

INCOME TAX - PRIVILEGES TO THE DONORS U/S 80G

INTRODUCTION

As we already know that an NGO can avail income tax exemption by getting itself registered and complying with certain other formalities, but such registration does not provide any benefit to the persons making donations. The Income Tax Act has certain provisions which offer tax benefits to the "donors". All NGO's should avail the advantage of these provisions to attract potential donors. Section 80G is one of such sections.

REGISTRATION UNDER SECTION 80G

If an NGO gets itself registered under section 80G then the person or the organisation making a donation to the NGO will get a deduction of 50% from his/its taxable income.

EXTENT OF BENEFIT

There is ceiling limit upto which the benefit is allowable to the donor. If the amount of deduction to a charitable organisation or trust is more than 10% of the Gross Total Income computed under the Act (as reduced by income 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 10% of Gross Total Income shall not qualify for deduction under section 80G.

In other words, while computing the total income of an assessee and for arriving at the deductible amount under section 80G, first the aggregate of the sums donated has to be found out. Then 50 per cent of such donations has to be found out and it should be limited to 10 per cent of the gross total income. If such amount is more than 10 per cent of the gross total income, the excess will have to be ignored.

ILLUSTRATION OF BENEFITS UNDER SECTION 80G

The persons or organisation who donates under section 80G gets a deduction of 50% from their taxable income. Here at times a confusion creeps in, that the tax advantage under section 80G is 50%, but actually it is not so. 50% of the donation made is allowed to be deducted from the taxable income and consequently tax is calculated.

The ultimate benefit will depend on the tax rates applicable to the assessee. Let us take an illustration. Mr. X an individual and M/s. Y Pvt. Ltd., a Company both give donation of Rs. 40,000/- to a NGO called Satyakaam. The total income for the year 2003-2004 of

both Mr. X and Ms. Y Pvt. Ltd. is Rs. 2,00,000/-. Now assuming that the rates are 30% for the individuals and 40% for the Companies without any minimum exemption limit. The tax benefit would be as shown in the table :

| | Mr. X | MS. Y Pvt. Ltd. |
|-------------------------------------------------------------------------------------------------------------------|-------------|-----------------|
| i) Total Income for the year 2003-2004 | 2,00,000.00 | 2,00,000.00 |
| ii) Tax payable before Donation | 60,000.00 | 80,000.00 |
| iii) Donation made to charitable organisations | 40,000.00 | 40,000.00 |
| iv) Qualifying amount for deduction (50% of donation made) | 20,000.00 | 20,000.00 |
| v) Amount of deduction u/s 80G (Gross Qualifying Amount subject to a maximum limit 10% of the Gross Total Income) | 20,000.00 | 20,000.00 |
| iv) Taxable Income after deduction | 1,80,000.00 | 1,80,000.00 |
| v) Tax payable after Donation | 54,000.00 | 72,000.00 |
| vi) Tax Benefit U/S 80G (ii)-(v) | 6,000.00 | 8,000.00 |

Note : The tax rates and mode of computation is not actual