Latest Updates in ITR 7: Filing Returns for Charitable Organizations

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Traditionally, private philanthropy has held a distinct and prominent role in enhancing our cultural heritage while addressing essential aspects of education, healthcare, socio-economic well-being, and religious services within our nation. In tandem with the efforts of the Welfare State, these philanthropic endeavours have served as valuable supplements. In acknowledgment of this partnership, the State has extended generous tax exemptions to contributions made to philanthropic institutions, as well as to the income directed towards public, religious, or charitable purposes.

Under Income Tax Law, Persons including companies falling under section 139(4A) or Section 139 (4B) or Section 139 (4C) or Section 139(4D) such as registered charitable or religious trust, society, university or other educational institutions, other fund or institution for charitable purposes, any trust or institution wholly for public religious purposes or wholly for religious and charitable purposes, Scientific research association, news agency ,political parties registered under section 29A of the Representation of the People Act,1951 etc. are among the entities that fall under the purview of ITR 7.

The income of above mentioned organisations, owing to their unique structure and objectives, is subject to taxation as outlined in sections 11-13 of the Income Tax Act of 1961. These provisions grant a range of tax benefits to such organizations, fostering their vital contributions to society. However, there have been instances where certain Charitable Organizations have exploited these tax concessions, often evading detection.

To rectify these abuses and ensure the integrity of charitable efforts, significant amendments have been proposed in previous budgets. Building on these efforts, government introduces further measures aimed at rationalizing provisions related to Charitable Organizations. These changes seek to establish uniformity and clarity in taxation, especially in specified circumstances, while reinforcing effective monitoring and implementation protocols. These is in turn also have revolutionised the way of filing / reporting by these organisations to the Income Tax Department.

ITR 7

ITR 7 Form filing is done by the persons including companies who service the income from the properties that are of charitable or religious purposes. Properties that are held under the trusts or legal obligation in parts or even wholly are included in the category. ITR 7 Form is a file when the person and the companies fall under section 139(4A) or Section 139 (4B) or Section 139 (4C) or Section 139(4D).

The ITR 7 Form has been divided into two parts and Thirty three schedules;

- Part A - General information
- Part B - Outline of the total income and tax computation concerning income chargeable to tax.

NEW ITR 7 – AT A GLANCE

Schedule-I	Details of amounts accumulated / set apart within the meaning of section 11(2) or in terms of third proviso to section 10(23C)/10(21) read with section 35(1).
Schedule-IA	Details of accumulated income taxed in earlier assessment years as per section 11(3)
Schedule-D	Details of deemed application of income under clause (2) of Explanation 1 to sub-section (1) of section 11
Schedule DA	Details of accumulated income taxed in earlier assessment years as per section 11 (1B)
Schedule-J	Statement showing the funds and investments as on the last day of the previous year
Schedule-R	Reconciliation of Corpus of Schedule J and Balance sheet
Schedule-LA	Details in case of a political party.
Schedule-ET	Details in case of an Electoral Trust
Schedule-VC	Details of Voluntary Contributions received
Schedule-AI	Aggregate of income derived during the previous year excluding Voluntary contributions
Schedule-A	Amount applied to stated objects of the trust/institution during the previous year from all sources referred to in C1 to C7 of this table
Schedule-IE	Income & Expenditure statement [Applicable for assessees claiming exemption under sections 10(21),10(22B), 10(23AAA), 10(23B), 10(23D), 10(23DA), 10(23EC), 10(23ED),10(23EE), 10(23FB), 10(29A),10(46), 10(47)
Schedule IE- 2	Income and Expenditure statement [Applicable for assessee claiming exemption under sections 10(23A),10(24)]
Schedule IE- 3	Income and Expenditure statement [applicable for assessee claiming exemption under sections 10(23C)(iiiab) or 10(23C)(iiiac)]
Schedule IE- 4	Income and Expenditure statement [applicable for assessee claiming exemption under sections10(23C)(iiiad) or 10(23C)(iiiae)]
Schedule-HP	Details of Income from House Property
Schedule-CG	Details of Capital Gains
Schedule VDA	Income from transfer of virtual digital assets u/s 115BBH
Schedule-OS	Details of Income from Other Sources
Schedule-OA	General Details
Schedule-BP	Computation of income from business or profession
Schedule-CYLA	Details of Income after set-off of current years losses
Schedule-PTI	Pass Through Income details from business trust or investment fund as per section 115UA, 115UB
Schedule-SI	Income chargeable to tax at special rates
Schedule-115TD	Accreted income under section 115TD
Schedule 115BBI	Specified income of certain institutions under section 115BBI

Schedule-FSI	Details of Income from outside India and tax relief
Schedule-TR	Summary of tax relief claimed for taxes paid outside India (available only in case of resident)
Schedule-FA	Details of Foreign Assets and Income from any source outside India
Schedule-SH	Shareholding of Unlisted Company
Part B -TI	Statement of income for the period ended on 31st march, 2023
Part B -TTI	Computation of tax liability on total income
15	Tax Payments

Recent Amendments for Charitable Trusts and Institutions:

1. Rationalisation of Provisions for Registered Entities (12AB) and Specified Institutions (10(23)C):

- Alignment of conditions for accumulation of income and taxability of accumulated income for both regimes.
- Introduction of similar restrictions on passing unreasonable benefits to trustees or specified persons for specified institutions.
- Application of exit tax provisions equally to both trust and institution regimes.
- Exemption not available if return of income is not filed within prescribed time, now applicable to specified institutions as well.

2. Application of Income:

- Sum payable as application of income considered as such when actually paid, regardless of accounting method.
- Income recognized on accrual basis, while application on cash basis.

3. Admissibility of Expenditure in Case of Violations:

- Deduction for expenditure incurred for trust's objects allowed in case of specified violations.
- Restrictions on expenses for non-deduction of taxes and cash payments also applicable.

4. Renovation and Repair of Places of Worship:

- Option for trusts/institutions to treat voluntary contributions for place of worship renovation as part of corpus, with specified conditions.

5. Mandate for Books of Account:

- Trusts/institutions required to maintain books of accounts if income exceeds non-taxable limit, as per prescribed form and manner.

6. Penalty for Unreasonable Benefits:

- Introduced penalty under section 271AAE for passing unreasonable benefits to trustees or specified persons, based on income applied.

7. Cancellation of Registration / Approval:

- Principal Commissioner or Commissioner can cancel registration for specified violations, after inquiry and opportunity of hearing.
- Violations include improper income usage, non-incidental profits, lack of separate accounts, benefit to specific community, or not adhering to conditions.

8. Application out of Corpus and Loans & Borrowings:

- Exempti on for money applied from corpus funds or loans now requires restoration within 5 years from application.
- Benefit only available if no violations under certain sections, and not for applications prior to April 1, 2021.

9. Restriction on Inter Charity Donation:

- 85% of eligible donations to other registered trusts now treated as application of income, balancing out 15% loss.

10. Changed Time Limit for Accumulation Forms:

- Form 10 / 9A now to be filed 2 months prior to income tax return filing, aligned with audit report submission.

SIGNIFICANT MODIFICATIONS IN ITR 7

To accommodate various recent amendments, the form also has been amended in such a way to accustom those changes and are mentioned below :

1. Rationalisation of Section 10(23C) or Section 13(10) : The new ITR-7 form now requires information on the application of the twenty-second proviso to Sections 10(23C) or 13(10). The Finance Act 2022 introduced income computation provisions for situations where::

(a) the institution has not obtained the audit report;

(b) the books of account and other documents have not been kept in the prescribed form/ manner/place; or

(c) the institution has not furnished the return of income within the time allowed under Section 139(4A).

Corresponding amendments have been incorporated in Part B-TI, reflecting the income statement in the ITR form. Part B3 now offers a distinct table if total income becomes subject to taxation under the twenty-second proviso to Sections 10(23C) or 13(10). In such cases, taxable income, arising from exemption withdrawal, is determined while accounting for eligible expenditure (excluding capital expenditure) in India for the institution's objectives. To claim this deduction, certain conditions must be met::

(a) The expenditure is not from the amount of corpus donations credited in the books of account up to the end of the financial year immediately preceding the relevant previous year;

(b) The expenditure is not from any loan or borrowing;

(c) Depreciation shall not be allowed in respect of an asset whose full cost has been claimed as an application of income;

(d) The expenditure is not in the form of a contribution or donation to any person

The income shall be computed without deduction of the following expenditures:

(a) No deduction shall be allowed for the capital expenditure;

(b) Disallowance shall be made under Section 40(a)(ia) for the default made in deduction of tax;

(c) Disallowance shall be made Section 40A(3)/40A(3A) for the payment made in cash;

(d) No deduction shall be allowed for the expenditure not incurred in India.

Importantly, disallowed expenses or allowances cannot be deducted elsewhere, and any arising losses due to such expenditure cannot be setoff.

2. Details of Author/ Founder/ Trustee/Manager : The revised ITR-7 form necessitates specific information about the Author/Founder/Trustee/Manager of the trust or institution throughout the preceding year. The individual's particulars should be furnished if they held a position at any point during the previous year. This updates the previous requirement that only sought such details as of the application date..

3. Accumulated Income Taxed in Previous Years - Enhanced Disclosure : A new Schedule IA mandates providing details about accumulated income taxed in prior assessment years under Section 11(3). Exemptions are granted to trusts for income surpassing 15%, contingent on meeting certain criteria. Section 11(3) outlines circumstances leading to withdrawal of exemption if specific conditions aren't met. Schedule IA requires disclosing the year of accumulation and the assessment year when the accumulated amount was taxed.

Additionally, a new Schedule DA necessitates information on accumulated income taxed in prior assessment years under Section 11(1B). When a charitable institution fails to allocate 85% of its income for Indian charitable or religious objectives, filing Form 9A implies its application for such purposes. Untapped income intended for charitable/religious purposes in India within a stipulated timeframe becomes the previous year's income following its reception or derivation. Section 115BBI subjects this income to taxation. Schedule DA mandates revealing the year of deemed application and the assessment year when the amount was taxed

4. Specified mode Investments : Previously reported under 'Schedule J,' investments made under Section 11(5) are now simplified to focus on corpus investment/deposits under Section 11(5).

5. Reporting of investment in related concerns: The Finance Act 2022 specified that income (or a portion thereof) of trusts/institutions approved under Section 10(23C) used for beneficiaries under Section 13(3) triggers inclusion as income in the relevant previous year. The updated ITR form demands particulars about investments held during the previous year in entities where individuals referenced in Section 13(3) and 21st Proviso of Section 10(23C) hold significant interests.

6. Details of investments to be shown in the Balance Sheet: The breakup of the total application of funds shown in the balance sheet shall be further classified into the investments made in the modes specified under Section 11(5) and the investment made in modes other than specified under Section 11(5).

7. Reconciliation of corpus : Introduced through Schedule R, reconciliation is required between Schedule J's corpus and the balance sheet's closing balance. Reasons for discrepancies should be provided for: (a) Asset acquisitions (b) Depreciation (c) Other causes (specify)

8. Anonymous Donations Disclosure : Contributions, classified as domestic/foreign and anonymous, must be reported in Schedule VC. Anonymous donations taxable under Section 115BBC are to be separately highlighted.

9. Amount Allocated for Objectives - Enhanced Disclosure : A new Schedule A covers the amount applied for trust/ institution objectives during the previous year from all sources. Revenue and capital nature classifications replace the former Schedule ER (revenue) and Schedule EC (capital).

10. Reporting Accreted Income : The Finance Act 2022 extends accreted tax provisions to Section 10(23C)-approved entities. Schedule 115TD must now be filled by such institutions.

11. Income Taxable under Section 115BBI - Enhanced Disclosure : A new Section 115BBI mandates a 30% tax on specified income within total income of specified charitable institutions. Schedule 115BBI captures such specified income for tax purposes.

12. Recognition Details by Election Commission of India : Political parties filling Schedule LA must now disclose recognition by the Election Commission of India, along with registration details under Section 29A of the Representation of People Act, 1951.

The updated ITR has the potential to curb tax evasion and prevent misuse of existing provisions. Given that tax benefits granted to such institutions result in a reduction of public funds, it is crucial to establish safeguards against the improper exploitation of these tax privileges. These concessions should only be accessible to genuinely deserving charitable and religious organizations, in order to uphold their intended purpose.

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