Tax reins tightened for charitable trusts

Lubna.Kably@timesgroup.com

Mumbai: The Budget proposes a slew of amendments which would cost a charitable trust dearly for even a slightest slip—such as a few days delay of filing a renewal application. Or for that matter, voluntary donations to other trusts are sought to be de-incentivised. A tax exemption could be lost if there is a delay in filing the I-T return. Tightening of controls will make an already difficult existence for trusts more challenging, state experts.

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Owing to some proposals, the sword of exit tax, hangs precariously over a charitable trust. According to Gautam Nayak, tax partner at CNK & Associates, "The most problematic amendment is the one where if a trust does not apply for renewal of its registration in time, it would become liable to tax at the maximum marginal rate on the fair market value of its assets. This will completely destroy trusts, who commit even the small mistake of filing such renewal applications just a few days late."

Trusts, who had not applied for registration even though they had been in existence for a few years, so far enjoyed the benefit of not being denied exemption in pending assessments of earlier years. This benefit is being snatched away. Old trusts who now wish to seek registration would risk suffering taxation for as many as ten prior years," he said.

Currently, charitable trusts are liable to pay additional income tax (exit tax) on their 'accreted income, which is: fair market value of assets less FMV of liabilities, upon violation of prescribed conditions, such as conversion into non-charity or transferring assets to any non-charitable entity.