which aligns with the trust's charitable objectives), the income from the printing press qualifies for exemption under **Section 11(4)**.

Section 11(4A) - Business Not Directly Held as Trust Property:

The cafeteria within the campus is operated separately as a commercial activity.

If the trust **maintains separate books of accounts** for the cafeteria business and the profits are applied towards charitable activities, then the trust can claim an exemption under **Section 11(4A)**.

Key Takeaways:

11(4) applies when the business is directly linked to the trust's objectives (e.g., running a printing press for educational purposes).

11(4A) applies when the trust carries out a business that is incidental (e.g., operating a cafeteria), provided it maintains separate books of accounts.



WHAT IS CHARITABLE PURPOSE FOR AN NGO

The expression “charitable purpose” has been defined under Section 2(15) of the Income Tax Act 1961 to include:

- (a) relief of the poor,
- (b) education,
- (c) yoga,
- (d) medical relief,
- (e) preservation of environment (including water sheds, forests and wild life
- (f) preservation of monuments or places or objects of artistic or historic interest and
- (g) advancement of any other object of general public utility

Further, the advancement of any other object of general public utility shall not be considered as charitable purpose, if it involves the carrying on of 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, unless—


- i)* such activity is undertaken in the course of actual carrying out of such advancement of any other object of general public utility; and
- ii)* the aggregate receipts from such activity or activities during the previous year, do not exceed twenty per cent of the total receipts, of the trust or institution undertaking such activity or activities, of that previous year;

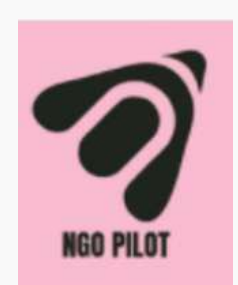
Does the 20% Business Income Limitation Apply to Religious Trusts?

No, the **20% limitation on business income** under **Section 11(4A)** does not apply to purely religious trusts. The restriction applies **only to charitable trusts**.

Example of Permissible & Non-Permissible Business Activities

Activity	Allowed?	Remarks
Running a bookstore selling religious texts	✓ Yes	Incidental to religious objectives
Running a temple canteen	✓ Yes	Supports religious activities
Selling non-religious items (e.g., electronics)	✗ No	Not incidental to religious purpose
Running a religious school	✓ Yes	Can qualify as both charitable & religious
Real estate business for profit	✗ No	Pure commercial activity, not incidental





Advancement of general public utility

The term "advancement of general public utility" (GPU) is one of the charitable purposes defined under Section 2(15) of the Income Tax Act. It refers to activities aimed at benefiting the general public in areas that are not limited to education, medical relief, or relief of the poor.

Examples of GPU Activities

Promotion of Trade and Commerce – Chambers of Commerce promoting industry growth.

Consumer Rights Protection – Associations helping consumers against unfair trade practices.

Urban Development – Development authorities creating infrastructure.

Promotion of Arts and Culture – Institutions preserving heritage.

Key Condition: Restriction on Business Activity

Under Section 2(15), if an organization engaged in GPU activities undertakes commercial/business activities, it will not be considered charitable unless:

- ✓ The business is incidental to its objectives.
- ✓ Business income does not exceed 20% of total receipts (as per Section 13(8)).

Note :- Before 31st march check your business receipts should not be exceeded more than 20%



EXAMPLES OF APU WITH BUSINESS

Examples Where the 20% Restriction Applies

- The 20% restriction applies **ONLY** to trusts engaged in "Advancement of General Public Utility" (AGPU) under Section 2(15).
- If a trust earns income from commercial activities, exemption is denied if commercial receipts exceed 20% of total receipts.
- This rule does not apply to trusts for education, medical relief and other 4 limbs

When the 20% Restriction Applies

✓ **Example 1: Chamber of Commerce (Allowed if Below 20%)**

A Chamber of Commerce promotes business development (AGPU).

It earns ₹8 crores from membership fees and ₹1 crore from paid consulting services.

Commercial receipts = ₹1 crore (11% of total receipts) → ✓ Exemption is allowed (since it is below 20%).



Example 2: Trade Association (Denied if Above 20%)

A Trade Association promotes industry growth (AGPU).

It earns ₹5 crores from seminars & memberships but ₹2 crores from sponsorships and advertisements.

Commercial receipts = ₹2 crores (40% of total receipts) → ✗ Exemption denied because commercial activity exceeds 20%.

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EXAMPLES OF APU WITH BUSINESS

✓ Example 3: Educational Trust Running a Paid Coaching Centre

A charitable trust runs a school and a coaching centre for extra fees.

Even if the coaching centre earns more than 20% of total receipts, it is an educational activity → ✓ No restriction, exemption allowed as it does not covered under APU.

✓ Example 4: Hospital Running a Pharmacy

A charitable hospital runs a pharmacy inside the hospital.

Even if pharmacy sales exceed 20% of total receipts, it is incidental to healthcare →

✓ No restriction, exemption allowed.

●  Conclusion: The 20% limit applies ONLY to AGPU trusts. Medical, educational, and religious trusts are NOT affected.



MEANING OF CHARITABLE PURPOSE

Section 2 (15)		Section 11(4)	Section 11(4A)
		Inheritance, Donation, Formed for part of trust	Other than 11(4) but incidental to objects
Relief to the poor		No Limit of 20%, any amount charged or not charged activities shall be treated as charitable purpose.	
Education			
Medical Relief			
Preservation of:	Monuments		
	Environment		
yoga			
Advancement of object of general public utility (APU)		Allowed upto 20% of total receipts-->	Exceeding 20% of total receipts will not be charitable

NOTE: Section 11(4) or Section 11(4A), If any surplus arise then it should used by such trust for their charitable objects only then it will be exempt.



WHAT IF 85% NOT SPENT?



FUND NOT RECEIVED DURING THE YEAR



To check 85 per cent application Once the income subject to application and the amount applied towards charitable/religious purposes is computed, then it needs to be verified whether the total application is at least 85 per cent of its income. The organization can accumulate 15% of its income indefinitely without any conditions.

If the organization is unable to apply at least 85 per cent of its income as aforesaid where the income is accrued but not received or due to any other reason, then the organization can exercise the option of applying such in-come in the immediately succeeding year or the year in which the income is received. **[Explanation 2 to section 11(1)].**

Note :- Next year Unutilized part of funds will be taxable u/s 11(1B)

Scenario:

A charitable trust earns ₹10,00,000 in FY 2024-25.
To claim full exemption, it must spend ₹8,50,000 (85%) on charitable activities.
However, it only spends ₹5,00,000 in FY 2024-25 due to unavoidable delays.

The trust intends to spend the remaining ₹3,50,000 in FY 2025-26.

To ensure compliance, the trust files Form 9A before the due date of ITR filing (31st October 2025, if audited).
Outcome:

The shortfall of ₹3,50,000 will NOT be taxed in FY 2024-25 because the trust committed to applying it in FY 2025-26 via Form 9A.

If the trust fails to apply the amount in FY 2024-25, it will become taxable in FY 2025-26.



Fund need to allocate –next years for specific Purpose

- If the organization is unable to apply at least 85 per cent of its income then it can also opt for accumulating the portion of income which could not be applied on a specific declared purpose. Such accumulated income should be applied within the next 5 years, failing which the income will become taxable. Once the income is accumulated, it should not be used for purposes other than for which it was accumulated.
- The money accumulated or set apart has to be invested or deposited in forms or modes specified U/s11(5).
- Further, inter-charity donations are not possible out of this accumulated income.

Note :- Unutilized part of accumulation of Section 11(2) will be taxable u/s11(3)

Ex. A charitable trust earns ₹10,00,000 as income in each financial year and decides to accumulate a portion of it under Section 11(2) for constructing a school

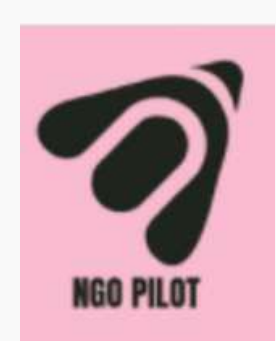
Financial Year (FY)	Income (₹)	85% Required Spending (₹)	Accumulated under Sec 11(2) (₹)	Deadline for Utilization
2023-24	20,00,000	8,50,000	9,50,000	31st March 2029
2024-25	15,00,000	8,50,000	4,50,000	31st March 2030
2025-26	10,00,000	8,50,000	1,50,000	31st March 2031
2026-27	12,00,000	8,50,000	3,50,000	31st March 2032
2027-28	10,00,000	8,50,000	1,50,000	31st March 2033

Key Points:

- Each year's accumulated amount **must be spent within 5 years** from the FY in which it was accumulated.
- If any amount remains **unspent beyond the 5-year period**, it becomes taxable in the **6th year**.

Example of Utilization:

- The balance from **FY 2023-24 accumulation (₹9,50,000)** must be used **before 31st March 2029**, or it will be taxed in FY 2029-30.



THINGS TO DO FOR INCOME – 31ST MARCH, 2025

- Invest your corpus donations as per section 11(5).
- Avoid anonymous donation due to PMLA provisions.
- Voluntary contribution should be validate with Aadhar & PAN to claim exemptions u/s 80g.
- Convert your investments in kind before 31st march as per 11(5).
- Grants should be recognized, restricted, unrestricted as per temporary restricted under AS – 12.
- Investment income should be recognized application 85% is necessary.
- 85% exemption on real income not deemed income .
- Purchase capital assets or invest u/s 11(5).
- APU is restricted to 20% of their business activity.



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Q&A – Income of Trust

Issue 1:-

Whether Grossing up of TDS deduction is necessary?

- Compute real income which is actually receipt by the assessee no requirement to Grossing up income of TDS.

When preparing financial statements, **gross income** is reported before expenses. This includes:

- Grants, donations, and income from services.
- Interest and other earnings.
- Any TDS deducted (TDS should be added back to claim it as a refund).

Issue 2:-

Income should be gross income Or Net Income after deducting charges to earning such income?

-Application should be against the net income ,therefore the income shall be Deduct all chargeable expenditure .

Issue 3:-

Section 11(1)(A) does not create any difference between private & public Religious Trust, but bar has been imposed by 13(1)(a) Which specifically Placed bar on Exemptions Income of Private religious Trust.

Issue 4:-

Agricultural income under trust does not come under the preview of the Section 11, still separate books of accounts should be kept.

ISSUE

How to application of income

1. Application should be paid off.
2. Capital expenditure-whether allow?
3. Inter-charity donation?
4. Application from Loan or Borrowings?
5. Application out of Corpus ?
6. Depreciation
7. Application out of accumulation of income?
8. Application outside India ?



WHAT IS APPLICATION

Expense account should be paid off (As per F.A. 2022)

The new subsection 7 to section 11 has been added, the effect of this subsection is that for the purpose of determining application of income during the previous year in which such sum is actually paid by it.

Note :- Before 31st march all expense need to paid whether it is revenue in nature or capital in nature.

However any advance to meet the criteria for 85% will not be treated as application

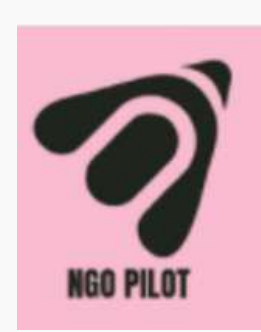
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EXPENDITURE CAPITAL IN NATURE

The term used in section 11(1)(a) of the Income Tax Act, 1961 is 'applied. This term comprises all expenses incurred for charitable or religious purposes, this means the term comprises capital and revenue expenditure. As the word has been used in broadest sense no distinction can be made between capital expenditure and revenue expenditure. Thereby expenditure incurred irrespective of nature amounts to 'application'

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DEPRECIATION

From AY 2015-16 onwards, Section 11(6) states that: If the cost of an asset has already been considered as an application of income," then depreciation on such assets cannot be claimed again.

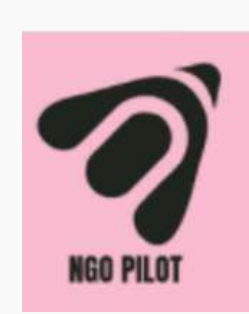
What does this mean?

If a trust purchases a building for ₹10 lakhs and treats it as an application of income, then in future years, it cannot claim depreciation on that building.

However, if the asset is used in a business held under trust, depreciation is still allowed as a normal business expense.

Q:-Whether Depreciation will be show in Profit & loss when It is not allowed as application of income?





INTER CHARITY DONATION

- Inter-charity donation is permissible, but it is to be ensured that the donor and donee should share **similar objects**.
- Inter-charity donation is allowed only when the same is **paid to Registered Trusts only** , payment for Unregistered trusts is not allowed as deduction for Unregistered Trusts.
- **Inter-charity donation is treated at par** with direct application for the purposes of sections 11(1) (a) and 10(23C).

Therefore only 85% of the eligible voluntary donations made by a trust or institution registered under section 12AB to another trust or institution registered under section 12AB or approved under section 10(23C), will be considered as the application of income. (Effective from the Assessment Year 2024-25).



INTER CHARITY DONATION

INTER CHARITY DONATION									
BEFORE					AFTER				
S NO		DONATION	DONATION	DONATION	S NO		DONATION	DONATION	DONATION
		BY A TO B	BY B TO C	BY C TO D			BY A TO B	BY B TO C	BY C TO D
1	Income of a charity instutaion	100	85	72.25	1	Income of a charity instutaion	100	85	72.25
2	Less Accumulation allowed @ 15%	15	12.75	10.84	2	Less Accumulation allowed @ 15%	15	12.75	10.84
3	income required to be applied	15	72.25	61.41	3	income required to be applied	85	72.25	61.41
4	Application of income by way of donation to other institutaion	85	72.25	61.41	4	Application of income by way of donation to other institutaion	85	72.25	61.41
5	Short fall in accumulation (3-5)	0	0	0	5	Application of income considered equal to 85% of sl no 4	72.25	61.41	52.2
6					6	Short fall in accumulation (3-5)	12.75	10.84	9.21
Thus the group of institutions together effectively spend 61.41% of their income and accumulate 38.59% (15+12.75+18.84) of their income instead of the permissible limit of 15%					Thus the aggregate of shortfall by the group of charity institutions would be 32.80% (12.75+10.84+9.21)				

Treatment of Inter-charity Donations

The inter-charity donations can be classified for tax purposes into the following two broader categories:

(a) Inter-charity donations that are not allowed as the application of income:

- Inter-charity donation towards corpus fund out of income by section 12AB registered trusts.

- Inter-charity donation towards corpus fund out of income by section 10(23C) approved institutions.

- Inter-charity donation out of accumulated funds under section 11(2) except in the case of dissolution.

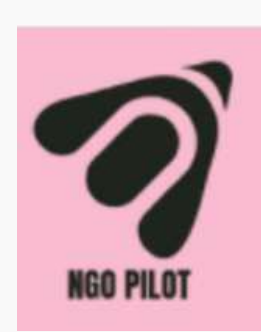
- Inter-charity donation out of accumulated funds other than accumulated under section 11(2).

(b) Inter-charity donations that are permissible as the application of income:

- Inter-charity donation not towards corpus out of income.

- Inter-charity donation out of accumulated funds under section 11(2) in case of dissolution.(on Satisfaction of officer)

Note :- If inter charity in your trust than check the limit of 85% again with 85% utilization.



APPLICATION OUT OF LOAN OR BORROWINGS

As per the amended act, any application made from any loan or borrowing will not be treated as application for charitable or religious purposes. It can be claimed as application in the previous year in which the loan or borrowing is repaid from the income of that year and to the extent of such repayment.

Case 1:-If Loan is Repaid Using Another Loan


If a trust takes a second loan to repay the first loan, it is **NOT** considered application of income because:

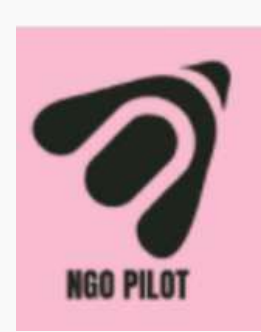
The repayment is not from income but from another liability.

The actual application of income happens only when the trust repays the loan from its own income.

Case2:- Whether a Loan to Another Charitable Trust is Allowed as Application of Income?

General Rule - Loan is NOT Treated as Application of Income

- ●  A loan given to another charitable trust is NOT considered as application of income
- because, loan is not an expense; it is an advance or asset for the lending trust.
✓ It will be allowed as application ONLY if it is written off or converted into a donation/corpus fund.



APPLICATION OUT OF CORPUS

Any expense made from the corpus shall be allowed as application of income in the year in which such amount has been deposited in corpus or Investment specified u/s 11(5).

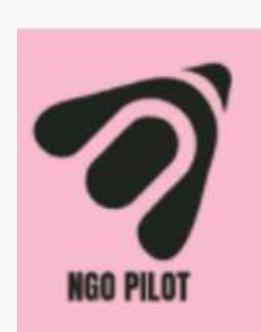
Applicability of Requirement to Invest the Corpus in Section 11(5) Investment Modes:

The corpus fund of an organization may be created through many sources and may also include assets which do not conform to section 11(5). The sources from which a corpus fund could be created are broadly as under:

- (a) Corpus donation received with the specific direction (covered u/s. 11(1)(d))
- (b) 15% accumulation after applying 85% of income.
- (c) By payment of taxes, for example an organization pays taxes against anonymous donations in excess of 5%.
- (d) At the time of creation of trust corpus may come as cash, property or even business.
- (e) Corpus donation from any other exempt income not subject to application under section 11.

For the sake of greater clarity, it may be noted after the amendment only application to the corpus fund to the extent created out of corpus donation received under section 11(1)(d) as mention in point No. (a) above has to remain invested as per section 11(5) for example such fund cannot be used for incidental business activity which is possible with other corpus fund.

Corpus fund which has been utilized for application of income shall be deposited back invested in next 5 years from date of Spent such application.



APPLICATION FROM ACCUMULATED FUNDS

Application out of accumulated income under section 2(15):-Yes application can be made from Accumulated funds whether it is revenue or capital in nature.

(a) Inter-charity donations that are not allowed as the application of income:
Inter-charity donation out of accumulated funds under section 11(2) except in the case of dissolution.

Inter-charity donation out of accumulated funds other than accumulated under section 11(2).

(b) Inter-charity donations that are permissible as the application of income:
Inter-charity donation out of accumulated funds under section 11(2) in case of dissolution.

APPLICATION OUTSIDE INDIA



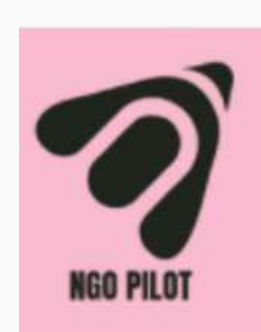
(a) Under the provisions of section 11(1)(c) of the Income-tax Act, 1961, income applied on activities outside India is not eligible for exemption unless the following conditions are satisfied:

(i) The charitable organization happens to be a trust created before 1-4-1952 or it is engaged in the promotion of international welfare in which India is interested.

(ii) Central Board of Direct Taxes (CBDT) has, by general or special order, granted an exemption for carrying out such activities.

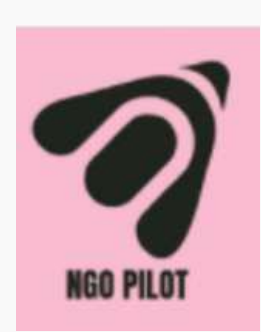
(b) If an organization incurs expenditure outside India in contravention of section 11(1)(c) then the entire exemption will not be lost. Income to the extent not applied in India will not be eligible for exemption and shall be taxed under Section 115BBI.

(c) Institutions approved under section 10(23C) may have some activities outside India, but they should primarily be working in India only to claim exemptions. Therefore, one must distinguish between charitable trusts registered under section 12AA/12AB and approved under section 10(23C).



Q & A - APPLICATION OF INCOME

- Whether Trust has make payment of taxes either current year or preceding year , it will be allowed as application of income.
- Section 11 exemption is allowed for actual income not for the deemed income, so income assess under 12(2) will be taxable without exemption.
- Legal charges incurred in defending criminal charges over the trustees or functionaries are a valid application.
- No Loss of earlier year will be allowed (As per Explanation 5 of Sec11)
- Provisions of 40a(ia)TDS , 40a(3), and (3a) Cash payment will apply.



Q & A - APPLICATION OF INCOME

- **Provision for leave encashment and gratuity**

Interesting issue came up where provision for gratuity and leave encashment made on actuarial valuation report is to be allowed as application of Income?. Held, yes in case of *Anandilal & Ganesh Podar Society v DCIT (E)* (2021 TaxPub (DT) 4199 (Mum-Trib)).

- **Application of income on account of provisions for doubtful debts.**

Held application of income in case of *DCIT (E) v Fit Lt. Rajan Dhall Charitable Trust* 2022 TaxPub (DT) 1882 (Del-Trib).

- **Corpus donation to another trust is NOT considered an application of income for Trust A.**

As per Explanation 2 to Section 11(1) (inserted by the Finance Act, 2021), any voluntary contribution made by one trust to another trust's corpus is NOT treated as application of income for the donor trust.

Payment as advance

- In the case of *CIT v Shree P. Subramoniam Religious Trust* (2009) 179 Taxman 144 (Ker), it was held that advance payment made to the supplier cannot be treated as an application.

- **Deposit made in FD be considered as application of income?**

The tribunal held in the case of *Income-tax Officer (Exemptions), Ambala v D. Public School* (2016) 66 taxmann.com 12 (Chandigarh-Trib) that mere deposit of surplus funds in FDRs cannot be treated as application of funds for charity under section 11(1)(a).

THINGS TO DO FOR EXPENSE – 31ST MARCH 2025



- 85% exemption cover both revenue capital nature expense that should be paid off.
- Inter charity donation allowed to application only 85%.
- Check application for loan at borrowings, corpus.
- Depreciation will not allow if aspects has been claimed as expense already.
- Payment as advance should not be treated application of income.
- Outstanding creators must be paid as per MSME provisions
- 20% FCRA limit for expenditure should be followed.





Section 2(e) of the MSMED Act

◆ **Enterprises"** means an industrial undertaking or a business concern or any other establishment, by whatever name called, engaged in the manufacture or production of goods, in any manner, pertaining to any industry specified in the First Schedule to the Industries (Development and Regulation) Act, 1951 or engaged in providing or rendering of any service or service

NGO PILOT



IS MSME APPLY TO NGO?

◆ Charitable and purely donation-based NGOs are not covered under MSME provisions.

◆ MSME registration is only for organizations engaged in business or commercial activities

- Whether disallowance will be done under Income tax?

NGO PILOT

Sec.12A & Sec.10

File provisional to permanent license immediately to loose exemption:-

Commencement of activities

- | | | | |
|-----|-------|---|-----------|
| 10. | (i) | Where the auditee has been granted provisional registration or provisional approval, whether activities have commenced during the previous year | No |
| | (ii) | If yes in 10 (i) , date of commencement of activities | |
| | (iii) | If the answer to 10(i) is yes, whether application for registration under section sub-clause (iii) of clause (ac) of sub-section (1) of section 12A or approval under clause (iii) of the first proviso to Clause (23C) of section 10 has been filed? | |
| | (iv) | If yes in 10(iii) above, the date of application for registration or approval | |

Example :-

M/s ABC has registered Provisionally under 12A in 2023-24 and file their Nil turnover Return , in 2024 they have started their operation in 13 july 2024.

As per provision they need to apply for their Permanent registration in form 10AB on or before dated 12Th January 2024.

Under the form 10B OR 10BB if auditor report such date than permanent registration will be rejected only on ground of application was file late in spite of you are doing Genuine activity.

Sec.12A & Sec.10

File amendment to correct License

Details of Place where books of accounts and other documents have been maintained

11.	(i)	Whether the books of account and other documents have been kept and maintained in the form and manner and at such place as prescribed under rule 17AA by the auditee?	Yes
	(ii)	If Yes in (i) above, whether books of account are maintained at registered office?	Yes
	(iii)	If No in (ii) above, provide the following details regarding any place other than the registered place where the books of account are maintained	
	(a)	Address of such place where the books are maintained	0,0
	(b)	Date of decision by management to keep account at such place	-
	(c)	Whether intimated to Assessing Officer that accounts are kept at such place under proviso to sub-rule (3) of rule 17AA?	No
		Date of intimation to Assessing Officer	-

Sec.12A & Sec.10



File amendment to correct 12A & 80G

12.	(i)	Whether the auditee, being a trust or institution referred to in section 11 or 12, has adopted or undertaken modification of the objects which do not conform to the conditions of registration?			No	
	(ii)	If yes, please furnish following information:-				
	(A)	Date of such modification/ adoption				
	(B)	Whether an application for registration has been made in the prescribed form and manner within the stipulated period of thirty days from the date of said adoption or modification, as per sub-clause (v) of clause (ac) of sub-section (1) of section 12A.			No	
	(C)	If yes provide the following details regarding application for registration under sub-clause (v) of clause (ac) of sub-section (1) of section 12A				
		S. No.	Date of Application	Status of registration in pursuance of application	Date of Registration or cancellation based on such application	URN of such registration
		(1)	(2)	(3)	(4)	(5)
		No Records Available				

License Rejected -



What if your registration is cancelled -this year due to non-reply

- Apply registration U/S 12A & 80g immediately
- prepare medical certificate
- Reason for not reply.

NGO PILOT

Should u file Updated Return-139(8A) ?

The Finance Act 2022 introduced income computation provisions for situations where::

- the institution has not obtained the audit report;
- the institution has not furnished the return of income within the time allowed under Section 139(4A).

Corresponding amendments have been incorporated in Part B-TI, reflecting the income statement in the ITR form. Part B3 now offers a distinct table if total income becomes subject to taxation under the twenty-second proviso to Sections 10(23C) or 13(10). In such cases, taxable income, arising from exemption withdrawal, is determined while accounting for eligible expenditure (excluding capital expenditure) in India for the institution's objectives.

Should u file Updated Return ?

To claim this deduction, certain conditions must be met::

- The **expenditure is not from the amount of corpus donations** credited in the books of account up to the end of the financial year immediately preceding the relevant previous year;
- The **expenditure is not from any loan or borrowing**;
- **Depreciation shall not be allowed in respect of an asset** whose full cost has been claimed as an application of income;
- The expenditure is **not in the form of a contribution or donation to any person**.
- **No deduction shall be allowed for the capital expenditure**;
- **No deduction shall be allowed for the expenditure not incurred in India**.

The income shall be computed without deduction of the following expenditures:

Disallowance shall be made under Section 40(a)(ia) for the default made in deduction of tax and also Disallowance shall be made Section 40A(3)/40A(3A) for the payment made in cash;

Importantly, disallowed expenses or allowances cannot be deducted elsewhere, and any arising losses due to such expenditure cannot be setoff

GST AMNESTY SCHEME 2024

EFFECTIVE DATE

31st March, 2025

SPL-01

Application for waiver of interest or penalty or both under Section 128(1)(a) in case of notice or statement

SPL-02

Form GST SPL 02 applies to situations where an order has been passed by the authorities at the first level tax authorities or by the appellate authorities.

What you will get waiver?

The GST Amnesty Scheme 2024 offers a waiver of interest and penalties for tax demands under Section 73 of the CGST Act for **July 2017-March 2020**. Taxpayers can apply using Forms GST SPL-01 (for notices or statements) or GST SPL-02 (for demand orders), now available on the GST portal.



Rectification of GST ORDER

Notification No. 22/2024 – Central Tax, issued on October 8, 2024, introduces a special procedure for rectifying orders related to the incorrect availment of Input Tax Credit (ITC) under the Central Goods and Services Tax (CGST) Act, 2017.

Scope and Applicability:

This notification applies to registered taxpayers who have received orders under Sections 73, 74, 107, or 108 of the CGST Act, confirming demands for wrong ITC availment due to contraventions of Section 16(4). If such ITC is now permissible under Sections 16(5) or 16(6), and no appeal has been filed against the order, taxpayers can seek rectification.

Procedure for Rectification:

Application Submission: Eligible taxpayers must electronically file an application for rectification on the common portal within six months from the date of this notification. The application should include information as per Annexure A of the notification.



Rectification of GST ORDER

Rectifying Authority: The officer who issued the original order will handle the rectification application and is expected to decide within three months from the application date.

Issuance of Rectified Order: Upon rectification, the authority will upload a summary of the rectified order electronically in FORM GST DRC-08 for orders under Sections 73 or 74, or in FORM GST APL-04 for orders under Sections 107 or 108.

NGO PILOT



FCRA LIMIT FOR NGO

Under the Foreign Contribution (Regulation) Act (FCRA) of India, organizations are restricted from allocating more than 20% of the foreign contributions received in a financial year towards administrative expenses.

Definition of Administrative Expenses:

- Salaries, wages, and travel expenses of the Executive Committee or Governing Council members.
- Expenses related to hiring personnel for managing activities, including their salaries and travel costs.
- Consumable expenses such as electricity, water, telephone, postal charges, office repairs, stationery, and printing.
- Costs associated with accounting and fund administration.
- Expenses for running and maintaining vehicles.
- Costs for preparing and submitting reports.
- Legal and professional charges.
- Rent, repairs, and other utility expenses for premises.



How to do things –if your 12A Registration is not alive now?

Income Tax Computation for Unregistered Trusts (Not Registered Under Section 12A/12AB)

If a trust is not registered under Section 12A/12AB, it does not get exemption under Section 11 and is taxed like an Association of Persons (AOP) under the Income Tax Act, 1961.

1. Taxable Income Computation

Since the trust is unregistered, all its income (including voluntary contributions) is taxable, and deductions under Sections 11 & 12 are not available.

Step-by-Step Computation

A. Compute Gross Income

- ✓ Voluntary Contributions (Donations) – Corpus and non-corpus donations are fully taxable since exemption is not available.
- ✓ Government Grants & Other Income – Fully taxable.
- ✓ Rental Income (if any) – Taxable under House Property (eligible for 30% standard deduction under Sec 24(a)).
- ✓ Business Income (if applicable) – Taxable as Business Income (expenses related to business allowed as deduction).
- ✓ Interest/Dividend/Capital Gains – Taxed under respective heads.

B. Deduct Allowable Expenses

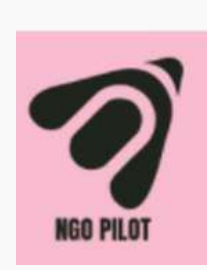
Even though Section 11 exemptions do not apply, the trust can claim expenses incurred wholly for charitable purposes as business expenses under Section 37 (if engaged in business).

Administrative & operational expenses (e.g., salaries, rent, utilities).

Program-related expenses (if directly related to income-generating activities).

Depreciation on assets.





VIOLATIONS U/S 13- SAVE YOURSELF BEFORE 31ST MARCH

Section	Nature of Violation	Example	Tax Consequence
13(1)(a)	Income used for private religious purposes	A trust supports only one religious section	Exemption lost; entire income taxed at 30% (MMR)
13(1)(b)	Benefits restricted to a specific caste/community	A trust helps only one caste	Exemption lost; taxed at 30%
13(1)(c) & 13(3)	Benefits given to trustees, donors, or relatives	A trustee's child gets free school fees	Tax at 30% on misused amount (Sec 115BBI)
13(1)(d) & 13(5)	Investments in non-permissible assets	Trust buys shares in a private company	Investment amount taxed at 30% (Sec 115BBI)
13(7) & 13(8)	Donations to political parties or commercial activities	Trust funds used for election campaigns	Exemption lost; taxed at 30%
13(9)	Anonymous donations (except for religious trusts)	Donations received without donor details	Tax at 30% under Sec 115BBC
13(10)	Settlor/founder benefits from trust funds	Trust founder takes personal loan from trust	Entire trust income taxed at 30%
13(11)	Violation by a newly registered trust in its first year	A new trust invests in private real estate	Exemption lost; taxed at 30% (Sec 115BBI)

Section providing for the rate of tax	Income Subject to tax		Rate of tax
Taxation u/s.115BBI for specified violation.	1.	Surplus if the application falls short of 85% after option & accumulation.	30%
	2.	Income u/s 11(1B) for default of not spending the amount opted to be spent in the subsequent year or in the year of receipt	30%
	3.	Income u/s 11(3) Violation of condition of accumulation u/s 11(2)	30%
	4.	Amount of income applied outside India in contravention of section 11(1)(c)	30%
	5.	Income u/s 13(1)(c): Benefit to Interested person	30%
	6.	Income u/s 13(1)(d): Investment of funds in impermissible modes	30%
Anonymous Donation u/s 115BBC	Taxable portion of Anonymous Donation		30%
Taxability u/s 164 (2)	1.	Income computed u/s 13(10) & 13(11)-for specified situation	As an AOP
	2.	Section 12(2)-value of services (being medical & educational) to a specified person	As an AOP
	3.	Violation of condition in terms of Explanation 3A to section 11(1) for treating the donation u/s 80G(2)(b) as corpus donation [Explanation 3B to section 11(1)]	As an AOP
	4.	Income chargeable under section 11(4)	As an AOP
Accreted Income u/s 115TD	Accreted Income		Maximum Marginal Rate

BUDGET 2025

Extended Tax Exemption Validity: NGOs registered under Section 12A of the Income Tax Act, which provides tax exemptions, will now enjoy an extended validity period. Previously, these exemptions required renewal every five years; the new budget extends this period to ten years for institutions with an annual income up to ₹5 crore in each of the preceding two years.



BUDGET

Simplified Registration Process for Small Trusts with Income up to INR 5 Crore (Effective April 1, 2025):

To ease compliance, the validity of final registration under section 12AB has been extended from 5 to 10 years. For approvals granted after April 1, 2025, this change applies directly. However, existing approvals will not be automatically extended, and trusts must file renewal applications by September 30, 2025.

Relaxation for Minor Errors in Registration Applications (Effective April 1, 2025):

Small omissions or incomplete details in registration applications will no longer be treated as serious violations leading to cancellation. This ensures minor mistakes don't result in harsh penalties like losing tax-exempt status or facing taxes on accumulated income. However, providing false or incorrect information remains a serious offense.



Revised Definition of 'Substantial Contributor' and 'Specified Person' (Effective AY 2025-26):

Currently, a 'substantial contributor' is someone who has donated over INR 50,000 since the trust's inception. This has been impractical for many trusts, as most receive aggregate donations exceeding INR 50,000 from multiple donors over the years.

The definition has now been revised. A 'substantial contributor' is someone who:

- Donates over INR 1lakh in a single financial year, or
- Donates over INR 10 lakh in total since the trust's inception.

Additionally, relatives of such contributors and entities in which they have a significant interest will no longer be considered 'specified persons.' This change simplifies reporting for trusts.

However, maintaining donor details from inception remains a challenge, especially for long-standing trusts. These updates aim to balance practicality with accountability, making compliance more manageable for trusts.



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