Income Tax Act 2025 & Draft IT Rules 2026 for Charitable institutions - Part 1

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Thank you Sharad from Saathi Development Services for sharing this resource with us.

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Session Layout – Session 1

- Provisions for charitable institutions under ITA 1961
- Challenges overcome through ITA 2025
- ITA 2025 – provisions and changes
- TDS provisions
- Misc provisions

Provisions in ITA 1961 for NPOs

1. Chapter I-Section 2(15) Definition of charitable purpose
2. Chapter III: Incomes which do not form part of total income
3. Sections 11-13 (including section 10(23C) approval entities)
   - Section 11 – Income from property held for charitable or religious purpose
   - Section 12 – Income of trusts from contributions-12A (conditions for applicability of section 11-12) and 12AB (Procedure for registration)
   - Section 13 – Section 11 not to apply in certain cases
4. Chapter VI-A-80G – Deduction in respect of donations to certain funds, charitable institutions, etc
5. Chapter XII – Section 115BBC Taxation of Anonymous donations 115BBI Specified income of certain institutions
6. Chapter XIIB – Section 115TD-115TF Exit tax on accreted income of charitable institutions
7. Chapter XVII-B – TDS provisions, Chapter XIV for Procedure for Assessment, Other scattered sections under various chapters

Challenges in ITA 1961 & Resolution in ITA 2025 effective 1.4.2026

Challenges

- Provisions spread across several chapters for charitable institutions
- Law has evolved over time
- Provisos and explanations inserted over time make understanding difficult

Resolution

- Consolidation – Chapter XVII – Special Provisions related to Certain Persons Part B – Special Provisions for Registered NPOs. Total words reduced from 12.8k to 7.6k
- Use of uniform terms for consistency and simplified language for clear understanding
- Tables, Schedules and definitions (interpretation) provided in Chapters.
- Provisos and explanations deleted

Key Definitions under ITA 2025

- "Registered non-profit organization" means any person having a **valid** registration under **any specified provision** and such registration has not been cancelled
- Section 2(23) "Charitable Purpose" includes—
  1. Relief of the poor;
  2. education;
  3. yoga;
  4. medical relief;
  5. preservation of environment (including watersheds, forests and wildlife);
  6. preservation of monuments or places or objects of artistic or historic interest;
  7. the advancement of any other object of general public utility;

  Religious purpose not defined as was in ITA 1961
- Tax Year – means twelve months period of the financial year commencing on 1st April. Done away with Previous Year (PY) and Assessment Year (AY)

ITA 2025 for RNPO (Charitable and Religious Institutions)

Chapter XVII-B (Special Provisions for Registered NPO) is divided in seven structured subparts (Sections 332-355)

1. Registration – Sections 332-333
2. Income of registered NPO – Sections 334-343
3. Commercial Activities by RNPO – sections 344-346
4. Compliances – sections 347-350
5. Violations – sections 351-353
6. Approval for purpose of deduction under section 133(1)(b)(ii) – Section 354
7. Interpretation – Section 355

1. Registration

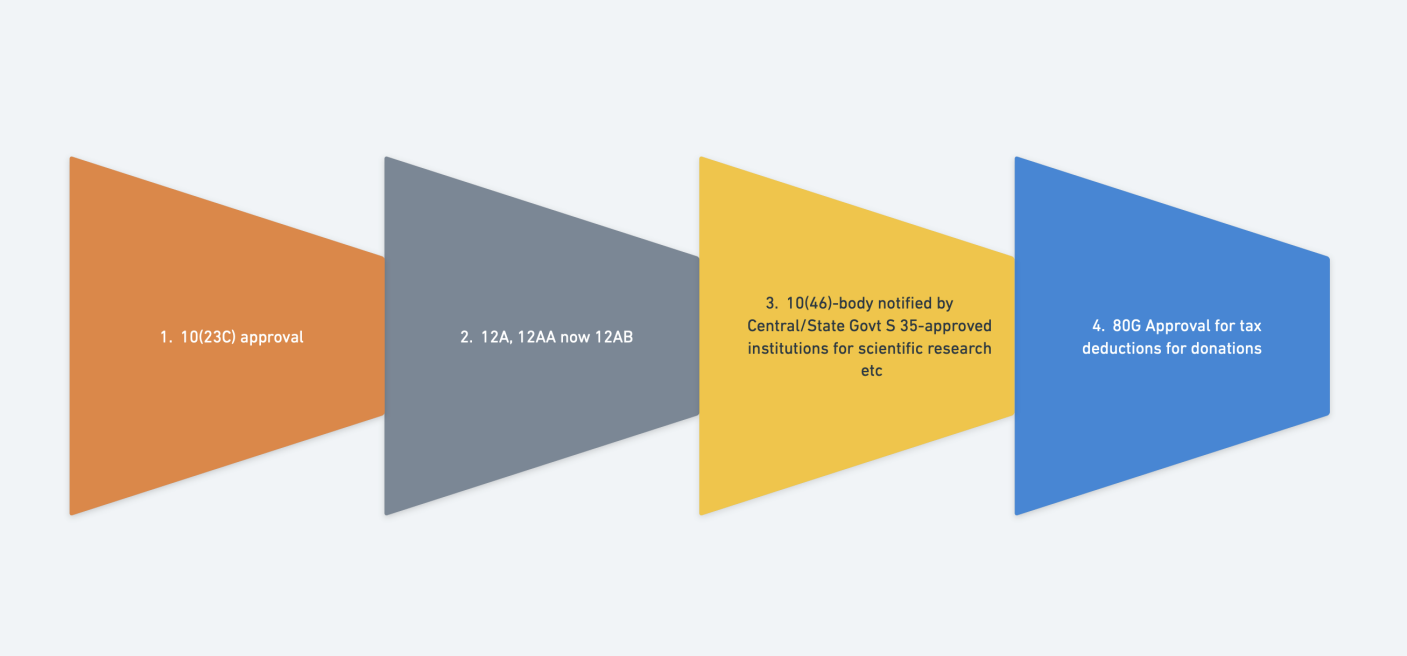
Section 332 – Application for Registration – following persons (called registered non-profit organization) for claiming benefits under this Part, make an application for registration to P/CIT –

1. a public trust;
2. a society registered under the Societies Registration Act, 1860, or under any law in force
3. a company registered under section 8/25 of the Companies Act, 2013/1956
4. a University/ educational institution affiliated thereto or recognized by Govt
5. an institution financed wholly/partly by Government/local authority;
6. any person as referred to in
   Schedule III – Income not to be included in total income of eligible persons (Table: Sl. No. 27) to (Table: Sl. No. 29) i.e. contribution to IPF setup by SE, CE and Depository and **(Table: Sl. No. 36) i.e. section 10(46) i.e. entities created and notified by Govt for benefit of general public** other than Sch VII Table sl 42 and

   Schedule VII Persons exempt from Tax (Table: Sl. No. 10-16) PMNRF, PMCARES, SBM, Clean Ganga, CM Relief Fund etc – deleted in Budget 2026, Table **Sl 17 – any University/edu institution substantially/wholly financed by Govt, Table Sl 18 – any medical institution wholly/substantially financed by Govt and Table, Sl 19 – any educational or medical institution with gross receipts upto Rs. 5 cr.PA**, Table: Sl. No. 42 – any body/authority setup by Central/State Act for housing, development

of cities, village, regulating activity for benefit of general public; or

7. any other person notified by CBDT



Illustrated:

10(23C) approval

12A, 12AA now 12AB

10(46)-body notified by Central/State Govt S 35-approved institutions for scientific research etc.

80G Approval for tax deductions for donations

Types of Registration/Approval for RNPO under ITA 2025

1. Schedule VII (Table sl no 17-19) – erstwhile 10(23C)-(iiab-ae) non approval entities – First regime
2. Chap XVII-B – Section 332 – erstwhile 12A, 12AB – 2nd regime
3. Schedule III (Table sl. No 36) erstwhile 10(46) – a body notified by Central/State Govt; S 45 erstwhile S 35 – Deduction for exp by institutions on scientific research
4. 133(1)(b)(ii) erstwhile 80G(5) Approval (deductions for Donations to certain Funds, charitable institutions etc)

Table-332 – Cases, Time Limit for Application, Approval by Dept and Validity of Registration

Sl. No.	Case	Time limit for furnishing application	Time limit for passing order	Validity of registration
1	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.	**At any time** during the tax year beginning from which registration is sought.	**One month** from the end of the month in which application is made.	**Three tax years** commencing from the tax year in which such application is made.
2	Where the activities of the applicant **have commenced and it has not been registered under any specified provision** at any time before making the application.	**At any time** during the tax year, beginning from which registration is sought.	**Six months** from the end of the quarter in which application is made.	**Five tax years** commencing from the tax year in which such application is made.
3	Where the applicant has been granted **provisional registration and activities have commenced.**	**Within six months of the commencement** of activities.	**Six months** from the end of the quarter in which application is made.	**Five tax years** commencing from the tax year in which such application is made.
4	Where the **provisional registration of the applicant is due to expire** and **activities have not commenced**.	**At least six months prior to the expiry** of the provisional registration.	**Six months** from the end of the quarter in which application is made.	**Five tax years** following the tax year in which such application is made.
5	Where the **registration of the applicant is due to expire**, other than cases mentioned at serial number 4.	**At least six months prior to the expiry** of the registration.	**Six months** from the end of the quarter in which application is made.	**Five tax years** following the tax year in which such application is made.

Sl. No.	Case	Time limit for furnishing application	Time limit for passing order	Validity of registration
6	Where the registration of the applicant has become **inoperative** due to switching over of regime under Section 333	**At any time** during the tax year beginning from which the registration is sought to be made operative.	**Six months** from the end of the quarter in which application is made.	**Five tax years** commencing from the tax year in which such application is made.
7	Where the applicant, being a registered NPO has adopted or undertaken **modification of its objects** which do not conform to the conditions of registration.	**Within thirty days** of the date of such adoption or modification	**Six months** from the end of the quarter in which application is made.	**Five tax years** commencing from commencement of the tax year in which such application is made.

Conditions for registration

1. Person constituted/registered/incorporated for charitable purpose under (2(23) or public religious purposes
2. Properties held under an irrevocable trust for benefit of general public wholly for charitable/religious purpose

- Condonation for delay by P/CIT with reasonable cause for registration application
- Accreted tax if condonation is not granted in cases for Table sl. No 3,4,5,7 (3. conversion of provisional regn, 4. renewal of provisional and 5. renewal of regular regn and 7. modification of objects)
- If income in past 2 tax years prior to application is upto Rs. 5 cr, registration granted for 10 years – applicable to cases in Table sl. 3 to 7
- For cases in Table sl. No. 2-7, P/CIT see genuineness and compliance with other laws and grant/reject registration (after giving opportunity of being heard in case of rejection)
- Provisional registration granted by P/CIT only
- Where registration of an entity registered prior to 1.4.2021 has expired under ITA 1961 and now applies for registration, P/CIT can condone with reasonable cause for delay and

grant registration within 3 months of application which will be valid for 5 years from Tax Year 2021-22 i.e. upto 31.3.2026.

- **Section 333 – Switching over of regimes**, registration under 332 will cease from date notified as covered under Schedule III (Table sl. No.27,28,29,36) or VII (Table sl. No. 42) and vice versa

2. Income of Registered NPO

- **334 – Tax on income of RNPO** – Income tax on total income for a tax year will be (a) @30% on specified income (a) at the rate applicable on taxable regular income
- **335 – Regular income** includes – (a) receipts from charitable or religious activity for which registered (b) capital/revenue receipts from property/investment held (c) voluntary contribution (d) gains from commercial activity received in tax year
- **336 – Taxable regular income** is (a) nil if 85% or more of income in tax year applied or accumulated as per 342 (b) 85% regular income less application and accumulation
- **337 – Specified income** – taxable in same tax year (except h where it is last year)
  1. Anonymous donation (excludes religious/charitable cum religious except for an educational/medical institution) – Rs.1 lakh or 5% of donations whichever is higher
  2. Income applied for benefit of a related person
  3. Income applied outside India in contravention of Section 338(a)
  4. Investment of any income, deemed accumulated income, accumulated income, corpus, deemed corpus or any other fund in violation of 350
  5. Deemed corpus donation for violation of conditions in 340 (donation for repair of religious places)
  6. Accumulated income applied for purpose other than for which accumulated
  7. Accumulated income ceases to be accumulated (conditions not fulfilled)
  8. Accumulated income not applied within prescribed period – 342(1)
  9. Accumulated income paid to another registered NPO
  10. Income applied for other than charitable or religious purpose for which registered
  11. Income determined by AO more than income as shown for business undertaking
  12. Fair market value of asset not held in modes under Schedule XVI after expiry of 1 year from end of tax year in which acquired

13. Deemed application not applied within allowed timeline

- **338 – Income not to be included in regular income –**
  1. income applied outside India approved by CBDT to promote international welfare in which India is interested and
  2. corpus donation received by RNPO
- **339 – Corpus donation** – donation made with specific direction by donor to treat as corpus and invested in permitted modes of investment under section 350
- **340 – Deemed corpus donation** – donation for repair of temple, gurudwara, church, mosque etc deemed corpus donation
  conditions – separately identified, invested as per 350, used for repair, not given as donation to any person
- **341 – Application of income –**
  1. Applied for charitable or religious purpose in India (i) amount paid in tax year for charitable/religious purpose provided section 36(4-7) – cash payment >10k to a person in a day where exception can be made and 35(b)(i) – TDS not deducted under Chapter XIX-B will apply
  2. 85% as donation to another registered NPO
  3. Application where corpus applied after 1.4.2021 is deposited back in Section 350 modes and within 5 years from application
  4. Application from loans and borrowings made after 1.4.2021 repaid and within 5 years from application

  Application not allowed
  1. Depreciation if original cost of asset claimed
  2. Set off of excess application for previous year
  3. Sum paid as corpus donation to another RNPO

  Application from corpus, loans and borrowings, accumulated income, deemed accumulated income, specified income for 85% application
- Deemed application – regular income applied is less than 85%, the shortfall maybe treated as deemed application where income is not received or for any other reason
- Applied in succeeding year of receipt after exercising option
- Deemed application shall be considered as application
- Entire income from capital gains will be deemed as application if net consideration is for acquiring new capital asset or pro rata if entire net consideration not utilized for acquiring capital asset

- **342: Accumulated income –** (i) accumulate/set apart for maximum 5 years (excluding period for a court order/injunction) stating purpose by furnishing statement on or before due date for furnishing income tax return – Section 263(1)
  (ii) Amount paid out of accumulated income to another RNPO not application
  (iii) Accumulated income is to be invested as per modes specified in 350
  (iv) Repurposing of accumulated income which is in conformity of its objects with prior AO approval permitted
  (v) If RNPO dissolved, AO allow application of income to any other RNPO for the year in which it is dissolved based on application by RNPO
- **343 – Deemed accumulated income –** (i) Regular income less application and accumulated income upto 15% of regular income is deemed accumulated income to be invested in modes as per Section 350. (ii) deemed accumulated income is different from accumulated income

3. Commercial Activities by RNPO

- **344 – Business undertaking held as property** – AO to allow income from such property claimed in books as charitable under Chapter 17-B
- **345 – Restriction on commercial activity by RNPO** – No RNPO other than for advancement of objects of GPU undertake commercial activity unless
  1. Such commercial activity is incidental to attainment of objectives
  2. Separate books of account maintained for such activity
- **346 – Restriction on commercial activity by RNPO for advancement of object of GPU** – No commercial activity unless
  1. Such commercial activity is for advancement of GPU object
  2. Commercial receipts not >20% of total receipts of tax year
  3. Separate books of account maintained for such activity

4. Compliances

- **347 – Books of Account** – when income exceeds max not chargeable to tax, maintain prescribed books of accounts

- **348 – Audit** – when income exceeds max not chargeable to tax, get audit and file audit report as prescribed
- **349 – Return of income** – when income exceeds max not chargeable to tax, file ITR under section 263((1)(a)(iii) within time allowed under 263(1)(b). Exemption benefit allowed for belated return – Budget 2026 by including reference to 263(4)
- **350 – Permitted modes of investment** – specified in Schedule XVI and further addition by CG

Schedule XVI – Permitted Forms or Modes of Investment or Deposits by Charitable/Religious Institution

Lists 32 modes, few examples:

- deposit in any account with the Post Office Savings Bank
- deposit in any account with a scheduled bank or a co-operative society engaged in carrying on the business of banking
- investment in immovable property;
- investment in the units issued under any scheme of the mutual fund approved by SEBI
- investment in Stock Certificate of the Sovereign Gold Bonds Scheme, 2015
- shares in a public sector company
- voluntary contributions received and maintained in the form of jewellery, furniture or any other article as the Board may, by notification specify

5. Violations

- **351 – Specified Violations** – by a RNPO
  1. Income applied other than for objects
  2. Commercial activity contravening 345 – deleted for 346 (GPU) in Budget 2026
  3. Private religious purpose
  4. Benefit particular religious community/caste **other than SC/ST/backward class/women and children**

5. Activity not genuine/not as per conditions of regn certificate
6. Not complied with requirements of any other law – 332(7)
7. Application for registration under 332(1) contains false information

- Where CIT on his own noticed specified violation or reference by AO or selected as per risk management strategy call for information/inquiry and cancel or otherwise within 6 months of the quarter in which notice issued.
- **352 – Tax on Accreted income** – in addition to income tax be liable for tax on accreted income at MMR in following cases calculated as

  A=B-C where A is accreted income, B is Fair market value of total assets and C is Total liability

  Tax on accreted income has to be paid within 14 days of due date specified in Table otherwise simple interest in addition as per below

  I = 1% of (T*P) where T is accreted tax and P is period of delay in month from due date

  Table provides cases triggering tax on accreted income:

  1. Registration cancelled/withdrawn
  2. Modified object not conforming to registration conditions and not applied for fresh registration
  3. Not applied on switching of regime (inoperative clause)
  4. Converts into form not eligible for grant of registration
  5. Merges with an entity which is not RNPO with same/similar objects
  6. On dissolution, surplus assets not transferred to another RNPO within 12 months.

  Assesse in default – principal officer or trustee or org into which assets have been transferred upon dissolution upt value of assets only
- **353 – Other violations** – where RNPO fails to
  1. Maintain books of account
  2. Fails to get books of account audited
  3. Fails to file return of income
  4. Is for advancement of object of GPU has commercial receipts in contravention of Section 346

  Regular income less expenditure subject to following conditions will be taxable:

  1. Capital expenditure not allowed (ii) Exp incurred in India
  2. Applied for objects (iv) Not made from corpus (vi) Not made from loans and borrowings

3. No depreciation allowed if acquisition cost already claimed
4. No sub grant
5. Payment made in contravention of Section 36(4-7) and Section 35(b)(i)

Only above allowed as application

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Revision #18
Created 2025-05-23 07:35:38 UTC by Pooja
Updated 2026-03-31 08:36:12 UTC by Pooja