7-part series on the Income Tax Act, 2025 by Pacta

- Registration of Non-Profit Organisations under the Income Tax Act, 2025
- Classification of Income of Registered Non-profit Organisations (RNPOs) under the Income Tax Act, 2025
- Application of Income of Registered Non-Profit Organisations (RNPOs) under the Income Tax Act, 2025
- What Commercial Activities Are Permitted for a Registered Non-profit Organisation (RNPO) under the Income Tax Act, 2025

Registration of Non-Profit Organisations under the Income Tax Act, 2025

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> **Note:** As part of the transition to the Income Tax Act, 2025, the concepts of "previous year" and "assessment year" have been replaced with a single concept of a "tax year". Throughout the series, "tax year" refers to the financial year beginning on 1 April and ending on 31 March.

Introduction

The Income Tax Act, 2025 (hereafter "Act") represents a comprehensive restructuring and modernisation of India's direct tax law, proposed with the objective of making the legislation simpler, more transparent, logically arranged, and taxpayer friendly. The Act is intended to replace the Income Tax Act, 1961, while retaining the substantive tax policy, with a strong emphasis on clarity of language, systematic organisation, and ease of compliance.

Key Structural Improvements

- Logical grouping of provisions based on subject matter rather than chronology of amendments
- Clear and concise drafting, avoiding excessive provisos and explanations

- Removal of obsolete and redundant sections
- Use of tables, schedules, and cross-referencing to improve readability

The Act is organised into 23 thematic chapters, with 536 sections and 16 chapters.

Provisions relating to non-profit organisations (NPOs)—including charitable trusts, institutions, funds, universities, hospitals, and other entities established for charitable or specified purposes—have been consolidated and rationalised.

The New Framework

- Clearly distinguishes registration, approval, income computation, and compliance obligations of NPOs
- Aligns registration provisions with risk-based administration and digital processes
- Provides greater certainty and uniformity in eligibility conditions
- Emphasises substance over form, ensuring benefits are available to genuine charitable activities

Arrangement of Sections

1. **Sec 332 – 333:** Registration of non-profit organisations
2. **Sec 334 – 343:** Income of registered non-profit organisations
3. **Sec 344 – 346:** Commercial Activity by registered NPO
4. **Sec 347 – 350:** Compliances
5. **Sec 351 – 353:** Violations
6. **Sec 354:** Approval for deduction u/s 133(1)(b)(ii)
7. **Sec 355:** Interpretation

Arrangement of Rules

Notified by Central Board of Direct Taxes (CBDT) on 20th March 2026

1. **Rule 181:** Common Application for registration of non-profit organisation or for approval for the purpose of deduction under 133(1)(b)(ii)

2. **Rule 182:** Manner of computation of gains or commercial activities under section 335(e), 344, 345, 346
3. **Rule 183:** Manner of computation of any portion of income applied by a registered nonprofit organisation, directly or indirectly for benefit of any related person
4. **Rule 184:** Exercise of options by a registered non-profit organisation under section 341(7) for deemed application under section 341(5)
5. **Rule 185:** Furnishing of statement by registered non-profit organisation under section 342(1) for accumulating or setting apart any part of its regular income
6. **Rule 186:** Application under section 342(5) for change of purpose for which income has been accumulated or set apart
7. **Rule 187:** Books of account and other documents to be kept and maintained by a registered non-profit organisation
8. **Rule 188:** Report of Audit in case of registered non-profit organisation under section 348
9. **Rule 189:** Method of valuation for the purpose of computing fair market value of assets and liabilities under section 352(2) for accreted income
10. **Rule 190:** Furnishing of statement of particulars in respect of donation and certificate to donor under section 354(1)

Registration of Non-Profit Organisations

Section 332 requires anyone claiming benefits as a registered non-profit organisation to apply for registration, in the specified form and manner, to the Principal Commissioner or Commissioner. Further, it lays down the eligibility criteria, the time limits for filing the application, the period of validity of registration, and the timeframe within which the department is required to pass its order.

Who Can Make an Application?

- Public trust
- A society registered under the Societies Registration Act, 1860, or under any law in force in India
- A company registered under section 8 of the Companies Act, 2013 or the companies registered under section 25 of the Companies Act, 1956 and deemed to have been registered in pursuance of section 465 (2)(g) of the Companies Act, 2013

- A University established by law or any other educational institution affiliated thereto or recognised by the Government
- An institution financed wholly or in part by the Government or a local authority
- Any person as referred to in Schedule III (Table: Sl. No. 27) to (Table: Sl. No. 29) and (Table: Sl. No. 36) and in Schedule VII (Table: Sl. No. 10) to (Table: Sl. No. 19) and (Table: Sl. No. 42)
- Any other person notified by the Board

Eligibility for Application

- The person must be constituted, registered, or incorporated in India for carrying out charitable purposes as defined under section 2(23), public religious purposes, or both.
- Further, its properties must be held under an irrevocable trust for the benefit of the general public either wholly for charitable or religious purposes, or partly for such purposes in India in cases where the entity was established before the commencement of the Income-tax Act, 1961
- Section 2(23) defines - charitable purposes includes: o Relief of the poor o Education o Yoga o Medical relief o Preservation of environment (including watersheds, forests and wildlife) o Preservation of monuments or places or objects of artistic or historic interest o The advancement of any other object of general public utility

To Whom the Application Should Be Submitted

The application shall be made to the Principal Commissioner or Commissioner of Income Tax.

Time Limits for Application, Order, and Validity

Particulars	Time limit for furnishing application	Time limit for passing order	Validity
Activities of the applicant have not commenced, and it has not been registered	Any time during the tax year	3 months from the end of the month in which application made	3 Years (**including** tax year of application)

Particulars	Time limit for furnishing application	Time limit for passing order	Validity
Activities of the applicant have commenced, and it has not been registered	Any time during the tax year	6 months from the end of the quarter in which application made	5 Years (**including** tax year of application)
The applicant has been granted provisional registration and activities have commenced.	Within 6 months of the commencement of activities	6 months from the end of the quarter in which application made	5 Years (**including** tax year of application)
Provisional registration is due to expire and activities have not commenced.	6 months prior to the expiry	6 months from the end of the quarter in which application made	5 Years (**including** tax year of application)
The registration of the applicant is due to expire, other than cases mentioned above	6 months prior to the expiry	6 months from the end of the quarter in which application made	5 Years (**following** the tax year of application)
Registration of applicant is inoperative due to switching over of regime u/s 333	Any time during the tax year	6 months from the end of the quarter in which application made	5 Years (**including** tax year of application)
The applicant, being a registered non-profit organisation, has adopted or undertaken modification of its objects.	Within 30 days of modification	6 months from the end of the quarter in which application made	5 Years (**including** tax year of application)

When Is Registration Valid for Ten Years Instead of Five?

If an application is made as per the above table and the applicant's total income does not exceed annual receipts of ₹5 crore in each of the two tax years immediately preceding the year of application, the registration will be valid for **ten years instead of five years.**

Can Delay in Filing the Application be Condoned?

- If application is filed after the allowed time, Principal Commissioner or Commissioner may allow it if there is a valid reason for delay and such application will be treated as if it filed on time.

- If an application for registration is not filed within the specified time and the delay is not condoned, the person will be required to pay tax on accreted income under section 352.
- Upon receiving an application, the Principal Commissioner or Commissioner may call for necessary documents or conduct inquiries to verify the applicant's objects, genuineness of activities, and legal compliance, and shall either grant registration if satisfied or, after giving an opportunity of being heard, reject the application and, where applicable, cancel the existing registration.

Is Provisional Registration Available?

In case where the activities of the applicant have not commenced and it has not been registered under any specified provision at any time before making the application, Principal Commissioner or Commissioner shall grant provisional registration.

Switching Over of Regimes

- The income of a registered non-profit organisation can be excluded from total income only as provided in Schedule II, Schedule III, and Schedule VII; no other part of section 11 allows such exclusion for any tax year.
- Registration under section 332 will stop being valid either from the date the non-profit organisation is notified under the specified entries in Schedule III or Schedule VII, or from 1 April of the tax year in which the organisation claims exemption under the relevant entries of Schedule VII.
- A person whose registration has ceased may apply for fresh registration under section 332, provided that the exemption granted under Schedule III or Schedule VII ends from the date the new registration is granted, and no exemption can be claimed under those Schedule entries thereafter.

Classification of Income of Registered Non-profit Organisations (RNPOs) under the Income Tax Act, 2025

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(Sections 334–338, Income Tax Act, 2025 — Part B of Chapter XVII: Special Provisions for Registered Non-Profit Organisations)

> **Note:** As part of the transition to the Income Tax Act, 2025, the concepts of "previous year" and "assessment year" have been replaced with a single concept of a "tax year". Throughout the series, "tax year" refers to the financial year beginning on 1 April and ending on 31 March.

Introduction

This issue focuses on Sections 334 to 338, which together explain how the Income Tax Act, 2025 classifies the income of a Registered Non-Profit Organisation (RNPO) into different categories and the broad tax implications of each.

Unless otherwise stated, all references to sections, schedules and forms in this primer are to the Income Tax Act, 2025. References to provisions of the Income Tax Act, 1961 are specifically mentioned.

Overview of Income under the Act

The Income Tax Act, 2025 has consolidated the entire compliance framework for charitable trusts, religious institutions, educational institutions, and hospitals, which was previously spread across Sections 10(23C), 11, 12, 12A, 12AA, 12AB, 13, 80G, 115BBC, and 115TD of the Income Tax Act, 1961, into a single, self-contained code under Part B of Chapter XVII, comprising Sections 332 to 355. **The new framework uniformly refers to these entities as registered non-profit organisations, or RNPOs.**

Where a provision in this chapter conflicts with a provision elsewhere in the Act, the chapter governing RNPOs will prevail and determine the tax treatment. However, this is subject to one exception. It does not extend to the General Anti-Avoidance Rule (GAAR), contained in Sections 96 to 98 of the Act. GAAR continues to apply in full, even where there is a conflict between GAAR provisions and this Chapter XVII.

Classification of Income of RNPOs

The income of RNPOs is classified into three distinct categories, each of which is taxed differently:

- **Regular income:** The ordinary and recurring income of the RNPO. It is eligible for exemption if the 85% application or accumulation condition is satisfied.
- **Specified income:** Income arising from defined compliance failures or violations. It is taxed at a flat rate of 30% in the year in which it arises, without the benefit of application or accumulation.
- **Residual income:** The income remaining after regular income and specified income have been deducted from the total income of the RNPO.

Residual income of an RNPO = Total income − (regular income + specified income)

Residual income is taxed at the normal rate otherwise applicable to the RNPO.

Regular Income and its Taxation

What is Regular Income? (Section 335)

Regular income is defined under four heads, which together cover the ordinary and recurring income that a charitable or religious RNPO may be expected to earn while carrying out its objects:

- **Income from the charitable or religious activity for which the RNPO is registered:** For example, programme fees, service charges, or receipts directly connected to its registered objects.
- **Income from property or investments held under the trust:** This includes rental income, interest, dividends, and similar returns from assets held by the RNPO.
- **Voluntary contributions received during the tax year:** This includes donations and grants, other than those falling outside the definition of income under Section 338.
- **Income or gains from incidental business activities:** This includes income from business activities that are incidental to the attainment of the RNPO's objects, as well as income from a business held as property of the trust.

How is Regular Income Taxed? (Section 336)

The regular income of an RNPO is subject to the 85% application rule under Section 336 (the rule preserves the familiar 85% threshold from the 1961 Act, but is now stated more precisely):

- If 85% or more of the regular income for the tax year is applied towards the RNPO's registered charitable or religious purposes, or accumulated or set apart in accordance with Section 342 during the same tax year, the taxable regular income is nil.
- If less than 85% of the regular income is applied or accumulated, the taxable regular income will be 85% of the regular income, reduced by the amount actually applied or accumulated under Section 342 during that tax year.
- Only application or accumulation within the same tax year will be taken into account. A stated intention to apply income in a future year does not reduce the taxable regular income for the current year.

Illustration 1: Calculating Taxable Regular Income under the 85% Application Rule

An RNPO has a regular income of ₹80 lakh during a tax year, of which:

- ₹40 lakh has been applied towards the objects of the RNPO.
- ₹15 lakh has been accumulated in accordance with the specified provisions.
- ₹25 lakh has been neither applied nor accumulated.

Step 1: Calculate the 85% threshold

85% of ₹80 lakh = ₹68 lakh

Step 2: Calculate the amount that counts towards the 85% application requirement

Regular income applied: ₹40 lakh

Regular income accumulated: ₹15 lakh

Total amount applied or accumulated: ₹40 lakh + ₹15 lakh = ₹55 lakh

Step 3: Calculate the shortfall under the 85% application rule

₹68 lakh − ₹55 lakh = ₹13 lakh

Regular income on which tax must be paid by the RNPO: ₹13 lakh

Income Excluded from Regular Income (Sections 338–340)

The following amounts are excluded under Section 338 while computing the regular income of an RNPO and are, therefore, not subject to the 85% application and accumulation rule:

i) Corpus Donations (Section 339)

Section 339 defines a corpus donation as a voluntary contribution received with a specific written direction from the donor stating that it should form part of the corpus of the RNPO.

Corpus donations are excluded from regular income and are not subject to the 85% application and accumulation requirement.

ii) Income Applied Outside India

Income applied outside India may be excluded where the Central Board of Direct Taxes (CBDT), through a general or special order, permits such exclusion.

Note: If an RNPO spends its income outside India, that amount is normally taxed at a flat rate of 30% and treated in the same manner as misused or non-compliant income. The only exception is where the CBDT specifically approves the foreign spending.

Even in such cases, approval is possible only in the following two situations:

- The RNPO was established before 1 April 1952 for either charitable or religious purposes.
- The RNPO was established on or after 1 April 1952 for charitable purposes, but not religious purposes, and the expenditure outside India supports an international cause in which India is interested.

iii) Deemed Corpus Donations (Section 340)

If an RNPO owns a temple, mosque, gurudwara, church, or any other notified place (notified under section 133(1)(b)(vi)) and receives donations specifically for the renovation or repair of that place, the RNPO may choose to treat those donations as corpus donations, even if the donor has not specifically identified them as corpus donations.

To exercise this option, the RNPO must satisfy all four of the following conditions:

- Maintain the funds separately so that they are clearly identifiable as a separate corpus.
- Use the amount only for the renovation or repair for which it was received.
- Invest or deposit the amount only in the permitted modes specified under Section 350.
- The funds must not be donated to any other person or organisation.

Specified Income and its Tax Implications (Section 337)

Specified income is taxed at a flat rate of 30% in the tax year in which it arises, without the benefit of the 85% application rule available to regular income.

The categories treated as specified income include:

- Anonymous donations in excess of the threshold prescribed *(see Box 1 below)*.
- Income applied, directly or indirectly, for the benefit of a related or specified person.
- Income applied outside India other than in accordance with the conditions under Section 338(a).
- Amounts invested in modes that are not permitted under Section 350 (read with Schedule XVI).
- Amounts involving a breach of the deemed corpus conditions under Section 340.
- Accumulated income that:
  - is applied for a purpose other than the purpose for which it was accumulated;
  - is credited or paid to another RNPO, except in cases of dissolution or merger; or
  - is not utilised within the time limit prescribed under Section 342.
- Income applied for a purpose other than the RNPO's registered charitable or religious objects.
- On dissolution, surplus assets not transferred to another RNPO within twelve months.
- The fair market value of assets not converted into permitted investment modes within the prescribed period.
- Deemed application under Section 341 that is not actually applied within the period prescribed under Section 341(6).
- Any income determined by the Assessing Officer to be in excess of the income recorded in the RNPO's books of account under Section 344.

Taxability of Anonymous Donations under Section 337(1)(a)

Anonymous donations are voluntary contributions where the RNPO does not maintain a record of the donor's identity, including name, address, and other prescribed particulars.

Anonymous donations in excess of ₹1,00,000 or 5% of the total donations received by the RNPO during the tax year, whichever is higher, are taxable at the rate of 30%.

This threshold rule applies only to RNPOs that do not fall within the exempt categories, that is, wholly charitable RNPOs and religious-cum-charitable RNPOs in respect of the portion of anonymous donations directed towards their university, school, or hospital.

Anonymous donations are fully exempt from the 30% tax under Section 337 where they are received by an RNPO that is:

- **Wholly for religious purposes:** The donation is fully exempt, regardless of any direction attached to it.
- **Wholly for charitable and religious purposes:** The donation is exempt, except where it carries a specific direction that it be applied towards a university, educational institution, hospital, or medical institution run by that RNPO.

Illustration 2: Calculating Tax on Anonymous Donations

An RNPO received ₹10 lakh in total donations during the year. Of this amount, ₹3 lakh was received as anonymous donations, meaning that the RNPO did not maintain donor details, such as names and addresses, for these contributions.

Step 1: Calculate the tax-free amount

5% of ₹10 lakh = ₹50,000

Since ₹1,00,000 is higher than ₹50,000, the tax-free amount is ₹1,00,000.

Step 2: Apply the threshold to the anonymous donations

- ₹1,00,000 of the anonymous donations is not taxable.
- ₹2,00,000, being the remaining amount of ₹3,00,000 minus ₹1,00,000, is taxable at 30%.

Tax payable: 30% of ₹2,00,000 = ₹60,000

Summary

Donation type	Governing section	Treated as regular income?	Tax treatment
Corpus donation (written donor direction)	Section 339, read with Section 338	No. It is excluded from regular income.	Not taxed as income; conditions on investment/application apply
Deemed corpus donation	Section 340, read with Section 338	No. It is excluded, subject to the prescribed conditions.	Same as corpus, subject to Section 340 conditions

Donation type	Governing section	Treated as regular income?	Tax treatment
General or non-corpus donation	Section 335(c)	Yes.	Part of regular income; 85% test under Section 336 applies
Corpus invested/applied in breach of conditions	Section 337	It is reclassified as specified income.	Flat 30% under Section 334(1)(a); no application benefit

Key Takeaways

1. Regular income is determined under Section 335 and forms the basis for the 85% application and accumulation requirement under Section 336.
2. Section 338 identifies the amounts that are not included while calculating the regular income of an RNPO.
3. Specified income under Section 337 is taxed separately under Section 334(1)(a).
4. Residual income, if any, is taxed at the rate otherwise applicable under the Act under Section 334(1)(b).
5. Understanding how income is classified is the first step towards applying the tax provisions governing an RNPO.

Application of Income of Registered Non-Profit Organisations (RNPOs) under the Income Tax Act, 2025

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(Sections 341–343, Income Tax Act, 2025 — Part B of Chapter XVII: Special Provisions for Registered Non-Profit Organisations)

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Introduction

This is the third issue in a seven-part series explaining how the Income Tax Act, 2025 ("the Act") taxes registered non-profit organisations (RNPOs).

In the last issue, *Classification of Income of Registered Non-profit Organisations (RNPOs) under the Income Tax Act, 2025*, we discussed that an RNPO must spend 85% of its regular income towards its registered charitable or religious purpose or accumulated/set apart in accordance with Section 342 of the Act.

This issue focuses on the application of income provisions contained primarily in Section 341 to Section 343 of the Income Tax Act, 2025. **These provisions determine what expenditure qualifies towards the statutory application requirement and what does not.** It covers what qualifies as application of income (85%), when an RNPO may formally accumulate income for future application, and the treatment of the automatic 15% retention of regular income.

There are three main modes of application of income:

1. Application of income towards registered charitable or religious purposes under Section 341
2. Accumulation of income under Section 342
3. Deemed accumulated income under Section 343

1. Application of Income Towards Registered Charitable or Religious Purposes (Section 341)

The thumb rule is that the RNPO must spend at least 85% of its regular income towards its registered charitable or religious purpose. However, merely spending money on charitable or religious purposes is not sufficient to satisfy the 85% application requirement. The spending must also comply with the RNPO's other obligations under the Act, as detailed below.

TDS Compliance

i) If an RNPO makes a payment to a resident on which tax has to be deducted at source, and that tax was not deducted, or was deducted but not deposited with the government by the due date (of filing returns of the RNPO's income), then 30% of such TDS non-compliant payment does not count as application of income and only the remaining 70% counts towards the RNPO's 85% requirement, even if the full amount was actually spent.

ii) This disallowance is not necessarily permanent: If the RNPO subsequently deducts and deposits the tax, even in a later tax year, the 30% that was earlier disallowed becomes allowable as application of income in the year such tax is actually paid. Further, if the **payee (recipient) has included the relevant income in their own return and paid tax on it**, no disallowance is made in the hands of the RNPO — even if the RNPO failed to deduct TDS.

Illustration 1

Context: An RNPO received ₹50 lakh as regular income, out of which ₹48 lakh was applied as per the provisions of the Act. However, out of the ₹48 lakh, the RNPO fails to deduct and deposit tax at source on the payment of ₹5 lakh to a legal consultant.

Step 1: Tax liability on the ₹5 lakh payment = 10% of ₹5 lakh = ₹50,000, which the RNPO should have deducted and deposited but did not.

Step 2: Amount treated as non-application of regular income due to this TDS non-compliance = 30% of ₹5 lakh = ₹1.5 lakh. The remaining 70%, i.e., ₹3.5 lakh, continues to count towards the RNPO's application of income for that tax year.

Result: If in a subsequent tax year, the RNPO deducts and deposits the ₹50,000 tax, the ₹1.5 lakh that was earlier disallowed becomes allowable as application of income in that later year.

Restrictions on Cash Payments

i) Any payment or aggregate of payments made to a single person on a single day, exceeding ₹10,000 made via cash and not through specified banking or online mode, shall not be considered as an application of regular income.

Note: In case the payment is specifically made for plying, hiring or leasing of goods carriages, then the cash payment threshold is ₹35,000 instead of ₹10,000.

ii) For an RNPO maintaining books on accrual basis, if an expenditure was recognised in an earlier tax year and considered as application of income, but the actual payment exceeding ₹10,000 is made in a subsequent tax year, in cash, then that payment becomes income in the year of payment in the hands of the RNPO.

iii) The above restriction is not absolute. The Act permits exceptions in specific cases and circumstances, having regard to factors such as the extent of banking facilities available in the area and considerations of business expediency. These prescribed exceptions are not yet detailed in the Act.

Donation to Other RNPOs

If an RNPO donates any amount to other RNPOs out of its regular income, then only 85% of the donated amount will be considered towards application of income.

Deferred Application: Corpus and Loan Funded Spending

Certain expenditure qualifies as an application of income when the spend occurred in an earlier tax year(s) but was not allowed as an application in that year.

Spending Made from RNPO's Corpus Funds

If an RNPO temporarily utilises its corpus fund to finance expenditure after 31 March 2021, that would ordinarily have been met from its regular income, such expenditure would be considered as an application of income when the following conditions are met:

i) Such expenditure would be considered as an application of income in the tax year in which the RNPO restores the amount spent back into corpus as per approved modes under Section 350 of the Act (covered in the later issue); and

ii) Such investment or depositing back is made within five years from the end of the tax year in which such application of income was made from the corpus; and

iii) There was no violation of any provision of the Income Tax Act, 1961 with respect to such application.

Exception: The above does not apply if the RNPO temporarily used corpus funds for a purpose inconsistent with the specific directions of the donor. Such use will never be recognised as application of income.

Spending Made by RNPO from Borrowed Funds

The amount repaid during the tax year towards any loan or borrowing is treated as an application of income where:

i) The borrowing was made by an RNPO, and repayment is made within five years from the end of the tax year in which the application of income was made from the loan or borrowing; and

ii) The application of income from the loan or borrowing was made after 31 March 2021, and there was no violation of any provision of this Part, or any corresponding provision of the Income Tax Act, 1961, with respect to such application.

Illustration 2

Context: In the tax year 2027, an RNPO receives ₹40 lakh as regular income but needs an additional ₹15 lakh to construct a training centre for its beneficiaries. As it has not yet received an expected grant, it borrows ₹15 lakh from a bank and completes the construction, spending the entire ₹55 lakh (₹40 lakh regular income + ₹15 lakh borrowed funds) in the same tax year.

Step 1: Of the ₹55 lakh spent, ₹40 lakh is considered application of income in that tax year. The remaining ₹15 lakh, spent out of borrowed funds, is not treated as application of income in that year.

Result: In the tax year 2029, after receiving the grant, the RNPO repays the entire ₹15 lakh loan from its own funds, and not by further borrowing. This ₹15 lakh repayment is treated as application of income in the tax year 2029, since the loan is repaid within five years from the end of the tax year in which the borrowed money was used, the original expenditure was incurred after 31 March 2021, and the original expenditure complied with the provisions governing RNPOs.

What Expenditure Cannot Be Considered as an Application of Income

1. Depreciation on assets where the asset acquisition has been claimed as an application of income in current or previous tax years.
2. If an RNPO applies more income towards its charitable or religious purposes than the regular income available during a tax year, the excess application cannot be carried forward and claimed as application of income in a subsequent tax year.

3. Any sum paid as a corpus donation to another registered non-profit organisation is not treated as application of income at all. This is different from a donation made out of regular income to another RNPO, where 85% of the amount counts as application (see "Donation to Other RNPOs" above).

Deemed Application of Income

Treatment of Shortfall in the 85% Requirement

Where an RNPO applies less than 85% of its regular income towards charitable or religious purposes in a tax year, it is not automatically treated as a shortfall. Instead, the RNPO may elect to treat this shortfall, or any part of it, as "deemed application" provided it is applied within a specified window in a future year.

To exercise this option, the RNPO must:

a. File Form 108 on or before the due date for filing its return of income for that tax year; and

b. Actually apply the shortfall amount within the following timeline:

i. If the shortfall arose because part or all of the income was not yet received during the tax year, by the end of the tax year in which the income is received, or the tax year immediately after; or

ii. If the shortfall arose for any other reason, by the tax year immediately succeeding the year in which the income was derived.

c. Once applied within this window, the amount is treated as regular application of income under Section 341(1).

Note: "Deemed application" is distinct from "deemed accumulated income". Deemed application is an elected, time-bound mechanism requiring a formal filing, used to cure a shortfall in the 85% requirement. Deemed accumulated income is an automatic retention of up to 15% of regular income that requires no filing or election.

Capital Gains Reinvestment as Deemed Application

Where an RNPO sells a capital asset that was held wholly or partly for charitable or religious purposes and reinvests the proceeds into acquiring another capital asset for the same purpose, the capital gain (if any) earned and invested may be treated as deemed application of income.

The RNPO does not need to separately apply an amount equivalent to the capital gain towards its charitable objects to meet the 85% requirement. The extent to which the capital gain is treated as deemed application depends on how much of the sale proceeds ("net consideration") were reinvested:

a. **Asset held wholly for charitable purposes:** If the entire net consideration is reinvested in the new asset, the whole capital gain is deemed application. If only part of the net consideration is reinvested, only the portion of the gain equal to the amount by which the reinvestment exceeds the cost of the asset sold is deemed application.

b. **Asset held partly for charitable purposes:** The same treatment applies, but only to the "appropriate fraction" of the gain — the fraction representing the extent to which income from the asset was applied to charitable purposes immediately before the sale.

Illustration 3

Context: An RNPO sells a property held wholly for its charitable purposes for ₹80 lakh (net consideration), realising a capital gain of ₹30 lakh (the property's cost of acquisition was ₹50 lakh).

Scenario 1 (full reinvestment): The RNPO reinvests the entire ₹80 lakh net consideration into a new property for the same purpose. Since the whole net consideration was reinvested, the entire ₹30 lakh capital gain is deemed application of income; the RNPO need not separately apply this amount to satisfy the 85% requirement.

Scenario 2 (partial reinvestment): The RNPO reinvests only ₹65 lakh of the ₹80 lakh net consideration. The deemed application is limited to ₹15 lakh — the amount by which the ₹65 lakh reinvested exceeds the ₹50 lakh cost of the asset sold. The remaining capital gain of ₹15 lakh (₹30 lakh − ₹15 lakh) must be separately applied or accumulated to count towards the 85% requirement, like any other regular income.

Result: Full reinvestment shields the entire ₹30 lakh gain from the 85% requirement; partial reinvestment shields only ₹15 lakh, leaving the remaining ₹15 lakh subject to the ordinary application/accumulation rules.

2. Accumulation of Income (Section 342)

Section 342 offers the second mode of application of income: accumulating or setting apart income for future application.

When and How an RNPO May Accumulate Regular Income

In any tax year, an RNPO may accumulate or set apart any part of its regular income for a maximum of **five years** by following the process below:

- File Form 109 before the due date for filing its return of income;
- Specify the purpose for which income is being accumulated; and
- Specify **the duration for which accumulation is done** (maximum of **five years**).

Restrictions on Accumulated Income

i) Any amount accumulated or set apart shall not be transferred by an RNPO to another RNPO. If such a transfer happens, it will not be considered as application of income; instead, the transferred amount is treated as specified income under Section 337 and taxed at a flat 30% in the tax year in which it is so credited or paid.

ii) If accumulated income is applied for a purpose other than as originally specified, or is not applied within the five-year window, it is treated as specified income under Section 337 and taxed at a flat 30% in the year of breach.

Illustration 4

Context: In Tax Year 2027, an RNPO is unable to apply 85% of its regular income and therefore accumulates ₹20 lakh for constructing a vocational training centre, by furnishing the prescribed statement to the Assessing Officer.

Scenario 1 (RNPO applies the funds itself): In Tax Year 2029, the RNPO uses the accumulated ₹20 lakh to construct the vocational training centre, as originally specified. This amount is treated as application of income under the Act.

Scenario 2 (RNPO transfers the funds to another RNPO): In Tax Year 2029, instead of using the accumulated funds for the stated purpose, the RNPO donates the ₹20 lakh to another RNPO.

This transfer is not treated as application of income, since accumulated income cannot be applied by transferring it to another RNPO.

Result: Only Scenario 1 satisfies the accumulation requirement. In Scenario 2, since the accumulated income was neither applied for its stated purpose nor applied at all (having instead been transferred to another RNPO), it will be treated as specified income and taxed at a flat 30% in the year of donation made to another RNPO.

3. Deemed Accumulated Income (Section 343)

An RNPO may automatically retain up to 15% of its regular income each year, in addition to the application of regular income and accumulated income under Section 342. This amount is known as deemed accumulated income and does not require the RNPO to furnish a separate statement or specify a purpose.

Deemed accumulated income = regular income − application under Section 341 − formal accumulation under Section 342 (subject to a maximum of 15% of regular income).

If the amount is retained, it must be invested in the approved modes (discussed in later editions). Any investment made in contravention of the permitted modes will be classified as specified income and taxed at a rate of 30%. This automatic accumulation is separate from, and does not form part of, the accumulation permitted under Section 342.

Application of deemed accumulated income in a later year is not treated as application of income because Section 341 (application of income) specifically excludes application out of deemed accumulated income from being counted as application in that later year.

What Commercial Activities Are Permitted for a Registered Non-profit Organisation (RNPO) under the Income Tax Act, 2025

> *You can read the information below in over 15 languages! Simply use the translation tool in the top-left corner of the screen to select your preferred language, including [illegible], [illegible], [illegible], [illegible], [illegible], [illegible], [illegible], [illegible], [illegible], [illegible], [illegible], [illegible], [illegible], [illegible], and [illegible].*

(Sections 344–346, Income Tax Act, 2025 — Part B of Chapter XVII: Special Provisions for Registered Non-Profit Organisations)

> **Note:** As part of the transition to the Income Tax Act, 2025, the concepts of "previous year" and "assessment year" have been replaced with a single concept of a "tax year". Throughout the series, "tax year" refers to the financial year beginning on 1 April and ending on 31 March.

Introduction

This is the fourth issue in a seven-part series explaining how the Income Tax Act, 2025 ("the Act") taxes Registered Non-Profit Organisations (RNPOs).

In the previous issue, *Application of Income of RNPO — What Expenditure Qualifies as Application of Income Towards RNPO's Charitable/Religious Purposes*, we discussed the three routes by which an RNPO satisfies its 85% application requirement: direct application under Section 341, formal accumulation under Section 342, and the automatic 15% deemed accumulation under Section 343.

This issue examines how the Income Tax Act, 2025 treats commercial activities undertaken by RNPOs. The Act first recognises that an RNPO may itself own a business undertaking as part of its property (Section 344). It then lays down the conditions under which income from such business activities can continue to qualify for exemption (Section 345). Finally, where the RNPO is established for the advancement of any other object of general public utility, the Act prescribes additional restrictions on commercial activities (Section 346).

The three provisions should be read together. Section 344 explains what constitutes a business undertaking held by an RNPO and how its income is determined. Sections 345 and 346 then prescribe the conditions under which the income from such business activities continues to qualify for exemption.

Business Undertaking Held as Property (Section 344)

Section 344 recognises that an RNPO may hold a business undertaking as part of its property and explains how its income is computed. Whether the income from that business undertaking ultimately qualifies for exemption depends on the conditions prescribed under Sections 345 and 346, discussed below.

The term "property held by an RNPO" includes business undertakings and assets such as land, buildings, or investments. Where an RNPO claims that the income from a business undertaking qualifies for exemption, the Assessing Officer (AO) may independently determine the income of the undertaking. The computation must be made in accordance with the provisions of the Income Tax Act, 2025, in the same manner as for any other business entity. If the income determined by the AO is higher than the income reflected in the undertaking's books of account, the excess amount is deemed not to have been applied towards the RNPO's charitable or religious purposes. Consequently, this excess is treated as specified income under Section 337 of the Act and taxed at 30% (covered in the earlier issue).

Note: The term "business undertaking" has not been defined in the Act per se. However, as per the rulings of the Supreme Court, its meaning has been built through a set of consistent tests carried forward from the corresponding provision of the Income Tax Act, 1961:

- **Ownership, not mere involvement:** For a business to qualify as a business undertaking **held** by an RNPO, it must be **owned by the RNPO** and form part of its property or assets. Mere participation in the management of a business or receipt of its profits is not sufficient. For example, an RNPO does not "hold" a business simply because it receives a share of its profits or assists in its management if the business itself is owned by another person. The requirement of Section 344 is satisfied only where the **business undertaking itself forms part of the RNPO's property**.
- **Mere common ownership does not, by itself, trigger "held" status:** Overlapping trustees, directors, or promoters between the RNPO and a separate business entity does not make that entity's business the RNPO's property. If a business is run through a separately incorporated entity with common promoters or directors, the relevant compliance question shifts — from whether it is "property held" under Section 344, to whether that entity is a "related person" under Section 355 (covered in the later issue), triggering the stricter related-person taxation rules under Section 337.
- **How the business came to be held:** The crucial question is whether the business undertaking itself has become the property of the RNPO. This may happen where the business is settled upon the RNPO or is subsequently acquired and vested in the RNPO. However, if the trustees merely carry on a business on behalf of the RNPO without the business undertaking itself becoming trust property, the business is not automatically regarded as one held by the RNPO.

Illustration 1

Context: An RNPO operating an educational institution also owns and runs a printing press as part of its property, treating it as a business undertaking held under the RNPO. For Tax Year 2027, the RNPO's own accounts show income of ₹12 lakh from the printing press, which it includes as regular income and claims is eligible for the benefits available under this Part.

Step 1: On assessment, the AO examines the printing press's accounts and, applying the Act's normal assessment provisions, determines the undertaking's actual income for the year to be ₹18 lakh, higher than the ₹12 lakh shown in the RNPO's own books.

Step 2: The excess determined by the AO = ₹18 lakh − ₹12 lakh = ₹6 lakh. As per the provisions, this ₹6 lakh is deemed to have been applied to purposes other than the RNPO's registered charitable or religious purpose.

Result: Only the ₹12 lakh shown in the printing press's own accounts is treated as regular income eligible for the RNPO's 85% application computation. The ₹6 lakh excess determined by the AO is treated as specified income under Section 337 and taxed at a flat 30% for tax year 2027, the year to which the income relates, regardless of how the RNPO may have intended to apply it.

Note: Repeated cases of the AO assessing specified income (other than those arising from a bona fide difference in computation) under Section 337 may lead to a questioning of the charitable status of the RNPO.

Restriction on Commercial Activities by a Registered Non-Profit Organisation (Section 345)

The thumb rule is that an RNPO *(other than an RNPO carrying out advancement of any other object of public utility)* may carry out commercial activity only if the following two conditions are fulfilled:

1. **Such commercial activity is *incidental* to the attainment of the objectives of the RNPO;** and
2. **Separate books of account are maintained for such activities.**

Separate books of account require the income and expenses of the business activity to be recorded clearly and separately from the RNPO's other accounts. This means that anyone reviewing the accounts should be able to identify what the business earned and spent on its own, without those amounts being mixed with the RNPO's other funds.

What Does "Incidental" Mean?

A business activity is "incidental" to an RNPO's objectives if the money it earns is genuinely used to fund those objectives, even if the activity itself has nothing to do with what the RNPO actually does on the ground.

The Supreme Court explained this principle in *CIT vs. Thanthi Trust* (2001). The trust owned and operated a Tamil-language newspaper, while its charitable objectives were to promote education by running schools, hostels, and scholarship programmes. Although newspaper publishing was not, in itself, an educational activity, the Court held that the business was incidental to the trust's educational objectives because its surplus was legally required to be applied towards those charitable purposes.

The Court emphasised that the test is not whether the business activity itself is charitable, but whether it is carried on to support and finance the RNPO's charitable objectives.

Restriction on Commercial Activities by RNPOs Carrying Out Advancement of Any Other Object of General Public Utility (Section 346)

An RNPO carrying out *advancement of any other object of general public utility* may carry out any commercial activity only if the following three conditions are fulfilled:

1. Such commercial activity is undertaken in the course of actual carrying out of advancement of any object of the general public utility;
2. The aggregate receipts from such commercial activity or activities do not exceed 20% of the total receipts of such RNPO of the relevant tax year; and
3. Separate books of account are maintained by such RNPOs for such activities.

Note: Sections 345 and 346 both deal with business or commercial activities carried on by RNPOs. However, they apply to different categories of RNPOs. Under the Income Tax Act, an RNPO may be established for charitable purposes, religious purposes, or both. Among charitable purposes, the Act recognises the following seven categories:

- **Relief of the poor:** Helping needy, poor, or disadvantaged people.
- **Education:** Running schools, colleges, or training programs.
- **Yoga:** Teaching and promoting yoga practices.
- **Medical relief:** Providing healthcare, hospitals, or medical aid.

- **Preservation of the environment:** Protecting forests, wildlife, and watersheds.
- **Preservation of monuments:** Saving places or objects of historic or artistic interest.
- **General public utility**

Section 345 lays down the general rule for RNPOs carrying out charitable or religious activities. It permits an RNPO to carry on a business undertaking, provided the business is incidental to the attainment of its objectives and separate books of account are maintained.

Section 346 is a special provision that applies only to RNPOs whose charitable purpose is the advancement of any other object of general public utility. Since organisations in this category are more likely to undertake activities that resemble commercial businesses, the Act imposes an additional safeguard. Besides maintaining separate books of account, the receipts from such commercial activities must not exceed 20% of the RNPO's total receipts during the tax year.

In other words, Section 345 provides the general framework for business activities carried on by RNPOs, while Section 346 prescribes stricter conditions for RNPOs pursuing the charitable purpose of general public utility.

Identifying a General Public Utility (GPU) Object

The Income Tax Act, 2025 does not define the expression "general public utility." Over the years, the courts have evolved the following guiding principles to determine whether an RNPO falls within this category.

The Primary Charitable Purpose of the RNPO is What Matters

Whether an RNPO is regarded as pursuing a GPU object depends on its primary charitable purpose. The focus is on the purpose for which the RNPO was established, rather than on individual activities that it may undertake in carrying out that purpose.

Illustration: A university may publish journals, organise seminars, and conduct teacher training programmes. These activities do not change its primary charitable purpose, which remains education. Similarly, an RNPO should be classified based on its primary charitable purpose, rather than on every activity it undertakes.

The Object Must Benefit the Public

The object must promote the welfare of the general public or a sufficiently identifiable section of the public, rather than serving individual interests.

GPU is a Residuary Category

"Object of general public utility" indicates that this category is intended to cover charitable purposes that do not fall within the other six recognised charitable purposes. This understanding flows from the statutory language and has been recognised by the Supreme Court while interpreting the scope of GPU.

Judicial Support: *Addl. CIT vs. Surat Art Silk Cloth Manufacturers' Association* (1980).

Applying the Judicial Principles — Illustrative Examples

RNPO's Dominant Object	Likely Classification
Running schools	Education
Running hospitals	Medical relief
Scholarships for disadvantaged students	Education
Relief and rehabilitation of disaster victims	Relief of the poor
Preservation of forests and wildlife	Preservation of environment
Promotion of trade and industry	General Public Utility
Professional regulation (e.g. ICAI)	General Public Utility

Note: The table only illustrates the likely classification of an RNPO's dominant object under the recognised charitable purposes. Whether the RNPO qualifies for exemption depends on compliance with the other applicable provisions of the Act, including Sections 345 and 346.

Conclusion

Commercial activities do not automatically deprive an RNPO of the tax benefits available under the Income Tax Act, 2025. However, the Act subjects such activities to specific conditions.

An RNPO may hold a business undertaking as part of its property, but the income from that business qualifies for exemption only where the statutory conditions are satisfied. For RNPOs carrying out charitable or religious purposes, the business activity must be incidental to the attainment of their objectives and separate books of account must be maintained.

RNPOs established for the advancement of any other object of general public utility are subject to an additional restriction: receipts from commercial activities must not exceed 20% of their total receipts. These provisions seek to ensure that commercial activities remain a means of supporting charitable purposes, rather than becoming an end in themselves.