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.

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