

Compliance Requirements Applicable to an RNPO

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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

This is the fifth 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, [Commercial Activities Undertaken by an RNPO](#), we discussed how commercial activities undertaken by an RNPO are treated under the Act, and the conditions that must be satisfied for income arising from such activities to continue to qualify for exemption.

This issue looks at the compliance requirements for RNPOs under the Income Tax Act, 2025. An RNPO's tax exemption is conditional upon certain compliance requirements:

- Certain RNPOs (whose income crosses a particular threshold) must maintain proper books and records, have their accounts audited, and file a return of income.

- RNPOs may invest or deposit their funds only in permitted modes. This requirement is independent of the RNPO's income crossing the prescribed threshold.

When Do Compliance Requirements for RNPOs Apply?

The Act uses a common income threshold to determine when the requirements relating to books of account, audit of accounts, and filing of return of income apply to an RNPO.

The principle: If an RNPO's total income (computed without giving effect to its exemptions) exceeds the maximum amount not chargeable to tax in a tax year, it must comply with the requirements under maintaining books of account (Section 347), Audit of Accounts (Section 348), and filing return of income (Section 349).

Illustration

ABC Foundation, an RNPO, has a receipt of ₹ 85 lakh in a tax year, with the following breakup:

1. Program fees - ₹ 20 lakh
2. Interest on savings - ₹ 4 lakh
3. Rent Income - ₹ 5 lakh
4. General Voluntary contribution - ₹ 15 lakh
5. Grant - Rs 10 lakh
6. Incidental business income - ₹ 6 lakh
7. Corpus donation (with specific written direction) - ₹ 25 lakh

First step: Compute the total income of RNPO without giving effect to any exemption. For this. We need to classify each receipt under the Act's ordinary provisions first, asking: *if the RNPO framework didn't exist, would this receipt be income under the general provisions of the Act?*

Receipt	Income Under Ordinary Principles ?	Reason for Classification
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Programme fees	Yes	Revenue receipt for services rendered
Interest income	Yes	Revenue receipt
Rent income	Yes	Revenue receipt
General voluntary contributions	Yes	Revenue receipt (no capital character)
Grant received	Yes	Revenue receipt
Business income	Yes	Revenue receipt
Corpus donation	No	A donation received with a specific direction that it forms part of corpus is capital in character. It doesn't become income merely because it was received by an RNPO [affirmed as per Shri Vasu Pujya Jain Derasar Pedhi vs. ITO [1991] 39 TTJ 337 (Jaipur Trib.) case law]

Second Step: Adding up only what qualifies as income under ordinary principles: ₹20 lakh + ₹4 lakh + ₹5 lakh + ₹15 lakh + ₹10 lakh + ₹6 lakh = **₹60 lakh**. The ₹25 lakh corpus donation is left out at this stage, not because it is "exempt," but because it is not an income.

Third Step: Once income under ordinary principles is worked out ₹60 lakh in this example that figure is what gets tested against the threshold. For tax year 2026-27, the maximum amount not chargeable to income tax (the basic exemption slab, before any rebate) is ₹4 lakh. Since ABC Foundation's ₹60 lakh comfortably exceeds this, the compliance obligations of maintaining books of accounts, audit and filing returns of income) discussed below apply to it for tax year 2026-27.

Note: The threshold is not fixed and may change from one tax year to another. RNPOs should therefore verify the threshold applicable for the relevant tax year.

Maintaining Books of Account and Other Records

The RNPO is required to maintain books of account and other documents as prescribed under Rule 187 of the Income Tax Rules, 2026 (**see Box 1**).

The purpose of maintaining these records is not limited to recording income and expenditure. The records should provide a clear picture of the RNPO's activities, finances, application of income, assets and other transactions.

“ Books, Records, and Supporting Documents to Be Maintained by an RNPO

- Books of account, including cash book;
- ledger;
- journal;
- copies of bills and receipts issued by the RNPO;
- original bills and receipts relating to payments made by the RNPO; and
- any other books necessary to give a true and fair view of the RNPO's affairs and explain its transactions.
- Supporting records such as
 - details of its projects and institutions, including their name, address and objectives;
 - income from charitable or religious activities, property or investments, voluntary contributions, permissible commercial activities and other sources;
 - application of income, including amounts applied in India or outside India;
 - amounts transferred or paid to other RNPOs;
 - accumulated or set-aside income and the purpose for which it is accumulated;
 - investments made by the RNPO;
 - corpus donations, including donor details and the manner in which corpus funds are applied or invested;
 - loans and borrowings, including lender details, repayment terms and application of borrowed funds;

- immovable and movable property;
- transactions with related persons; and
- any other document relevant to the RNPO's operations.

Box 1: List of Records to be Maintained Under Rule 187 of the Income Tax Rules, 2026

Note: [Rule 187 of the Income Tax Rules, 2026](#) should be referred to for the complete & detailed list of records and particulars required to be maintained.

At What Place Should the Records be Kept?

As a general rule, books of account and other documents should be maintained at the registered office of the RNPO. This is particularly relevant for RNPOs that operate through multiple project offices or use an external accountant to maintain their records. An RNPO may keep some or all of its records at another location in India if:

1. The management passes a formal resolution approving the alternate location;
2. The RNPO informs its jurisdictional AO in writing within seven days of passing the resolution; and
3. The intimation provides the full address of the alternate location and is signed and verified by the person authorised to verify the RNPO's return of income.

In What Form Can the Records be Maintained?

Books of account and other required documents can be maintained in physical or electronic form. An RNPO may also use a combination of both.

For example, an RNPO may maintain its accounting records electronically while keeping certain original bills, receipts or agreements in physical form.

How Long Should the Records be Kept for?

As a general rule, books of account and other required documents should be maintained for at least six years from the end of the relevant tax year.

There is an exception where an assessment is reopened. In such a case, the books and documents relevant to that assessment must continue to be maintained until the reopened assessment is finally completed, even if this extends beyond the normal six-year period.

Six years is the normal minimum period. If an assessment is reopened, the relevant records should not be destroyed until that matter is finally resolved.

Audit of Accounts

The audit provides an independent review of the accounts and results in an audit report. The detailed requirements relating to the audit and the audit report are prescribed under Rule 188 of the Income Tax Rules, 2026. For an RNPO:

- The audit must be conducted by a Chartered Accountant holding a valid Certificate of Practice;
- An audit report must be furnished for the relevant tax year in the prescribed form;
- The report must be signed and verified by the Chartered Accountant; and
- The report must contain the prescribed particulars.

In simple terms: The RNPO maintains its books and records, and the statutory audit provides an independent check of those accounts.

Return of Income

Where the RNPO's income crosses the prescribed threshold, it is required to file a return of income for that tax year in the prescribed manner and within the prescribed time.

An important point here is that the obligation to file a return is not dependent on whether the RNPO ultimately has any tax to pay.

An RNPO may have no tax to pay because of its exemption. However, it may still have to file a return if its income crosses the prescribed threshold. *The filing requirement is triggered by the level of income, not by the amount of tax ultimately payable.*

Investing or Depositing Funds in Permitted Modes

The Act requires an RNPO to invest or deposit certain funds, (**refer Box 2**) only in specified modes (**refer Box 3**). An investment or deposit made in a mode that is not permitted may have tax consequences for the RNPO as discussed in [Issue 3](#).

“RNPO Funds That Must Be Invested or Deposited in Permitted Modes

1. **Current tax year's regular income not applied:** Up to 15% of the RNPO's regular income earned in the current tax year can be retained without applying it to its objects, and without any formal accumulation process. However this unapplied portion must still be invested or deposited only in Schedule XVI-permitted modes (see [Issue 3](#)).
2. **Income accumulated or set apart under Section 342(1):** Amounts formally set aside for future application (see [Issue 3](#)), whether accumulated in the current year or carried forward from a preceding year and not yet applied.
3. **Corpus donations:** Voluntary contributions received with a specific direction that they form part of the corpus, whether received during the current year or carried forward from an earlier year.
4. **Corpus donations for renovation/repair of religious places —** donations received for renovation or repair of a temple, mosque, gurdwara, church, or other notified places, which are treated as corpus under Section 340.
5. **Not covered by this requirement:** Profits from a business carried on by the RNPO, provided separate books of account are maintained for that business.

Box 2: Funds of RNPO that must be invested or deposit as per Section 350 of the Income Tax Act, 2025

Permitted Modes of Investment or Deposit for RNPO Funds

1. **Government-backed instruments:** Savings certificates, small savings schemes, Post Office Savings Bank accounts, government securities, and UTI units
2. **Bank and cooperative deposits**
3. **Government-guaranteed and public sector instruments:** Guaranteed debentures, public sector company investments, and bonds from specified financial institutions.
4. **Specified infrastructure and market-linked instruments:** a narrowly defined set including Sovereign Gold Bonds, specified mutual fund units, infrastructure investment trust units, and shares of certain notified entities.
5. Immovable property (excluding machinery or plant, unless installed as part of a building)
6. Grandfathered legacy assets — certain older holdings (e.g., corpus assets held since 1 June 1973, or specified educational/medical institution assets held since 1 June 1998) remain valid even though they wouldn't qualify under the current list.
7. Equity shares in incubatees permitted mode of investment where the RNPO is itself an incubator notified by the DST/Ministry of Science and Technology as a Technology Business Incubator (TBI) or Science and Technology Entrepreneurs Park (STEP).

Box 3: Permitted Modes of Investment

Note: The above mentioned modes are summarised for reading. Refer Schedule XVI, Income Tax Act 2025 for detailed reading of specified modes.

How do these Requirements Fit Together?

Once the income threshold is crossed, the compliance requirements can be viewed as a connected process: **Income threshold crossed -> Books of account and supporting records maintained -> Accounts audited -> Audit report furnished -> Return of income filed**

Alongside this, throughout the year, RNPO funds may be invested or deposited only in permitted modes.

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