



KPB & Associates

Impact of Income Application Restrictions on Corpus Donations between Trusts or Institutions

Introduction:

With effect from April 1, 2023, significant amendments to the Income-tax Act, 1961, have been introduced, specifically affecting donations made by charitable or religious trusts to other trusts. These amendments impose restrictions on the application of income, permitting only 85% of the donated amount as an application of income while subjecting the remaining 15% to taxation. Our previous communication, titled "Tax Implications of Donations between Charitable or Religious Institutions," explored this amendment in detail.

Building on that foundation, this communication aims to delve into the implications of this restriction, focusing on scenarios where charitable or religious trusts make corpus donations to other trusts. These corpus donations may be sourced from the current year's income, accumulated income, or the donor trust's corpus fund.

Understanding Corpus Donations:

- A corpus donation involves contributions not meant for immediate expenditure but for permanent investment, generating

annual income to be used for charitable and/or religious activities.

- The Income Tax Act defines a corpus donation as a voluntary contribution to a trust with specific directions that it forms part of the trust or institution's corpus.
- The Act mandates recipient trusts to invest or deposit corpus donations in specified modes, as outlined in section 11(5) of the Act since April 1, 2021. Modes include deposits in scheduled banks, Post Office Savings Banks, investments in immovable property, or units of Unit Trust of India, among others.
- For the recipient trust, corpus donations received are not taxable as they are considered capital receipts.

Corpus Donations from One Trust to Another:

1. Current Year's Income:

- When a trust makes a corpus donation to another trust or institution registered under section 12AB or approved under section 10(23C) of the Act from its current year's income, it was allowed as an application of

income up to 31st March 2018. Any corpus donations made from 01-04-2018 onwards, is not considered as an application

2. Accumulated Income:

- Income earned by a trust in a financial year is not taxable provided that a minimum of 85% of the income is applied towards trust activities.
- If a trust cannot utilize a minimum of 85% of its current year's income due to reasons such as unavailability or other constraints, it can accumulate such income for future use for a maximum of 5 years (deemed application) under certain conditions.
- If a trust, out of such accumulated income, makes a corpus donation to another trust or institution registered under section 12AB or approved under section 10(23C) of the Act, the donation amount is not considered an application of income.

3. Trust's Own Corpus:

- Any application for charitable or religious purposes made from its corpus funds before April 1, 2021, is not considered an application of income.
- From April 1, 2021, any application for charitable or religious purposes made from its corpus funds is treated as an application in the year in which such corpus is replenished back, provided it is restored within a period of 5 years from its utilization.

- From April 1, 2023, any replenishment of corpus funds will be treated as an application, subject to fulfilment of specific conditions.
 - Such application shall not be in the form of corpus donation to another trust
 - TDS, if applicable, should be deducted on such application
 - Payment or aggregate of payment to any person in excess of Rs. 10,000/- per day is not allowed if made in modes other than prescribed banking or online channel
 - Carry forward of excess application from previous years not allowed
 - Application is allowed in the year in which the amount is actually paid
 - Application is not directly or indirectly for the benefit of any person referred to in S. 13(1)
 - Application is made in India except with the approval of the Board

Conclusion:

The recent amendments to the Income-tax Act have brought about notable changes in the treatment of corpus donations between charitable or religious trusts. Understanding these changes is crucial for trusts engaged in such transactions to ensure compliance with tax regulations. Please feel free to reach out if you have any questions or require further clarification.



Key Contacts – Direct Tax

At K P B & Associates, we are a Chartered Accountancy firm committed to elevating your business performance through knowledge-driven solutions. Our overarching vision is to establish ourselves as a paragon of excellence and efficiency, dedicated to furnishing bespoke professional services for our valued clientele. With a legacy spanning over two decades, we bring forth a wealth of experience to offer superior solutions in assurance, risk management, internal audit, regulatory compliance, financial advisory, and business consultancy.

Navigating today's rapidly evolving business landscape requires adaptability. In the midst of this dynamic and demanding milieu, we provide a beacon of clarity, underpinned by a tradition of client-centric service, a trajectory toward excellence, and an unwavering commitment to ethical standards in every project we undertake.

KPB is founded upon a bedrock of fundamental principles:

- **Professional Expertise:** We house a team of accomplished multidisciplinary professionals and capable assistants, continuously honing their skills with up-to-date technical knowledge to meet our clients' diverse needs.
- **Ethical Business Practices:** Our operations are rooted in unwavering ethical standards, ensuring integrity in all our dealings.
- **Responsiveness to Client Needs:** Our approach is highly responsive to the unique requirements of each client, fostering effective collaboration and tailored solutions.
- **Value for Money:** We offer optimal value for our clients' investments, ensuring that the services provided align with their objectives.

Our partners actively contribute to knowledge dissemination by crafting articles for diverse professional publications, newspapers, magazines, and more. Furthermore, they assume roles as educators, imparting their expertise at seminars, conferences, and within various organizations, covering a broad spectrum of technical subjects.

What sets us apart is our comprehensive suite of integrated services, encompassing Taxation, Audit and Assurance, Risk Management, Forensic Analysis, Insolvency Resolution, Business Administration, Financial Consultancy, Regulatory Advisory, Valuations, and more. We stand ready to be your steadfast ally in propelling your business toward excellence and prosperity.

Disclaimer: The information contained herein is for general guidance. It is not intended to be relied upon as accounting, tax, legal or other professional advice. The reader is requested to obtain professional advice before taking any action. KPB & Associates or any of its partners or directors or employees are not responsible for loss caused to any person upon acting or refraining from action as a result of any information in this publication.

Picture credit www.pixabay.com



Priti Savla
Partner
priti@kpbca.com

Paras Savla
Partner
paras@kpbca.com

Prity Dharod
Partner
prity@kpbca.com

Archana Kshatriya
Associate Consultant
Archana.Kshatriya@kpbca.com

Visit us www.kpbca.com

Our Offices

904, Centrum, Opp. Rayladevi Lake,
Next to IMCOST, S G Barve Road, Thane 400 604
MH India T: +91.22.2582 7822/38

1004, Level 10, Sunshine Tower,
Senapati Bapat Marg, Prabhadevi, Mumbai 400 013
MH India T: +91.22.2432 2258/68