

ANNEXURE I

PROVISIONS OF DEDUCTIONS FOR CHARITABLE CONTRIBUTIONS

A deduction in computing taxable income of a taxpayer is allowed in respect of donations to certain funds and charitable institutions, under Section 80 G of the Income-tax Act 1961. The contents of Section 80 G are as follows:

(1) In computing the total income of an assessee, there shall be deducted, in accordance with and subject to the provisions of this section:

- 1[(i) in a case where the aggregate of the sums specified in sub-section (2) includes any sum or sums of the nature specified in² [sub-clause (iiia) or in] sub-clause (vii) of clause (a) thereof, an amount equal to the whole of the sum or, as the case may be, sums of such nature *plus* fifty per cent of the balance of such aggregate; and
- (ii) in any other case, an amount equal to fifty per cent of the aggregate of the sums specified in sub-section 2.]

(2) The sums referred to in sub-section (1) shall be the following, namely:

- (a) any sums paid by the assessee in the previous year as donations to:
 - (i) The National Defence Fund set up by the Central Government; or
 - (ii) the Jawaharlal Nehru Memorial Fund referred to in the Deed of Declaration of Trust adopted by the National Committee at its meeting held on the 17th day of August, 1964; or
 - (iii) the Prime Minister's Drought Relief Fund; or

- ³(*iiia*) the Prime Minister's National Relief Fund; or
⁴(*iiib*) the National Children's Fund; or
⁵(*iiic*) the Indira Gandhi Memorial Trust, the deed of declaration in respect whereof was registered at New Delhi on the 21st day of February, 1985; or]

The following sub-clauses (*iiid*) and (*iiie*) shall be inserted by the Direct Tax Laws (Amendment) Act, 1987, w.e.f. 1-4-1989:

- (*iiid*) the rural development fund set up and notified by the Central Government in this behalf; or
(*iiie*) a trust or institution of national importance referred to in clause (*d*) of sub-section 1 of section 80F which has as its main object the undertaking of scientific research or carrying out of any rural development programme or any programme of conservation of natural resources or of afforestation of wasteland; or
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- (*iv*) any other fund or any institution to which this section applies; or
(*v*) the Government or any local authority, to be utilised for any charitable purpose⁶ [other than the purpose of promoting family planning; or]
(*vi*) any authority referred to in clause (20A) of section 10; or
(*vii*) the Government or to any such local authority, institution or association as may be approved in this behalf by the Central Government, to be utilised for the purpose of promoting family planning;]
- ⁹(*b*) any sums paid by the assessee in the previous year as donations for the renovation or repair of any temple, mosque, gurdwara, church or other place as is notified by the Central Government in the Official Gazette to be of historic, archaeological or artistic importance or to be a place of public worship or renown throughout any State or States.

(3) No deduction shall be allowed under sub section (1) if the aggregate of the sums referred to in sub-section (2) is less

than two hundred and fifty rupees.

¹⁰[(4) Where the aggregate of the sums referred to in sub-clauses (iv), (v), (vi) and (vii) of clause (a) and in clause (b) of sub-section (2) exceeds the smaller of the following amounts, that is to say—

- (i) ten per cent of the gross total income as reduced by any portion thereof on which income-tax is not payable under any provision of this Act and by any amount in respect of which the assessee is entitled to a deduction under any other provision of this Chapter, and
- (ii) five hundred thousand rupees.]

then the amount by which such aggregate exceeds such smaller amount shall be ignored for the purpose of computing the aggregate of the sums in respect of which deduction is to be allowed under sub-section (1).

The following new sub-section (4) shall be substituted for the existing sub-section by the Direct Tax Laws (Amendment) Act, 1987, w.e.f. 1-4-1989.

(4) When the aggregate of the sums referred to in sub-clause (iv), (v), (vi) and (vii) of clause (a) and in clause (b) of sub-section (2) exceeds ten per cent of the gross total income (as reduced by any portion thereof on which income-tax is not payable under any provision of this Act and by any amount in respect of which the assessee is entitled to a deduction under any other provision of this Chapter), then the amount in excess of ten per cent of the gross total income shall be ignored for the purpose of computing the aggregate of the sums in respect of which deduction is to be allowed under sub-section (1).

(5) This section applies to donations to any institution or fund referred to in sub-clause (iv) of clause (a) of sub-section (2) only if it is established in India for a charitable purpose and if it fulfils the following conditions, namely,:

- (i) where the institution or fund derives any income, such income would not be liable to inclusion in its total income under the provisions of sections (11) and 12 or clause (22)¹¹ [or clause (22A)]¹² [or clause (23)]¹³ [or

clause (23AA)]¹⁴ [or clause (23C) of section 10:

¹⁵[Provided that where an institution or fund derives any income, being profits and gains of business, the condition that such income would not be liable to inclusion in its total income under the provision of section 11 shall not apply in relation to such income, if

- (a) the institution or fund maintains separate books of account in respect of such business;
- (b) the donations made to the institution or fund are not used by it, directly or indirectly, for the purposes of such business; and
- (c) the institution or fund issues to a person making the donation a certificate to the effect that it maintains separate books of account in respect of such business and that the donations received by it will not be used, directly or indirectly, for the purposes of such business;]

The following new clause (i) shall be substituted for the existing clause by the Direct Tax Laws (Amendment) Act, 1987, w.e.f. 1-4-1989:

- (i) where the institution or fund derives any income, such income would not be liable to be included in its total income under the provisions of clause (22) or clause (22A) or clause (23AA) or clause (23C) of section 10, or the trust or institution other than the trust or institution referred to in sub-clause (iii) of clause (i) of sub-section (2) is eligible for the deduction under section 80F;
- (ii) the instrument under which the institution or fund is constituted does not, or the rules governing the institution or fund do not, contain any provision for the transfer or application at any time of the whole or any part of the income or assets of the institution or fund for any purpose other than a charitable purpose;
- (iii) the institution or fund is not expressed to be for the benefit of any particular religious community or caste;
- (iv) the institution or fund maintains regular account of its receipts and expenditure; and
- (v) the institution or fund is either constituted as a public

charitable trust or is registered under the Societies Registration Act, 1860 (21 of 1860) or under any law corresponding to that Act in force in any part of India or under section 25 of the Companies Act, 1956 (1 of 1956), or is a University established by law, or is any other educational institution recognised by the Government or by a University established by law, or affiliated to any University established by law,¹⁶ [or is an institution approved by the Central Government for the purposes of clause (23) of section 10] or is an institution financed wholly or in part by the Government or a local authority.

¹⁷5A. Where a deduction under this section is claimed and allowed for any assessment year in respect of any sum specified in sub-section (2), the sum in respect of which deduction is so allowed shall not qualify for deduction under any other provision of this Act for the same or any other assessment year.]

Explanation 1: An institution or fund established for the benefit of Scheduled Castes, backward classes, Scheduled Tribes or of women and children shall not be deemed to be an institution or fund expressed to be for the benefit of a religious community or caste within the meaning of clause (iii) of sub-section (5).

¹⁸*Explanation 2:* For the removal of doubts, it is hereby declared that a deduction to which the assessee is entitled in respect of any donation made to an institution or fund to which sub-section (5) applies shall not be denied merely on either or both of the following grounds, namely:

- (i) that, subsequent to the donation, any part of the institution or fund has become chargeable to tax due to non-compliance with any of the provisions of section 11¹⁹ [section 12 or section 12A];
- (ii) that, under clause (c) of sub-section (1) of section 13, the exemption under section 11²⁰ [or section 12] is denied to the institution or fund in relation to any income arising to it from any investment referred to in clause (b) or sub-section (2) of section 13 where the aggregate of the funds invested by it in a concern

referred to in the said clause (b) does not exceed five per cent of the capital of that concern.

The following new clauses (i) and (ii) shall be substituted for the existing clauses by the Direct Tax Laws (Amendment) Act, 1987 w.e.f. 1-4-1989:

- (i) that, subsequent to the donation, the trust or institution has become ineligible for the deduction under section 80F due to non-compliance with any of the provisions of that section.
- (ii) that the deduction under section 80F is denied in relation to the application of any income arising to it from any investment referred to in clause (b) of sub-section (4) of that section where the aggregate of the funds invested by it in a concern referred to in the said clause (b) does not exceed five per cent of the capital of that concern:

[*Explanation 3:* In this section, "charitable purpose" does not include any purpose the whole or substantially the whole of which is of a religious nature.

²¹[*Explanation 4:* For the purposes of this section, an association approved by the Central Government for the purposes of clause (23) of section 10 shall also be deemed to be an institution, and every association or institution approved by the Central Government for the purposes of the said clause shall be deemed to be an institution established in India for a charitable purpose.

²²[*Explanation 5:* For the removal of doubt, it is hereby declared that no deduction shall be allowed under this section in respect of any donation unless such donation is of a sum of money.]

Notes and References

1. Substituted for the following clause (i) by the Finance Act, 1985, w.e.f. 1-4-1986:

"(ii) in a case where the aggregate of the sums specified in sub-section (2) includes any sum specified in sub-clause (vii) of clause (a) thereof, an amount equal to the whole of such sum plus fifty per cent of the balance of such aggregate; and"

2. "Sub-clause (iiia) or sub-clause (iiid) or sub-clause (iiie) or" shall be substituted for "sub-clause (iiia) or in" by the Direct Tax Laws (Amendment) Act, 1987, w e.f. 1-4-1989.
3. Inserted by the Income-tax Amendment Act, 1976, with retrospective effect from 9-9-1975.
4. Inserted by the Finance Act, 1982, w.e.f. 1-4-1983.
5. Inserted by the Finance Act, 1985, w.e.f. 1-4-1985.
6. Inserted by the Finance Act, 1976, w e f. 1-4-1977.
7. Inserted by the Finance Act, 1976, w.e.f. 1-4-1977.
8. For notified institution/association under this sub-clause, refer Taxmann's Direct Taxes Circulars, Vol. 1, 1985 edn., p. 515.
9. For complete list of places of public worship, etc., notified under this clause, refer Taxman's Direct Taxes Circulars, Vol. 1, 1985 edn., p. 515 and Taxman's Yearly Tax Digest and Reference, 1986 edn., p. 4 101/1987 edn., p. 384/1988 edn., p. 5.22.
10. Substituted by the Finance (No. 2) Act, 1980, w.e.f. 1-4-1981.
11. Inscribed by the Finance Act, 1970, w.e.f. 1-4-1970.
12. Inserted by the Finance Act, 1973, w e.f. 1-4-1974.
13. Inserted by the Finance Act, 1987, w.e.f. 1-4-1988.
14. Inserted by the Taxation Laws (Amendment) Act, 1975, w.e.f. 1-4-1976.
15. Inserted by the Finance Act, 1983, w.e.f. 1-4-1984.
16. Inserted by the Finance Act, 1973, w.e.f. 1-4-1974 and shall be omitted by the Direct Tax Laws (Amendment) Act, 1987, w.e.f. 1-4-1989.
17. Inserted by the Finance No. 2 Act, 198 , with retrospective effect from 1-4-1968.
18. Substituted by the Finance Act, 1970, w e f. 1-4-1971.
19. Inserted by the Finance Act, 1972 w.e.f. 1-4-1973.
20. Inserted by the Finance Act, 1972, w.e.f. 1-4-1973.
21. Inserted by the Finance Act, 1973, w e.f. 1-4-1974 and shall be omitted by the Direct Tax Laws (Amendment) Act, 1987, w.e.f. 1-4-1989.
22. Inserted by the Finance Act, 1976, w.e.f. 1-4-1976.

ANNEXURE II

AN INTERPRETATION OF ELASTICITY OF CHARITABLE CONTRIBUTIONS

Let an assessee contribute an amount G at price P of a unit of charity¹. Suppose a small change in price ΔP leads to a small change in the amount of contributions ΔG . Then the price elasticity of contributions (e_p) is given by

$$e_p = \frac{\Delta G/C}{\Delta P/P} \quad (1)$$

Now let us compare the change in charitable contributions with the change in the loss in tax revenue to the exchequer due to the small change in price and interpret this comparison in terms of the price elasticity of charitable contributions. The change in both the contributions and the loss in tax revenue can be expressed as follows:

$$\begin{aligned} \text{Change in charitable contributions} &= \Delta G & (2) \\ \text{Change in the loss in tax revenue} &= (G + \Delta G)(1 - \overline{P + \Delta P}) \\ &\quad - G(1 - P) \\ &= G \cdot \Delta P + (1 - P) \cdot \Delta G - \\ &\quad \Delta G \cdot \Delta P \end{aligned}$$

For small changes in the price of a unit of charity the product term $\Delta G \cdot \Delta P$ would be small. Neglecting it, the change in the loss in tax revenue can be rewritten as

$$= G \cdot \Delta P + (1 - P) \cdot \Delta G \quad (3)$$

Due to change in price, the change in charitable contributions would exceed the change in the loss in tax revenue to the exchequer if (2) exceeds (3), i.e., if the following condition is satisfied.

$$\begin{aligned} &G > -G \cdot \Delta P + (1 - P) \cdot \Delta G \\ \text{or } &P \cdot \Delta G > -G \cdot \Delta P \\ \text{or } &\frac{\Delta G}{G} > -\frac{\Delta P}{P} \end{aligned}$$

This means a reduction in the price of a unit of charity should lead to an increase in charitable contributions and that the percentage increase in contributions should be greater than the percentage reduction in price. For $\Delta P < 0$, this expression can be written as

$$\frac{\Delta G/G}{\Delta P/P} < -1$$

or $e_p < -1$
 or $-e_p > 1$

That is, the price elasticity of charitable contributions should be less than minus one; in other words, it should be negative and greater than unity in magnitude.

Thus if the price elasticity is negative and greater than unity in magnitude, the increase in charitable contributions due to reduction in the price of a unit of charity exceeds the increase in the loss in tax revenue to the exchequer and hence the tax incentive provisions which reduce the price of a unit of charity would be efficient as stimulus to charitable contributions.

Note

1. In the absence of any tax incentive as stimulus to charitable contributions, the price of a unit of charity P would be unity.

ANNEXURE III

SOME CONCEPTS IN THE ITNS-150/150A ASSESSMENT FORMS AS APPLICABLE TO THE ASSESSMENT YEAR 1978-79

(i) Year of assessment:

The assessment year of a tax entity is the year following the year of earning income.

(ii) Gross income (GI):

Gross income is the income net of business expense deductions and certain tax incentive deductions other than Chapter VI-A deductions under the Income-tax Act 1961.

(iii) Loss set-off (LSO):

Under the Income-tax law a deduction is allowed for losses that are carried forward from the previous year. The amount of such loss for which deduction is allowed in the current year of assessment is said to be the loss set-off of the tax entity under consideration.

(iv) Assessed income (AI):

Assessed income is the taxable income as defined in the Income-tax law. It is that income to which the tax rate schedule of income tax is actually applied for the computation of tax liability of the assessee. It is calculated as given below:

$$\begin{aligned} \left(\begin{array}{c} \text{Assessed} \\ \text{income} \end{array} \right) &= \left(\begin{array}{c} \text{Gross} \\ \text{income} \end{array} \right) - \left(\begin{array}{c} \text{Loss} \\ \text{set-off} \end{array} \right) - \\ &\quad \left(\begin{array}{c} \text{Chapter VI-A} \\ \text{deductions} \end{array} \right) - \left(\begin{array}{c} \text{Long term} \\ \text{capital} \\ \text{gains} \end{array} \right) - (\text{Royalty}) \end{aligned}$$

Hence, symbolically,

$$AI = GI - LSO - D - CG - R$$

where

D = Chapter VI-A deductions

CG = Long-term capital gains

R = Royalty

(v) Actual tax demand (ATD)

It is the tax liability computed by applying the statutory tax rate schedule of income tax to the assessed income of a tax entity plus the surcharge computed on the income tax so computed.

ANNEXURE IV

CHOICE OF APPROPRIATE INCOME CLASSES TO CLASSIFY DONOR COMPANIES

In order to estimate income and price elasticities of charitable contributions by income class, the donors were initially classified into five income classes: Rs 0-1 lakh, Rs 1-3 lakh, Rs 3-10 lakh, Rs 10-25 lakh and over Rs 25 lakh. The constant income and price elasticities along with related statistics obtained with income-price combination (Y3, P3) for all the five income classes are presented in Table A.1 (Equations *i* to *v*).

It would be noticed from column 5 in the table that the explanatory power of the functional specification of contributions used to estimate the elasticities is very low for all but one income class, Rs 0-1 lakh. This would be due to low price variation within the income classes. For improving upon the estimates of elasticities and explanatory power of the specification so that the estimates can appropriately be interpreted for the corresponding income classes, the parameter estimates are obtained for various combinations of the initial five income classes. Four new income classes for which the estimates are obtained are formed by combining every two adjacent income classes out of the five income classes. This improves upon the variation in price variable within the income classes. The parameter estimates for these four income classes are also presented in Table A.1 (Equations *vi* to *ix*).

It would be noticed that for two out of the four income classes, the explanatory power of the specification of contributions for the combined income classes is higher than that for the individual income classes. These two combined income classes are Rs 1-10 lakh and over Rs 10 lakh (equations *vii* and *ix*). The explanatory power of equation (*viii*) is higher than those of equations (*ii*) and (*iii*), and the explanatory power of

TABLE A.1
Income and Price Elasticities of Charitable Contributions obtained from Constant Elasticities
Specification of Contributions by Income Class

Equation No.	Range of income (Y3) (Rs lakh)	Number of donors	Total contributions (Rs lakh)	Constant term	Income elasticity	Price elasticity	R ²
(i)	0-1†	132	14	-0.952 (1.22)	0.588* (5.02)	0.577 (0.36)	0.15
(ii)	1-3	142	28	-4.663** (2.22)	1.114* (2.99)	-2.319 (0.87)	0.06
(iii)	3-10	133	71	-2.159 (0.70)	0.272 (0.67)	-3.828** (2.55)	0.03
(iv)	10-25	72	56	-15.997** (2.20)	2.183** (2.47)	-7.979 (1.39)	0.06
(v)	Over 25	85	120	1.684 (0.59)	0.413** (2.05)	6.788 (0.62)	0.03
(vi)	0-3	274	43	-1.016 (1.51)	0.502 (6.35)	-1.259 (0.89)	
(vii)	1-10†	275	99	-4.183* (3.59)	0.785* (5.64)	-5.561* (2.61)	0.11
(viii)	3-25	205	126	-2.257 (1.14)	0.329 (1.58)	-8.003* (2.67)	0.03
(ix)	Over 10†	157	175	-2.023 (0.98)	0.602* (4.37)	-1.815 (0.44)	0.10

Notes : 1. Figures in parentheses represent 't' values.

2. * = Significant at 99 per cent level of confidence.

** = Significant at 95 per cent level of confidence.

3. † = An income class among the income classes chosen as appropriate.

equation (ix) is higher than those of equations (iv) and (v). Thus it seems to follow that the income classes Rs 0-1 lakh, Rs 1-10 lakh, and over Rs 10 lakh give an appropriate classification of donor companies (Equations *i*, *vii* and *ix*).