

Sinners get punished, angels get tax breaks

By Ameet Patel

Bill Gates, the richest man in the world and the founder of Microsoft, reportedly donates a large chunk of his billions regularly to charity. In India too, we have a few people who have deep pockets and large hearts. They give away large amounts every year for good causes. Yet, there is a huge gap between the demand of money for the poor & the needy and the amounts donated by philanthropists.

This is probably the reason, why the Government has tried to motivate people to donate by giving tax benefits to persons giving donations. Thus, the Government has dangled a carrot before the taxpayers and the carrot is in the form of a deduction under section 80G of the Income-tax Act.

Section 80G has been on the law book since F.Y. 1967-68 and it seems it is here to stay for a long time to come. Several deductions have been swept away by our present Finance Minister but the tax sop for donations is one sop that appears to have survived the axe.

The main features of the tax benefit in respect of donations are as under:

- a) Who is eligible for claiming this deduction?
- b) Which institutes qualify for accepting such donations?
- c) How much deduction does the donor get?
- d) What care should be taken for claiming the deduction?

a) Who is eligible for claiming this deduction?

The section refers to "an assessee". It does not restrict the deduction to individuals or to companies or to any specific category of tax payer. Therefore, any person who makes an eligible donation would be entitled to the deduction subject to the other conditions

b) Which institutes qualify for accepting such donations?

There are thousands of trusts registered in India who claim to be engaged in charitable activities. Many of them are genuine trusts but some are the rotten apples amongst the basket of apples. In order that genuine trusts only get the tax benefits, the Government has made it compulsory for all charitable trusts to register themselves with the Income-tax Department. Thus, any trust that wants to accept donations and wishes to give tax benefits to its donors will have to first register itself with the Income-tax Department. For this purpose, two types of registrations are necessary. Only after that will the Trust get a tax exemption certificate, which is popularly known as 80G certificate. This is so because it is Section 80G which gives the tax deduction to the donors for donations given to registered charitable organisations.

c) How much deduction does the donor get?

The first thing that a tax payer needs to do while claiming deduction under section 80G is to find out how much portion of the donation qualifies for the deduction i.e.

he should find out the amount of donation which qualifies for the deduction. Thereafter, he has to compute the actual donation with reference to the qualifying amount. For this purpose, donations can be broadly divided into two categories –

i) Donations to Private Trusts

In the case of this category of donations i.e. donations to private trusts, the qualifying amount with respect to which deduction would be available will be the lower of the following two amounts:

- a) The amount of donation and
- b) 10% of the Gross Total Income as reduced by all other deductions under Chapter VI-A of the Income-tax Act (such as 80C (PPF, LIC etc.), 80D (mediclaime), 80CCC (pension schemes) etc.)

Thus, for example, a tax payer named Mr. Laxmi Arcelor has taxable salary of Rs. 500,000. He has deposited Rs. 70,000 in PPF and Rs. 60,000 has been paid into his Company PF. He donates Rs. 45,000 to CRY (Child Relief & You). Presume that he has no other income. His taxable income will be computed as under:

Gross Salary	-	Rs. 5,00,000
Less: Deduction under section 80C – restricted to	-	Rs. 1,00,000
GROSS TOTAL INCOME (Before 80G)		Rs. 4,00,000

Now, qualifying amount for 80G will be:

Actual amount of donation or	-	Rs. 45,000
10% of Gross Total Income as computed above i.e.	-	Rs. 40,000 whichever is lower

Since 40,000 is lower, the qualifying amount will be Rs. 40,000

The next question that arises is how much would be the actual deduction? In the case of the first category of donations i.e. donations to private trusts, the actual amount of donation would be 50% of the qualifying amount.

Therefore, in the example given above, since the donation is made to a private trust, the deduction will be 50% of the qualifying amount i.e. 50% of Rs. 40,000 = Rs. 20,000.

Thus,

GROSS TOTAL INCOME (Before 80G)		Rs. 4,00,000
Less: Deduction under section 80G	-	Rs. 20,000
TOTAL INCOME (Taxable Income)	-	Rs. 3,80,000
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ii) Donations to Trusts/funds set up by the Government:

In this category, the entire amount donated i.e. 100% of the donation amount is eligible for deduction. There is a long list of 21 funds/institutions/purposes to which/for which donations given would qualify for 100% eligibility. Notable among this list are:

The National Defence Fund
The Prime Minister's National Relief Fund
Any fund set up by the State Govt. of Gujarat for earthquake relief

The funds that figure in this long list are all set up by the Government. Private trusts do not figure in this list.

Thus, in this category of donations, the ceiling of 10% of the Gross Total Income as reduced by all other deductions under Chapter VI-A of the Income-tax Act does not apply.

In the above example, if instead of donating to CRY, had the donation been given to say, The Prime Minister's National Relief Fund, then the calculations would have been as under:

GROSS TOTAL INCOME (Before 80G)	Rs. 4,00,000
Less: Deduction under section 80G	-Rs. 45,000
TOTAL INCOME (Taxable Income)	Rs. 3,55,000
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d) What care should be taken for claiming the deduction?

When one gives a donation to a charitable organization, if the tax deduction is desired to be claimed then the following points must be borne in mind:

i) A stamped receipt is a must:

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 in words and in figures tally!). Also, the most important requirement is the Registration No. 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). Thereafter, the registration has to be renewed for a further period. The receipt must not only mention the Registration No. but also the validity period of the registration. The donor must ensure that the registration is valid on the date on which the donation is given. For example, the registration of a trust may be valid for the period 1st April, 2004 to 31st March, 2006. Now, if the trust does not get its registration renewed after 1st April, 2006 then even if donation receipt is issued by the trust to the donor for donations received after 1st April, 2006, the donor would not get any tax benefit.

So, please check the validity period of the 80G certificate. Always insist on a photocopy of the 80G certificate in addition to the receipt.

ii) File the original donation receipt with your return of income:

For claiming deduction under section 80G, filing the original donation receipt alongwith the return of income is necessary. If the receipt is not filed then you will not get the deduction.

iii) Only donations in cash/cheque are eligible for the tax deduction:

It must be remembered that donations in kind do not entitle you to any tax benefit. For example, sometimes when there are floods or an earthquake, many organizations start campaigns for collecting clothes, blankets, toys etc. Such donations will not get you any tax benefits.

Donations to approved Research organizations:

There are special sections for businessmen and professionals who earn income under the head Profits and Gains of Business or Profession. Section 35AC and 35CCA allow a deduction of 100% of the amount donated for scientific research and Rural Development to approved research organizations. For this, the research organization requires the approval of the Government.

For those persons who do not have any business or professional income (say, salaried persons), donations can be given to such organizations and 100% deduction can be claimed under section 80GGA. All precautions mentioned above for 80G purposes should be taken for 80GGA also.

Finally, please remember that the deduction under section 80G cannot exceed your taxable income. Thus, you cannot have a loss situation because of the donation. Thus, for example, if your income before deduction under section 80G is Rs. 3 lakhs and if you have given donation of say Rs. 5 lakhs to the Prime Minister's National Relief Fund, please do not expect to claim a loss of Rs. 2 lakhs. Your income will be NIL (Rs. 3 lakhs minus Rs. 3 lakhs). The deduction will be restricted to the amount of your income.

So, what are you waiting for? Charity begins at home. Go out and donate generously. It is better than investing in shares and losing your principal. With donations, you will at least get a tax benefit. With losses in shares, you will get nothing!