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Income Tax for Apartment Owners Associations

Are Apartment Owners Associations in India liable to pay Income Tax? Which income categories are taxable and which are exempt? Do they need to file tax returns every year? These are a must-know for every Association Treasurer. Here is an article compiled from various sources*, that wishes to be of help.

Income Tax laws and the "Concept of Mutuality"

Apartment Owners Associations are categorised as Associations of Persons (AOP) under the Income Tax Law.

The governing concept for applying income tax laws to the Association of Persons is the "Concept of Mutuality". This concept means that the contributors to a fund and the beneficiaries of the fund – are identical. This in turn implies that there is no scope for individual profits or gains. Any surplus generated in this fund – which is income over expenditure – is held by the association for future utilization to the benefit of the contributors. Complete tax exemption is given to funds/surplus funds to which the "Concept of Mutuality" applies.

So, what is taxable and what is not?

Income NOT subject to tax

a) Contribution from Members

Maintenance Charges, Electricity charges, Penalties, Interest charged on outstanding Maintenance Charges etc. – are the typical contribution by members of the Association. The association merely works as an agent that collects these charges and uses them for various common expenses. Any surplus during a fiscal year is carried forward to the next fiscal year, with no tax implications.

b) Interest earned from Co-operative Banks