Tax Benefits for Charitable Trusts and NGOs: Unlocking Section 80G and Beyond

Charitable acts, whether through donations or running welfare activities, not only uplift society but also offer significant tax benefits in India. Under **Section 80G** of the Income Tax Act, donations to approved charitable trusts and non-governmental organizations (NGOs) can reduce your taxable income. Additionally, charitable trusts and NGOs themselves enjoy tax exemptions under specific conditions. This blog explores how individuals and organizations can leverage these tax benefits, the rules governing charitable trusts, and the key requirements for compliance.

What Are Charitable Trusts and NGOs?

As defined by the Supreme Court in *Andhra Chamber of Commerce* (1965), charity embodies altruism—helping others without expecting personal gain. Charitable trusts and NGOs are non-profit entities dedicated to causes like poverty relief, education, medical aid, environmental preservation, yoga, or general public welfare. These organizations, formed as trusts, societies, or Section 8 companies, play a pivotal role in supporting government efforts in social and economic development. Their localized approach ensures aid reaches those in need, and the government incentivizes their work through tax exemptions and benefits for donors.

Tax Benefits for Donors: Section 80G Explained

Under **Section 80G**, individuals and entities donating to registered charitable trusts or NGOs can claim deductions on their taxable income. Here's how it works:

- **Eligible Donations**: Contributions to Central/State Relief Funds, registered NGOs, or other charitable institutions approved under Section 80G qualify for deductions.
- **Deduction Limits**: Depending on the organization, deductions range from **50% to 100%** of the donated amount, subject to a cap of 10% of your adjusted gross total income for certain donations.
- **How to Claim**: Ensure the trust/NGO provides a valid **80G certificate** and include donation details (amount, receipt, organization's 80G registration number) while filing your ITR.

Pro Tip: Always verify the NGO's 80G registration status to ensure your donation qualifies for tax benefits.

Tax Exemptions for Charitable Trusts and NGOs

Charitable trusts and NGOs registered under **Section 12AB** (formerly 12AA) or **Section 10(23C)** can claim exemptions on their income, subject to specific conditions. Below is a breakdown of how different types of income are taxed or exempted:

Category of Income	Taxability
Voluntary Contributions (Corpus)	Exempt if specifically directed to form part of the trust's corpus.
Voluntary Contributions (Non-Corpus)	Forms part of taxable income unless applied for charitable/religious purposes (exemption subject to conditions).
Anonymous Donations	Taxed at 30% if exceeding the higher of: (i) 5% of total donations, or (ii) ₹1,00,000. Anonymous donations to religious trusts or mixed-purpose trusts are taxed like non-corpus contributions.
Income from Property Held for Charitable/Religious Purposes	Exempt if applied for charitable/religious purposes in India (at least 85% of income must be applied). Up to 15% can be accumulated without tax.
Income Promoting International Welfare	Exempt if the CBDT issues a general or special order excluding it from total income.
Capital Gains	Fully exempt if the net consideration is reinvested in another capital asset for charitable/religious purposes. Partial reinvestment exempts the portion exceeding the cost of the old asset.

Note: Exemptions apply only to trusts/institutions registered under **Section 12AB** or approved under **Section 10(23C)**.

How Should Income Be Applied for Exemption?

To claim exemptions, a trust must apply at least **85% of its income** to charitable or religious purposes in India. Charitable purposes include:

- Relief of the poor
- Education
- Yoga
- Medical relief

- Environmental preservation
- Advancement of general public utility

Eligible Expenditures:

- Purchase of capital assets
- Repayment of loans for capital assets
- Revenue expenditure
- Donations to other trusts registered under Section 12AB or 10(23C) (up to 85% of income)

Non-Eligible Expenditures: Using borrowed funds for charitable purposes does not qualify as an application of income for exemptions.

Religious Trusts: Income from religious trusts is exempt only if it benefits the public, not private religious purposes or specific communities/castes.

What If 85% of Income Isn't Applied?

If a trust cannot apply 85% of its income, it can still claim exemptions under these conditions:

1. **Deemed Application**:
    - **Income Not Received**: If income isn't received in the financial year, it can be applied in the year of receipt or the following year. File **Form 9A** electronically before the ITR filing deadline under Section 139(1).
    - **Income Not Spent**: For other reasons, apply the income in the next financial year and report via Form 9A.
2. **Accumulation of Income**:
    - Trusts can accumulate up to **15% of income** without specific conditions.
    - To accumulate more than 15% (up to 85%), file **Form 10** electronically two months before the ITR filing deadline, specifying the purpose and ensuring the income is:
        - Not accumulated for more than 5 years.
        - Invested in specified modes (e.g., government securities, post office savings, immovable property, or public sector company bonds).
        - Not donated to another trust.

Taxation on Non-Compliance:

- Income applied for non-charitable/religious purposes: Taxed in the year of application.
- Income not invested as specified: Taxed in the year it ceases to be invested.
- Accumulated income not used within 5 years: Taxed in the last year of accumulation.

Investment Modes for Accumulated Income

Accumulated income must be invested in:

- Government savings certificates or UTI
- Post office savings bank, scheduled bank, or co-operative bank deposits
- Immovable property
- Central/State Government securities
- Fully guaranteed company debentures
- Public sector company investments
- Bonds of financial corporations or public companies providing long-term finance for India's industrial development

Cases Where Exemptions Don't Apply

Exemptions are not available for:

- Income from private religious trusts not benefiting the public.
- Charitable trusts indirectly benefiting a specific religious community or caste.
- Income/property used for the benefit of **specified persons** (e.g., trust founders, trustees, substantial donors contributing >₹50,000, or their relatives).
- Income not invested in specified modes.
- Medical/educational services provided to specified persons by trusts running hospitals or schools.
- Business income, unless incidental to the trust's objectives and supported by separate books of account.

Documents for Registration

To avail tax benefits, trusts/NGOs must register under **Section 80G** and **12AB**. Required documents include:

For 80G Registration:

- PAN card
- List of donors
- Memorandum of Association (MoA) and Registration Certificate
- Certificate of Incorporation
- No Objection Certificate (NOC)
- IT returns, bank statements, and books of accounts (last 3 years)
- Form 10G
- List of welfare activities
- Trust Deed (for trusts)
- Latest utility bills (water, electricity, or house tax receipt)
- List of Board of Trustees

For 12AB Registration:

- Form 10A
- PAN card

- Trust/NGO creation documents
- Financial statements (last 3 years)
- For Section 8 Companies: Certificate of Incorporation, MoA, and AoA

Tips for Donors and Trusts

- **For Donors**: Verify the NGO's 80G registration, keep donation receipts, and claim deductions while filing your ITR.
- **For Trusts/NGOs**: Ensure timely registration under Sections 80G and 12AB, maintain proper records, and comply with the 85% application rule. File Forms 9A or 10 as needed to secure exemptions.

Why It Matters

Donating to or running a charitable trust/NGO not only supports societal welfare but also offers substantial tax savings. By understanding Section 80G and related provisions, donors can reduce their tax liability, while trusts can optimize exemptions to further their mission. Stay compliant, leverage expert help, and make a difference—both socially and financially.