

Tax Deduction for Donors and Mergers of RNPPOs 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

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

The earlier issues dealt with registration, the classification of income, application of income, commercial activities, compliance requirements, and the consequences of violations. This issue covers two remaining provisions:

- **Approval to receive tax-deductible donations (Section 354):** Registration as an RNPO makes the organisation's own income eligible for exemption. To provide tax deduction relief to donors against their donations, a separate approval is required. Section

354 sets out who may apply, the conditions to be met, and the time limits and validity of the approval.

- **Mergers between RNPOs (Section 354A):** This provision explains when a merger does not trigger the tax on accreted income discussed in [Issue 6: Violations, Registration Cancellation, and Tax Consequences for RNPOs](#).

The two provisions are connected by a common theme: both depend on the RNPO keeping its approvals current and its structure consistent with its charitable purpose.

Tax Deduction for Donors: Approval under Section 354

- In [Issue 1: Registration of Non-Profit Organisations under the Income Tax Act, 2025](#), we discussed how an organisation registers as an RNPO in order to claim exemption on its own income. Registration under Section 332 is what brings the organisation within the RNPO framework and determines how its income is taxed.
- Section 354 deals with a separate approval that determines whether a donor can claim a deduction for a donation made to the organisation. *For RNPOs that raise funds from taxpayers, and corporations, maintaining a valid approval is essential. A loss of the approval obtained under Section 354 can affect donors' ability to claim a deduction and, in turn, the organisation's fundraising.*
- Section 354 sets out the conditions an RNPO must meet , to allow its donors to claim a deduction, when and how it should apply for this approval, how long the approval lasts, and how the tax authority decides the application. The application is made to the Principal Commissioner or Commissioner ("PCIT/CIT") in the prescribed form and manner.

Conditions to be Satisfied to Receive Approval under Section

To be eligible for approval, an RNPO must meet the following conditions:

- No community or caste preference: It must not be set up for the benefit of any particular religious community or caste.
- Charitable purpose: It must be established in India for a charitable purpose.
- Limit on religious spending: Its religious expenditure in a tax year must not exceed 5% of its total income.
- Charitable use of assets: Its constitution or governing rules must not allow any of its assets to be transferred, at any time, for a purpose other than a charitable purpose.
- Regular accounts: It must maintain regular accounts of its receipts and expenditure (as discussed in [Issue 4: Compliance Requirements Applicable to an RNPO](#))
- Statement of donations: It must file the statement of donations in [Form 113](#) with the income-tax authority, by 31st May immediately following the end of the relevant tax year.
- The organisation shall issue each donor a certificate in [Form 114](#), specifying the amount donated. The certificate shall be generated and issued only after the RNPO has duly filed Form 113, enabling donors to claim the applicable tax deduction.

When and How to Apply: the Five Cases

The time limit for applying, the time within which the PCIT/CIT must pass an order, and the period for which the approval remains valid all depend on the RNPO's stage. The Act groups these into five cases.

Cas e	Situation	When to apply	Order to be passed within	Validity of approval
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1	Activities have not commenced	At any time during the tax year from which approval is sought	One month from the end of the month in which the application is made	Three tax years, commencing from the tax year of application (provisional approval)
2	Activities have commenced	At any time during the tax year from which approval is sought	Six months from the end of the quarter in which the application is made	Five tax years, commencing from the tax year of application
3	Provisional approval held and activities have commenced	Within six months of commencement of activities	Six months from the end of the quarter of application	Five tax years, commencing from the tax year of application
4	Provisional approval is about to expire and activities have not commenced	At least six months before the provisional approval expires	Six months from the end of the quarter of application	Five tax years, following the tax year of application
5	Existing approval is about to expire (renewal)	At least six months before the approval expires	Six months from the end of the quarter of application	Five tax years, following the tax year of application

How the PCIT/CIT Decides to Grant Approval under Section 354

The procedure depends on the case.

Case 1 (activities not commenced). The PCIT/CIT must pass an order granting provisional approval. No inquiry into genuineness is required at this stage, since there are no activities yet to examine.

Cases 2 to 5. The PCIT/CIT may call for documents or information, or make inquiries, to satisfy himself about:

- the genuineness of the activities; and
- compliance with those requirements of any other law in force that are material to achieving the RNPO's objectives.

The outcome is one of the following:

- **Satisfied:** a written order approving the application.
- **Not satisfied:** after giving the RNPO a reasonable opportunity of being heard, a written order rejecting the application.

Mergers between RNPOs (Section 354A)

The General Position

As explained in “[Issue 6 -Violations, Registration Cancellation, and Tax Consequences for RNPOs](#)”, certain events trigger tax on accreted income, which is a one-time exit tax on the RNPO's accumulated net assets at the maximum marginal rate. One such event is a merger with an entity that is not an RNPO, or with an RNPO that does not have the same or similar objects. In that case, the date of the merger is the date for calculating the tax.

Section 354A provides relief for mergers between two RNPOs.

When the Exit Tax does not Apply

The provisions on tax on accreted income (Section 352) do not apply to the merger of one RNPO into another RNPO if both of the following are met:

1. **Same or similar objects.** The RNPO into which the merger takes place has the same or similar objects as the RNPO that is merging.
2. **Prescribed conditions.** The merger fulfills the conditions prescribed under the Rules.



Note: Section 354A requires the merger to fulfil "such conditions as may be prescribed". As on the date of this primer, these conditions have not yet been specified in the Income Tax Rules, 2026. Until they are notified, an RNPO cannot be certain that a merger will qualify for relief. RNPOs planning a merger should monitor the notification of these conditions and take professional advice before proceeding.

Key Takeaways

- Registration as an RNPO and approval for donor deduction are separate. An RNPO needs both if it wants its donors to be able to claim a deduction.
- To qualify for approval, religious expenditure must stay within 5% of total income in every tax year, and the constitution must not allow any assets to go to a non-charitable purpose.
- Donation statements (Form 113), correction statements and donor certificates (Form 114) are continuing obligations, to be met every year the approval is held.
- A new organisation begins with a three-year provisional approval and must apply for regular approval within six months of starting activities.
- Renewal applications must be filed at least six months before the approval expires. The expiry date should be diarised as soon as the approval is granted.
- A merger between two RNPOs with the same or similar objects, where the prescribed conditions are met, does not attract tax on accreted income.
- A merger with an entity that is not an RNPO, with an RNPO of different objects, or with an RNPO of similar objects where the prescribed conditions are not met, does attract the tax (Refer [Issue 6: Violations, Registration Cancellation, and Tax Consequences for RNPOs](#))

Conclusion of the Series

This series was written to help RNPOs understand what the Income Tax Act, 2025 requires of them, and when. The table below mentioned what each of the issue covered:

Issue	Theme	Question it answers
1	Registration of Non-Profit Organisations under the Income Tax Act, 2025	How does an organisation become an RNPO?
2	Classification of Income of RNPOs	Which income is regular, specified or residual, and how is each taxed?
3	Application of Income of an RNPO	What spending counts towards the 85% requirement?
4	Permitted Commercial Activities for an RNPO	What Commercial Activities Are Permitted for an RNPO under the Income Tax Act, 2025
5	Compliance Requirements Applicable to an RNPO	What books, audit, returns and investment rules must it follow?
6	Violations, Registrations, Cancellations and Tax Consequences for an RNPO	What happens if it fails to comply, or if it ceases to be an RNPO?
7	Donor approval and mergers	How can it keep donors eligible for deduction, and how can it merge without an exit tax?

The common message of the series is that exemption is conditional. Registration, application of income, record-keeping, donor-deduction approval and structural changes each carry their own requirements and timelines. RNPOs are best served by building these into a single annual compliance calendar and by reviewing their status before, not after, any significant change in activities, funding or structure.

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