CONTENTS

PAGE

DIVISION A

PROVISIONS OF INCOME-TAX ACT APPLICABLE TO DONATIONS TO POLITICAL PARTIES

<u>1</u> INTRODUCTION

1.0		sions of Income-tax Act, 1961 applicable to al parties	3	
1.1		eductions to donors in respect of contributions made y them to political parties		
1.2		tion of 'political party' for the purposes of sections B and 80GGC	3	
	1.2-1	Entitlements and obligations of a registered political party	4	
	1.2-2	Classification of a registered political party	5	
	1.2-3	Classification of Recognised Political Parties	5	
	1.2-4	Recognised Unregistered Political Parties (RUPPs)	7	
	1.2-5	Action by Income-tax Department to withdraw benefits of sections 80GGB and 80GGC to donors of RUPPs in respect of bogus donations	9	
1.3	Defini	tion of Electoral Trust	9	
1.4	on adv	owance of deduction for expenditure incurred vertisement in any brochure, tract, pamphlet or e published by a political party [Section 37(2B)]	9	
	tile iii	e paonistica by a political party [occiton 57(2D)]		

PAC	iΕ

2

_	
TAX BENEFITS TO COR	PORATE DONORS ON
IMA DENERING TO CON	I OMILL DONORO ON
DONATIONS MADE TO	POLITICAL PARTIES

2.1		Company not eligible to section 80GGB deduction if it has opted for section 115BAA/section 115BAB regime		
2.2	Deduction in respect of contributions given by Indian companies to political parties/electoral trusts (Section 80GGB)			
2.3	100% l satisfi	Deduction of amounts contributed if conditions ed	11	
2.4	Indian	n company	11	
2.5	Contri	ibution should be made in the previous year	12	
2.6	"Any p	political party"- Meaning of	13	
	2.6-1	Donee political party must be a registered political party, but not required to be a recognised party	15	
	2.6-2	Donations to RUPPs likely to come under lens for possibility of RUPPs involvement in bogus donation racket	16	
	2.6-3	Mere evidence of involvement of RUPP in bogus donation racket will not result in withdrawal of deduction to every donor of RUPP	16	
	2.6 4	Whether deduction u/s 80GGB can be with-drawn if EC registers the done political party as being inactive/not traceable RUPPs subsequent to the contribution/donation?	17	
2.7	Electo	oral trust	19	
2.8	Interpretation of "contribute"		19	
	2.8-1	Section 182 bars government company and company in existence for less than 3 FYs from making political contributions	21	
	2.8-2	Political contribution to be authorised by resolution passed at a meeting of BOD	21	
	2.8-3	Section 182 permits a company to make contribution to only registered political parties	21	

I-9 CONTENTS

		P	AGE
	2.8-4	Interpretation of "contribution" [Section 182(2)]	21
	2.8-5	No limit on contributions	25
	2.8-6	Permissible modes of contribution	25
2.9		ssible modes of contribution of money to regispolitical party	25
	2.9-1	Electoral Bonds	26
2.10	Proof	of contribution	27
2.11	No obligation on donor to ensure that donations are duly utilised by donee political party for its objects 22		
2.12	No proof of business exigency required to claim deduction u/s 80GGB		
2.13	donat	e cashback received by donor against bogus ion exceeds limit of ₹ 2,00,000, penalty u/s is applicable	28
		3	
Т		NEFITS TO NON-CORPORATE DONORS ON IATIONS MADE TO POLITICAL PARTIES	
3.1		duction u/s 80GGC if assessee opts for section	
	115BA	AC/section 115BAD/section 115BAE regime	30
3.2	Deduction in respect of contributions given by non-corporates to political parties/electoral trusts (Sec. 80GGC) 36		
3.3	100% Deduction of amounts contributed if conditions satisfied		31
3.4		etion available to any person other than local rity/AJP partly or wholly funded by govt.	31
		Any person	32
3.5		mount of contribution	33
	3.5-1	Payment to a political party for insertion of an advertisement - Whether contribution deductible u/s 80GGC?	33
	3.5-2	Whether payment for advertisement in a newspaper run by a political party is deductible?	34
3.6	Contri	bution should be made in the previous year	35
3.7	Political party 3		

		F	AGE
	3.7-1	No prosecution/punishment if donation made to unregistered political party	35
	3.7-2	Donee political party must be a registered political party, but not required to be a recognised party	36
	3.7-3	Donations to RUPPs likely to come under lens for possibility of RUPPs involvement in bogus donation racket	40
	3.7-4	Mere evidence of involvement of RUPP in bogus donation racket will not result in withdrawal of deduction to every donor of RUPP	41
	3.7-5	Whether deduction u/s 80GGC can be withdrawn if EC deregisters the donee political party as being inactive/not traceable RUPPs subsequent to the contribution/donation?	43
3.8	Electo	ral trust	43
3.9	No deduction in respect of sums contributed by way of cash		44
3.10	No obligation on donor to ensure that donations are duly utilised by donee political party for its objects		44
3.11	donati	Where cashback received by donor against bogus donation exceeds limit of ₹ 2,00,000, penalty u/s 271DA is applicable	
		4	
		PENDITURE ON ADVERTISEMENT IN VENIR, BROCHURE, TRACT, PAMPHLET OR THE LIKE PUBLISHED BY A POLITICAL PARTY	
4.1	on adv	owance of deduction for expenditure incurred vertisement in any brochure, tract, pamphlet or e published by a political party	46
4.2		Rationale for disallowance under section 37(2B) ion applies to all assessees	46 47
4 .2		tion of "political party" for section 37(2B) purposes	47 47
4.4		ng of the words "or the like" in section 37(2B)	47

I-11 CONTENTS

4.5 Expenditure on advertisement in souvenir, brochure, tract, pamphlet etc. of Trade Union/Labour Union -	
Whether attracts section 37(2B)?	48
4.6 Whether expenditure on advertisement in souvenir, brochure etc. of registered political party is deductible u/s 80GGB/u/s 80GGC?	48
4.6-1 Deductibility u/s 80GGB of such expenditure incurred by companies	48
4.6-2 Deductibility u/s 80GGC of such expenditure incurred by non-corporates	50
<u>5</u>	
DO'S AND DON'TS OF MAKING DONATIONS TO POLITICAL PARTIES - CHECKLIST	
5.1 Verify whether you are barred from making donations to political parties (KNOW THYSELF)	51
5.2 Have you opted for any tax regime that bars claiming of donations under section 80GGB or under section 80GGC? (KNOW THY TAX REGIME)	52
5.3 Verify the registration & recognition of political party in ECI site before making donation (KNOW YOUR DONEE)	52
5.4 After carrying out KYD exercise, comply with requirements of section 182 of Companies Act, 2013 if you are	
a company	53
5.5 Choose the mode of payment of the contribution	<i>54</i>
5.6 Post-contribution activities	55
<u>DIVISION B</u>	
ACCEPTANCE OF DONATIONS BY POLITICAL PARTIES & TAX EXEMPTION TO POLITICAL PARTIES	
<u>6</u> DEFINITION OF POLITICAL PARTY	
6.1 Definition of 'political party'	59

PAGE

	7	
	REGISTRATION OF POLITICAL PARTY WITH ECI	
7.1	Registration u/s 29A of RP Act, 1951 is not compulsory	60
7.2	Entitlements of a registered political party	60
7.3	Procedure for registration of a political party with ECI	62
	<u>8</u>	
	ENTITLEMENT OF REGISTERED POLITICAL PARTIES TO ACCEPT DONATIONS	
8.1	Political parties entitled to accept contributions	64
8.2	Limitations placed by Companies Act on political contributions	64
8.3	Prohibited sources from which contributions cannot be accepted by political parties	65
	FILING OF REPORT OF CONTRIBUTIONS RECEIVED, BY REGISTERED POLITICAL PARTY	
9.1	Contributions	66
9.2	Declaration of donations received by political parties (Section 29C)	66
	10	
	SPECIAL PROVISIONS RELATING TO INCOMES OF POLITICAL PARTIES	
10.1	Tax-free incomes of a political party	68
10.2	Conditions to be fulfilled by political party for incometax exemption	
10.3	Qualifications and disqualifications of auditor of a political party	70
	10.3-1 Certain accountants not to give reports/certificates	71
10.4	Bogus donations	73

I-13

PAGE

92

DIVISION C

HOW TO HANDLE INCOME TAX NOTICES RECEIVED BY DONORS WITH CASE STUDIES

11

HOW TO HANDLE INCOME-TAX NOTICES RECEIVED BY DONORS OF RUPPs

- 11.1 Search on 'RUPPs group of Ahmedabad' which unearthed the bogus donation racket 79 Notices u/s 148A(d) sent to donors of 23 RUPPs for AY 11.2 2019-20 asking them why reassessment notices should not be issued to them for withdrawing deductions under section 80GGB/80GGC 82 11.3 Reassessment Notices in standard format appear to have been sent to all donors of 23 RUPPs who claimed deduction u/s 80GGB/80GGC 84 11.4 How to respond to these SCNs? 84 CASE STUDIES: RESPONSE OF **DONORS TO NOTICES** Case study 1 - Noticee is Sr. citizen and salaried 12.1 employee in private sector; political donation of
- ₹3,00,000; total income ₹25,00,000; tax paid: ₹5,82,400 88

 12.1-1 Response if SCN pertains to assessment year
 2018-19 89

 12.1-2 Response if show cause notice pertains to
 assessment year 2019-20 instead of assessment
 year 2018-19 90
 - **12.1-3** If reports contain the name of political party, suggested response to SCN (to be e-filed)
- **12.2** Case study 2 Noticee is carrying on business 93

			PAGE
	12.2-1	Response to SCN if SCN pertains to assessment year 2018-19	94
	12.2-2	Response if show cause notice pertains to assessment year 2019-20 instead of assessment year 2018-19	95
	12.2-3	If reports are received from AO contain the name of the political party, suggested response to SCN (to be e-filed)	97
12.3	donation to surr	rable cases where donee has got cashback and on is disproportionate to income and donee wants render tax benefit under section 80GGB/section and avoid reassessment proceedings	
		APPENDICES	
APPE	ENDIX	1 : Press note of Election Commission of India on action on RUPPs	107
APPE	ENDIX	2: Electoral Bond Scheme, 2018	111
APPE	ENDIX	3: Relevant sections of Income-tax Act, 1961	118
APPE	ENDIX	4: Relevant section of Companies Act, 2013	120
APPE	ENDIX	5: Relevant sections of Representation of People Act, 1951	122
APPE	ENDIX	6 : Election Commission's order dated 13-9-2022 regarding enforcement of compliances in r/o Registered unrecognized political parties	
		(RUPPs)	125