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Donate For Humanity & Save Tax

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Abstract

Many of us make donations every now and then but most of us are not aware that the donation comes with Tax Benefits. As per survey recently conducted only 4 percent of the individuals claim tax deductions on donations given by them. This is either due to ignorance of the fact that the donations come with Tax breaks. I agree that charity is not done with tax saving in mind, but one should be aware of the fact that the government has given tax benefits on the amount donated under various sections of Income tax Act, 1961. In my research paper, I have tried to explain all these sections in a proper sequence. Under these sections, mainly three things are discussed :

1) Tax payers (assesses) Who are entitled to claim deduction 2) List of registered trusts, societies & funds where a person can donate for getting deduction 3) The maximum amount that can be allowed as deduction to assessee while computing total income. In addition, various considerations that an assessee should kept in mind while donating to approved trusts, NGO's, societies are also discussed. In the final stage, some recommendations have been given to develop the donating habit for humanity & tax saving among Indian people.

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Objectives Of The Study

- To find out the list of approved trusts, Societies etc. for donation purpose
- To find out the impact of these donations while calculating taxable income
- To suggest some ways to improve income tax compliance.

Research Methodology

To achieve the specific objectives of the study, the data is collected from tax professionals such as chartered accountants, company secretaries. The data is also collected through secondary sources also such as Internet, websites, professional magazines, referred journals, news papers and conference books. In addition books on income tax and reports published by ICAI, ICSI and ICWA etc. have also been considered.

Introduction

INSPITE of all the contributions made to social causes, there is a huge gap between the demand of money from the needy and the amount donated by philanthropists. This probably, is the reason why the Government has given tax benefits on donations. The amount donated towards charity attracts deduction under section 80G of the Income Tax Act, 1961. Section 80G has been in the law book since financial year 1967-68 and it seems it's here to stay. The Scope of the Section 80G has been widened by introducing some new sections in this series by Govt. These sections are Section 80G, 80GG, 80GGA, 80GGB & 80GGC. Out of these sections, four (except 80GG) are related to reducing total income of assessee and consequently the tax liability by making donation in approved funds.

Section 80G: Donation towards Certain Specific Funds & Save tax

- This section is applicable to all assessees, who make an eligible donation, whether an individual, firm, HUF, NRI or a company.
- Only donations in cash/cheque are eligible for the tax deduction:-Donations in kind do not entitle for any tax benefits. For example, during natural disasters such as floods, earthquake, and many organisations start campaigns for collecting clothes, blankets, food etc. Such donations will not fetch any tax benefits.
- If anyone donate in cash for the benefit of any particular person, caste or community or religion, he is not entitled to claim any deduction u/s 80G.
- A new clause has been added to Section 80G vide Finance Bill 2012 . As per the new sub-section (5D) to Section 80G any payment exceeding a sum of ten thousand rupees shall only be allowed as a deduction if such sum is paid by any mode other than cash. These amendments are effective from 1st April, 2013.
- Donations made to foreign trusts do not qualify for deduction under this section.

Eligible Donations :

There are thousands of trusts registered in India that claim to be engaged in charitable activities. Many of them are genuine but some are untrue. In order that only genuine trusts get the tax benefits, the Government has made it compulsory for all charitable trusts to register themselves with the Income Tax Department. And for this purpose the Government has made two types of registrations necessary u/s. 12A & U/s. 80G. Only if the trust follows the registration U/s. 12A, they will get the tax exemption certificate, which is popularly known as 80G certificate. The government periodically releases a list of approved charitable institutions and funds that are eligible to receive donations that qualify for deduction. The list includes trusts, societies and corporate bodies incorporated under Section 25 of the Companies Act 1956 as non-profit companies. Only donation made to made to prescribed funds and institutions qualify for deduction: - All donations are not eligible for tax benefits. Tax benefits can be claimed only on specific donations i.e. those made to prescribed funds and institutions. For the purpose of section 80G, qualifying donations have been classified in two categories :

With Limit Donations

These are the donations whose total cannot exceed a certain specified limit (10% of Adjusted total income). The list is as under :

- Donations to the Government or a local authority for the purpose of promoting family planning (100%)
- Sums paid by a company to Indian Olympic Association (100%)
- Donation to the Government or any local authority to be utilized by them for any charitable purposes other than the purpose of promoting family planning (50%)
- Donation to notified Temple, Gurudwara, Church or Mosque of historical importantce (50%)
- Donation to a local school or college which is not of national eminence (50%)
- Donation to a notified institution working for the welfare of minority community (50%) etc.

Note : Adjusted Total Income = GTI minus LTCG minus STCG specified u/s 111A minus All Deductions u/s 80C to 80U except 80G.

Without Limit Donations

The without limit donations means those donations in which no restriction has been imposed on aggregate amount for claiming the deductions u/s 80G. The approved list by the govt. is as under :

- Prime Minister's National Relief Fund (100 %)
- National Defence Fund(100 %)
- Prime Minister's Armenia Earthquake Relief Fund (100 %)
- The Africa (Public Contribution – India) Fund (100 %)
- The National Foundation for Communal Harmony (100 %)
- Approved university or educational institution of national eminence (100 %)
- The Chief Minister's Earthquake Relief Fund, Maharashtra (100 %)
- Donations made to Zila Saksharta Samitis. (100 %)
- The National Blood Transfusion Council or a State Blood Transfusion Council (100 %)
- The Army Central Welfare Fund or the Indian Naval Benevolent Fund (100 %)
- The Air Force Central Welfare Fund (100 %)
- Jawaharlal Nehru Memorial Fund (50%)
- Prime Minister's Drought Relief Fund (50%)
- National Children's Fund (50%)
- Indira Gandhi Memorial Trust (50%)
- The Rajiv Gandhi Foundation (50%)

Quick Examples:

My friend Krrish has a Adjusted Gross Taxable income of Rs. 10,00,000/- . He donated Rs. 100,000/- to the National Defence Fund. 100% of is donation is eligible for tax exemption. As he is donating to National Defence Fund there is no qualifying limit basis his income. Rs. 100,000/- of his donation will be considered for tax purposes and his total taxable income will come down to Rs. 900,000/- .

On the other hand my friend Ounik has a Adjusted Gross taxable income of 10,00,000/-. He donated Rs. 300,000/- to a registered NGO (50% of which is eligible for deduction) However, this qualifying amount must not be above 10% of his total income, i.e. Rs. 100,000/-. So, in this instance, the actual amount eligible for deduction from income will be Rs. 50000.

Requirements for Claiming deduction U/s 80G

- ✓ **Stamped receipt**
  For claiming deduction under Section 80G, a receipt issued by the recipient trust is a must. The receipt must contain the name and address of the Trust, the name of the donor, the amount donated (please ensure that the amount written in words and figures tally).
- ✓ **Mention of Registration No. of the Trust Under 80G on receipt**
  The most important requirement is the Registration number issued by the Income Tax Department under Section 80G. This number must be printed on the receipt. Generally, the Income Tax Department issues the registration for a limited period (of 2 years) only. Thereafter, the registration has to be renewed. The receipt must not only mention the Registration number but also the validity period of the registration. •
- ✓ **Validity of Registration U/s. 80G on the date of Donation**
  The donor must ensure that the registration is valid on the date on which the donation is given.
- ✓ **Photocopy of the 80G certificate**
  Check the validity period of the 80G certificate. Always insist on a photocopy of the 80G certificate in addition to the receipt.

Section 80GGA : Donate for Scientific, Social & Statistical research & Save tax

- The deduction under this section is available to all assesses who do not have any income from Business or profession in the relevant previous year.
- The deduction is available in respect of amount donated for Scientific Research to approved institutions, Donation for Social Research, Donation for Statistical Research, Donation towards Rural Development Fund, Donation for National Poverty Eradication Fund etc.

- Amount of Deduction : 100% of Donated Amount.

Section 80GGB & 80GGC : Donate to Political Party & Save Tax

This was introduced in the Union Budget of 2009-10 in order to make election funding, in which corporates are major donors, transparent and free of corruption. Initially , section 80GGB was introduced for allowing deduction to Indian Companies in respect of amount donated to political parties but later on under section 80GGC, the deduction regarding donation to political party was also made available to other assesses.

- Deduction under this section is available to individuals, HUF, Firms
- The entire (100%) amount donated by an individual to a recognised political party is allowed as deduction under Section 80GGC of the Income-Tax Act .
- Be careful as if the donation is done simply by handing over cash to a party worker, assessee will not be able to claim any deduction.
- Donations made in cash are not eligible for tax deduction wef AY 2013-14.
- Political party must be registered under Section 29A of the Representation of the People Act, 1951.

Conclusions & Recommendations

By introducing section 80G, 80GGA, 80GGB & 80GGC, Government of India is trying to collect money from higher earning people and spending the same towards the economic development of the nation. This tax deduction encourages the people to make a charity donation for better Indian society. But still % of people who are taking advantage of tax benefit under this section is very low. There is tendency among tax payers to reduce tax liability by taking advantage of Section 80C, 80CCC, 80D, 80DD, 80DDB, 80E etc. As far as section 80G is concerned, only 4% of donors claim tax deductions on charity donations under 80G. It means the donors do not aware about the tax deduction. Also, a majority of tax payers in India are not much willing to donate for social welfare. Also, large number of trusts & NGO's in India are fake. They are befooling the people by taking donating giving reference of particular religion, community. These institutions should be checked by the government & strong legal actions should be taken against them. Also, the trusts & NGO's which are genuine & collecting money for welfare of community do not periodically display the accounting record of utilization of funds donated by the public. So, how a person would come to know whether the money donated by him is used properly or not.

Recommendations

- List of specified funds should be definite and should be advertised by the govt. from time to time.
- List of donors should be displayed in the national newspaper to make them feel proud.
- Fake institutions should be identified, displayed & strong actions should be taken by the Govt. to check their activities.
- The periodical report of disbursement of funds of these institutions should be published regularly to satisfy the donor & to convince the other persons to donate.
- There should be a Section in the Income Tax Act, 1961 for giving life time tax exemption to those who donate organs to someone else.
- There is need to educate and arouse awareness among people regarding social, spiritual & developmental benefits of donation
- There should be a proper mechanism to ensure donors that their hard earned money is really going to be utilized for the humanity.
- People should be awared about the respective laws and acts relating to donations.
- Donors are advised to make the payment through banking channels — cheques, demand drafts, credit or debit cards and internet banking — if you are planning to claim tax deductions. While there is no cap on the claim amount as a deduction for such donations, there is an overall limit on total deductions.

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