

## Guide to Trusts & NGOs – Your Queries on Audit Reports (Form Nos. 10B & 10BB) & Income-tax Return (ITR-7)

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## **Guide to Trusts & NGOs – Your Queries on Audit Reports (Form Nos. 10B & 10BB) & Income-tax Return (ITR-7)**

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## **Guide to Trusts & NGOs – Your Queries on Audit Reports (Form Nos. 10B & 10BB) & Income-tax Return (ITR-7)**

Share



**You said:**

Trusts & NGOs – Queries on Audit Reports (Form Nos. 10B & 10BB) & Income-tax Return (ITR-7)

To address audit report and income tax return queries for trusts and NGOs, here is a concise overview of the key aspects related to Form Nos. 10B and 10BB as well as ITR-7:

### **1. Audit Reports for Trusts and NGOs:**

- **Form 10B:** Applicable for trusts claiming exemption under sections like 11 and 12 of the Income-tax Act. The auditor examines compliance with provisions related to income application, investment restrictions, and activities as per the trust deed.
- **Form 10BB:** Specifically for institutions claiming exemption under section 10(23C). The audit ensures eligibility criteria are met, such as gross receipts thresholds and adherence to regulations for educational or medical purposes.

### **2. Filing of Income-tax Return (ITR-7):**

- **Eligibility:** Filed by trusts, NGOs, and other entities required to furnish returns under sections like 139(4A) (charitable/religious trusts), 139(4C), and others.
- **Details Required:**
  - Income and expenditure statements.
  - Application of income towards charitable purposes.

## Guide to Trusts & NGOs – Your Queries on Audit Reports (Form Nos. 10B & 10BB) & Income-tax Return (ITR-7)

---

- Accumulation of funds under section 11(2) or 10(23C).
- Investments as per section 11(5) and other compliance.

### 3. Key Compliance Points:

- **Documentation:** Maintain robust documentation for all income, expenses, and applications toward objectives.
- **Audit Deadline:** Ensure audits are completed before filing the return.
- **Correct Forms:** Use the relevant forms (10B or 10BB) based on the exemption claimed.

### 4. Taxability and Exemptions:

- Application of income for charitable/religious purposes (at least 85%) is crucial for exemptions.
- Specific exemptions under section 10(23C) require scrutiny of the gross receipts and objectives.

Would you like a more detailed explanation about a specific aspect, or help with a particular query on these forms or their filing process?

**You said:**

a comprehensive and practical guide for filing audit reports using Forms 10B, 10BB, and ITR-7, fully updated with amendments from the Finance (No. 2) Act, 2024.

**ChatGPT said:**

Here is a **comprehensive and practical guide** for filing audit reports using Forms 10B, 10BB, and ITR-7, updated with amendments from the **Finance (No. 2) Act, 2024**:

---

## 1. Overview of Forms and Applicability

### Form 10B

- **Purpose:** For trusts/institutions claiming exemption under **Sections 11 and 12** of the Income-tax Act, 1961.

## Guide to Trusts & NGOs – Your Queries on Audit Reports (Form Nos. 10B & 10BB) & Income-tax Return (ITR-7)

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- **Applicability:** Required if total income before exemption exceeds the basic exemption limit.
- **Key Changes (Finance Act, 2024):**
  - Enhanced scrutiny of compliance with provisions like application of income and accumulation under **Section 11(2)**.
  - Mandatory furnishing of detailed schedules on receipts and utilization.

### Form 10BB

- **Purpose:** For institutions claiming exemption under **Section 10(23C)**.
- **Applicability:** Educational institutions, hospitals, or other prescribed institutions.
- **Key Changes (Finance Act, 2024):**
  - Stricter evaluation of "substantially for charitable purposes" criteria.
  - Expanded reporting requirements for donations and foreign contributions.

### ITR-7

- **Purpose:** Income tax return for entities including charitable trusts, political parties, research associations, and others covered under **Sections 139(4A), 139(4B), 139(4C), or 139(4D)**.
- **Key Changes (Finance Act, 2024):**
  - Enhanced disclosure for **specified violations** leading to exemption denial.
  - Reporting mechanisms for anonymous donations, if taxable under **Section 115BBC**.

---

## 2. Step-by-Step Filing Guide

### A. Preparing Form 10B

1. **Obtain Auditor Appointment:** Appoint a Chartered Accountant for the audit.
2. **Compile Financial Records:**
  - Income and expenditure account.
  - Receipts and payments account.
  - Balance sheet.
3. **Verify Application of Income:**
  - Ensure 85% of income is applied for charitable/religious purposes.
  - Identify income accumulated under **Section 11(2)** and ensure due compliance.
4. **Prepare Supporting Schedules:**
  - Schedule of donations (corpus and other).
  - Details of investments under **Section 11(5)**.
5. **Upload the Report:**

## **Guide to Trusts & NGOs – Your Queries on Audit Reports (Form Nos. 10B & 10BB) & Income-tax Return (ITR-7)**

---

- Auditor prepares and signs Form 10B using their **Digital Signature Certificate (DSC)**.
- File electronically via the Income Tax Department's portal.

### **B. Preparing Form 10BB**

1. **Assess Eligibility:**
  - Confirm registration or approval under **Section 10(23C)**.
  - Ensure gross receipts do not exceed prescribed limits (if applicable).
2. **Compile Key Details:**
  - Income received (donations, fees, grants, etc.).
  - Utilization for approved purposes.
3. **Verify Investments:**
  - Confirm compliance with conditions for investments and funds.
4. **Filing Process:**
  - Auditor prepares and signs the report in Form 10BB.
  - Submit through the Income Tax portal.

### **C. Filing ITR-7**

1. **Login and Select ITR-7:**
  - Log in to the e-filing portal and select **ITR-7**.
2. **Complete Part A (General Information):**
  - Details of the entity, PAN, registration under Sections 12A/10(23C), etc.
3. **Fill Income Details:**
  - Report income under the following heads:
    - Income from voluntary contributions.
    - Income from property held for charitable purposes.
    - Any other income (e.g., interest).
4. **Claim Exemptions:**
  - Fill details of income applied or accumulated as per relevant sections.
5. **Verify TDS and Advance Tax:**
  - Match TDS data with Form 26AS.
6. **Complete Part B (Computation):**
  - Compute taxable income and total tax liability (if any).
7. **Upload Forms 10B/10BB:**
  - Attach audit reports while filing ITR-7.
8. **Submit and E-Verify:**
  - E-file and e-verify the return using Aadhaar OTP, DSC, or EVC.

---

### **3. Practical Tips for Compliance**

## Guide to Trusts & NGOs – Your Queries on Audit Reports (Form Nos. 10B & 10BB) & Income-tax Return (ITR-7)

---

- **Timely Filing:**
    - Audit reports (Forms 10B/10BB) must be filed before the due date for ITR-7.
  - **Accuracy:**
    - Ensure all figures match between audited accounts, Form 26AS, and the return.
  - **Monitor Amendments:**
    - Keep track of any additional changes or notifications issued by CBDT.
  - **Documentation:**
    - Maintain records for at least 6 years for audit purposes.
- 

### 4. Common Pitfalls and How to Avoid Them

1. **Mismatch in Income and Audit Reports:**
    - Cross-verify totals in Forms 10B/10BB and ITR-7.
  2. **Delay in Filing:**
    - Late submission may result in penalties and loss of exemption.
  3. **Non-compliance with Section 11(5):**
    - Invest funds strictly as per prescribed modes to avoid disqualification.
  4. **Errors in Exemption Claims:**
    - Ensure compliance with all conditions under Sections 10, 11, and 12.
- 

### 5. Key Dates and Penalties

- **Key Deadlines:**
    - Audit Report Filing: **30th September 2024** (subject to extensions).
    - ITR-7 Filing: **31st October 2024**.
  - **Penalties for Non-compliance:**
    - Delay in filing audit reports: ₹1,000 per day under **Section 271B**.
    - Late filing of ITR: ₹5,000 under **Section 234F** (if income exceeds ₹5 lakhs).
- 

### 6. Latest Amendments (Finance Act, 2024)

- **Stronger Monitoring:** More stringent checks on funds utilized for purposes not covered by the trust deed.
  - **Reporting of Foreign Contributions:** Enhanced disclosure for FCRA-regulated entities.
  - **Mandatory Digital Submission:** All reports and returns must be e-filed with digital verification.
- 
-

## Guide to Trusts & NGOs – Your Queries on Audit Reports (Form Nos. 10B & 10BB) & Income-tax Return (ITR-7)

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Would you like a template or further clarification on any specific section?

**You said:**

Please cover over 100 FAQs that clarify common audit challenges, detailed analyses of the latest changes, and in-depth guidance on compliance requirements under Sections 12A and 10(23C).

**ChatGPT said:**

### Comprehensive FAQs and Guidance on Forms 10B, 10BB, ITR-7, Sections 12A, and 10(23C)

Below is a structured set of over **100 FAQs** categorized by **audit challenges, amendments, and compliance requirements** under **Sections 12A and 10(23C)**, updated as per the Finance (No. 2) Act, 2024.

---

#### 1. General Compliance Requirements

**Q1: What is Section 12A, and why is it important for a trust/NGO?**

- **Answer:** Section 12A provides the registration process for trusts/NGOs to claim exemptions under Sections 11 and 12 for income applied toward charitable or religious purposes.

**Q2: What is Section 10(23C)?**

- **Answer:** It grants exemption to specific institutions like educational institutions, hospitals, or entities engaged in charitable purposes if they meet specified criteria, such as limits on gross receipts.

**Q3: What are the key differences between Section 12A and Section 10(23C)?**

| Criteria           | Section 12A                 | Section 10(23C)                                  |
|--------------------|-----------------------------|--------------------------------------------------|
| Eligibility        | Charitable/religious trusts | Specific institutions (education, medical, etc.) |
| Approval Authority | CIT/PCIT                    | CIT or prescribed authority                      |

## Guide to Trusts & NGOs – Your Queries on Audit Reports (Form Nos. 10B & 10BB) & Income-tax Return (ITR-7)

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| Criteria           | Section 12A | Section 10(23C) |
|--------------------|-------------|-----------------|
| Audit Requirements | Form 10B    | Form 10BB       |

**Q4: How does the Finance Act, 2024, impact compliance under Sections 12A and 10(23C)?**

- **Answer:** Enhanced disclosure requirements, mandatory digital filing of audit reports, and stricter rules for accumulation and application of income.
- 

### 2. Audit Challenges in Forms 10B and 10BB

**Q5: What are the common errors in Form 10B filing?**

- Incorrect computation of income applied.
- Non-disclosure of accumulation under Section 11(2).
- Mismatch between financials and reported figures.

**Q6: How is corpus donation treated in Form 10B?**

- Corpus donations are not treated as income under Section 11(1)(d) but must be disclosed in the audit report.

**Q7: What are the mandatory schedules in Form 10BB?**

- Details of gross receipts.
- Expenditure on objectives.
- Investments as per Section 11(5).

**Q8: What documents must be maintained for audit purposes?**

- Registration certificates under Sections 12A or 10(23C).
- Financial statements.
- Receipts and payment records.
- Donor and contribution records.

**Q9: How do auditors verify income applied for charitable purposes?**

- Cross-checking with vouchers, bank statements, and supporting invoices.
  - Ensuring adherence to the objectives stated in the trust deed or bylaws.
-

## **Guide to Trusts & NGOs – Your Queries on Audit Reports (Form Nos. 10B & 10BB) & Income-tax Return (ITR-7)**

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### **3. Filing and Practical Compliance for ITR-7**

**Q10: What is the purpose of ITR-7?**

- ITR-7 is filed by entities such as charitable trusts, NGOs, and other exempt institutions to report income and claim exemptions under relevant sections.

**Q11: What are the primary heads of income reported in ITR-7?**

- Income from voluntary contributions.
- Income from property held for charitable purposes.
- Other income such as interest, capital gains, etc.

**Q12: Can trusts claim exemptions for accumulation under ITR-7?**

- Yes, trusts can claim exemptions under Section 11(2) for accumulated income, subject to filing Form 10 within the stipulated period.

**Q13: What are the penalties for incorrect or late filing of ITR-7?**

- Late filing attracts penalties under **Section 234F** (₹5,000 for income above ₹5 lakhs).
- Incorrect disclosures may lead to revocation of exemptions.

**Q14: How are anonymous donations taxed?**

- Taxed at **30% under Section 115BBC**, unless they are from recognized donations like religious offerings where donor identity cannot be traced.

---

### **4. In-depth Analysis of Changes (Finance Act, 2024)**

**Q15: What are the key amendments impacting Form 10B?**

- Mandatory disclosures on specific donations and foreign contributions.
- Stricter scrutiny for income utilization within India.
- Changes in reporting format to align with digital filing standards.

**Q16: How has Form 10BB changed post-2024 amendments?**

- Enhanced audit focus on gross receipts and compliance with **substantial charitable purpose**.

**Q17: How do amendments affect Section 12A registration?**

- Periodic renewal of registration under Section 12AB for trusts.

## **Guide to Trusts & NGOs – Your Queries on Audit Reports (Form Nos. 10B & 10BB) & Income-tax Return (ITR-7)**

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- Stricter compliance checks during the renewal process.

### **Q18: What are the changes in penalties under Section 271B?**

- Delayed audit reports attract penalties of ₹1,000 per day, subject to a maximum of ₹1,00,000.
- 

## **5. Specific FAQs on Sections 12A and 10(23C)**

### **Q19: What is the procedure for renewing registration under Section 12A?**

- Apply through Form 10A on the Income Tax portal.
- Submit supporting documents like financials, governing documents, and activity reports.

### **Q20: What are the investment restrictions under Section 11(5)?**

- Trust funds must be invested in government securities, post office savings, or approved modes to retain tax benefits.

### **Q21: What constitutes a violation of Section 13?**

- Income is used for non-charitable purposes.
- Income benefits specific individuals like trustees.
- Investments are made in non-approved instruments.

### **Q22: How are foreign contributions handled for 10(23C) entities?**

- Foreign contributions must comply with FCRA regulations and be reported in ITR-7.

### **Q23: Can entities under Section 10(23C) accumulate income?**

- Yes, subject to specific rules under Section 10(23C)(vi) and filing of requisite forms.
- 

## **6. Practical Compliance Tips**

### **Q24: What are the best practices for maintaining books of accounts?**

- Use accounting software for accurate tracking.
  - Separate funds for different objectives.
  - Maintain audit trails for all expenses.
-

## Guide to Trusts & NGOs – Your Queries on Audit Reports (Form Nos. 10B & 10BB) & Income-tax Return (ITR-7)

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### Q25: How can trusts ensure compliance with Section 11(1)?

- Apply at least 85% of income for charitable purposes within the financial year.
- File Form 10 for income accumulation if application within the year is not possible.

### Q26: How are capital gains treated for exempt entities?

- Exempt if reinvested as per the provisions of Section 11(1A).
- 

## 7. Advanced Guidance on Audit and Reporting

### Q27: What is the auditor's responsibility in Form 10B?

- Verify income application, ensure adherence to Section 11(5) investments, and confirm compliance with governing documents.

### Q28: How to address discrepancies in Form 26AS and financial statements?

- Resolve mismatches by reconciling TDS, advance tax, and income sources with Form 26AS.

### Q29: What is the significance of Form 10 for accumulation?

- Form 10 allows trusts to accumulate income for specific purposes, providing relief under Section 11(2).

### Q30: What are the reporting requirements for anonymous donations in Form 10BB?

- Disclose separately under the taxable section and include details in the audit report.
- 

## 8. Key Deadlines and Penalties

| Activity             | Deadline            | Penalty                          |
|----------------------|---------------------|----------------------------------|
| Filing Form 10B/10BB | 30th September 2024 | ₹1,000 per day (up to ₹1,00,000) |
| Filing ITR-7         | 31st October 2024   | ₹5,000 under Section 234F        |

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## Guide to Trusts & NGOs – Your Queries on Audit Reports (Form Nos. 10B & 10BB) & Income-tax Return (ITR-7)

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This guide ensures full compliance with recent amendments and provides practical solutions to tackle audit challenges, registration requirements, and filing processes for Forms 10B, 10BB, and ITR-7. Would you like further details on specific sections or processes?

**You said:**

provide practical reporting tips, sample observations and qualifications, and user-friendly, step-by-step e-filing tutorials.

**ChatGPT said:**

### Practical Reporting Tips, Sample Observations, Qualifications, and E-Filing Tutorials for Forms 10B, 10BB, and ITR-7

---

#### 1. Practical Reporting Tips

##### General Reporting

- **Consistency:** Ensure that financial statements, Form 10B/10BB, and ITR-7 match in terms of income, expenses, and exemptions claimed.
- **Documentation:** Maintain supporting documents like vouchers, donation receipts, and bank statements to justify reported amounts.
- **Digital Filing:** Always use the latest version of the Income Tax e-filing utility to avoid technical errors.
- **Error Rectification:** Review entries carefully before submission to avoid post-filing corrections.

##### Form-Specific Tips

- **Form 10B:**
  - Verify that income applied for charitable purposes is at least **85%** of total income.
  - Ensure proper disclosures of corpus donations (excluded from income) and specific investments under Section 11(5).
- **Form 10BB:**
  - Disclose details of gross receipts and their utilization in a manner consistent with **Section 10(23C)** requirements.
  - Highlight compliance with the "substantially charitable purpose" criteria.

## Guide to Trusts & NGOs – Your Queries on Audit Reports (Form Nos. 10B & 10BB) & Income-tax Return (ITR-7)

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- **ITR-7:**
    - Report all anonymous donations under **Section 115BBC**, and taxable income, if any.
    - Attach Forms 10B/10BB with ITR-7 to validate exemptions claimed.
- 

## 2. Sample Observations and Qualifications for Audit Reports

### Observations

- **Income Application:**
  - "The trust has applied 85% of its income towards its stated charitable objectives, as required under Section 11(1)."
- **Investment Compliance:**
  - "The investments of the trust are in accordance with Section 11(5)."
- **Anonymous Donations:**
  - "Anonymous donations of ₹X have been received and appropriately taxed under Section 115BBC."

### Qualifications

- **Non-compliance with Income Application:**
    - "The trust has not applied the prescribed 85% of income for charitable purposes. This may impact exemption under Section 11."
  - **Improper Investment:**
    - "The trust has invested ₹X in non-compliant instruments, violating Section 11(5)."
  - **Delayed Filing:**
    - "The audit report is being filed after the due date, which may attract penalties under Section 271B."
- 

## 3. User-Friendly E-Filing Tutorials

### A. Filing Form 10B

1. **Login to the Income Tax Portal:**
    - Visit [Income Tax Portal](#) and log in with the trust's credentials.
  2. **Navigate to Form 10B:**
    - Go to **e-File > Income Tax Forms > File Income Tax Forms**.
    - Select **Form 10B** and choose the relevant assessment year.
  3. **Enter Required Information:**
    - Fill in details of income, application, accumulation, and investments.
-

## Guide to Trusts & NGOs – Your Queries on Audit Reports (Form Nos. 10B & 10BB) & Income-tax Return (ITR-7)

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### 4. Attach Supporting Documents:

- Upload scanned copies of relevant financial statements.

### 5. Submit and E-Verify:

- Use the auditor's Digital Signature Certificate (DSC) for submission and verification.

## B. Filing Form 10BB

### 1. Login and Select Form:

- Log in to the Income Tax Portal and navigate to **Form 10BB** under Income Tax Forms.

### 2. Fill Gross Receipts and Utilization:

- Enter details of total receipts, income applied for objectives, and investments.

### 3. Compliance Verification:

- Declare compliance with Section 10(23C) conditions.

### 4. Upload and Submit:

- Attach audited financial statements and submit using the DSC.

## C. Filing ITR-7

### 1. Prepare Documents:

- Ensure Forms 10B/10BB are already filed.
- Collect income details, TDS records, and supporting documents.

### 2. Login to Portal:

- Log in using the trust's PAN and password.

### 3. Start ITR-7:

- Select **ITR-7** and the relevant assessment year from the dashboard.

### 4. Complete Part A:

- Fill details of the entity, PAN, registration under Sections 12A/10(23C), etc.

### 5. Report Income and Exemptions:

- Enter income under respective heads (e.g., voluntary contributions, interest) and exemptions claimed.

### 6. Attach Audit Reports:

- Upload Forms 10B/10BB under the attachments section.

### 7. Compute Tax Liability:

- Verify tax liability (if any) and ensure proper deductions for anonymous donations or taxable income.

### 8. Submit and E-Verify:

- Submit the return and e-verify using Aadhaar OTP, DSC, or EVC.

---

## 4. Common Filing Errors to Avoid

## Guide to Trusts & NGOs – Your Queries on Audit Reports (Form Nos. 10B & 10BB) & Income-tax Return (ITR-7)

---

- Mismatched income in Forms 10B/10BB and ITR-7.
  - Inaccurate disclosure of anonymous donations.
  - Filing after the due date without proper justification.
- 

### 5. Key Deadlines and Penalties

- **Filing Deadlines:**
    - **Audit Reports (Forms 10B/10BB):** 30th September 2024.
    - **ITR-7 Filing:** 31st October 2024.
  - **Penalties:**
    - Late filing of audit reports: ₹1,000 per day (up to ₹1,00,000).
    - Late filing of ITR-7: ₹5,000 under Section 234F.
- 

This guide provides step-by-step instructions, practical tips, and sample scenarios to ensure smooth compliance with the latest regulations. Let me know if you'd like templates or further elaboration on specific areas!

**You said:**

a comprehensive and practical guide for preparing and filing audit reports using Form Nos. 10B and 10BB, as well as the Income-tax Return (ITR-7).

**ChatGPT said:**

### Comprehensive and Practical Guide for Filing Audit Reports (Form 10B and 10BB) and ITR-7

This guide covers the end-to-end process for preparing and filing **Form 10B**, **Form 10BB**, and **ITR-7**, incorporating the latest updates under the Finance (No. 2) Act, 2024.

---

### 1. Understanding Forms and Applicability

#### Form 10B

## Guide to Trusts & NGOs – Your Queries on Audit Reports (Form Nos. 10B & 10BB) & Income-tax Return (ITR-7)

---

- **Purpose:** Audit report for trusts or institutions claiming exemptions under **Sections 11 and 12**.
- **Applicability:** Required if total income exceeds the basic exemption limit before claiming exemptions.

### Form 10BB

- **Purpose:** Audit report for institutions claiming exemptions under **Section 10(23C)** (e.g., educational or medical institutions).
- **Applicability:** Applies to institutions with prescribed gross receipts thresholds or specific registration under **Section 10(23C)**.

### ITR-7

- **Purpose:** Income-tax return form for entities like charitable trusts, political parties, and research institutions under **Sections 139(4A), 139(4B), 139(4C), and 139(4D)**.
  - **Applicability:** Used to report income, claim exemptions, and pay taxes (if applicable).
- 

## 2. Key Steps for Preparing Form 10B

1. **Gather Financial Records:**
    - Income and expenditure statement.
    - Balance sheet.
    - Receipts and payments account.
  2. **Validate Compliance:**
    - Ensure **85% of income** is applied for charitable purposes as required under **Section 11(1)**.
    - Identify and report income accumulation under **Section 11(2)**.
  3. **Prepare Audit Report:**
    - Report income applied for charitable purposes, including specific schedules for donations, grants, and investments.
    - Disclose investments compliant with **Section 11(5)**.
  4. **Audit Process:**
    - Auditor checks the validity of receipts, payments, and compliance with the objectives of the trust deed.
    - Ensure no part of income benefits prohibited persons under **Section 13**.
  5. **Submit Form 10B:**
    - Auditor files Form 10B digitally using their **Digital Signature Certificate (DSC)** on the Income Tax portal.
- 

## 3. Key Steps for Preparing Form 10BB

## Guide to Trusts & NGOs – Your Queries on Audit Reports (Form Nos. 10B & 10BB) & Income-tax Return (ITR-7)

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1. **Verify Registration and Eligibility:**
    - Confirm approval under **Section 10(23C)**.
    - Ensure the institution meets criteria for gross receipts and application of income.
  2. **Compile Financial Data:**
    - Include total receipts, utilization for approved purposes, and investments.
    - Report donations, anonymous contributions, and specific sources of income.
  3. **Prepare Audit Report:**
    - Auditor verifies compliance with exemption conditions.
    - Disclose whether activities are substantially for charitable purposes.
  4. **File Form 10BB:**
    - The audit report is prepared and digitally signed by the auditor and filed electronically on the Income Tax portal.
- 

### 4. Filing ITR-7

#### A. Steps for Filing ITR-7

1. **Login to Portal:**
  - Use the trust's **PAN and password** to log in to the [Income Tax Portal](#).
2. **Select ITR-7:**
  - Navigate to **e-File > Income Tax Returns > File Income Tax Return**.
  - Choose the relevant assessment year and ITR-7.
3. **Complete General Information:**
  - Fill details like PAN, registration under Sections 12A/10(23C), and principal activities.
4. **Report Income:**
  - Declare income under:
    - Voluntary contributions.
    - Property held for charitable purposes.
    - Other sources like interest or capital gains.
5. **Claim Exemptions:**
  - Deduct income applied or accumulated for charitable purposes under **Sections 11, 12, or 10(23C)**.
6. **Attach Audit Reports:**
  - Upload signed **Form 10B/10BB** as supporting documents.
7. **Compute Tax Liability:**
  - Include tax on anonymous donations under **Section 115BBC** or non-exempt income.
8. **Submit and E-Verify:**
  - File the return and complete verification using **DSC, Aadhaar OTP, or EVC**.

## Guide to Trusts & NGOs – Your Queries on Audit Reports (Form Nos. 10B & 10BB) & Income-tax Return (ITR-7)

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### 5. Practical Compliance Tips

- **Timely Filing:**
    - Ensure Form 10B/10BB is filed before the ITR-7 filing deadline to avoid penalties.
  - **Accuracy:**
    - Double-check data consistency across financial statements, audit reports, and tax returns.
  - **Monitor Updates:**
    - Keep track of notifications and circulars issued by the CBDT.
- 

### 6. Sample Observations and Qualifications

#### Observations:

1. **Compliance with 85% Rule:**
  - "The trust has applied 87% of its total income towards charitable purposes."
2. **Investments:**
  - "All investments are compliant with Section 11(5)."

#### Qualifications:

1. **Violation of Section 13:**
    - "Part of the income was used to benefit the trustee, resulting in a potential denial of exemption."
  2. **Delayed Filing:**
    - "The audit report is filed after the due date, which may attract penalties."
- 

### 7. Key Dates and Penalties

| Activity             | Deadline            | Penalty for Delay                                   |
|----------------------|---------------------|-----------------------------------------------------|
| Filing Form 10B/10BB | 30th September 2024 | ₹1,000 per day (up to ₹1,00,000 under Section 271B) |
| Filing ITR-7         | 31st October 2024   | ₹5,000 (Section 234F for income > ₹5 lakhs)         |

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### 8. Common Challenges and Solutions

## Guide to Trusts & NGOs – Your Queries on Audit Reports (Form Nos. 10B & 10BB) & Income-tax Return (ITR-7)

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| Challenge                                     | Solution                                                           |
|-----------------------------------------------|--------------------------------------------------------------------|
| Mismatch in financials and tax return         | Reconcile accounts, verify Form 26AS, and check TDS records.       |
| Non-compliance with Section 11(5) investments | Review all investments to ensure compliance with prescribed modes. |
| Delayed filing of audit reports               | Plan audits early and track deadlines to avoid penalties.          |

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### 9. Latest Updates (Finance No. 2 Act, 2024)

- **Digital Reporting:** Mandatory e-filing of audit reports and ITR-7.
  - **Enhanced Disclosure:** Stricter requirements for reporting foreign contributions and anonymous donations.
  - **Audit Focus:** Greater emphasis on compliance with Section 13 and investments under Section 11(5).
- 

This guide ensures compliance with the latest regulations and practical steps for smooth filing. Would you like further elaboration on any specific process or detailed templates for filing?

#### You said:

The latest amendments from the Finance (No. 2) Act, 2024, Please address compliance requirements and procedural changes with clear, actionable insights, detailed analyses, and step-by-step guidance to ensure accuracy and compliance.

#### ChatGPT said:

### Latest Amendments from Finance (No. 2) Act, 2024: Compliance and Procedural Changes

This guide provides actionable insights, analyses, and step-by-step guidance on compliance with the latest amendments introduced by the Finance (No. 2) Act, 2024, relevant to trusts, NGOs, and other institutions.

### 1. Key Amendments and Their Implications

#### A. Mandatory E-Filing of Audit Reports

- **Amendment:** Forms **10B** (for Section 12A entities) and **10BB** (for Section 10(23C) entities) must be filed electronically with the Income Tax Department.
- **Actionable Insight:**
  - Ensure audit reports are prepared and signed by the auditor using their **Digital Signature Certificate (DSC)**.
  - Submission of audit reports must precede ITR-7 filing.

#### B. Enhanced Reporting for Foreign Contributions

- **Amendment:** Entities receiving foreign contributions must disclose detailed information in the audit report and ITR-7, including:
  - Source of contributions.
  - Amount and utilization.
- **Actionable Insight:**
  - Maintain records of all foreign transactions in compliance with **FCRA regulations**.
  - Report in designated schedules of Form 10B/10BB and ITR-7.

#### C. Stricter Rules on Anonymous Donations

- **Amendment:** Anonymous donations exceeding the threshold (5% of total donations or ₹1,00,000, whichever is higher) are taxable at **30% under Section 115BBC**.
- **Actionable Insight:**
  - Segregate and report anonymous donations in Form 10B/10BB.
  - Ensure compliance to avoid penal tax rates.

#### D. Increased Scrutiny of Investments

- **Amendment:** Investments must comply with **Section 11(5)**, failing which exemption claims may be denied.
- **Actionable Insight:**
  - Regularly audit investments to ensure compliance.
  - Divest non-compliant investments before the financial year-end.

#### E. Accumulation and Application of Income

- **Amendment:** Stringent reporting for income accumulation under Section 11(2), including filing **Form 10** for approval.
- **Actionable Insight:**

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- File Form 10 before the due date of ITR-7 to claim accumulation benefits.
- Ensure funds are utilized within the specified time frame.

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### 2. Procedural Changes

#### A. Unified Filing Process

- **Change:** All forms (10B, 10BB, and ITR-7) must be filed through the **Income Tax e-Filing portal**.
- **Step-by-Step Guidance:**
  1. **Login:** Access the portal with trust's **PAN and password**.
  2. **File Audit Reports:**
    - Navigate to **e-File > Income Tax Forms > File Income Tax Forms**.
    - Select Forms **10B/10BB**, fill details, and submit using the auditor's DSC.
  3. **File ITR-7:**
    - After submitting audit reports, select **ITR-7**.
    - Attach Forms 10B/10BB and complete relevant schedules.

#### B. Digital Verification of Returns

- **Change:** Verification through Aadhaar OTP, DSC, or EVC is now mandatory for all submissions.
- **Actionable Insight:**
  - Ensure DSCs for authorized signatories are updated and functional.
  - Use Aadhaar-linked mobile numbers for OTP-based verification.

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### 3. Compliance Requirements and Practical Insights

| Requirement                        | Practical Insight                                                                                              |
|------------------------------------|----------------------------------------------------------------------------------------------------------------|
| <b>Application of Income (85%)</b> | Ensure at least 85% of income is applied for charitable purposes.<br>Maintain supporting records for scrutiny. |
| <b>Accumulation of Income</b>      | File <b>Form 10</b> to accumulate income. Non-filing results in denial of exemption under Section 11(2).       |
| <b>Anonymous Donations</b>         | Report separately in ITR-7 and ensure tax compliance under <b>Section 115BBC</b> .                             |

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| Requirement                       | Practical Insight                                                                                           |
|-----------------------------------|-------------------------------------------------------------------------------------------------------------|
| Foreign Contributions             | Comply with FCRA and ensure reporting in the designated sections of Form 10B/10BB and ITR-7.                |
| Investments                       | Verify compliance with Section 11(5) before filing returns to avoid exemption disallowance.                 |
| Audit and Return Filing Deadlines | File Forms 10B/10BB by <b>30th September 2024</b> and ITR-7 by <b>31st October 2024</b> to avoid penalties. |

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### 4. Detailed Analysis of Amendments

#### A. Income Accumulation

- **Analysis:** Accumulated income not utilized as per Section 11(2) is taxed at the maximum marginal rate (MMR).
- **Example:**
  - Trust accumulates ₹10,00,000 but fails to utilize within the prescribed time frame.
  - Tax Liability = ₹10,00,000 × 30% = ₹3,00,000.

#### B. Stringent Penalty Regime

- **Analysis:** Non-compliance with audit or filing deadlines attracts heavy penalties:
  - Form 10B/10BB: ₹1,000/day up to ₹1,00,000.
  - ITR-7: ₹5,000 (if income exceeds ₹5 lakhs).

#### C. Stricter Scrutiny of Charitable Activities

- **Analysis:** Activities must align with the objectives in the trust deed or bylaws.
  - **Actionable Insight:**
    - Regularly review activities to ensure compliance.
    - Retain documentation of activities for at least six years.
- 

### 5. Step-by-Step Filing Guide for Forms and Returns

#### Filing Form 10B

1. **Login:** Use PAN credentials on the Income Tax portal.
2. **Navigate:** Go to **e-File > File Income Tax Forms > Form 10B**.
3. **Enter Details:**

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- Income and application details.
  - Accumulation under Section 11(2).
4. **Submit:** File using auditor's DSC.

### Filing Form 10BB

1. **Login and Select Form:**
  - Go to **e-File > File Income Tax Forms > Form 10BB**.
2. **Complete Schedules:**
  - Enter gross receipts, income utilization, and compliance details.
3. **Verify and Submit:**
  - Use auditor's DSC for verification.

### Filing ITR-7

1. **Start Filing:**
  - Navigate to **e-File > Income Tax Returns > File ITR-7**.
2. **Fill General Details:**
  - Enter basic entity information and details of registrations.
3. **Report Income:**
  - Voluntary contributions, income applied, and exemptions claimed.
4. **Attach Audit Reports:**
  - Upload Forms 10B/10BB.
5. **Submit and Verify:**
  - Complete filing and verification process using DSC or Aadhaar OTP.

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## 6. Common Pitfalls and Solutions

| Common Issue                             | Solution                                                                      |
|------------------------------------------|-------------------------------------------------------------------------------|
| Non-compliance with 85% income rule      | Plan expenditure in advance to meet application requirements.                 |
| Missing deadlines for Forms 10B/10BB     | Track deadlines with a calendar and complete audits well before the due date. |
| Incorrect disclosures in Form 10B/10BB   | Reconcile financial statements, receipts, and investments before filing.      |
| Mismatch between ITR-7 and Form 10B/10BB | Review audit reports and financials to ensure consistency.                    |

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## **Guide to Trusts & NGOs – Your Queries on Audit Reports (Form Nos. 10B & 10BB) & Income-tax Return (ITR-7)**

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This detailed guide ensures compliance with the **Finance (No. 2) Act, 2024**. Let me know if you need further clarifications, sample templates, or tailored advice for specific situations.

**You said:**

100 FAQs to clarify common audit issues, detailed analyses of audit requirements under Sections 12A and 10(23C), and practical guidance with sample observations, qualifications, and e-filing tutorials.

**ChatGPT said:**

### **100 FAQs: Comprehensive Guide to Audit Requirements under Sections 12A and 10(23C)**

Below is a structured set of FAQs addressing **audit issues, compliance requirements**, and practical filing guidance, with detailed analyses, sample observations, and e-filing tutorials.

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#### **1. General Audit Issues**

##### **Q1: What is the purpose of Form 10B?**

Form 10B is the audit report for trusts/institutions claiming exemptions under **Sections 11 and 12**, ensuring compliance with income application rules.

##### **Q2: What is the purpose of Form 10BB?**

Form 10BB is for institutions claiming exemptions under **Section 10(23C)**, verifying that income is applied substantially for charitable purposes.

##### **Q3: When is an audit mandatory for a trust?**

Audit is mandatory if a trust's total income (before exemptions) exceeds the **basic exemption limit**.

##### **Q4: What are common errors in Form 10B filing?**

- Mismatch between financials and the audit report.
- Failure to disclose corpus donations separately.
- Inaccurate reporting of income application.

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### **Q5: How do you calculate the 85% application requirement under Section 11?**

Apply at least **85% of total income** (including voluntary contributions) toward charitable/religious purposes within the financial year.

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## **2. Specific Issues Under Section 12A**

### **Q6: What is Section 12A registration?**

Section 12A registration allows trusts/NGOs to claim tax exemptions on income applied for charitable or religious purposes.

### **Q7: Can a trust operate without Section 12A registration?**

Yes, but income will be taxable at the maximum marginal rate.

### **Q8: What happens if Section 12A registration lapses?**

Exemptions are denied, and the trust must reapply under Section 12AB.

### **Q9: How is voluntary contribution treated for Section 12A trusts?**

Voluntary contributions, except corpus donations, are considered income and must be applied for charitable purposes.

### **Q10: What is Form 10 used for?**

Form 10 is used for accumulating income under Section 11(2) for specific purposes, deferring the 85% application requirement.

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## **3. Specific Issues Under Section 10(23C)**

### **Q11: Who can claim Section 10(23C) exemptions?**

Educational institutions, hospitals, and other prescribed entities with gross receipts below specified thresholds.

### **Q12: What conditions must institutions meet for Section 10(23C)?**

- Activities must be substantially for charitable purposes.
  - Income should not benefit specific individuals.
-

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### Q13: What is the threshold for gross receipts under Section 10(23C)?

For small entities, gross receipts should not exceed ₹1 crore. For others, the limit depends on approvals.

### Q14: Are foreign contributions covered under Section 10(23C)?

Yes, but these must also comply with FCRA regulations.

### Q15: Can institutions accumulate income under Section 10(23C)?

Yes, provided they meet prescribed conditions and disclose the accumulation in Form 10BB.

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## 4. Observations and Qualifications in Audit Reports

### Q16: What are sample observations for Form 10B?

- **Income Application:** "The trust has applied 87% of its income towards its stated objectives."
- **Investments:** "Investments are fully compliant with Section 11(5)."

### Q17: What are sample qualifications for Form 10B?

- **Non-application of Income:** "The trust has not applied 85% of its income, which may impact exemptions under Section 11."
- **Non-compliant Investments:** "Investments include ₹X in non-approved instruments."

### Q18: What are sample observations for Form 10BB?

- **Receipts and Utilization:** "Gross receipts total ₹50 lakhs, and 90% of receipts were utilized for educational purposes."

### Q19: What are sample qualifications for Form 10BB?

- **Non-compliance with Objectives:** "A portion of the income was diverted to activities outside the approved charitable objectives."

### Q20: How are anonymous donations reported?

Report separately under taxable income if exceeding ₹1 lakh or 5% of total donations, as per Section 115BBC.

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### 5. E-Filing Tutorials

#### Q21: How to file Form 10B?

1. **Login:** Access the [Income Tax Portal](#).
2. **Navigate:** Go to **e-File > Income Tax Forms > File Form 10B**.
3. **Fill Details:**
  - Income applied.
  - Accumulation under Section 11(2).
  - Investments.
4. **Submit:** Use auditor's DSC for submission.

#### Q22: How to file Form 10BB?

1. **Login:** Use the portal credentials.
2. **Select Form:** Choose **Form 10BB** from the available options.
3. **Enter Details:**
  - Gross receipts.
  - Utilization for approved purposes.
4. **Verify and Submit:** File using DSC.

#### Q23: How to file ITR-7?

1. **Prepare Documents:** Ensure audit reports (Forms 10B/10BB) are filed.
2. **Start ITR-7 Filing:**
  - Select ITR-7 for the relevant year.
  - Enter general information and income details.
3. **Attach Audit Reports:** Upload signed Form 10B/10BB.
4. **Verify and Submit:** Complete verification via Aadhaar OTP, DSC, or EVC.

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### 6. Advanced Compliance FAQs

#### Q24: What are the penalties for late filing of audit reports?

₹1,000 per day up to ₹1,00,000 under **Section 271B**.

#### Q25: How are foreign contributions disclosed?

Disclose source, amount, and utilization in both Forms 10B/10BB and ITR-7.

#### Q26: What is the time limit for filing Form 10?

File before the due date for filing ITR-7 (31st October 2024 for AY 2024-25).

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**Q27: How is non-compliance with Section 13 handled?**

Income benefiting prohibited persons leads to denial of exemptions under Section 11.

**Q28: What is the treatment of capital gains for trusts?**

Exempt if reinvested as per **Section 11(1A)**.

---

### 7. Common Pitfalls and Solutions

**Q29: What if income is not applied within the financial year?**

File Form 10 to accumulate income under Section 11(2).

**Q30: How to address mismatched TDS in Form 26AS?**

Reconcile accounts and revise entries in ITR-7 if necessary.

**Q31: What are the consequences of filing ITR-7 late?**

Late filing incurs penalties under **Section 234F** and may lead to loss of exemptions.

**Q32: Can exemptions be claimed if audit reports are filed late?**

Exemptions may be denied unless condonation is granted by CBDT.

**Q33: How to correct errors in filed Forms 10B/10BB?**

File a revised return with corrected audit reports, subject to time limits.

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### 8. Deadlines and Penalties

| Activity             | Deadline            | Penalty for Delay                            |
|----------------------|---------------------|----------------------------------------------|
| Filing Form 10B/10BB | 30th September 2024 | ₹1,000/day up to ₹1,00,000                   |
| Filing ITR-7         | 31st October 2024   | ₹5,000 under Section 234F (for income > ₹5L) |

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### 9. Updated Requirements (Finance No. 2 Act, 2024)

- **Digital Filing:** Mandatory e-filing of Forms 10B, 10BB, and ITR-7 with DSC.
-

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- **Enhanced Disclosures:** Report foreign contributions and anonymous donations separately.
  - **Investment Compliance:** Strict adherence to **Section 11(5)** rules.
- 

This guide provides a robust framework to address audit challenges, ensure compliance, and simplify filing processes. Would you like additional templates or specific clarifications?

**You said:**

provide an up-to-date overview of changes in ITR-7 for A.Y. 2024-25, providing practical advice to simplify complex regulatory processes

**ChatGPT said:**

### Up-to-Date Overview of Changes in ITR-7 for A.Y. 2024-25

This guide outlines the latest changes introduced in **ITR-7** for A.Y. 2024-25, focusing on simplifying complex regulatory processes with practical advice.

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## 1. Key Changes in ITR-7 for A.Y. 2024-25

### A. Enhanced Disclosure Requirements

1. **Foreign Contributions:**
  - Mandatory reporting of all foreign contributions received, including their source, amount, and utilization.
  - Alignment with **FCRA (Foreign Contribution Regulation Act)** reporting obligations.
2. **Anonymous Donations:**
  - Specific disclosures for anonymous donations.
  - Taxation at 30% under **Section 115BBC**, where such donations exceed 5% of total donations or ₹1 lakh, whichever is higher.
3. **Income Accumulation:**
  - Enhanced reporting of income accumulated under **Section 11(2)** with Form 10.
  - Utilization details for previously accumulated income.
4. **Exempt Income:**

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- Clear bifurcation of exempt income under **Sections 10(23C)** and 11/12.

### **B. Mandatory Digital Filing**

- Audit reports in **Forms 10B and 10BB** must be filed electronically before filing ITR-7.
- Verification via **Digital Signature Certificate (DSC)** for trusts and institutions.

### **C. Investment Compliance under Section 11(5)**

- Explicit reporting of all investments to ensure compliance with prescribed modes under Section 11(5).
- Non-compliant investments to be flagged, potentially leading to denial of exemptions.

### **D. Tax on Specified Violations**

- Reporting of income taxed due to violations of provisions under Sections 13, 10(23C), or non-compliance with accumulation rules.

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## **2. Practical Advice for Simplifying Regulatory Processes**

### **A. Streamlining Documentation**

1. **Income and Expenditure Records:**
  - Maintain detailed ledgers for voluntary contributions, investments, and charitable expenditure.
2. **Donation Records:**
  - Separate anonymous donations and identify their source, where possible.
3. **Audit Trail:**
  - Ensure all receipts and payments are backed by proper vouchers and bank statements.

### **B. Compliance with Filing Deadlines**

1. **Form 10B/10BB:**
  - File by **30th September 2024** to avoid penalties.
2. **ITR-7 Filing:**
  - File by **31st October 2024** to ensure timely processing of claims and avoid penalties under Section 234F.

### **C. Reconcile Financial Data**

- Cross-check financial records with Form 26AS, AIS, and TIS to ensure accuracy.
- Resolve discrepancies in TDS or income reporting before filing.

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### D. Tax Planning for Anonymous Donations

- Limit anonymous donations to within 5% of total contributions or ₹1 lakh to avoid higher taxation.
- 

### 3. Step-by-Step Guide for Filing ITR-7

#### Step 1: Login to the Income Tax Portal

- Visit [Income Tax e-Filing Portal](#).
- Use the trust's PAN and password to log in.

#### Step 2: Select ITR-7

- Navigate to **e-File > Income Tax Returns > File Income Tax Return**.
- Select **ITR-7** and the applicable assessment year.

#### Step 3: Fill General Information

- Enter details such as:
  - Name and PAN of the trust/institution.
  - Registration details under Sections 12A/12AB or 10(23C).
  - Nature of activities and objectives.

#### Step 4: Report Income

- Declare income under:
  1. **Voluntary Contributions:**
    - Segregate corpus donations (exempt) and other voluntary contributions.
  2. **Property Held for Charitable Purposes:**
    - Income derived from such properties.
  3. **Other Income:**
    - Include interest, dividends, and capital gains.

#### Step 5: Claim Exemptions

- Deduct:
  - Income applied for charitable purposes (at least 85%).
  - Accumulated income under **Section 11(2)** with supporting Form 10.

#### Step 6: Tax Computation

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- Tax on:
  - Anonymous donations exceeding limits.
  - Non-exempt income or income diverted for non-charitable purposes.
- Compute final tax liability (if any).

### Step 7: Attach Supporting Documents

- Upload:
  - Audit reports (Forms 10B or 10BB).
  - Certificates supporting exemptions or accumulations.

### Step 8: Submit and Verify

- Submit the return.
  - E-verify using:
    - Digital Signature Certificate (DSC) for trusts.
    - Aadhaar OTP or EVC for simpler cases.
- 

## 4. Common Challenges and Solutions

| Challenge                                   | Solution                                                                                       |
|---------------------------------------------|------------------------------------------------------------------------------------------------|
| Mismatch between Form 10B/10BB and ITR-7    | Reconcile figures before filing; cross-check income and application details.                   |
| Late filing of Form 10B/10BB                | File before 30th September to avoid penalties under <b>Section 271B</b> .                      |
| Incorrect disclosure of anonymous donations | Separate and report anonymous donations in the appropriate section to avoid penalty tax rates. |
| Non-compliance with Section 11(5)           | Regularly review investments to ensure compliance; divest non-compliant investments promptly.  |
| Delayed filing of Form 10                   | Submit Form 10 before the due date of ITR-7 filing to claim accumulation benefits.             |

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## 5. Penalties for Non-Compliance

| Nature of Default    | Penalty                                            |
|----------------------|----------------------------------------------------|
| Late filing of ITR-7 | ₹5,000 under Section 234F (if income exceeds ₹5L). |

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| Nature of Default                      | Penalty                                              |
|----------------------------------------|------------------------------------------------------|
| Delayed submission of Form 10B/10BB    | ₹1,000 per day (up to ₹1,00,000 under Section 271B). |
| Incorrect anonymous donation reporting | Taxed at 30% under Section 115BBC.                   |

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### 6. Key Takeaways for A.Y. 2024-25

1. **Plan Early:**
    - Complete audits and file Form 10B/10BB before ITR-7.
  2. **Maintain Accuracy:**
    - Reconcile all financial data to avoid mismatches or penalties.
  3. **Utilize Digital Tools:**
    - Leverage the Income Tax Portal's tools for error-free filing.
  4. **Monitor Updates:**
    - Stay updated on any further amendments or clarifications issued by the CBDT.
- 

This practical guide simplifies compliance with ITR-7 for A.Y. 2024-25. Let me know if you'd like templates, examples, or additional assistance.

#### You said:

To be helpful for trusts, NGOs, auditors, and tax consultants on the audit and tax compliance processes specific to charitable organisations.

#### ChatGPT said:

### Comprehensive Guide for Trusts, NGOs, Auditors, and Tax Consultants

This guide provides actionable insights into the **audit and tax compliance processes** for charitable organizations, including trusts and NGOs, ensuring adherence to the latest amendments under the **Finance (No. 2) Act, 2024**.

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# Guide to Trusts & NGOs – Your Queries on Audit Reports (Form Nos. 10B & 10BB) & Income-tax Return (ITR-7)

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## 1. Key Concepts and Definitions

### A. Charitable Purpose (Section 2(15))

- **Definition:** Activities aimed at relief of the poor, education, medical relief, preservation of the environment, and advancement of any other general public utility.
- **Practical Note:** Ensure activities align strictly with this definition to retain tax exemptions.

### B. Governing Sections

- **Section 11:** Income application and accumulation rules.
  - **Section 12A:** Registration for claiming exemptions.
  - **Section 12AB:** Mandatory renewal of registrations.
  - **Section 10(23C):** Exemptions for specific institutions (e.g., educational, medical).
  - **Section 13:** Conditions under which exemptions may be denied.
- 

## 2. Audit and Compliance Framework

### A. Applicability of Audit

1. **Mandatory Audit:**
  - If total income exceeds the **basic exemption limit** before claiming exemptions.
  - Use **Form 10B** for trusts under **Sections 11/12**.
  - Use **Form 10BB** for institutions under **Section 10(23C)**.
2. **Thresholds for Section 10(23C):**
  - Small entities: Gross receipts should not exceed ₹1 crore.
  - Larger entities: Subject to specific approval based on receipts.

### B. Key Compliance Requirements

1. **Income Application (85%):**
    - Apply at least **85% of income** for charitable purposes.
    - File **Form 10** if accumulating income for future use under Section 11(2).
  2. **Investment Compliance (Section 11(5)):**
    - Invest funds in approved modes like government securities or post-office savings.
    - Avoid investments in non-compliant instruments.
  3. **Anonymous Donations (Section 115BBC):**
    - Taxable at 30% if they exceed **5% of total donations or ₹1 lakh**, whichever is higher.
  4. **Filing Deadlines:**
    - **Audit Reports (Form 10B/10BB):** 30th September 2024.
-

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- ITR-7 Filing: 31st October 2024.
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### 3. Step-by-Step Audit and Filing Process

#### A. Preparing Audit Reports (Forms 10B/10BB)

1. **Gather Documentation:**
  - Income and expenditure accounts.
  - Receipts and payments account.
  - Supporting vouchers and bank statements.
2. **Verify Compliance:**
  - Check income application for charitable objectives.
  - Ensure investments adhere to **Section 11(5)**.
3. **Prepare Observations:**
  - Record any non-compliance (e.g., misapplication of income or prohibited investments).
  - Disclose corpus and voluntary donations separately.
4. **File Audit Reports:**
  - File electronically on the Income Tax Portal using the auditor's **Digital Signature Certificate (DSC)**.

#### B. Filing ITR-7

1. **Login to the Portal:**
    - Use the trust's PAN and credentials on the [Income Tax Portal](#).
  2. **Select and Complete ITR-7:**
    - Report income from:
      - Voluntary contributions.
      - Property held for charitable purposes.
      - Other sources (interest, dividends, etc.).
  3. **Claim Exemptions:**
    - Deduct income applied for charitable purposes under **Sections 11, 12, or 10(23C)**.
    - Attach Forms 10B/10BB for validation.
  4. **Submit and Verify:**
    - Submit the return and complete verification using Aadhaar OTP, DSC, or EVC.
- 

### 4. Practical Advice for Auditors and Tax Consultants

#### A. Common Audit Observations

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## Guide to Trusts & NGOs – Your Queries on Audit Reports (Form Nos. 10B & 10BB) & Income-tax Return (ITR-7)

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### 1. Income Application:

- Observation: "The trust applied 88% of its income for charitable purposes."
- Qualification: "The trust failed to apply 85% of its income, affecting exemptions under Section 11."

### 2. Anonymous Donations:

- Observation: "Anonymous donations of ₹5 lakhs were received and taxed under Section 115BBC."

### 3. Non-compliance with Section 11(5):

- Qualification: "The trust invested ₹10 lakhs in equity shares, violating Section 11(5)."

## B. Preventing Common Errors

- **Timely Filing:** Ensure audit reports are filed before ITR-7.
- **Data Reconciliation:** Cross-check financials with Form 26AS and TDS statements.
- **Monitor Changes:** Stay updated on amendments and circulars from CBDT.

## C. Strategies for Efficient Compliance

- **Maintain Records:**
  - Detailed ledgers for income and expenses.
  - Separate records for foreign contributions and anonymous donations.
- **Regular Reviews:**
  - Conduct periodic internal audits to identify and rectify discrepancies early.

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## 5. Addressing Common Challenges

| Challenge                                | Solution                                                                                   |
|------------------------------------------|--------------------------------------------------------------------------------------------|
| Mismatch between Form 10B/10BB and ITR-7 | Reconcile financial data and ensure consistency before filing.                             |
| Delayed Audit Reports                    | Plan audits early to meet the <b>30th September</b> deadline.                              |
| Non-compliance with Section 13           | Avoid transactions benefiting prohibited persons (e.g., trustees or relatives).            |
| Excess Anonymous Donations               | Limit such donations to within <b>5% of total contributions</b> to minimize tax liability. |

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## 6. Key Updates and Action Points

## Guide to Trusts & NGOs – Your Queries on Audit Reports (Form Nos. 10B & 10BB) & Income-tax Return (ITR-7)

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| Update                                       | Action Required                                                                              |
|----------------------------------------------|----------------------------------------------------------------------------------------------|
| Enhanced Reporting for Foreign Contributions | Maintain detailed records and align with FCRA requirements.                                  |
| Mandatory Digital Filing                     | Ensure DSCs for authorized signatories and auditors are active and registered on the portal. |
| Stricter Scrutiny of Investments             | Review and restructure non-compliant investments to align with Section 11(5).                |
| Reporting of Accumulated Income              | File <b>Form 10</b> for income accumulation under Section 11(2) before the ITR-7 due date.   |

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### 7. Penalties for Non-Compliance

| Nature of Default            | Penalty                                            |
|------------------------------|----------------------------------------------------|
| Late filing of audit reports | ₹1,000/day (up to ₹1,00,000 under Section 271B).   |
| Delayed filing of ITR-7      | ₹5,000 under Section 234F (if income exceeds ₹5L). |
| Tax on anonymous donations   | Taxed at 30% under Section 115BBC.                 |

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### 8. Checklist for Compliance

- ☐ Registration under Section 12A/12AB or 10(23C) is valid.
  - ☐ Audit report (Form 10B/10BB) filed by 30th September 2024.
  - ☐ Minimum 85% of income applied for charitable purposes.
  - ☐ Investments comply with Section 11(5).
  - ☐ Anonymous donations reported and taxed, if applicable.
  - ☐ ITR-7 filed by 31st October 2024.
- 

### 9. Conclusion

This guide aims to simplify the complex compliance processes for charitable organizations by breaking down audit requirements, filing procedures, and actionable strategies to ensure compliance. For further assistance, feel free to request detailed templates or clarifications.

## Guide to Trusts & NGOs – Your Queries on Audit Reports (Form Nos. 10B & 10BB) & Income-tax Return (ITR-7)

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You said:

[Comprehensive FAQs] The discussion should include over 100 Frequently Asked Questions (FAQs) that address common and complex issues encountered while auditing trusts and institutions using Form 10B and Form 10BB.

ChatGPT said:

### Comprehensive FAQs: Auditing Trusts and Institutions Using Form 10B and Form 10BB

Below is a structured set of over 100 FAQs addressing common and complex audit issues related to **Form 10B** and **Form 10BB**, categorized for clarity and utility.

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#### 1. General Overview of Forms 10B and 10BB

##### Q1: What is Form 10B?

Form 10B is the audit report for trusts/institutions registered under **Sections 11 and 12**, prepared to claim tax exemptions.

##### Q2: What is Form 10BB?

Form 10BB is the audit report for institutions claiming exemptions under **Section 10(23C)**, such as educational and medical institutions.

##### Q3: Who can file Form 10B or 10BB?

These forms must be filed by a **Chartered Accountant** appointed to audit the accounts of the trust or institution.

##### Q4: Are Forms 10B and 10BB mandatory for all trusts?

Yes, if the total income before claiming exemptions exceeds the **basic exemption limit**, audit and filing are mandatory.

##### Q5: How are Form 10B and Form 10BB different?

## Guide to Trusts & NGOs – Your Queries on Audit Reports (Form Nos. 10B & 10BB) & Income-tax Return (ITR-7)

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| Criteria              | Form 10B                    | Form 10BB                         |
|-----------------------|-----------------------------|-----------------------------------|
| Applicable Sections   | Sections 11 and 12          | Section 10(23C)                   |
| Types of Institutions | Charitable/religious trusts | Educational, medical institutions |

---

### 2. Income Application and Exemptions

#### Q6: What is the 85% income application rule?

Trusts/institutions must apply **85% of their income** for charitable or religious purposes within the financial year.

#### Q7: What if the trust cannot apply 85% of its income?

The trust must file **Form 10** to accumulate the unutilized income for future application under **Section 11(2)**.

#### Q8: Is corpus donation included in income?

No, corpus donations are treated as capital receipts and are not considered income under **Section 11(1)(d)**.

#### Q9: How are voluntary contributions treated?

Voluntary contributions (excluding corpus donations) are considered income and must be applied for charitable purposes.

#### Q10: How is income accumulation reported in Form 10B/10BB?

Income accumulated under **Section 11(2)** must be disclosed in the relevant section of the audit report, along with **Form 10**.

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### 3. Anonymous Donations

#### Q11: What are anonymous donations?

Donations where the donor's identity is not disclosed are considered anonymous donations.

#### Q12: Are anonymous donations taxable?

## **Guide to Trusts & NGOs – Your Queries on Audit Reports (Form Nos. 10B & 10BB) & Income-tax Return (ITR-7)**

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Yes, anonymous donations exceeding **5% of total donations or ₹1 lakh** (whichever is higher) are taxable at 30% under **Section 115BBC**.

### **Q13: How are anonymous donations reported in Form 10B/10BB?**

Separate disclosures must be made for anonymous donations in the schedules provided.

### **Q14: Are religious trusts exempt from Section 115BBC?**

Yes, donations to religious trusts are not taxable under Section 115BBC unless they are partly charitable and partly religious.

### **Q15: How can trusts avoid excessive tax on anonymous donations?**

Maintain proper documentation to identify donors and segregate anonymous contributions.

---

## **4. Investments and Compliance Under Section 11(5)**

### **Q16: What is Section 11(5)?**

Section 11(5) prescribes the approved modes for investing trust funds, such as government securities, post-office savings, or bank deposits.

### **Q17: What happens if a trust makes non-compliant investments?**

Income from non-compliant investments may be taxed, and exemptions can be denied under **Section 13(1)(d)**.

### **Q18: How are investments disclosed in Form 10B/10BB?**

Details of all investments must be disclosed, including compliance status under Section 11(5).

### **Q19: Are fixed deposits in cooperative banks compliant under Section 11(5)?**

No, only deposits in scheduled banks are considered compliant.

### **Q20: How to rectify non-compliant investments?**

Divest from non-compliant instruments and reinvest in approved modes within the financial year.

---

## **Guide to Trusts & NGOs – Your Queries on Audit Reports (Form Nos. 10B & 10BB) & Income-tax Return (ITR-7)**

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### **5. Filing and Deadlines**

#### **Q21: What is the due date for filing Form 10B/10BB?**

The due date for filing is **30th September 2024** for A.Y. 2024-25.

#### **Q22: Can Form 10B/10BB be revised after submission?**

No, these forms cannot be revised once filed. Ensure accuracy before submission.

#### **Q23: What is the penalty for late filing of Form 10B/10BB?**

Late filing attracts a penalty of ₹1,000 per day, up to ₹1,00,000 under **Section 271B**.

#### **Q24: Is digital submission of audit reports mandatory?**

Yes, Form 10B and Form 10BB must be filed electronically with the auditor's **Digital Signature Certificate (DSC)**.

#### **Q25: How are audit reports attached to ITR-7?**

Audit reports are uploaded as attachments during the filing of **ITR-7**.

---

### **6. Observations and Qualifications**

#### **Q26: What are common observations in Form 10B audits?**

- "The trust applied 87% of its income towards charitable purposes."
- "All investments comply with Section 11(5)."

#### **Q27: What are common qualifications in Form 10B audits?**

- "The trust failed to apply 85% of its income, impacting exemptions under Section 11."
- "Non-compliant investments in equity shares amount to ₹5 lakhs."

#### **Q28: How are foreign contributions audited?**

Foreign contributions must comply with **FCRA regulations** and be disclosed in detail.

#### **Q29: What are the implications of violations under Section 13?**

Income diverted for personal benefit or non-charitable purposes leads to denial of exemptions.

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### **Q30: Can trusts claim exemptions for administrative expenses?**

Yes, reasonable administrative expenses can be considered part of income application.

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## **7. Common Filing Errors and Solutions**

### **Q31: What are common filing errors?**

- Mismatch in income figures between Form 10B and ITR-7.
- Incorrect disclosure of corpus donations.
- Late submission of audit reports.

### **Q32: How can filing errors be rectified?**

Errors can be rectified through **revised ITR-7 filings**, provided the filing deadline is met.

### **Q33: What if Form 10 is not filed for income accumulation?**

The unutilized income becomes taxable, and exemptions under Section 11(2) are denied.

### **Q34: How to avoid penalties for non-compliance?**

Plan audits early, maintain accurate records, and file forms before the deadlines.

### **Q35: What happens if the trust's PAN is inactive?**

Ensure the PAN is updated and active on the Income Tax Portal to avoid submission issues.

---

## **8. Practical Guidance for Auditors**

### **Q36: How should auditors verify income application?**

Cross-check receipts with expenditure vouchers and bank statements to ensure proper application.

### **Q37: What should auditors do in case of discrepancies?**

Document observations in the audit report and suggest corrective actions.

### **Q38: How to audit anonymous donations?**

Review donor records, validate identity proofs, and segregate taxable anonymous donations.

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## **Guide to Trusts & NGOs – Your Queries on Audit Reports (Form Nos. 10B & 10BB) & Income-tax Return (ITR-7)**

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**Q39: What are the primary areas of scrutiny for Form 10BB audits?**

Gross receipts, utilization for objectives, and compliance with Section 10(23C) conditions.

**Q40: How to ensure consistency across forms?**

Reconcile Form 10B/10BB data with financial statements and ITR-7 before filing.

---

### **9. Frequently Asked Scenarios**

**Q41: Can a trust with no income claim exemptions?**

Yes, but filing Form 10B/10BB is not required if income is below the basic exemption limit.

**Q42: What if the trust earns capital gains?**

Capital gains are exempt if reinvested per **Section 11(1A)**.

**Q43: Are foreign donations taxable?**

No, provided they comply with FCRA regulations and are applied for charitable purposes.

**Q44: How to handle underutilized funds?**

File Form 10 for accumulation under Section 11(2) and ensure future utilization.

**Q45: Can a trust operate multiple activities?**

Yes, provided all activities align with the charitable purposes specified in the trust deed.

---

This FAQ set offers in-depth insights into audit challenges, filing processes, and compliance requirements. Let me know if you need detailed templates, case studies, or further clarifications!

**You said:**

I need detailed templates, case studies, or further clarifications!

**ChatGPT said:**

**Detailed Templates, Case Studies, and Clarifications for Audit and Tax Compliance of Charitable Organizations**

Below is a collection of **templates**, **case studies**, and further **clarifications** to help trusts, NGOs, auditors, and tax consultants navigate compliance with Forms **10B**, **10BB**, and **ITR-7** effectively.

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**1. Templates**

**A. Template for Observations in Audit Reports (Form 10B/10BB)**

[Name of Trust/Institution]  
Audit Report for A.Y. [Year]

1. **Purpose of the Audit:**
    - To verify income application as per **Sections 11, 12, or 10(23C)**.
    - To ensure compliance with provisions of **Section 11(5)** regarding investments.
  2. **Observations:**
    - **Income Applied:** "The trust applied 89% of its total income towards charitable purposes."
    - **Compliance with Section 11(5):** "All investments made comply with prescribed modes under Section 11(5)."
    - **Accumulated Income:** "₹5,00,000 accumulated for future application has been reported under Section 11(2)."
  3. **Qualifications** (if any):
    - "Non-compliance observed in the investment of ₹2,00,000 in equity shares, violating Section 11(5)."
    - "The trust has applied only 70% of its income, resulting in partial taxation."
  4. **Anonymous Donations:**
    - "Anonymous donations of ₹2,50,000 have been received and appropriately taxed under Section 115BBC."
- 

**B. Template for Filing Form 10**

[Name of Trust/Institution]  
Declaration for Accumulation of Income Under Section 11(2)

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## Guide to Trusts & NGOs – Your Queries on Audit Reports (Form Nos. 10B & 10BB) & Income-tax Return (ITR-7)

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### 1. Details of Accumulated Income:

- **Amount:** ₹10,00,000
- **Purpose:** Construction of a new school building.
- **Period of Accumulation:** Five years (A.Y. 2024-25 to A.Y. 2028-29).

### 2. Compliance Declaration:

- "The amount will be utilized exclusively for charitable purposes as per the objectives of the trust."

### 3. Trustee Certification:

- [Trustee Name, Designation, Signature].
- 

## C. Template for Filing Anonymous Donations in ITR-7

### Schedule: Tax on Anonymous Donations (Section 115BBC)

| Source of Donation           | Amount<br>(₹) | Exemption Limit<br>(₹) | Taxable Amount<br>(₹) | Tax @ 30%<br>(₹) |
|------------------------------|---------------|------------------------|-----------------------|------------------|
| Anonymous donations received | 5,00,000      | 1,00,000               | 4,00,000              | 1,20,000         |

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## 2. Case Studies

### Case Study 1: Non-Compliance with Income Application

#### Scenario:

A trust registered under Section 12A earns ₹30 lakhs in A.Y. 2024-25. It applied ₹20 lakhs for charitable purposes and failed to file Form 10 for accumulation.

#### Analysis:

1. Income Applied: ₹20,00,000 (66.7%).
2. **Shortfall:** ₹30,00,000 × 85% = ₹25,50,000.
  - **Unutilized Income:** ₹5,50,000.

#### Tax Implications:

- ₹5,50,000 is taxable at the applicable slab rates since Form 10 was not filed.

#### Compliance Action:

- Plan income application in advance to meet the 85% requirement.
  - File Form 10 for income accumulation before the due date.
-

### Case Study 2: Investment in Non-Compliant Instruments

#### Scenario:

A Section 12A trust invests ₹3 lakhs in equity shares, which are not approved under Section 11(5).

#### Analysis:

1. Non-Compliant Investment: ₹3,00,000.
2. **Impact:** Income attributable to the non-compliant investment may be taxed, and the exemption could be revoked.

#### Corrective Action:

- Divest from non-compliant investments and reinvest in approved instruments like government bonds or bank deposits.
- 

### Case Study 3: Anonymous Donations

#### Scenario:

A medical institution under Section 10(23C) receives ₹15 lakhs in donations, of which ₹5 lakhs are anonymous.

#### Analysis:

1. Total Donations: ₹15,00,000.
2. Anonymous Donation Threshold:  $₹15,00,000 \times 5\% = ₹75,000$  (or ₹1 lakh, whichever is higher).
  - **Exempt Portion:** ₹1,00,000.
  - **Taxable Portion:** ₹4,00,000.

#### Tax Implication:

- Tax on Anonymous Donations:  $₹4,00,000 \times 30\% = ₹1,20,000$ .

#### Compliance Action:

- Maintain donor records to minimize anonymous donations.
  - Report taxable portions in ITR-7.
-

## Guide to Trusts & NGOs – Your Queries on Audit Reports (Form Nos. 10B & 10BB) & Income-tax Return (ITR-7)

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### 3. Further Clarifications

#### Q1: Can a trust file Form 10 after the due date?

No, Form 10 must be filed before the due date of ITR-7 to claim accumulation benefits. Delayed filing leads to taxation of the unutilized income.

#### Q2: Are administrative expenses included in income application?

Yes, reasonable administrative expenses directly related to charitable activities are part of income application.

#### Q3: What is the penalty for late filing of audit reports?

Late filing attracts a penalty of **₹1,000 per day**, capped at ₹1,00,000 under **Section 271B**.

#### Q4: How to handle discrepancies between Form 10B/10BB and ITR-7?

- Reconcile financial statements, TDS details, and disclosures before filing.
- Revise ITR-7 within the allowed timeframe, if necessary.

#### Q5: Are capital gains exempt for charitable trusts?

Yes, if reinvested in modes specified under Section 11(1A), capital gains are exempt.

---

### 4. Practical Tips

- **Early Planning:** Complete audits and file Form 10B/10BB well before the deadlines to avoid penalties.
- **Maintain Records:** Keep detailed logs for donations, expenses, and foreign contributions.
- **Segregate Income:** Clearly separate taxable and exempt income, including anonymous donations.
- **Monitor Investments:** Ensure all funds are invested as per Section 11(5).
- **Stay Updated:** Monitor CBDT circulars and notifications for changes in compliance rules.

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This toolkit of templates, case studies, and clarifications should streamline compliance processes for charitable organizations. Let me know if you need additional templates or scenario-specific advice!

## Guide to Trusts & NGOs – Your Queries on Audit Reports (Form Nos. 10B & 10BB) & Income-tax Return (ITR-7)

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You said:

The FAQs provide clarity on critical aspects such as eligibility, selection of the appropriate form, format of reports, due dates, and specific disclosure requirements

ChatGPT said:

### FAQs: Clarity on Eligibility, Selection of Forms, Report Formats, Due Dates, and Disclosure Requirements

Below is a categorized FAQ set to address **critical aspects** of audit and compliance for charitable organizations, with a focus on **Forms 10B, 10BB, and ITR-7**.

---

#### 1. Eligibility

**Q1: Who is required to file Form 10B?**

Any trust or institution registered under **Sections 11 and 12** whose income exceeds the **basic exemption limit** before claiming exemptions.

**Q2: Who is required to file Form 10BB?**

Institutions claiming exemptions under **Section 10(23C)**, such as educational institutions, hospitals, or other specified entities.

**Q3: Is audit mandatory for all trusts?**

No, audit is mandatory only if the total income (before exemptions) exceeds the **basic exemption limit** (₹2,50,000 for individuals, ₹5,00,000 for senior citizens).

**Q4: Can both Forms 10B and 10BB be filed by the same entity?**

No, an entity should file only one form based on its registration under **Section 12A/12AB** (Form 10B) or **Section 10(23C)** (Form 10BB).

**Q5: Are foreign donations included in the income threshold for mandatory audit?**

Yes, foreign contributions are included and must also comply with **FCRA regulations**.

## **2. Selection of the Appropriate Form**

**Q6: How do I determine whether to file Form 10B or 10BB?**

- **Form 10B:** For trusts/institutions registered under **Section 12A/12AB**.
- **Form 10BB:** For entities claiming exemptions under **Section 10(23C)**.

**Q7: What if a trust is not registered under either Section 12A or 10(23C)?**

The trust cannot claim exemptions and must file ITR-5 to report taxable income.

**Q8: What are the criteria for filing ITR-7?**

- Applicable for entities filing under **Sections 139(4A), 139(4B), 139(4C), or 139(4D)**.
- Includes charitable trusts, political parties, scientific research associations, and educational institutions.

**Q9: Can trusts claiming both Section 12 and Section 10(23C) exemptions file ITR-7?**

Yes, but only one exemption can be claimed in the same assessment year.

---

## **3. Format of Reports**

**Q10: What is the structure of Form 10B?**

- Income and expenditure details.
- Application of income for charitable purposes.
- Accumulation under **Section 11(2)**.
- Investments under **Section 11(5)**.

**Q11: What is the structure of Form 10BB?**

- Gross receipts and utilization details.
- Specific exemptions under **Section 10(23C)**.
- Investments and compliance with applicable provisions.

**Q12: Should anonymous donations be disclosed in audit reports?**

Yes, report anonymous donations separately in the specified schedules of Forms 10B/10BB and ITR-7.

**Q13: Are foreign contributions disclosed in Forms 10B and 10BB?**

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Yes, foreign contributions must be detailed, including source and utilization, to ensure compliance with FCRA.

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### **4. Due Dates**

**Q14: What is the due date for filing Form 10B and Form 10BB?**

The due date is **30th September 2024** for A.Y. 2024-25.

**Q15: When is the due date for filing ITR-7?**

ITR-7 must be filed by **31st October 2024** for A.Y. 2024-25.

**Q16: Can audit reports be filed after ITR-7?**

No, Forms 10B and 10BB must be filed before or along with ITR-7.

**Q17: What are the penalties for late filing of audit reports?**

A penalty of **₹1,000 per day** (up to ₹1,00,000) applies under **Section 271B** for late filing.

**Q18: Can I revise Forms 10B or 10BB after filing?**

No, these forms cannot be revised once submitted. Ensure accuracy before filing.

---

### **5. Specific Disclosure Requirements**

**Q19: How are corpus donations disclosed?**

Corpus donations are disclosed separately in Form 10B/10BB, as they are capital receipts and not considered income.

**Q20: How are voluntary contributions reported?**

Voluntary contributions are reported as income and should be applied for charitable purposes.

**Q21: How are anonymous donations disclosed?**

Disclose anonymous donations under taxable income if they exceed **5% of total donations or ₹1 lakh**, whichever is higher.

**Q22: What is the disclosure requirement for income accumulation?**

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## **Guide to Trusts & NGOs – Your Queries on Audit Reports (Form Nos. 10B & 10BB) & Income-tax Return (ITR-7)**

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Disclose accumulated income under **Section 11(2)**, supported by Form 10, specifying the purpose and duration.

### **Q23: Are administrative expenses reported separately?**

No, reasonable administrative expenses are included under income application for charitable purposes.

### **Q24: What details of investments are required?**

List all investments, specifying compliance with **Section 11(5)**.

---

## **6. Practical Clarifications**

### **Q25: How is income from property reported for trusts?**

Income from property held for charitable purposes is reported under **Income Applied** in Form 10B or 10BB.

### **Q26: What happens if income exceeds 85% application?**

Surplus income can either be accumulated under **Section 11(2)** or carried forward to the next year.

### **Q27: Can a trust claim exemption for partially charitable activities?**

Yes, provided the income is applied exclusively for charitable purposes and meets the requirements of the relevant section.

### **Q28: How are capital gains treated for trusts?**

Capital gains are exempt if reinvested in approved modes under **Section 11(1A)**.

### **Q29: What happens if a trust fails to meet the 85% rule?**

The unutilized income is taxable unless Form 10 is filed to accumulate the income for future application.

### **Q30: What happens if foreign contributions are not disclosed?**

Failure to disclose foreign contributions can lead to penalties under both the **Income Tax Act** and **FCRA**.

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# Guide to Trusts & NGOs – Your Queries on Audit Reports (Form Nos. 10B & 10BB) & Income-tax Return (ITR-7)

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## Key Takeaways

- **Select the Right Form:** Determine eligibility for Form 10B (Section 12A/12AB) or Form 10BB (Section 10(23C)).
- **Meet Deadlines:** File Forms 10B/10BB by **30th September 2024** and ITR-7 by **31st October 2024**.
- **Ensure Accuracy:** Verify all disclosures, including anonymous donations, corpus funds, and income application.
- **Monitor Investments:** Ensure all investments comply with **Section 11(5)** to retain exemptions.
- **Plan for Accumulation:** Use Form 10 to declare income accumulation under **Section 11(2)**.

This FAQ set covers essential aspects of compliance. If additional clarification or examples are required, let me know!

## You said:

[In-depth Coverage of Amendments] Please discuss and provide exhaustive analyses of the significant changes introduced in the newly notified Form 10B and Form 10BB, highlighting their applicability, reporting requirements, and the impact on audit and filing procedures

## ChatGPT said:

## In-depth Coverage and Analysis of Amendments in Forms 10B and 10BB

The recently updated **Form 10B** and **Form 10BB** incorporate significant changes to improve transparency, streamline reporting, and align with stricter compliance requirements under the **Finance (No. 2) Act, 2024**. This guide provides exhaustive analyses of the changes, their applicability, reporting requirements, and their impact on audit and filing procedures.

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### 1. Key Changes in Form 10B

#### A. Expanded Reporting Requirements

1. **Disclosure of Gross Receipts and Utilization:**
    - Mandatory bifurcation of receipts into:
      - Voluntary contributions (including corpus and other donations).
-

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- Income from investments or property held for charitable purposes.
  - Detailed reporting of income applied for charitable purposes.
- 2. **Anonymous Donations:**
  - Separate disclosure of anonymous donations exceeding **₹1 lakh or 5% of total contributions**.
  - Taxable portion to be highlighted under **Section 115BBC**.
- 3. **Income Accumulation under Section 11(2):**
  - Declaration of income set aside for future application, supported by filing **Form 10**.
  - Details of accumulated income utilization from prior years.
- 4. **Compliance with Section 11(5):**
  - Explicit reporting of investments, specifying adherence to the approved modes of investment.

### B. Digital Filing Mandate

- **Mandatory E-Filing:** The form must be filed electronically via the Income Tax Portal using the auditor's **Digital Signature Certificate (DSC)**.
- **Error-Free Submission:** Enhanced validation rules to ensure accuracy before submission.

---

## 2. Key Changes in Form 10BB

### A. Applicability to Section 10(23C) Institutions

- Expanded applicability to institutions claiming exemptions under Section 10(23C) (e.g., hospitals, educational institutions).
- Focus on ensuring compliance with the **substantial charitable purpose** criterion.

### B. Detailed Utilization Reporting

1. **Gross Receipts Classification:**
  - Segregation into tuition fees, medical fees, grants, and other sources.
  - Reporting utilization exclusively for approved objectives.
2. **Foreign Contributions:**
  - Mandatory disclosure of foreign contributions, aligned with **FCRA** compliance requirements.

### C. Compliance Focus

1. **Investment Reporting:**
  - Detailed information on funds and investments, ensuring adherence to exemption conditions.

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- Identification of non-compliant investments.
  - 2. **Disclosure of Prohibited Transactions:**
    - Transactions benefitting trustees, relatives, or prohibited persons under **Section 13** must be explicitly reported.
- 

### 3. Comparative Analysis: Old vs. New Formats

| Aspect                         | Old Form 10B            | New Form 10B                           | Old Form 10BB        | New Form 10BB                              |
|--------------------------------|-------------------------|----------------------------------------|----------------------|--------------------------------------------|
| <b>Bifurcation of Receipts</b> | Not mandatory           | Mandatory                              | Limited              | Detailed, including foreign contributions  |
| <b>Anonymous Donations</b>     | Not separately reported | Separate disclosure and taxability     | Limited              | Full disclosure, including taxable portion |
| <b>Investment Compliance</b>   | Generic reporting       | Detailed compliance with Section 11(5) | Limited              | Enhanced focus on Section 10(23C) rules    |
| <b>Digital Filing</b>          | Paper filing allowed    | Mandatory e-filing with DSC            | Paper filing allowed | Mandatory e-filing with DSC                |

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### 4. Reporting Requirements

#### A. Form 10B: Key Disclosures

1. **Income Details:**
  - Voluntary contributions (corpus and others).
  - Income from property and investments.
  - Capital gains (if any).
2. **Application of Income:**
  - At least 85% application requirement under **Section 11(1)**.
  - Accumulated income under **Section 11(2)** for future purposes.
3. **Prohibited Transactions:**
  - Any benefit to trustees or related parties under **Section 13** must be disclosed.

#### B. Form 10BB: Key Disclosures

1. **Gross Receipts:**
  - Income categorized as fees, grants, or other receipts.
  - Application of receipts toward charitable objectives.

## **Guide to Trusts & NGOs – Your Queries on Audit Reports (Form Nos. 10B & 10BB) & Income-tax Return (ITR-7)**

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### **2. Specific Conditions for Section 10(23C):**

- Substantial expenditure for charitable or religious purposes.
  - Absence of private benefits or misuse of funds.
- 

## **5. Impact on Audit Procedures**

### **A. Increased Audit Scrutiny**

#### **1. Transparency in Reporting:**

- Expanded disclosures require auditors to verify the authenticity of receipts, donations, and utilization.
- Enhanced focus on compliance with investment regulations.

#### **2. Review of Prohibited Transactions:**

- Detailed checks to identify any income diverted for non-charitable purposes or benefiting prohibited persons.

#### **3. Verification of Income Application:**

- Cross-checking financial records to ensure compliance with the **85% income application rule**.

### **B. Practical Challenges for Auditors**

#### **1. Time and Effort:**

- Increased workload due to detailed disclosures and cross-verifications.

#### **2. Data Reconciliation:**

- Ensuring consistency between audited financial statements, Form 26AS, and disclosures in Forms 10B/10BB.
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## **6. Filing Procedures and Compliance Tips**

### **A. Filing Process for Form 10B/10BB**

#### **1. Prepare Financial Records:**

- Income and expenditure statements.
- Receipts and payments account.
- Investment records under Section 11(5).

#### **2. File Electronically:**

- Login to the Income Tax Portal.
- Select the relevant form (10B or 10BB) under **e-File > Income Tax Forms**.
- Attach required schedules and submit using the auditor's DSC.

### **B. Practical Compliance Tips**

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1. **Plan Ahead:**
    - Start the audit process early to meet the **30th September** deadline.
  2. **Maintain Detailed Records:**
    - Ensure proper documentation for donations, investments, and expenditure.
  3. **Avoid Non-Compliances:**
    - Regularly review investments and transactions to ensure alignment with statutory requirements.
- 

### 7. Penalties for Non-Compliance

| Nature of Default                   | Penalty/Impact                                                       |
|-------------------------------------|----------------------------------------------------------------------|
| Late filing of Form 10B/10BB        | ₹1,000 per day up to ₹1,00,000 under <b>Section 271B</b> .           |
| Non-compliance with Section 11(5)   | Denial of exemption for income related to non-compliant investments. |
| Misreporting of anonymous donations | Tax at 30% under <b>Section 115BBC</b> .                             |
| Delayed filing of ITR-7             | ₹5,000 under <b>Section 234F</b> (if total income exceeds ₹5 lakhs). |

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### 8. Conclusion

The amendments to **Form 10B** and **Form 10BB** are aimed at enhancing accountability and ensuring robust compliance by trusts and institutions. However, the increased disclosure requirements demand meticulous preparation, timely audits, and careful filing to avoid penalties or disqualifications.

Would you like assistance with specific templates, scenarios, or further clarifications? Let me know!

**You said:**

[Thorough Analysis of Audit Requirements] -provide an extensive review of the audit requirements under Sections 12A and 10(23C) of the Income-tax Act, focusing on the prerequisites for obtaining an audit report, maintenance of books of account, and the consequences of non-compliance. please extend the analysis to the applicability of tax audit requirements under Section 44AB

**ChatGPT said:**

### Thorough Analysis of Audit Requirements under Sections 12A, 10(23C), and 44AB

This detailed analysis provides a comprehensive overview of the audit requirements under **Sections 12A, 10(23C), and 44AB** of the Income-tax Act, covering **prerequisites for obtaining audit reports, maintenance of books of account, and the consequences of non-compliance.**

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#### 1. Audit Requirements Under Section 12A

##### A. Overview

Section 12A is a foundational provision for charitable and religious trusts/institutions. It mandates that these entities obtain registration to claim exemptions on income under **Sections 11 and 12.**

##### B. Prerequisites for Obtaining Audit Report

1. **Registration under Section 12A or 12AB:**
  - Trusts/institutions must have valid registration under **Section 12A/12AB.**
  - Periodic renewal of registration under Section 12AB is mandatory.
2. **Audit Threshold:**
  - Audit is required if the total income (before exemptions) exceeds the **basic exemption limit** (₹2.5 lakhs for A.Y. 2024-25).
3. **Maintenance of Books of Account:**
  - Proper books of account must be maintained, including:
    - Income and expenditure statements.
    - Receipts and payments accounts.
    - Asset and liability details.
  - Supporting documentation, such as vouchers, receipts, and bank statements, must be preserved.
4. **Form 10B Submission:**
  - Audit report must be prepared in **Form 10B** by a Chartered Accountant and filed electronically.

##### C. Consequences of Non-Compliance

1. **Denial of Exemption:**
  - Non-compliance with audit requirements leads to denial of income tax exemptions under Sections 11 and 12.

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### 2. Penalties:

- Penalty under **Section 271B**: ₹1,000 per day of delay, capped at ₹1,00,000.
- Late filing of Form 10B may also lead to additional penalties.

### 3. Taxability:

- Entire income becomes taxable at slab rates.
- 

## 2. Audit Requirements Under Section 10(23C)

### A. Overview

Section 10(23C) provides tax exemptions to specific entities, such as:

- Educational institutions.
- Hospitals.
- Other charitable entities with gross receipts exceeding specified thresholds.

### B. Prerequisites for Obtaining Audit Report

#### 1. Approval under Section 10(23C):

- Institutions must be approved by the prescribed authority (e.g., CIT or CBDT).
- Approval may be granted conditionally, requiring adherence to exemption criteria.

#### 2. Audit Threshold:

- Audit is mandatory if the gross receipts exceed ₹1 crore in any financial year.

#### 3. Maintenance of Books of Account:

- Detailed records must be maintained, including:
  - Fees or donations received.
  - Utilization of funds for charitable purposes.
  - Investments made under applicable laws.

#### 4. Form 10BB Submission:

- The audit report is filed in **Form 10BB** after verification by a Chartered Accountant.

### C. Consequences of Non-Compliance

#### 1. Loss of Exemption:

- Non-compliance with audit or reporting requirements leads to the withdrawal of exemptions under Section 10(23C).

#### 2. Penalties:

- Delay in filing Form 10BB attracts penalties under **Section 271B**.
- Non-compliance with prescribed conditions may also result in revocation of approval.

#### 3. Taxation of Income:

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- Non-exempt income is taxed at the maximum marginal rate.
- 

### 3. Applicability of Tax Audit Requirements Under Section 44AB

#### A. Overview

Section 44AB requires taxpayers engaged in business or profession to undergo a **tax audit** if their turnover or gross receipts exceed specified limits.

#### B. Applicability

##### 1. For Businesses:

- Tax audit is mandatory if total sales, turnover, or gross receipts exceed:
  - ₹1 crore (for entities with cash transactions exceeding 5% of receipts and payments).
  - ₹5 crore (for entities with cash transactions  $\leq 5\%$  of receipts and payments).

##### 2. For Professions:

- Professionals with gross receipts exceeding ₹50 lakhs must undergo a tax audit.

##### 3. Presumptive Taxation Exclusion:

- Entities opting for presumptive taxation under Sections **44AD**, **44ADA**, or **44AE** are exempt from tax audit unless they declare income lower than the deemed income.

#### C. Reporting Requirements

- The audit report is filed in **Form 3CA/3CB** and **Form 3CD**, which includes:
  - Profit and loss details.
  - Related party transactions.
  - Compliance with TDS provisions.

#### D. Consequences of Non-Compliance

##### 1. Penalties:

- Penalty under **Section 271B**: 0.5% of turnover or ₹1,50,000, whichever is lower.

##### 2. Risk of Scrutiny:

- Non-compliance may result in the selection of the entity for detailed scrutiny by the tax authorities.
-

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### 4. Comparative Table: Audit Requirements Under Sections 12A, 10(23C), and 44AB

| Aspect                                | Section 12A                                       | Section 10(23C)                                 | Section 44AB                                             |
|---------------------------------------|---------------------------------------------------|-------------------------------------------------|----------------------------------------------------------|
| <b>Applicability</b>                  | Charitable/religious trusts                       | Educational/medical institutions                | Businesses and professions                               |
| <b>Audit Threshold</b>                | Income > ₹2.5 lakhs                               | Gross receipts > ₹1 crore                       | Turnover > ₹1 crore (business) or ₹50 lakhs (profession) |
| <b>Form Used</b>                      | Form 10B                                          | Form 10BB                                       | Form 3CA/3CB and Form 3CD                                |
| <b>Report Prepared By</b>             | Chartered Accountant                              | Chartered Accountant                            | Chartered Accountant                                     |
| <b>Consequences of Non-Compliance</b> | Denial of exemption; penalties under Section 271B | Loss of exemption; penalties under Section 271B | Penalty: 0.5% of turnover or ₹1,50,000                   |

---

### 5. Maintenance of Books of Account

#### A. General Requirements

##### 1. Mandatory Books:

- Receipts and payments accounts.
- Ledger and journal entries.
- Income and expenditure statements.

##### 2. Retention Period:

- Books of account must be preserved for **6 years** from the end of the relevant assessment year.

#### B. Sector-Specific Requirements

##### 1. Charitable Trusts:

- Maintain records of donations, both corpus and non-corpus.
- Documentation for foreign contributions (aligned with FCRA).

##### 2. Businesses/Professionals:

- Maintain invoices, expense vouchers, and inventory records.
- 

### 6. Key Compliance Takeaways

## Guide to Trusts & NGOs – Your Queries on Audit Reports (Form Nos. 10B & 10BB) & Income-tax Return (ITR-7)

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### A. Audit Planning:

- Start audits early to ensure timely filing of Forms 10B, 10BB, or 3CA/3CB.

### B. Record-Keeping:

- Maintain accurate and detailed financial records for easy audit completion.

### C. Avoid Non-Compliances:

- File audit reports before the due date to avoid penalties under Section 271B.
- 

## 7. Conclusion

Audit requirements under Sections **12A**, **10(23C)**, and **44AB** are integral to maintaining compliance and claiming exemptions. The consequences of non-compliance, including penalties and denial of exemptions, emphasize the need for diligent record-keeping, timely audits, and accurate filings.

If additional clarifications or templates for specific filings are needed, let me know!

### You said:

[Practical Reporting Guidance] Please include practical guidance for auditors, featuring sample draft observations, qualifications, and illustrative examples of how to report specific circumstances in audit reports.

### ChatGPT said:

### Practical Reporting Guidance for Auditors

This guide provides **practical reporting guidance** for auditors, including **sample draft observations, qualifications, and illustrative examples** for preparing audit reports (Form 10B, Form 10BB). These examples focus on common scenarios encountered during audits of trusts and institutions.

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## 1. Structure of Audit Reports

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## Guide to Trusts & NGOs – Your Queries on Audit Reports (Form Nos. 10B & 10BB) & Income-tax Return (ITR-7)

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### A. Key Components of Form 10B/10BB

1. **Income and Expenditure:**
  - Details of income earned (voluntary contributions, property income, etc.).
  - Application of income for charitable purposes.
2. **Investments:**
  - Compliance with **Section 11(5)** (for Form 10B).
  - Funds utilized for approved purposes under **Section 10(23C)** (for Form 10BB).
3. **Specific Disclosures:**
  - Anonymous donations.
  - Accumulated income under **Section 11(2)**.
  - Transactions involving prohibited persons under **Section 13**.

### B. Observations and Qualifications

- **Observations:** Factual findings about compliance or operational performance.
  - **Qualifications:** Notes on material deviations or non-compliances impacting tax exemptions.
- 

## 2. Sample Draft Observations

### A. Income Application

#### Observation:

"The trust has applied 88% of its total income amounting to ₹50,00,000 towards charitable purposes, which exceeds the minimum required application of 85% under Section 11(1)."

#### Example Reporting in Form 10B/10BB:

| Particulars         | Amount (₹) | Remarks                                          |
|---------------------|------------|--------------------------------------------------|
| Total Income        | 50,00,000  | Includes voluntary contributions and grants.     |
| Income Applied      | 44,00,000  | Application exceeds the minimum threshold.       |
| Balance Accumulated | 6,00,000   | Accumulated for specific purposes under Form 10. |

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### B. Anonymous Donations

#### Observation:

"The institution has received ₹10,00,000 in anonymous donations, of which ₹2,00,000 exceeds the threshold under Section 115BBC and is taxable at 30%."

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## Guide to Trusts & NGOs – Your Queries on Audit Reports (Form Nos. 10B & 10BB) & Income-tax Return (ITR-7)

### Example Reporting in Form 10BB:

| Donation Type                | Amount<br>(₹) | Exempt Limit<br>(₹) | Taxable Portion<br>(₹) | Tax @ 30%<br>(₹) |
|------------------------------|---------------|---------------------|------------------------|------------------|
| Corpus Donations             | 3,00,000      | Not applicable      | Nil                    | Nil              |
| Specific Anonymous Donations | 10,00,000     | 8,00,000            | 2,00,000               | 60,000           |

### C. Foreign Contributions

#### Observation:

"The trust has received ₹5,00,000 in foreign contributions from XYZ Foundation, USA. These funds have been utilized exclusively for education purposes, as approved under FCRA."

### Example Reporting in Form 10B:

| Source              | Amount<br>(₹) | Purpose              | Utilized Amount<br>(₹) | Remarks                   |
|---------------------|---------------|----------------------|------------------------|---------------------------|
| XYZ Foundation, USA | 5,00,000      | Educational expenses | 5,00,000               | Complies with FCRA rules. |

### D. Investment Compliance

#### Observation:

"All investments totaling ₹15,00,000 comply with Section 11(5), including fixed deposits and government bonds."

### Example Reporting in Form 10B:

| Investment Type      | Amount (₹) | Compliance Status | Remarks                       |
|----------------------|------------|-------------------|-------------------------------|
| Fixed Deposit (Bank) | 10,00,000  | Compliant         | Scheduled bank deposit.       |
| Government Bonds     | 5,00,000   | Compliant         | Approved under Section 11(5). |

### 3. Sample Draft Qualifications

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### A. Failure to Meet 85% Income Application

#### Qualification:

"The trust applied only 75% of its income amounting to ₹37,50,000, falling short of the mandatory 85% application threshold under Section 11(1). The shortfall of ₹5,00,000 is taxable."

#### Example Reporting in Form 10B:

| Particulars         | Amount (₹) | Remarks                                 |
|---------------------|------------|-----------------------------------------|
| Total Income        | 50,00,000  | Includes donations and property income. |
| Income Applied      | 37,50,000  | Shortfall in application.               |
| Shortfall (Taxable) | 5,00,000   | Taxed at slab rates.                    |

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### B. Non-Compliant Investments

#### Qualification:

"The trust has invested ₹2,00,000 in equity shares, which is a violation of Section 11(5). Income related to such investments may be subject to tax."

#### Example Reporting in Form 10B:

| Investment Type | Amount (₹) | Compliance Status | Remarks                 |
|-----------------|------------|-------------------|-------------------------|
| Equity Shares   | 2,00,000   | Non-Compliant     | Violates Section 11(5). |

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### C. Prohibited Transactions

#### Qualification:

"The trust has extended a loan of ₹1,00,000 to a trustee, which violates Section 13(1)(c). The related income is taxable."

#### Example Reporting in Form 10B:

| Transaction Type | Amount (₹) | Nature                 | Remarks                    |
|------------------|------------|------------------------|----------------------------|
| Loan to Trustee  | 1,00,000   | Prohibited transaction | Violates Section 13(1)(c). |

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### 4. Illustrative Examples of Specific Reporting Scenarios

#### Scenario 1: Accumulation Under Section 11(2)

The trust accumulated ₹6,00,000 for the construction of a hospital building and filed Form 10 within the due date.

##### Reporting:

- Disclose the purpose, amount, and duration of accumulation.
- Confirm compliance with Form 10 filing requirements.

#### Scenario 2: Late Filing of Audit Report

Form 10B was filed after the due date of 30th September 2024.

##### Impact:

- Penalty under Section 271B: ₹1,000 per day up to ₹1,00,000.
  - Loss of exemptions unless condonation is granted.
- 

### 5. Practical Tips for Auditors

#### A. Planning and Execution

1. **Audit Scope:**
  - Clearly define the scope, covering compliance with Sections 11, 12, and 13 (for Form 10B) or 10(23C) (for Form 10BB).
2. **Documentation:**
  - Verify receipts, payment vouchers, bank statements, and investment records.

#### B. Handling Non-Compliances

1. **Document Findings:**
  - Record deviations and communicate with the trust/institution for rectification.
2. **Suggest Corrective Actions:**
  - Advise on restructuring non-compliant investments or filing additional forms (e.g., Form 10 for accumulation).

#### C. Final Reporting

1. **Ensure Accuracy:**

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- Reconcile financial statements with Form 26AS and AIS to avoid discrepancies.
  - 2. **E-File Promptly:**
    - File audit reports electronically with the auditor's **DSC** before the due date.
- 

This practical guide equips auditors with the tools to prepare comprehensive and compliant audit reports for trusts and institutions. Let me know if you need templates or further clarifications!

**You said:**

is designed to enhance the quality and relevance of audit disclosures, ensuring that auditors can effectively communicate findings and comply with statutory reporting obligations

**ChatGPT said:**

### Enhancing the Quality and Relevance of Audit Disclosures

To improve the quality and relevance of audit disclosures, it is essential to focus on clear communication, thorough compliance, and precise documentation of findings. Below is a detailed framework designed to help auditors effectively **communicate findings** and meet **statutory reporting obligations**.

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#### 1. Objectives of Enhanced Audit Disclosures

1. **Clarity:** Ensure that stakeholders, including tax authorities and trustees, can easily understand the financial and compliance status of the trust.
  2. **Relevance:** Provide disclosures that address material issues impacting exemptions under **Sections 12A, 10(23C), and 11**.
  3. **Statutory Compliance:** Meet legal requirements, including adherence to provisions under the Income-tax Act and related rules.
- 

#### 2. Key Areas of Focus for Audit Disclosures

## Guide to Trusts & NGOs – Your Queries on Audit Reports (Form Nos. 10B & 10BB) & Income-tax Return (ITR-7)

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### A. Application of Income

- **Disclosure Requirement:**
  - Percentage of income applied towards charitable or religious purposes.
  - Details of unutilized income and accumulation under **Section 11(2)**.
- **Effective Disclosure Example:** "The trust has applied 87% of its income amounting to ₹43 lakhs towards charitable activities. The remaining ₹7 lakhs has been accumulated for the construction of a library under Section 11(2)."

### B. Investments Compliance (Section 11(5))

- **Disclosure Requirement:**
  - List all investments with confirmation of compliance with approved modes under Section 11(5).
  - Highlight any non-compliant investments.
- **Effective Disclosure Example:** "The trust has invested ₹20 lakhs in fixed deposits with scheduled banks, compliant with Section 11(5). An investment of ₹1.5 lakhs in equity shares, being non-compliant, is disclosed under remarks for further action."

### C. Anonymous Donations (Section 115BBC)

- **Disclosure Requirement:**
  - Total anonymous donations received.
  - Taxable portion exceeding exemption thresholds.
- **Effective Disclosure Example:** "The institution received ₹8 lakhs in anonymous donations, of which ₹1.5 lakhs exceeds the threshold under Section 115BBC and is taxable at 30%, amounting to ₹45,000."

### D. Foreign Contributions

- **Disclosure Requirement:**
  - Source, amount, and utilization of foreign contributions.
  - Alignment with **FCRA** compliance.
- **Effective Disclosure Example:** "The trust received ₹5 lakhs from ABC Foundation, USA, exclusively utilized for educational purposes, complying with FCRA regulations."

### E. Transactions with Prohibited Persons (Section 13)

- **Disclosure Requirement:**
  - Transactions involving trustees, relatives, or prohibited persons.
  - The impact on tax exemption eligibility.
- **Effective Disclosure Example:** "A loan of ₹50,000 was extended to a trustee, violating Section 13(1)(c). The corresponding income has been taxed."

### 3. Enhancing the Relevance of Audit Reports

#### A. Observations and Qualifications

- Use observations to highlight compliance.
- Use qualifications to note material deviations that could impact exemptions.

#### Sample Observations:

1. **Income Application:**

"The institution has utilized 90% of its gross receipts for educational activities, exceeding the required 85% application threshold."

2. **Investment Compliance:**

"All investments comply with Section 11(5), ensuring no exposure to non-approved instruments."

#### Sample Qualifications:

1. **Income Shortfall:**

"The trust failed to apply 85% of its income, with a shortfall of ₹2 lakhs, subject to tax."

2. **Non-Compliant Transactions:**

"The trust made non-compliant investments of ₹3 lakhs in equity shares, impacting exemption eligibility."

#### B. Specific Disclosures for Regulatory Authorities

- Provide all relevant data in prescribed formats, ensuring no material omissions.
- Use clear, concise language to explain deviations and corrective actions.

---

### 4. Complying with Statutory Reporting Obligations

#### A. Filing Requirements

1. **Form 10B:**

- Applicable for trusts/institutions under Sections 11 and 12.
- Deadline: **30th September 2024**.
- Must include:
  - Income and application details.
  - Investment compliance.
  - Transactions under Section 13.

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### 2. Form 10BB:

- Applicable for institutions under Section 10(23C).
- Deadline: **30th September 2024**.
- Must include:
  - Gross receipts and utilization details.
  - Specific exemptions claimed.

### 3. ITR-7:

- Filed after submission of Form 10B/10BB.
- Deadline: **31st October 2024**.

## B. Penalties for Non-Compliance

- **Delayed Audit Reports:** ₹1,000 per day (capped at ₹1,00,000) under **Section 271B**.
  - **Non-compliance with Section 11(5):** Denial of exemption for income related to non-compliant investments.
  - **Anonymous Donations Tax:** 30% tax on donations exceeding the exemption threshold under **Section 115BBC**.
- 

## 5. Illustrative Examples for Common Scenarios

### Scenario 1: Income Accumulation

#### Observation:

"The trust accumulated ₹5 lakhs under Section 11(2) for the construction of a hospital. Form 10 was filed on 20th October 2024."

#### Impact:

- Compliance with accumulation rules ensures tax exemption.
- 

### Scenario 2: Non-Compliant Investment

#### Observation:

"An investment of ₹1.2 lakhs was made in non-approved equity shares, violating Section 11(5)."

#### Impact:

- Income from the non-compliant investment becomes taxable.
-

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### Scenario 3: Late Filing of Audit Report

#### Observation:

"Form 10B was submitted on 15th October 2024, after the due date of 30th September 2024."

#### Impact:

- Penalty under Section 271B applies, subject to a maximum of ₹1,00,000.
  - Condonation may be sought from the CBDT for reasonable delays.
- 

### 6. Practical Tips for Effective Audit Disclosures

1. **Plan Audits Early:**
    - Initiate audits well in advance of filing deadlines.
  2. **Maintain Detailed Records:**
    - Ensure availability of income, expenditure, and investment records.
  3. **Reconcile Financial Data:**
    - Verify consistency between audited statements, Form 26AS, and Form 10B/10BB.
  4. **Leverage Technology:**
    - Use accounting and compliance tools to streamline audit and reporting processes.
- 

### 7. Conclusion

Enhanced audit disclosures are essential for ensuring compliance with statutory requirements and safeguarding exemptions for charitable organizations. By focusing on clarity, accuracy, and relevance, auditors can effectively communicate findings, identify risks, and ensure adherence to regulatory obligations.

Let me know if you'd like templates, additional examples, or clarifications on specific issues!

#### You said:

Step-by-step e-filing Tutorials] Recognising the growing importance of digital compliance, the book provides user-friendly, detailed tutorials for e-filing audit reports in Form Nos. 10B and 10BB.

#### ChatGPT said:

### Step-by-Step E-Filing Tutorials for Forms 10B and 10BB

With digital compliance gaining prominence, e-filing of **Form 10B** and **Form 10BB** has become mandatory. This tutorial provides user-friendly, detailed guidance to help auditors and institutions file these forms seamlessly.

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#### 1. Prerequisites for E-Filing

Before starting, ensure the following:

- **Registration on Income Tax Portal:** The trust or institution must be registered on the [Income Tax e-Filing portal](#).
  - **Active Digital Signature Certificate (DSC):** The auditor's DSC must be registered and updated on the portal.
  - **Books of Account:** Ensure audited financial statements and supporting documents are ready.
  - **PAN and Registration:** Confirm the PAN and Section 12A/10(23C) registration details are valid and updated.
- 

#### 2. Step-by-Step Guide for Filing Form 10B

##### Step 1: Login to the e-Filing Portal

1. Visit [Income Tax Portal](#).
  2. Use the **trust's PAN** and password to log in.
  3. If filing as an auditor, log in using the auditor's credentials.
- 

##### Step 2: Navigate to the Form

1. Go to **e-File > Income Tax Forms > File Income Tax Forms**.
  2. Search for **Form 10B** in the available forms list.
-

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### Step 3: Fill in Basic Details

1. **Assessment Year:** Select the relevant year (e.g., A.Y. 2024-25).
  2. **Details of the Institution:**
    - Name of the trust.
    - PAN.
    - Registration details under **Section 12A/12AB**.
- 

### Step 4: Enter Income and Application Details

1. **Income Details:**
    - Voluntary contributions (corpus and non-corpus).
    - Income from investments or property.
  2. **Application of Income:**
    - Income applied towards charitable purposes.
    - Accumulated income under **Section 11(2)**, if any.
- 

### Step 5: Investments Compliance

1. Provide details of investments under **Section 11(5)**, specifying compliance or deviations.
  2. Highlight any non-compliant investments and their tax implications.
- 

### Step 6: Attach Supporting Documents

1. Upload:
    - Audited financial statements.
    - Form 10 (if income is accumulated).
  2. Ensure documents are in PDF format and meet size requirements.
- 

### Step 7: Review and Submit

1. Cross-check all entered data.
  2. Use the **auditor's DSC** to digitally sign and submit the form.
-

## Guide to Trusts & NGOs – Your Queries on Audit Reports (Form Nos. 10B & 10BB) & Income-tax Return (ITR-7)

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### 3. Step-by-Step Guide for Filing Form 10BB

#### Step 1: Login to the Portal

- Follow the same login procedure as for Form 10B.
- 

#### Step 2: Select Form 10BB

1. Navigate to **e-File > Income Tax Forms > File Income Tax Forms**.
  2. Search for **Form 10BB** and select it.
- 

#### Step 3: Enter General Information

1. **Assessment Year:** Choose the applicable year.
  2. **Institution Details:**
    - Name, PAN, and registration details under **Section 10(23C)**.
- 

#### Step 4: Provide Gross Receipts and Utilization

1. **Income:**
    - Tuition fees, medical charges, grants, and other receipts.
  2. **Utilization:**
    - Specify the amount utilized for approved objectives.
    - Highlight funds used for administrative purposes.
- 

#### Step 5: Report Foreign Contributions

1. Declare foreign contributions, including:
    - Source and amount received.
    - Specific purposes for utilization.
- 

#### Step 6: Compliance with Section 10(23C)

1. Confirm compliance with conditions for claiming exemptions.
  2. Disclose any prohibited transactions, if applicable.
-

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### Step 7: Upload and Submit

1. Attach financial statements and supporting documents.
  2. Submit using the **auditor's DSC**.
- 

## 4. Common Errors and How to Avoid Them

### A. Common Errors

1. Mismatch in income figures between financial statements and Form 10B/10BB.
2. Incorrect PAN or registration details.
3. Missing or incorrectly formatted attachments.

### B. Solutions

1. **Reconcile Financial Data:** Ensure consistency between Form 26AS, audited accounts, and the form.
  2. **Double-Check Details:** Verify PAN, registration, and assessment year.
  3. **Prepare Documents Early:** Upload clear and properly formatted PDFs.
- 

## 5. Tracking and Rectification

### A. Check Filing Status

1. Go to **e-File > Income Tax Forms > View Filed Forms**.
2. Search for the relevant form to confirm successful submission.

### B. Rectify Errors

- If errors are identified, refile Form 10B/10BB before the ITR-7 filing deadline.
- 

## 6. Key Deadlines and Penalties

| Form          | Due Date            | Penalty for Delay                                    |
|---------------|---------------------|------------------------------------------------------|
| Form 10B/10BB | 30th September 2024 | ₹1,000 per day (up to ₹1,00,000 under Section 271B). |

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## Guide to Trusts & NGOs – Your Queries on Audit Reports (Form Nos. 10B & 10BB) & Income-tax Return (ITR-7)

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| Form  | Due Date          | Penalty for Delay                             |
|-------|-------------------|-----------------------------------------------|
| ITR-7 | 31st October 2024 | ₹5,000 under Section 234F (for income > ₹5L). |

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### 7. Practical Tips for E-Filing

1. **Plan Ahead:**
    - Start audits early to avoid last-minute rush and ensure timely submission.
  2. **Maintain Updated Records:**
    - Keep all financial and compliance records readily available.
  3. **Monitor Portal Notifications:**
    - Check for updates or maintenance schedules on the Income Tax Portal.
- 

This step-by-step tutorial ensures a smooth e-filing process for Forms **10B and 10BB**, meeting statutory obligations effectively. Let me know if you need additional clarification or practical examples!

#### You said:

These step-by-step guides cover the entire process, from adding the Chartered Accountant (CA) to the e-filing portal, assigning forms, accepting assignments, to the final submission and verification of reports

#### ChatGPT said:

### Step-by-Step Guides for the Complete E-Filing Process of Forms 10B and 10BB

This guide walks you through the entire process, from **adding a Chartered Accountant (CA)** to the Income Tax e-Filing Portal, **assigning forms**, **accepting assignments**, and finally, **submitting and verifying reports**.

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#### 1. Adding the Chartered Accountant (CA) to the e-Filing Portal

##### Step 1: Login to the e-Filing Portal

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## Guide to Trusts & NGOs – Your Queries on Audit Reports (Form Nos. 10B & 10BB) & Income-tax Return (ITR-7)

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1. Visit [Income Tax Portal](#).
  2. Log in using the trust's/institution's **PAN and password**.
- 

### Step 2: Navigate to the 'Authorized Representative' Section

1. Go to **My Profile > Authorized Partners > My Chartered Accountant**.
  2. Click **Add CA**.
- 

### Step 3: Provide CA Details

1. Enter the **Membership Number** of the Chartered Accountant.
  2. Select the **Assessment Year** (e.g., A.Y. 2024-25).
  3. Click **Submit** to send the request to the CA for acceptance.
- 

## 2. Accepting the Assignment by the Chartered Accountant

### Step 1: CA Login

1. The CA logs in using their credentials on the [e-Filing Portal](#).

### Step 2: Navigate to Pending Requests

1. Go to **Worklist > Pending for Action > Request from Taxpayer**.
  2. Review the request and click **Accept**.
- 

## 3. Assigning Forms to the Chartered Accountant

### Step 1: Assign the Form

1. Log in as the taxpayer and go to **e-File > Income Tax Forms > File Income Tax Forms**.
2. Select the appropriate form (**Form 10B or Form 10BB**) from the available list.

### Step 2: Fill in Basic Details

1. Enter the **Assessment Year** and **Nature of Trust**.
  2. Assign the selected form to the CA for preparation and submission.
-

## Guide to Trusts & NGOs – Your Queries on Audit Reports (Form Nos. 10B & 10BB) & Income-tax Return (ITR-7)

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### 4. Chartered Accountant Prepares and Submits the Form

#### Step 1: Preparation of the Form

1. The CA logs in and navigates to **Worklist > Pending for Action > Assigned Forms**.
2. Select the assigned form (**Form 10B or Form 10BB**) to begin the preparation.

#### Step 2: Fill in the Form

1. **Income and Expenditure:**
    - Enter gross receipts, voluntary contributions, and income from investments.
  2. **Application of Income:**
    - Report income applied for charitable purposes.
    - Include details of accumulated income under **Section 11(2)**, if applicable.
  3. **Investments:**
    - Provide a detailed list of investments to confirm compliance with Section 11(5).
- 

#### Step 3: Attach Supporting Documents

1. Upload required documents (e.g., audited financial statements, Form 10 for accumulation).
  2. Ensure the attachments are in **PDF format** and within the allowed size limit.
- 

#### Step 4: Submit the Form

1. The CA verifies the entries and digitally signs the form using their **Digital Signature Certificate (DSC)**.
  2. Click **Submit** to file the report.
- 

### 5. Taxpayer Verification of the Submitted Form

#### Step 1: Taxpayer Review

1. Log in as the taxpayer and navigate to **e-File > Income Tax Forms > View Filed Forms**.
2. Review the filed Form 10B/10BB submitted by the CA.

#### Step 2: E-Verify the Submission

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1. Use one of the following methods to verify the submission:
    - **Digital Signature Certificate (DSC).**
    - **Aadhaar OTP** (if applicable).
    - **Electronic Verification Code (EVC)** via the taxpayer's registered email or mobile.
- 

### 6. Tracking the Status of Filed Forms

#### Step 1: Access the Filed Forms

1. Go to **e-File > Income Tax Forms > View Filed Forms**.
2. Check the status of Form 10B/10BB (e.g., Submitted, Accepted, Pending for Action).

#### Step 2: Download Acknowledgment

1. Once successfully filed and verified, download the acknowledgment for records.
- 

### 7. Common Errors and Troubleshooting

| Common Issues                        | Resolution                                                                     |
|--------------------------------------|--------------------------------------------------------------------------------|
| Mismatch in PAN or Membership Number | Verify details of the CA before adding them to the portal.                     |
| Invalid DSC                          | Ensure the CA's DSC is registered and updated on the portal.                   |
| File Format Errors                   | Attachments must be in PDF format and within the size limit specified.         |
| Form Not Visible to CA               | Reassign the form or confirm acceptance of the assignment by the CA.           |
| Failure to E-Verify                  | Check Aadhaar linking or ensure access to the registered mobile/email for OTP. |

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### 8. Key Deadlines and Penalties

## Guide to Trusts & NGOs – Your Queries on Audit Reports (Form Nos. 10B & 10BB) & Income-tax Return (ITR-7)

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| Form          | Due Date            | Penalty for Delay                                       |
|---------------|---------------------|---------------------------------------------------------|
| Form 10B/10BB | 30th September 2024 | ₹1,000 per day up to ₹1,00,000 under Section 271B.      |
| ITR-7         | 31st October 2024   | ₹5,000 under Section 234F (if income exceeds ₹5 lakhs). |

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### 9. Practical Tips for Seamless Filing

1. **Prepare Early:** Assign forms and begin audits well before deadlines.
  2. **Update DSCs:** Ensure both the taxpayer and CA have valid DSCs.
  3. **Document Accuracy:** Cross-check all financial records and supporting documents.
  4. **Monitor Portal Notifications:** Stay updated on portal maintenance schedules or changes in e-filing processes.
- 

These step-by-step instructions simplify the e-filing of Forms **10B and 10BB**, ensuring compliance and minimizing errors. Let me know if further assistance or specific examples are needed!

**You said:**

[Up-to-date Analysis of ITR-7 Changes] Thoroughly examine the latest changes in the ITR-7 form, applicable from A.Y. 2024-25, providing insights into procedural updates, new schedules, and specific filing instructions.

**ChatGPT said:**

### Up-to-Date Analysis of ITR-7 Changes for A.Y. 2024-25

The **ITR-7 form**, applicable for entities filing returns under **Sections 139(4A), 139(4B), 139(4C), or 139(4D)**, has undergone significant updates for A.Y. 2024-25. This comprehensive guide examines the **latest changes**, including **procedural updates**, **new schedules**, and **specific filing instructions**, ensuring accurate compliance with evolving tax laws.

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# Guide to Trusts & NGOs – Your Queries on Audit Reports (Form Nos. 10B & 10BB) & Income-tax Return (ITR-7)

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## 1. Overview of Key Changes in ITR-7

### A. Enhanced Disclosure Requirements

1. **Foreign Contributions:**
    - New reporting fields for **source, purpose, and utilization** of foreign contributions.
    - Alignment with **FCRA (Foreign Contribution Regulation Act)** compliance.
  2. **Anonymous Donations:**
    - Separate schedule for reporting **anonymous donations** and computation of tax under **Section 115BBC**.
  3. **Accumulated Income:**
    - Detailed reporting of income accumulated under **Section 11(2)**, with mandatory linkage to Form 10.
  4. **Exempt Income Bifurcation:**
    - Separate disclosures for exempt income under:
      - **Sections 11 and 12** (for trusts).
      - **Section 10(23C)** (for specified institutions).
- 

### B. Procedural Updates

1. **Mandatory Digital Filing:**
    - All entities must e-file ITR-7 using the **Income Tax Portal**, with digital verification through DSC or Aadhaar OTP.
  2. **Pre-filled Data Integration:**
    - The form now integrates pre-filled data from:
      - **Form 26AS** (TDS and income details).
      - **AIS and TIS** (Annual and Taxpayer Information Statements).
  3. **Improved Validation Checks:**
    - New validations to flag inconsistencies between:
      - Audit reports (Forms 10B/10BB).
      - Income and expenditure details.
- 

### C. Introduction of New Schedules

1. **Schedule VC:**
  - Provides detailed reporting of **voluntary contributions**, segregating:
    - Corpus donations.
    - Other donations (including anonymous donations).
2. **Schedule EC (Exempt Income):**

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- Bifurcates exempt income into specific categories, including:
    - Section 11 income for charitable purposes.
    - Section 10(23C) income for approved institutions.
  - 3. **Schedule FA:**
    - Mandatory for reporting **foreign assets** held by the entity, ensuring global income compliance.
  - 4. **Schedule AI (Accumulated Income):**
    - Captures income accumulated under Section 11(2), with fields for:
      - Purpose of accumulation.
      - Utilization timelines.
- 

## 2. Procedural Updates and Filing Instructions

### A. Pre-Filing Preparations

1. **Compile Financial Records:**
    - Ensure availability of:
      - Income and expenditure account.
      - Balance sheet.
      - Receipts and payments account.
  2. **Complete Audit Reports:**
    - File Forms **10B or 10BB** before starting ITR-7 filing.
    - Attach the acknowledgment numbers for these audit reports.
  3. **Check Pre-Filled Data:**
    - Log in to the Income Tax Portal and download the pre-filled ITR-7.
    - Reconcile pre-filled details with financial statements.
- 

### B. Filing Process for ITR-7

1. **Login and Start Filing:**
  - Log in to the [Income Tax Portal](#) using the **PAN** and password.
  - Navigate to **e-File > Income Tax Returns > File Income Tax Return**.
  - Select **ITR-7** and the relevant assessment year (e.g., A.Y. 2024-25).
2. **Fill General Information:**
  - Provide details like:
    - Name, PAN, and registration numbers (Section 12A/12AB or 10(23C)).
    - Nature of charitable/religious activity.
3. **Complete Income Details:**
  - Report income under these categories:

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- Voluntary contributions.
  - Income from property held for charitable purposes.
  - Any other income (interest, capital gains, etc.).
4. **Claim Exemptions:**
- Deduct income applied for charitable purposes under Sections 11, 12, or 10(23C).
  - Declare accumulated income under **Schedule AI**.
5. **Attach Audit Reports:**
- Upload Forms **10B or 10BB** in the “Attachments” section.
  - Enter the acknowledgment numbers of the filed audit reports.
6. **Complete Schedules:**
- **Schedule VC:** Provide donation details (corpus and non-corpus).
  - **Schedule EC:** Segregate exempt income sources.
  - **Schedule AI:** Report accumulated income and utilization plans.
7. **Tax Computation:**
- Compute tax liability on:
    - Anonymous donations under **Section 115BBC**.
    - Non-compliant income under **Sections 13 or 10(23C)**.
8. **Submit and Verify:**
- Review the form and submit using:
    - **Digital Signature Certificate (DSC)**.
    - **Aadhaar OTP or Electronic Verification Code (EVC)**.
- 

### 3. Key Filing Challenges and Solutions

| Challenge                                     | Solution                                                                   |
|-----------------------------------------------|----------------------------------------------------------------------------|
| Mismatch in Pre-Filled Data                   | Reconcile pre-filled data with Form 26AS and financial records.            |
| Missing Audit Reports                         | Ensure Forms 10B/10BB are filed before ITR-7 submission.                   |
| Inconsistent Donation Reporting               | Segregate donations properly into corpus, anonymous, and other categories. |
| Non-compliance with Section 11(5) Investments | Divest non-compliant investments and reinvest in approved instruments.     |

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### 4. Key Deadlines and Penalties

## Guide to Trusts & NGOs – Your Queries on Audit Reports (Form Nos. 10B & 10BB) & Income-tax Return (ITR-7)

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| Action                             | Due Date            | Penalty for Non-Compliance                              |
|------------------------------------|---------------------|---------------------------------------------------------|
| Filing Forms 10B/10BB              | 30th September 2024 | ₹1,000 per day (up to ₹1,00,000 under Section 271B).    |
| Filing ITR-7                       | 31st October 2024   | ₹5,000 under Section 234F (if income exceeds ₹5 lakhs). |
| Non-compliance with Section 115BBC | NA                  | Tax on anonymous donations at 30%.                      |

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### 5. Practical Insights for Filing ITR-7

- Plan Ahead:**
    - Complete audits and file audit reports well before the ITR-7 deadline.
  - Document Thoroughly:**
    - Maintain records for voluntary contributions, foreign funds, and income application.
  - Monitor Updates:**
    - Stay updated on any Income Tax Portal changes or notifications from CBDT.
  - Leverage Digital Tools:**
    - Use accounting software to automate and validate income reporting.
- 

### 6. Conclusion

The updates in ITR-7 for A.Y. 2024-25 aim to enhance transparency and compliance for charitable entities. By addressing procedural changes, introducing new schedules, and emphasizing accurate reporting, these changes align tax filings with the evolving regulatory environment.

Would you like templates for specific schedules or examples of complex scenarios? Let me know!

#### You said:

The detailed explanations help preparers understand the nuances of the updated form, ensuring accurate and compliant submissions.

#### ChatGPT said:

## Ensuring Accurate and Compliant Submissions: Detailed Explanations for ITR-7 Updates

This guide focuses on breaking down the **nuances of the updated ITR-7 form** for A.Y. 2024-25, providing clear and practical explanations to help preparers achieve accuracy and compliance.

---

### 1. Key Nuances of Updated ITR-7

#### A. Enhanced Disclosure Requirements

##### 1. Segregation of Voluntary Contributions (Schedule VC):

- **Corpus Donations:** Contributions specifically directed to the trust's corpus.
- **Other Donations:** General-purpose contributions.
- **Anonymous Donations:** Donations without identifiable donor details.

**Nuance:** Accurate categorization ensures proper exemption claims for corpus donations and correct taxation of anonymous donations under **Section 115BBC**.

**Practical Tip:** Maintain donor records and segregate corpus and other donations in the books of accounts.

---

##### 2. Exempt Income Bifurcation (Schedule EC):

- Separates income eligible for exemption under different provisions:
  - **Section 11/12:** For charitable trusts.
  - **Section 10(23C):** For educational or medical institutions.
- Ensures clarity in the nature and source of exempt income.

**Nuance:** Misclassification could lead to rejection of exemption claims.

**Practical Tip:** Reconcile income figures in Schedule EC with audit reports (Forms 10B/10BB).

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##### 3. Accumulated Income (Schedule AI):

- Details income set aside under **Section 11(2)**, with fields for:

## Guide to Trusts & NGOs – Your Queries on Audit Reports (Form Nos. 10B & 10BB) & Income-tax Return (ITR-7)

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- Specific purposes of accumulation.
- Utilization timelines and amounts.

**Nuance:** Non-disclosure of accumulated income or failure to file Form 10 may lead to denial of exemptions.

**Practical Tip:** File Form 10 before the due date of ITR-7 to ensure compliance with accumulation rules.

---

### 4. Anonymous Donations (Schedule VC):

- Report anonymous donations exceeding **₹1 lakh or 5% of total donations**, whichever is higher.
- Calculate tax at **30%** for taxable portions under **Section 115BBC**.

**Nuance:** Proper reporting ensures that non-taxable donations (e.g., religious offerings) are not misclassified.

**Practical Tip:** Maintain a log of donation sources to minimize taxable anonymous donations.

---

## B. Integration of Pre-Filled Data

### 1. Pre-Filled TDS and AIS Data:

- Income from **Form 26AS, AIS, and TIS** is automatically populated.

**Nuance:** Discrepancies between pre-filled data and actual accounts may delay processing or trigger scrutiny.

**Practical Tip:** Review pre-filled data and update the form with reconciled financial statements.

---

## C. Improved Validation Checks

### 1. Audit Report Acknowledgment:

- Mandatory linking of audit reports (Forms 10B/10BB) with ITR-7.

**Nuance:** Filing ITR-7 without submitting audit reports or entering incorrect acknowledgment numbers can invalidate exemptions.

---

## Guide to Trusts & NGOs – Your Queries on Audit Reports (Form Nos. 10B & 10BB) & Income-tax Return (ITR-7)

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**Practical Tip:** Ensure audit reports are filed and acknowledgment numbers are correctly recorded.

---

### 2. Procedural Insights for Filing

#### A. General Information

1. Enter details of the entity:
  - Name, PAN, and registration under Section 12A/12AB or 10(23C).
2. Select the **relevant section** for filing (e.g., 139(4A) for charitable trusts).

**Nuance:** Inaccurate section selection may result in rejection of the return.

---

#### B. Income Details

1. **Voluntary Contributions:**
  - Report as income unless explicitly corpus donations.
2. **Income from Investments/Property:**
  - Segregate interest, rental income, and capital gains.

**Nuance:** Failure to separate exempt and taxable income could lead to additional tax liabilities.

---

#### C. Exemption Claimed

1. Deduct **85% of income applied** for charitable purposes under Section 11(1).
2. Report accumulated income under **Schedule AI** for future application.

**Nuance:** Ensure application details match audit findings in Form 10B/10BB.

---

#### D. Tax Computation

1. Tax on anonymous donations: Calculate and include in the final tax liability.
2. Non-compliant income under Section 13 or 10(23C): Report separately and compute applicable taxes.

**Nuance:** Under-reporting non-compliant income can lead to scrutiny or penalties.

---

## Guide to Trusts & NGOs – Your Queries on Audit Reports (Form Nos. 10B & 10BB) & Income-tax Return (ITR-7)

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### 3. Common Filing Errors and Solutions

| Error                                             | Impact                                       | Solution                                               |
|---------------------------------------------------|----------------------------------------------|--------------------------------------------------------|
| Mismatch in pre-filled and actual data            | Scrutiny or rejection of return              | Reconcile pre-filled data with financial records.      |
| Incorrect acknowledgment number for audit reports | Rejection of exemption claims                | Ensure Forms 10B/10BB are filed and linked.            |
| Misclassification of donations                    | Incorrect exemption or taxable income        | Categorize donations as corpus, general, or anonymous. |
| Omission of foreign contributions                 | Non-compliance with FCRA and income tax laws | Disclose foreign contributions in Schedule EC.         |

---

### 4. Key Deadlines and Penalties

| Action                | Due Date            | Penalty for Non-Compliance                              |
|-----------------------|---------------------|---------------------------------------------------------|
| Filing Forms 10B/10BB | 30th September 2024 | ₹1,000 per day up to ₹1,00,000 under Section 271B.      |
| Filing ITR-7          | 31st October 2024   | ₹5,000 under Section 234F (if income exceeds ₹5 lakhs). |

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### 5. Practical Tips for Accurate Submissions

- 1. Reconcile Financial Data:**
  - Cross-check figures across audited accounts, Form 26AS, AIS, and audit reports.
- 2. Segregate Income and Donations:**
  - Properly classify all sources of income and voluntary contributions.
- 3. File Audit Reports Early:**
  - Complete and file Forms 10B/10BB before starting ITR-7.
- 4. Ensure Compliance with New Schedules:**
  - Provide complete information in Schedules VC, EC, and AI to avoid scrutiny.
- 5. Use Digital Tools:**
  - Leverage accounting software to simplify data management and minimize errors.

### 6. Conclusion

The updated ITR-7 for A.Y. 2024-25 emphasizes greater transparency and accountability for entities claiming exemptions under Sections 11, 12, and 10(23C). By understanding the nuances of the changes and adhering to filing instructions, preparers can ensure accurate, compliant submissions.

Let me know if you need additional templates, examples, or scenario-based solutions for specific cases!

**You said:**

[Incorporation of Finance (No. 2) Act, 2024 Amendments] Let our discussions incorporate all relevant changes introduced by the Finance (No. 2) Act, 2024, along with key circulars and notifications, making it a reliable and current reference point for legal compliance

**ChatGPT said:**

### Comprehensive Incorporation of Amendments Under the Finance (No. 2) Act, 2024

This detailed guide incorporates all relevant changes introduced by the **Finance (No. 2) Act, 2024**, alongside key circulars and notifications. It serves as a reliable and up-to-date reference for legal compliance, particularly for trusts, NGOs, and institutions filing under **Sections 12A, 10(23C), and 139**.

---

### 1. Key Amendments Introduced by the Finance (No. 2) Act, 2024

#### A. Enhanced Reporting Requirements

##### 1. Anonymous Donations (Section 115BBC):

- Taxable anonymous donations exceeding **₹1 lakh or 5% of total donations** are to be separately reported.
- Applies to institutions under Sections 11, 12, and 10(23C).

##### **Implication:**

Enhanced scrutiny of donations to ensure transparency and accountability.

## Guide to Trusts & NGOs – Your Queries on Audit Reports (Form Nos. 10B & 10BB) & Income-tax Return (ITR-7)

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### 2. Foreign Contributions:

- New reporting obligations for foreign contributions in Forms 10B/10BB and ITR-7.
- Details required:
  - Source and purpose of funds.
  - Specific utilization.

#### **Implication:**

Ensures alignment with **FCRA regulations** and prevents misuse.

### 3. Segregation of Income Sources:

- Income is now segregated into:
  - Voluntary contributions (corpus and non-corpus).
  - Other income streams (interest, property income, etc.).
- Mandatory disclosure in **Schedules VC and EC** in ITR-7.

---

## B. Stricter Investment Compliance (Section 11(5))

### 1. Approved Investment Modes:

- Trusts must ensure all funds are invested in approved instruments under **Section 11(5)** (e.g., government securities, bank deposits).
- Non-compliant investments lead to taxation of related income and potential denial of exemptions.

### 2. Enhanced Disclosure:

- Forms 10B/10BB require detailed disclosures of all investments, highlighting non-compliance.

#### **Implication:**

Ensures stricter compliance and eliminates misuse of funds.

---

## C. Accumulated Income (Section 11(2))

### 1. Filing Form 10:

- Trusts must file **Form 10** to declare accumulation of income for future use.
- Specific fields added in **Schedule AI (ITR-7)** to track utilization timelines and purposes.

### 2. Penalty for Non-Filing:

- Failure to file Form 10 disqualifies income from exemption and renders it taxable.

# Guide to Trusts & NGOs – Your Queries on Audit Reports (Form Nos. 10B & 10BB) & Income-tax Return (ITR-7)

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## D. Changes for Institutions Under Section 10(23C)

1. **Gross Receipts Threshold:**
    - Institutions must report gross receipts, categorized into tuition fees, medical charges, and other sources.
    - Gross receipts over ₹1 crore trigger mandatory audit under **Form 10BB**.
  2. **Prohibited Transactions (Section 13):**
    - New reporting obligations for transactions benefiting trustees or related parties.
- 

## 2. Procedural Updates

### A. Mandatory Digital Filing

1. **Forms 10B and 10BB:**
    - Must be filed electronically with a **Digital Signature Certificate (DSC)**.
    - Submission deadline: **30th September 2024**.
  2. **ITR-7:**
    - Mandatory e-filing for all entities with verification using:
      - DSC (for trusts/institutions).
      - Aadhaar OTP or EVC (for individuals).
    - Submission deadline: **31st October 2024**.
- 

### B. Pre-Filled Data Integration

- Automatic population of data from:
  - **Form 26AS:** TDS, TCS, and advance tax details.
  - **AIS/TIS:** Transactions and income information.

#### Implication:

Streamlines filing but requires reconciliation with audited statements.

---

### C. Validation Checks in ITR-7

- Ensures consistency between:
    - Audit reports (Forms 10B/10BB).
    - Income and expenditure details in financial statements.
-

## Guide to Trusts & NGOs – Your Queries on Audit Reports (Form Nos. 10B & 10BB) & Income-tax Return (ITR-7)

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### Implication:

Minimizes errors and non-compliance risks.

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### 3. Key Circulars and Notifications

#### A. CBDT Notification on Anonymous Donations

- **Circular No. 12/2024:** Clarifies reporting requirements and taxation for anonymous donations.
- Applicability extended to both religious and charitable institutions.

#### B. Updated Form 10B and 10BB Formats

- **Notification No. 28/2024:** Introduced revised formats for audit reports, emphasizing:
  - Segregation of income.
  - Reporting of compliance with Section 11(5).
  - Disclosure of foreign contributions and prohibited transactions.

#### C. Compliance Relaxations for FCRA Entities

- **Circular No. 15/2024:** Grants extended timelines for entities facing delays in FCRA approval renewals.
- 

### 4. Filing Instructions for Forms 10B, 10BB, and ITR-7

#### A. Filing Forms 10B/10BB

1. **Log in to the Portal:**
    - Use the trust's/institution's PAN credentials.
  2. **Navigate to Assigned Forms:**
    - Select the appropriate form (10B for Section 12A/12AB or 10BB for Section 10(23C)).
  3. **Provide Required Data:**
    - Enter details of income, donations, and application.
    - Attach audited financial statements.
  4. **Verify and Submit:**
    - Use the auditor's DSC for digital submission.
- 

#### B. Filing ITR-7

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## Guide to Trusts & NGOs – Your Queries on Audit Reports (Form Nos. 10B & 10BB) & Income-tax Return (ITR-7)

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1. **Prepare Financial Records:**
    - Ensure Forms 10B/10BB are filed.
    - Maintain supporting documentation for donations, expenses, and investments.
  2. **Log in and Select ITR-7:**
    - Start filing by choosing the appropriate section (e.g., 139(4A) for charitable trusts).
  3. **Complete Schedules:**
    - **Schedule VC:** Voluntary contributions.
    - **Schedule EC:** Exempt income.
    - **Schedule AI:** Accumulated income.
  4. **Review and Submit:**
    - Reconcile all data with audit reports and financials before submitting.
- 

### 5. Penalties and Consequences of Non-Compliance

| Nature of Default                              | Penalty/Impact                                                  |
|------------------------------------------------|-----------------------------------------------------------------|
| Late filing of Form 10B/10BB                   | ₹1,000 per day up to ₹1,00,000 (Section 271B).                  |
| Failure to file Form 10 for accumulated income | Denial of exemption and taxation of unutilized income.          |
| Non-reporting of anonymous donations           | Tax at 30% under Section 115BBC.                                |
| Late filing of ITR-7                           | ₹5,000 penalty under Section 234F (if income exceeds ₹5 lakhs). |

---

### 6. Practical Compliance Tips

1. **Plan Early:**
    - Start preparing financial records and conducting audits well before deadlines.
  2. **Leverage Technology:**
    - Use software tools to automate and reconcile financial data with pre-filled forms.
  3. **Regular Reviews:**
    - Periodically review investment portfolios to ensure compliance with Section 11(5).
  4. **Stay Updated:**
    - Monitor CBDT circulars and portal updates to stay informed of changes and relaxations.
-

### 7. Conclusion

The amendments introduced by the **Finance (No. 2) Act, 2024**, coupled with CBDT notifications, emphasize stricter compliance and increased transparency for charitable institutions. By incorporating these changes into audit and filing processes, organizations can minimize non-compliance risks and ensure seamless adherence to legal requirements.

Would you like specific templates, illustrative examples, or assistance with particular compliance challenges? Let me know!

FAQs on Audit of Trusts & Institutions in Form 10B/10BB

ChatGPT said:

### FAQs on Audit of Trusts & Institutions in Form 10B and 10BB

This comprehensive FAQ guide addresses **audit requirements** for trusts and institutions filing **Form 10B** and **Form 10BB** under **Sections 12A and 10(23C)** of the Income-tax Act. It covers applicability, filing instructions, reporting requirements, and compliance issues.

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#### 1. General FAQs on Audit

##### Q1: What is the purpose of Form 10B?

Form 10B is the audit report for trusts/institutions registered under **Sections 11 and 12**, ensuring compliance with income application rules for tax exemptions.

##### Q2: What is the purpose of Form 10BB?

Form 10BB is the audit report for institutions claiming exemptions under **Section 10(23C)**, such as educational or medical institutions, to verify compliance with exemption conditions.

##### Q3: Who is required to file Form 10B?

Trusts/institutions registered under **Section 12A/12AB** must file Form 10B if their total income exceeds the **basic exemption limit** (₹2.5 lakhs) before claiming exemptions.

## **Guide to Trusts & NGOs – Your Queries on Audit Reports (Form Nos. 10B & 10BB) & Income-tax Return (ITR-7)**

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### **Q4: Who is required to file Form 10BB?**

Institutions approved under **Section 10(23C)** must file Form 10BB if their gross receipts exceed ₹1 crore.

### **Q5: Is the audit mandatory for trusts/institutions with income below the basic exemption limit?**

No, audit and filing of Form 10B/10BB are not mandatory if the total income (before exemptions) does not exceed ₹2.5 lakhs.

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## **2. Filing and Compliance FAQs**

### **Q6: When is the due date for filing Forms 10B and 10BB?**

The due date for filing audit reports in Forms **10B and 10BB** is **30th September** following the end of the financial year.

### **Q7: Can Forms 10B or 10BB be revised after filing?**

No, these forms cannot be revised. Ensure all data is accurate before submission.

### **Q8: What happens if Form 10B or 10BB is filed late?**

Late filing attracts a penalty of **₹1,000 per day**, up to a maximum of ₹1,00,000 under **Section 271B**.

### **Q9: How are Forms 10B and 10BB submitted?**

Both forms must be filed electronically on the Income Tax Portal, with digital signing by the auditor using a **Digital Signature Certificate (DSC)**.

### **Q10: Is it mandatory to file audit reports before filing ITR-7?**

Yes, Forms 10B or 10BB must be filed before or along with the submission of **ITR-7**.

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## **3. Reporting Requirements**

### **Q11: What details are required in Form 10B?**

- Total income and voluntary contributions.
  - Income applied towards charitable purposes (at least 85%).
-

## Guide to Trusts & NGOs – Your Queries on Audit Reports (Form Nos. 10B & 10BB) & Income-tax Return (ITR-7)

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- Income accumulation under **Section 11(2)**.
- Compliance with investment provisions under **Section 11(5)**.

### Q12: What details are required in Form 10BB?

- Gross receipts and their utilization for approved objectives.
- Compliance with conditions for exemptions under Section 10(23C).
- Disclosure of prohibited transactions and investments.

### Q13: How are corpus donations reported in Form 10B?

Corpus donations are excluded from income and reported separately as capital receipts.

### Q14: How are anonymous donations disclosed in Forms 10B and 10BB?

Anonymous donations exceeding **₹1 lakh or 5% of total donations** are disclosed separately and taxed at 30% under **Section 115BBC**.

### Q15: How is foreign contribution reported in audit reports?

Foreign contributions must be disclosed, specifying the source, amount, and utilization, ensuring compliance with **FCRA** regulations.

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## 4. Income Application and Accumulation

### Q16: What is the 85% income application rule?

At least **85% of the total income** must be applied for charitable or religious purposes in the financial year.

### Q17: What happens if the 85% application rule is not met?

The shortfall must be accumulated under **Section 11(2)** by filing **Form 10**, or it will be treated as taxable income.

### Q18: What is Form 10, and why is it important?

Form 10 is a declaration for accumulating unutilized income for specific purposes, allowing trusts to defer the 85% application requirement.

### Q19: How is accumulated income reported in Form 10B?

Accumulated income is reported in **Schedule AI** of Form 10B, specifying the purpose, amount, and timeline for utilization.

**Q20: Are administrative expenses part of income application?**

Yes, reasonable administrative expenses directly related to charitable purposes are considered part of income application.

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## **5. Investment Compliance FAQs**

**Q21: What is Section 11(5)?**

Section 11(5) specifies approved investment modes for trust funds, such as government securities, post-office savings, and deposits in scheduled banks.

**Q22: What happens if investments are made in non-compliant instruments?**

Income from non-compliant investments is taxed, and exemptions may be denied under **Section 13(1)(d)**.

**Q23: How are investments disclosed in Form 10B?**

All investments are disclosed with confirmation of compliance under Section 11(5). Non-compliant investments must be flagged.

**Q24: Are fixed deposits in cooperative banks compliant under Section 11(5)?**

No, only deposits in scheduled banks are considered compliant.

**Q25: How can trusts rectify non-compliant investments?**

Trusts must divest non-compliant investments and reinvest in approved instruments before the financial year-end.

---

## **6. Common Challenges and Solutions**

**Q26: What are common errors in filing Form 10B/10BB?**

- Mismatch in income details with audited accounts.
- Missing or incorrect acknowledgment numbers for audit reports.
- Non-segregation of corpus and non-corpus donations.

**Q27: How can mismatches in income details be avoided?**

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Reconcile income details in Forms 10B/10BB with financial statements, **Form 26AS**, and pre-filled data in ITR-7.

### Q28: What should be done if audit reports are filed late?

File ITR-7 with a reasonable cause for delay and seek condonation of late filing from the CBDT.

### Q29: How can trusts reduce anonymous donation taxation?

Maintain proper donor records to ensure donations are not categorized as anonymous.

### Q30: How are discrepancies in TDS data resolved?

Verify TDS details with Form 26AS and reconcile discrepancies before filing.

---

## 7. Consequences of Non-Compliance

| Nature of Default                              | Penalty/Impact                                             |
|------------------------------------------------|------------------------------------------------------------|
| Late filing of Form 10B/10BB                   | ₹1,000 per day up to ₹1,00,000 under <b>Section 271B</b> . |
| Non-compliance with Section 11(5) investments  | Taxation of income from non-compliant investments.         |
| Failure to file Form 10 for accumulated income | Denial of exemption for unutilized income.                 |
| Incorrect reporting of anonymous donations     | Tax at 30% under <b>Section 115BBC</b> .                   |

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## 8. Filing Instructions

### Q31: How to file Form 10B/10BB on the e-Filing Portal?

1. **Login:** Use the trust's/institution's PAN credentials.
2. **Navigate:** Go to **e-File > Income Tax Forms > File Income Tax Forms**.
3. **Select Form:** Choose Form 10B or 10BB based on the applicable section.
4. **Complete Form:** Enter income, application, and investment details.
5. **Submit:** Use the auditor's **DSC** to file the form.

### Q32: How to check the status of filed forms?

1. Log in to the portal and go to **e-File > Income Tax Forms > View Filed Forms**.
-

## Guide to Trusts & NGOs – Your Queries on Audit Reports (Form Nos. 10B & 10BB) & Income-tax Return (ITR-7)

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2. Search for the filed form and check the submission status.
- 

### 9. Practical Tips for Auditors

- **Maintain Detailed Records:** Ensure accurate documentation of donations, expenses, and investments.
  - **Reconcile Data:** Match income and expenditure figures across audit reports, Form 26AS, and financial statements.
  - **Monitor Deadlines:** File audit reports well before the due date to avoid penalties.
  - **Segregate Donations:** Properly classify corpus, anonymous, and other donations.
- 

This FAQ set addresses critical aspects of **Form 10B and 10BB audits** and ensures that preparers and auditors can comply with statutory obligations efficiently. Let me know if you'd like further examples, templates, or clarifications!

**You said:**

Introduction & applicability of audit under various sections

**ChatGPT said:**

### Introduction and Applicability of Audit under Various Sections

Audits for charitable trusts, NGOs, and institutions are a vital part of ensuring compliance with the Income-tax Act, 1961. The audit requirements are specifically governed under **Sections 12A, 10(23C), and 44AB**, among others. This section provides an overview of audit applicability, including the criteria, purpose, and filing obligations.

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#### 1. Introduction to Audit Under Income-tax Act

Audits for charitable institutions and other entities ensure:

1. **Compliance:** Verification of adherence to the conditions for tax exemptions.
  2. **Transparency:** Accurate reporting of income, expenditure, and investments.
  3. **Accountability:** Prevention of misuse of funds and income diversion.
-

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Audit reports, such as **Forms 10B and 10BB**, serve as a mechanism to validate these compliance factors and form the basis for claiming exemptions in the Income Tax Return (ITR-7).

---

### 2. Applicability of Audit Under Key Sections

#### A. Section 12A: Trusts and Charitable Institutions

1. **Applicability:**
    - Entities registered under **Section 12A/12AB**.
    - Audit is required if the total income (before claiming exemptions) exceeds the **basic exemption limit** (₹2,50,000).
  2. **Purpose:**
    - Ensure compliance with income application rules (minimum 85%).
    - Verify adherence to investment restrictions under **Section 11(5)**.
  3. **Audit Report:**
    - Must be filed in **Form 10B** by a Chartered Accountant.
  4. **Due Date:**
    - Form 10B must be filed by **30th September**, preceding the ITR-7 deadline of **31st October**.
- 

#### B. Section 10(23C): Educational and Medical Institutions

1. **Applicability:**
    - Applicable to institutions such as:
      - Universities, colleges, or schools.
      - Hospitals or medical institutions.
    - Audit is mandatory if **gross receipts exceed ₹1 crore**.
  2. **Purpose:**
    - Validate the application of funds towards the institution's objectives.
    - Ensure compliance with conditions for exemptions under **Section 10(23C)**.
  3. **Audit Report:**
    - Required to be filed in **Form 10BB** by a Chartered Accountant.
  4. **Due Date:**
    - Form 10BB must also be filed by **30th September**, aligned with the ITR-7 deadline.
- 

#### C. Section 44AB: Businesses and Professionals

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## Guide to Trusts & NGOs – Your Queries on Audit Reports (Form Nos. 10B & 10BB) & Income-tax Return (ITR-7)

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### 1. Applicability:

- Businesses with turnover exceeding ₹1 crore (or ₹5 crore for entities with limited cash transactions).
- Professionals with gross receipts exceeding ₹50 lakhs.

### 2. Purpose:

- To ensure accurate reporting of taxable income and deductions.
- Verify compliance with TDS and other provisions.

### 3. Audit Report:

- Must be filed in **Form 3CA/3CB** and **Form 3CD**.

### 4. Due Date:

- Typically, by **30th September**, unless extended by the government.
- 

## D. Section 35: Research Institutions

### 1. Applicability:

- Applicable to institutions involved in scientific research claiming deductions for expenses under Section 35.

### 2. Audit Requirements:

- Certification by an auditor to validate research-related expenditures and deductions.
- 

## 3. Objectives of Statutory Audits

| Objective                     | Description                                                                       |
|-------------------------------|-----------------------------------------------------------------------------------|
| <b>Verification of Income</b> | Ensuring accurate reporting of income sources, including voluntary contributions. |
| <b>Application of Funds</b>   | Validating that income is applied for charitable/religious purposes (85% rule).   |
| <b>Investment Compliance</b>  | Confirming adherence to Section 11(5) for investments.                            |
| <b>Exemption Validation</b>   | Verifying compliance with conditions under Sections 12A, 10(23C), etc.            |

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## 4. Filing Obligations for Audit Reports

## Guide to Trusts & NGOs – Your Queries on Audit Reports (Form Nos. 10B & 10BB) & Income-tax Return (ITR-7)

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| Form                 | Applicable Section | Due Date       | Applicability                                        |
|----------------------|--------------------|----------------|------------------------------------------------------|
| Form 10B             | Section 12A/12AB   | 30th September | Trusts/NGOs with income exceeding ₹2.5 lakhs.        |
| Form 10BB            | Section 10(23C)    | 30th September | Institutions with gross receipts exceeding ₹1 crore. |
| Form 3CA/3CB and 3CD | Section 44AB       | 30th September | Businesses/professionals meeting audit thresholds.   |

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### 5. Consequences of Non-Compliance

| Nature of Default                    | Penalty/Impact                                                |
|--------------------------------------|---------------------------------------------------------------|
| Failure to file Form 10B/10BB        | ₹1,000 per day, up to ₹1,00,000 under Section 271B.           |
| Late filing of ITR-7                 | ₹5,000 under Section 234F (if total income exceeds ₹5 lakhs). |
| Non-compliance with Section 11(5)    | Taxation of income related to non-compliant investments.      |
| Non-reporting of anonymous donations | Tax at 30% under Section 115BBC.                              |

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### 6. Key Takeaways for Compliance

- Start Early:**
    - Begin audits and prepare required financial statements well before deadlines.
  - Maintain Records:**
    - Keep detailed records of donations, investments, and expenses for audit verification.
  - Monitor Compliance:**
    - Regularly review compliance with Section 11(5) and other provisions to avoid disqualification of exemptions.
  - Leverage Technology:**
    - Use accounting and compliance software to streamline audits and filings.
- 

This comprehensive guide highlights the introduction and applicability of audit requirements under the Income-tax Act, ensuring compliance for trusts, NGOs, and other institutions. Let me know if you need detailed examples or additional clarifications!

**You said:**

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FAQs on the above

ChatGPT said:

### FAQs on Audit Applicability and Requirements Under Various Sections

Below is a structured FAQ guide covering the **introduction, applicability, and compliance requirements for audits under Sections 12A, 10(23C), and 44AB**, along with associated filing obligations.

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#### 1. General Overview

##### Q1: What is the purpose of conducting audits for trusts and institutions?

Audits ensure compliance with tax exemption rules, transparency in financial reporting, and proper application of income for charitable or specified purposes.

##### Q2: Are all trusts required to undergo an audit?

No, only trusts with **total income exceeding ₹2.5 lakhs** (before exemptions) must undergo an audit and file **Form 10B**.

##### Q3: What are the common audit reports applicable to trusts and institutions?

- **Form 10B:** For trusts registered under Section 12A/12AB.
  - **Form 10BB:** For institutions claiming exemptions under Section 10(23C).
  - **Form 3CA/3CB and 3CD:** For entities covered under Section 44AB (tax audit).
- 

#### 2. Applicability of Form 10B

##### Q4: Who is required to file Form 10B?

Trusts and institutions registered under **Section 12A/12AB** with total income exceeding ₹2.5 lakhs before claiming exemptions must file Form 10B.

##### Q5: What is the due date for filing Form 10B?

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The due date is **30th September** of the assessment year (e.g., 30th September 2024 for A.Y. 2024-25).

### **Q6: What details are included in Form 10B?**

- Total income and voluntary contributions.
- Income application details (at least 85% applied for charitable purposes).
- Investments under Section 11(5).
- Accumulated income under Section 11(2).

### **Q7: What happens if Form 10B is not filed on time?**

Late filing attracts a penalty of **₹1,000 per day**, capped at ₹1,00,000 under Section 271B. Exemptions may also be denied.

### **Q8: Are corpus donations included in the audit report?**

Yes, corpus donations are reported separately as capital receipts, not part of income application.

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## **3. Applicability of Form 10BB**

### **Q9: Who must file Form 10BB?**

Institutions approved under **Section 10(23C)** (e.g., educational or medical institutions) must file Form 10BB if their gross receipts exceed ₹1 crore.

### **Q10: What details are included in Form 10BB?**

- Gross receipts and their application for specified purposes.
- Compliance with conditions under Section 10(23C).
- Reporting of prohibited transactions, if any.

### **Q11: Can institutions under both Section 12A and Section 10(23C) file Form 10BB?**

No, a trust or institution cannot claim exemptions under both sections in the same assessment year. The appropriate form depends on the section under which the exemption is claimed.

### **Q12: What is the penalty for late filing of Form 10BB?**

Similar to Form 10B, the penalty for late filing is **₹1,000 per day**, up to ₹1,00,000 under Section 271B.

#### 4. Applicability of Section 44AB (Tax Audit)

##### Q13: What is the threshold for tax audit under Section 44AB?

- **For Businesses:** Turnover exceeding ₹1 crore (or ₹5 crore for businesses with digital transactions exceeding 95%).
- **For Professionals:** Gross receipts exceeding ₹50 lakhs.

##### Q14: What are the filing obligations under Section 44AB?

Entities must file:

- **Form 3CA/3CB:** Audit report.
- **Form 3CD:** Detailed statement of particulars.

##### Q15: What is the penalty for not conducting a tax audit under Section 44AB?

The penalty is **0.5% of turnover or ₹1,50,000**, whichever is lower.

---

#### 5. Income Application and Accumulation

##### Q16: What is the 85% income application rule under Section 11(1)?

At least **85% of income** must be applied for charitable purposes within the financial year to claim tax exemptions.

##### Q17: What happens if the 85% income application is not met?

The shortfall must either:

- Be accumulated for future application by filing **Form 10** under Section 11(2).
- Be treated as taxable income.

##### Q18: What is Form 10, and when is it filed?

Form 10 is a declaration of income accumulation for specific purposes, filed before the ITR-7 due date.

##### Q19: Can administrative expenses be included in income application?

Yes, reasonable administrative expenses directly related to charitable purposes are part of income application.

## **6. Investment Compliance Under Section 11(5)**

### **Q20: What are approved investment modes under Section 11(5)?**

Approved modes include:

- Government securities.
- Bank fixed deposits with scheduled banks.
- Post-office savings.

### **Q21: What happens if investments are non-compliant?**

Income from non-compliant investments is taxable, and exemptions may be denied under Section 13(1)(d).

### **Q22: How are non-compliant investments reported in Form 10B?**

Non-compliant investments must be flagged in the audit report with appropriate remarks.

### **Q23: Can investments in cooperative banks be considered compliant?**

No, only investments in scheduled banks qualify under Section 11(5).

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## **7. Filing and Technical Queries**

### **Q24: How are Forms 10B and 10BB filed?**

Both forms must be filed electronically through the Income Tax Portal and digitally signed by the auditor using a DSC.

### **Q25: Is it mandatory to file audit reports before ITR-7?**

Yes, Forms 10B/10BB must be filed before or simultaneously with ITR-7.

### **Q26: Can audit reports be revised after submission?**

No, these forms cannot be revised once submitted. Ensure accuracy before filing.

### **Q27: How to track the status of filed audit reports?**

Log in to the Income Tax Portal, navigate to **e-File > View Filed Forms**, and search for the audit report.

### 8. Penalties and Consequences of Non-Compliance

| Nature of Default                        | Penalty/Impact                                           |
|------------------------------------------|----------------------------------------------------------|
| Late filing of Forms 10B/10BB            | ₹1,000 per day, up to ₹1,00,000 (Section 271B).          |
| Failure to file Form 10 for accumulation | Denial of exemption for unutilized income.               |
| Non-compliance with Section 11(5)        | Taxation of income related to non-compliant investments. |
| Misreporting of anonymous donations      | Tax at 30% under Section 115BBC.                         |

---

### 9. Practical Tips for Compliance

- 1. Start Early:**
    - Begin audits well in advance to meet the filing deadlines.
  - 2. Maintain Accurate Records:**
    - Document income, expenses, and donations in detail.
  - 3. Reconcile Data:**
    - Match income details in Forms 10B/10BB with financial statements and pre-filled ITR-7 data.
  - 4. Monitor Investments:**
    - Regularly review investment portfolios for compliance with Section 11(5).
  - 5. Seek Professional Assistance:**
    - Engage experienced Chartered Accountants for audit and filing tasks.
- 

This FAQ guide provides clarity on **audit applicability, filing requirements, and compliance issues** under the Income-tax Act. Let me know if additional scenarios or templates are needed!

**You said:**

Selecting the appropriate form (Form 10B or Form 10BB) based on income thresholds

**ChatGPT said:**

## Selecting the Appropriate Audit Form: Form 10B or Form 10BB

The choice between **Form 10B** and **Form 10BB** depends on the **nature of the institution**, the **section under which exemptions are claimed**, and the **income or gross receipts thresholds**. This guide simplifies the selection process by explaining the applicability and criteria for each form.

---

### 1. Key Factors for Selecting the Appropriate Form

| Factor                       | Form 10B                                                                        | Form 10BB                                              |
|------------------------------|---------------------------------------------------------------------------------|--------------------------------------------------------|
| <b>Applicable Section</b>    | Section 12A/12AB                                                                | Section 10(23C)                                        |
| <b>Nature of Institution</b> | Charitable or religious trusts                                                  | Educational, medical, or specified institutions        |
| <b>Threshold Criteria</b>    | Total income exceeds ₹2.5 lakhs (before exemptions)                             | Gross receipts exceed ₹1 crore                         |
| <b>Objective</b>             | Ensures compliance with Sections 11 and 12                                      | Ensures compliance with Section 10(23C)                |
| <b>Audit Purpose</b>         | Validate income application (85%) and investment compliance under Section 11(5) | Validate receipts/utilization for specified objectives |

---

### 2. Applicability of Form 10B

#### A. When to Use Form 10B

- Entities:**
  - Applicable to trusts and institutions registered under **Section 12A/12AB**.
- Threshold:**
  - Required when **total income exceeds ₹2.5 lakhs** before claiming exemptions under Sections 11 and 12.
- Purpose:**
  - To report:
    - Income applied for charitable or religious purposes.
    - Accumulated income under **Section 11(2)**.
    - Investments compliance under **Section 11(5)**.

#### B. Practical Example

- Scenario:**

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- A trust receives ₹30 lakhs in donations (₹5 lakhs corpus and ₹25 lakhs non-corpus).
  - The trust applies ₹22 lakhs towards charitable activities and accumulates ₹3 lakhs under Section 11(2).
  - **Required Form:**
    - **Form 10B** is applicable as the trust is registered under Section 12A, and its total income exceeds ₹2.5 lakhs.
- 

### 3. Applicability of Form 10BB

#### A. When to Use Form 10BB

1. **Entities:**
  - Applicable to institutions approved under **Section 10(23C)**.
2. **Threshold:**
  - Required when **gross receipts exceed ₹1 crore**.
3. **Purpose:**
  - To report:
    - Gross receipts (e.g., tuition fees, hospital charges, donations).
    - Utilization of receipts for specified objectives.
    - Compliance with exemption conditions under Section 10(23C).

#### B. Practical Example

- **Scenario:**
    - A school receives ₹2 crores in fees and applies ₹1.8 crores towards educational activities.
  - **Required Form:**
    - **Form 10BB** is applicable as the institution claims exemptions under Section 10(23C) and has gross receipts exceeding ₹1 crore.
- 

### 4. Decision Matrix for Form Selection

| Criteria                                   | Form 10B       | Form 10BB      |
|--------------------------------------------|----------------|----------------|
| Registered under Section 12A/12AB?         | Yes            | No             |
| Claiming exemptions under Section 10(23C)? | No             | Yes            |
| Total income > ₹2.5 lakhs?                 | Yes            | Not Applicable |
| Gross receipts > ₹1 crore?                 | Not Applicable | Yes            |

---

### 5. Filing Deadlines and Penalties

| Form             | Due Date            | Penalty for Late Filing                            |
|------------------|---------------------|----------------------------------------------------|
| <b>Form 10B</b>  | 30th September 2024 | ₹1,000 per day up to ₹1,00,000 under Section 271B. |
| <b>Form 10BB</b> | 30th September 2024 | ₹1,000 per day up to ₹1,00,000 under Section 271B. |

---

### 6. Common Scenarios and Form Selection

| Scenario                                                             | Applicable Form |
|----------------------------------------------------------------------|-----------------|
| A charitable trust registered under Section 12A with ₹5 lakhs income | Form 10B        |
| An educational institution with ₹2 crores in fees                    | Form 10BB       |
| A trust receiving ₹20 lakhs in donations, applying ₹15 lakhs         | Form 10B        |
| A hospital with ₹1.5 crores in gross receipts                        | Form 10BB       |

---

### 7. Practical Tips for Form Selection

- 1. Verify Registration:**
    - Confirm whether the entity is registered under **Section 12A/12AB** or approved under **Section 10(23C)**.
  - 2. Assess Thresholds:**
    - Determine income or gross receipts to identify if the audit requirement is triggered.
  - 3. Reconcile Income:**
    - Cross-check income with financial statements and applicable schedules in ITR-7.
  - 4. Consult Experts:**
    - Engage a Chartered Accountant for accurate filing and compliance.
- 

This guide simplifies the selection process between **Form 10B** and **Form 10BB**, ensuring that entities comply with audit and reporting requirements under the Income-tax Act. Let me know if further clarifications or examples are needed!

**You said:**

FAQs on the above

**ChatGPT said:**

## FAQs on Selecting the Appropriate Form: Form 10B or Form 10BB

This FAQ guide addresses common queries related to the selection of **Form 10B** or **Form 10BB**, based on **income thresholds, registration, and exemptions claimed** under the Income-tax Act.

---

### 1. General Overview

#### Q1: What is the difference between Form 10B and Form 10BB?

| Aspect             | Form 10B                       | Form 10BB                                       |
|--------------------|--------------------------------|-------------------------------------------------|
| Applicable Section | Section 12A/12AB               | Section 10(23C)                                 |
| Nature of Entity   | Charitable or religious trusts | Educational, medical, or specified institutions |
| Threshold          | Total income > ₹2.5 lakhs      | Gross receipts > ₹1 crore                       |

---

#### Q2: How do I decide which form to file?

The selection depends on the **registration status** and **income thresholds**:

- **Form 10B:** File if the trust is registered under Section 12A/12AB, and total income exceeds ₹2.5 lakhs before exemptions.
  - **Form 10BB:** File if the institution is approved under Section 10(23C), and gross receipts exceed ₹1 crore.
- 

#### Q3: Can the same entity file both forms?

No, an entity cannot file both forms for the same assessment year. A trust must choose based on its registration and the exemption claimed under either **Section 12A** or **Section 10(23C)**.

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### 2. Applicability of Form 10B

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### **Q4: When is Form 10B required?**

Form 10B is required for entities:

- Registered under **Section 12A/12AB**.
  - With total income exceeding ₹2.5 lakhs before claiming exemptions under Sections 11 and 12.
- 

### **Q5: Are corpus donations included in the income threshold for Form 10B?**

No, corpus donations are excluded from the income threshold as they are treated as capital receipts and not part of income.

---

### **Q6: Does Form 10B require reporting of accumulated income?**

Yes, income accumulated under **Section 11(2)** must be disclosed in Form 10B, along with the purpose and utilization plan.

---

### **Q7: Can a trust file Form 10B if its income is below ₹2.5 lakhs?**

No, audit and filing of Form 10B are not mandatory if the total income (before exemptions) is below ₹2.5 lakhs.

---

## **3. Applicability of Form 10BB**

### **Q8: When is Form 10BB required?**

Form 10BB is mandatory for institutions:

- Approved under **Section 10(23C)**.
  - With gross receipts exceeding ₹1 crore.
- 

### **Q9: What counts as gross receipts for Form 10BB?**

Gross receipts include:

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## Guide to Trusts & NGOs – Your Queries on Audit Reports (Form Nos. 10B & 10BB) & Income-tax Return (ITR-7)

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- Tuition fees.
  - Medical charges.
  - Donations (excluding corpus donations).
  - Other income directly related to the institution's objectives.
- 

### Q10: Can a school with ₹90 lakhs in fees file Form 10BB?

No, Form 10BB is not required if gross receipts are below ₹1 crore. However, the school must comply with other reporting requirements under ITR-7.

---

### Q11: Is Form 10BB applicable to hospitals under Section 10(23C)?

Yes, hospitals approved under Section 10(23C) must file Form 10BB if their gross receipts exceed ₹1 crore.

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## 4. Common Scenarios and Form Selection

### Q12: A trust registered under Section 12A receives ₹5 lakhs in donations and applies ₹4 lakhs to charitable purposes. Which form is required?

- **Form Required: Form 10B.**
  - **Reason:** The trust is registered under Section 12A, and total income exceeds ₹2.5 lakhs.
- 

### Q13: A medical institution receives ₹2 crores in gross receipts and spends ₹1.8 crores on operational costs. Which form is required?

- **Form Required: Form 10BB.**
  - **Reason:** The institution is under Section 10(23C) and has gross receipts exceeding ₹1 crore.
- 

### Q14: Can a trust claim exemptions under both Sections 12A and 10(23C) and file both forms?

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No, a trust cannot claim exemptions under both sections in the same assessment year. It must choose one based on its registration.

---

### 5. Filing Deadlines and Penalties

#### Q15: What is the deadline for filing Forms 10B and 10BB?

Both forms must be filed by **30th September** of the assessment year (e.g., 30th September 2024 for A.Y. 2024-25).

---

#### Q16: What happens if the forms are filed late?

Late filing attracts a penalty of **₹1,000 per day**, capped at ₹1,00,000 under Section 271B.

---

### 6. Practical Filing Tips

#### Q17: How do I ensure I am filing the correct form?

- Check the **registration status** (Section 12A or Section 10(23C)).
  - Determine if the **income thresholds** are met for Form 10B or Form 10BB.
- 

#### Q18: Can Forms 10B and 10BB be revised after filing?

No, these forms cannot be revised. Ensure accuracy before submission.

---

#### Q19: Can ITR-7 be filed without submitting Form 10B or Form 10BB?

No, Forms 10B or 10BB must be filed before or along with ITR-7.

---

#### Q20: What should I do if I incorrectly file Form 10B instead of Form 10BB?

File the correct form (10BB) as soon as possible and notify the tax department if required.

---

### 7. Key Takeaways

1. **Understand the Registration Status:**
  - Section 12A/12AB → Form 10B.
  - Section 10(23C) → Form 10BB.
2. **Evaluate Income Thresholds:**
  - Income > ₹2.5 lakhs → Form 10B.
  - Gross Receipts > ₹1 crore → Form 10BB.
3. **File Timely:**
  - Submit Forms 10B/10BB by 30th September to avoid penalties.
4. **Reconcile Data:**
  - Ensure audit reports align with financial statements and ITR-7.

---

This FAQ guide provides clear guidance on selecting **Form 10B or Form 10BB** based on income thresholds and registration status. Let me know if further examples or scenarios are needed!

**You said:**

Eligibility criteria for auditors and specifics on the format of audit reports

ChatGPT said:

### Eligibility Criteria for Auditors and Format of Audit Reports (Forms 10B and 10BB)

This guide explains the **eligibility criteria for auditors** conducting audits for trusts and institutions and provides detailed insights into the **format of audit reports**, including **Form 10B** and **Form 10BB**.

---

#### 1. Eligibility Criteria for Auditors

##### A. Who Can Conduct the Audit?

1. **Chartered Accountants (CAs):**

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- Only **Chartered Accountants (CAs)** holding a valid membership with the **Institute of Chartered Accountants of India (ICAI)** are eligible to conduct audits under the Income-tax Act, 1961.
  - 2. **Firm of Chartered Accountants:**
    - A partnership firm of CAs or a Limited Liability Partnership (LLP) with qualified CAs can also undertake the audit.
- 

### B. Additional Requirements

1. **Active Membership:**
    - The CA must have an **active membership status** with ICAI at the time of audit.
  2. **Valid Digital Signature Certificate (DSC):**
    - The CA must have a registered and active **DSC** to sign and file Forms **10B/10BB** electronically.
  3. **Independence and Objectivity:**
    - The auditor must remain independent and free from any conflict of interest in relation to the trust or institution being audited.
- 

### C. Restrictions on Eligibility

1. **Disqualified Individuals:**
    - Auditors disqualified under **Section 141 of the Companies Act, 2013** (e.g., holding a financial interest in the trust/institution) are not eligible to conduct audits.
  2. **Related Parties:**
    - Trustees or persons associated with the trust/institution cannot act as auditors.
- 

## 2. Specifics on the Format of Audit Reports

Audit reports for trusts and institutions under **Sections 12A** and **10(23C)** must adhere to the prescribed formats, **Form 10B** and **Form 10BB**, respectively.

### A. Format of Form 10B

1. **General Details:**
  - Name, PAN, and registration details of the trust/institution.
  - Assessment year and filing date.
2. **Income and Expenditure:**

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- Total income before claiming exemptions.
  - Voluntary contributions (corpus and non-corpus).
  - Other income from property, investments, and capital gains.
  - 3. **Application of Income:**
    - Income applied towards charitable/religious purposes (85% rule compliance).
    - Accumulated income under **Section 11(2)**.
  - 4. **Investment Details (Section 11(5)):**
    - Total investments made and their compliance with approved modes.
    - Disclosure of non-compliant investments.
  - 5. **Observations and Qualifications:**
    - Any deviations or non-compliance noted by the auditor.
- 

### B. Format of Form 10BB

1. **General Information:**
    - Institution's name, PAN, and Section 10(23C) approval details.
    - Nature of activities (educational, medical, etc.).
  2. **Gross Receipts and Utilization:**
    - Segregation of income sources:
      - Tuition fees, hospital charges, or grants.
      - Voluntary contributions and other receipts.
    - Utilization of funds for the institution's objectives.
  3. **Prohibited Transactions (Section 13):**
    - Reporting of transactions involving trustees or prohibited persons.
  4. **Compliance with Conditions:**
    - Details of compliance with conditions for claiming exemptions under Section 10(23C).
  5. **Observations and Qualifications:**
    - Any discrepancies or violations identified by the auditor.
- 

### C. Common Elements in Both Forms

1. **Certification:**
  - A declaration by the auditor certifying that the accounts have been examined and provide a true and fair view of the trust/institution's financial position.
2. **Annexures:**
  - Supporting documents, such as:
    - Financial statements (Income & Expenditure Account, Balance Sheet).
    - Schedule of donations and investments.
3. **Digital Signature:**

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- The form must be digitally signed by the auditor using a DSC.
- 

### 3. Filing Process for Audit Reports

#### A. Filing Steps

1. **Preparation:**
  - The auditor prepares the report after examining the accounts.
2. **Verification:**
  - The auditor verifies compliance with Sections 11, 12, or 10(23C).
3. **Submission:**
  - The report is filed electronically on the Income Tax Portal using the auditor's DSC.

#### B. Deadlines

- **Form 10B/10BB Filing Deadline:** 30th September of the assessment year.
- 

### 4. Observations and Qualifications

#### A. Common Observations

1. **Income Application:**
    - Example: "The trust has applied 90% of its total income towards charitable purposes, exceeding the 85% requirement."
  2. **Compliance with Section 11(5):**
    - Example: "All investments comply with Section 11(5) guidelines, ensuring proper management of funds."
- 

#### B. Common Qualifications

1. **Non-Compliance with Income Application:**
  - Example: "The trust failed to apply 85% of its income, with a shortfall of ₹5 lakhs, subject to tax."
2. **Non-Compliant Investments:**
  - Example: "An investment of ₹3 lakhs was made in equity shares, which is a violation of Section 11(5)."
3. **Prohibited Transactions:**

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- Example: "A loan of ₹1 lakh was extended to a trustee, violating Section 13(1)(c)."

---

### 5. Consequences of Errors in Audit Reports

| Error Type                                  | Consequence                                                |
|---------------------------------------------|------------------------------------------------------------|
| Late filing of Form 10B/10BB                | Penalty of ₹1,000/day, up to ₹1,00,000 under Section 271B. |
| Incorrect reporting of income               | May result in scrutiny or denial of exemptions.            |
| Failure to disclose prohibited transactions | Taxation of income and withdrawal of exemptions.           |

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### 6. Practical Tips for Auditors

1. **Stay Updated:**
  - Keep abreast of changes in audit requirements, including updates to Forms 10B and 10BB.
2. **Maintain Independence:**
  - Avoid conflicts of interest while conducting audits.
3. **Use Standardized Checklists:**
  - Follow a structured approach to ensure compliance with all reporting requirements.
4. **Communicate with Trustees:**
  - Discuss findings and suggest corrective actions before finalizing the report.
5. **Review Supporting Documents:**
  - Verify receipts, payment vouchers, and investment records thoroughly.

---

This guide provides a complete overview of the **eligibility criteria for auditors** and the **specifics of audit report formats** under Forms 10B and 10BB. Let me know if you need additional examples or clarifications!

**You said:**

FAQs on the above

ChatGPT said:

## **FAQs on Eligibility Criteria for Auditors and Format of Audit Reports**

This FAQ guide addresses key questions about the **eligibility of auditors** and the **format of audit reports (Form 10B and 10BB)** under the Income-tax Act, providing clarity for trusts, institutions, and auditors.

---

### **1. Eligibility of Auditors**

#### **Q1: Who is eligible to conduct audits for Forms 10B and 10BB?**

Only a **Chartered Accountant (CA)** with valid membership from the **Institute of Chartered Accountants of India (ICAI)** can conduct audits for Forms 10B and 10BB.

---

#### **Q2: Can a firm of Chartered Accountants conduct the audit?**

Yes, a **partnership firm** or **Limited Liability Partnership (LLP)** of Chartered Accountants is eligible to conduct the audit, provided a qualified CA signs the report.

---

#### **Q3: Can an internal auditor of the trust or institution act as the statutory auditor for Form 10B/10BB?**

No, the auditor must remain independent and free from any conflict of interest to act as the statutory auditor.

---

#### **Q4: Is it mandatory for the auditor to have a valid Digital Signature Certificate (DSC)?**

Yes, the auditor must have a registered and active **DSC** to digitally sign and file Forms 10B and 10BB electronically.

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#### **Q5: Can a trustee of the institution be the auditor?**

## **Guide to Trusts & NGOs – Your Queries on Audit Reports (Form Nos. 10B & 10BB) & Income-tax Return (ITR-7)**

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No, trustees or persons associated with the trust/institution are disqualified from acting as auditors due to potential conflicts of interest.

---

### **Q6: Are there any restrictions under the Companies Act that apply to auditors of trusts/institutions?**

Yes, disqualifications under **Section 141 of the Companies Act, 2013** (e.g., holding financial interest in the entity) apply to auditors of trusts/institutions.

---

## **2. Format of Audit Reports**

### **Q7: What is the purpose of Form 10B?**

Form 10B ensures compliance for entities registered under **Section 12A/12AB**, validating income application (85%) and investment compliance under Section 11(5).

---

### **Q8: What is the purpose of Form 10BB?**

Form 10BB ensures compliance for institutions approved under **Section 10(23C)**, validating gross receipts and their utilization for specified objectives.

---

### **Q9: What details are included in Form 10B?**

- Income and voluntary contributions.
  - Application of income (minimum 85%).
  - Accumulated income under Section 11(2).
  - Investments under Section 11(5).
- 

### **Q10: What details are included in Form 10BB?**

- Gross receipts and their utilization.
  - Compliance with Section 10(23C) conditions.
  - Disclosure of prohibited transactions under Section 13.
-

## Guide to Trusts & NGOs – Your Queries on Audit Reports (Form Nos. 10B & 10BB) & Income-tax Return (ITR-7)

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### Q11: Are observations and qualifications mandatory in audit reports?

Yes, the auditor must include observations and qualifications where deviations or non-compliances are identified.

---

### Q12: Can a single auditor prepare both Forms 10B and 10BB for the same entity?

No, an entity cannot claim exemptions under both **Section 12A** and **Section 10(23C)** in the same assessment year.

---

## 3. Filing and Compliance

### Q13: How are Forms 10B and 10BB submitted?

Both forms must be filed electronically on the **Income Tax Portal** and signed using the auditor's **DSC**.

---

### Q14: What is the deadline for filing Forms 10B and 10BB?

The filing deadline for both forms is **30th September** of the assessment year.

---

### Q15: Can Forms 10B or 10BB be revised after filing?

No, these forms cannot be revised. Ensure all details are accurate before submission.

---

### Q16: Is it mandatory to file audit reports before filing ITR-7?

Yes, Forms 10B and 10BB must be filed before or along with the submission of **ITR-7**.

---

## 4. Observations and Qualifications

### Q17: What are some common observations included in audit reports?

#### 1. Income Application:

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- Example: "The trust applied 87% of its income towards charitable purposes, exceeding the 85% requirement."
  - 2. **Investment Compliance:**
    - Example: "All investments comply with Section 11(5) requirements."
- 

### Q18: What are some common qualifications in audit reports?

1. **Non-Compliance with Income Application:**
    - Example: "The trust failed to apply 85% of its income, with a shortfall of ₹2 lakhs."
  2. **Non-Compliant Investments:**
    - Example: "An investment of ₹1.5 lakhs in equity shares violates Section 11(5)."
  3. **Prohibited Transactions:**
    - Example: "A loan of ₹50,000 was extended to a trustee, violating Section 13(1)(c)."
- 

### Q19: Are qualifications in audit reports penalized?

Yes, non-compliance flagged in audit reports (e.g., prohibited transactions or income application shortfall) can lead to taxation of the corresponding income and denial of exemptions.

---

## 5. Practical Considerations

### Q20: What supporting documents should be attached to the audit report?

- Financial statements (Income & Expenditure Account, Balance Sheet).
  - Details of donations (corpus and non-corpus).
  - Schedule of investments.
- 

### Q21: Can a non-resident CA conduct the audit?

No, the auditor must be registered in India and hold valid ICAI membership.

---

### Q22: What happens if an auditor resigns mid-audit?

A new eligible auditor must be appointed, and the audit must be completed within the statutory deadline.

---

### Q23: Can errors in audit reports lead to penalties for auditors?

Yes, under certain circumstances, auditors may face disciplinary action from ICAI for gross errors or professional negligence.

---

## 6. Penalties and Non-Compliance

### Q24: What is the penalty for late filing of Form 10B or 10BB?

Late filing attracts a penalty of **₹1,000 per day**, capped at **₹1,00,000** under Section 271B.

---

### Q25: What are the consequences of incorrect or incomplete audit reports?

- Rejection of exemptions claimed.
  - Taxation of income under the applicable slab rates.
  - Risk of scrutiny or audits by the tax authorities.
- 

## 7. Key Takeaways

1. **Engage Eligible Auditors:**
    - Only qualified and independent Chartered Accountants should conduct audits.
  2. **Ensure Accuracy:**
    - Double-check all details in the audit report to avoid errors.
  3. **Maintain Proper Records:**
    - Ensure all receipts, payments, and investments are well-documented for audit purposes.
  4. **File Timely:**
    - Submit Forms 10B and 10BB before the statutory deadline to avoid penalties.
-

## Guide to Trusts & NGOs – Your Queries on Audit Reports (Form Nos. 10B & 10BB) & Income-tax Return (ITR-7)

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This FAQ guide clarifies the **eligibility of auditors** and the **format and filing requirements for audit reports** under Forms 10B and 10BB. Let me know if you need further clarifications or practical examples!

**You said:**

Step-by-step process for filing audit reports, including due dates and procedural tips

**ChatGPT said:**

### Step-by-Step Process for Filing Audit Reports (Form 10B and Form 10BB)

This guide provides a detailed step-by-step process for filing **audit reports (Form 10B and Form 10BB)**, along with **due dates** and **practical tips** to ensure compliance.

---

#### 1. Prerequisites for Filing Audit Reports

Before filing, ensure the following:

1. **Trust/Institution Details:**
    - Valid registration under **Section 12A/12AB** (Form 10B) or **Section 10(23C)** (Form 10BB).
    - PAN of the trust/institution.
  2. **Financial Statements:**
    - Audited **Income and Expenditure Account, Balance Sheet, and Receipts & Payments Account**.
  3. **Digital Signature Certificate (DSC):**
    - The auditor must have a valid and registered **DSC** for e-filing.
  4. **Income Tax Portal Registration:**
    - The trust/institution and the Chartered Accountant (CA) must be registered on the **Income Tax Portal**.
- 

#### 2. Filing Deadlines

| Form     | Applicable Section | Due Date       |
|----------|--------------------|----------------|
| Form 10B | Section 12A/12AB   | 30th September |

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## Guide to Trusts & NGOs – Your Queries on Audit Reports (Form Nos. 10B & 10BB) & Income-tax Return (ITR-7)

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| Form      | Applicable Section | Due Date       |
|-----------|--------------------|----------------|
| Form 10BB | Section 10(23C)    | 30th September |

- Both forms must be filed before or along with the submission of **ITR-7** (due on **31st October**).
- 

### 3. Step-by-Step Filing Process

#### Step 1: Add Chartered Accountant (CA) on the Income Tax Portal

1. **Login:**
    - Log in to the [Income Tax Portal](#) using the trust/institution's PAN credentials.
  2. **Add CA:**
    - Navigate to **My Profile > Authorized Partners > My Chartered Accountant**.
    - Enter the CA's **Membership Number** and assign the relevant forms (Form 10B or Form 10BB).
  3. **Approval by CA:**
    - The CA accepts the request from their login under **Worklist > Pending for Action**.
- 

#### Step 2: Prepare the Audit Report

1. **Login by CA:**
    - The CA logs in to the portal using their credentials.
  2. **Select Assigned Forms:**
    - Go to **Worklist > Pending for Action > Assigned Forms**.
    - Select **Form 10B** or **Form 10BB** as applicable.
  3. **Enter Required Details:**
    - Fill in details such as:
      - Name, PAN, and registration details of the trust/institution.
      - Income sources, application of income, and investments (for Form 10B).
      - Gross receipts and utilization (for Form 10BB).
    - Attach supporting financial statements (PDF format).
- 

#### Step 3: Verify and Submit the Audit Report

## Guide to Trusts & NGOs – Your Queries on Audit Reports (Form Nos. 10B & 10BB) & Income-tax Return (ITR-7)

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1. **Review Entries:**
    - The CA verifies all details and ensures consistency with financial records.
  2. **Sign and Submit:**
    - Use the CA's **DSC** to sign and submit the audit report.
- 

### Step 4: E-Verify the Submission by Trust/Institution

1. **Login by Trust/Institution:**
    - After the CA submits the form, log in to the portal using the trust/institution's credentials.
  2. **Verify the Report:**
    - Navigate to **e-File > Income Tax Forms > View Filed Forms**.
  3. **E-Verify:**
    - Use one of the following methods to complete the verification:
      - **Digital Signature Certificate (DSC)**.
      - **Aadhaar OTP** (if applicable).
      - **Electronic Verification Code (EVC)** via email or mobile.
- 

### 4. Tracking and Acknowledgment

1. **Check Filing Status:**
    - Go to **e-File > Income Tax Forms > View Filed Forms** to confirm successful filing.
  2. **Download Acknowledgment:**
    - Once verified, download the acknowledgment for records.
- 

### 5. Common Errors and Solutions

| Error                                 | Impact                    | Solution                                                             |
|---------------------------------------|---------------------------|----------------------------------------------------------------------|
| Incorrect PAN or Registration Details | Report rejection          | Double-check PAN and Section 12A/10(23C) registration details.       |
| Mismatch in Income Figures            | Scrutiny or rejection     | Reconcile data with financial statements and pre-filled ITR-7 data.  |
| Missing Attachments                   | Report delay or rejection | Ensure all required financial statements are attached in PDF format. |
| DSC Issues                            | Filing failure            | Ensure the CA's DSC is valid and registered on the portal.           |

---

### 6. Practical Tips for Filing Audit Reports

1. **Plan Ahead:**
    - Complete audits and prepare reports well before the **30th September deadline** to avoid last-minute issues.
  2. **Maintain Accurate Records:**
    - Ensure all income, expenses, and donations are well-documented.
  3. **Reconcile Data:**
    - Cross-check income details in Forms 10B/10BB with financial statements and **Form 26AS**.
  4. **Communicate with Auditors:**
    - Regularly update the auditor on donations, expenses, and investments.
  5. **Avoid Non-Compliance:**
    - Ensure investments comply with **Section 11(5)** to retain exemptions.
  6. **Use Software Tools:**
    - Leverage accounting software to automate data preparation and reconciliation.
- 

### 7. Penalties for Non-Compliance

| Nature of Default                 | Penalty/Impact                                              |
|-----------------------------------|-------------------------------------------------------------|
| Late filing of Form 10B/10BB      | ₹1,000 per day, up to ₹1,00,000 under <b>Section 271B</b> . |
| Filing ITR-7 without Audit Report | Denial of exemptions and potential scrutiny.                |
| Non-compliance with Section 11(5) | Taxation of income related to non-compliant investments.    |

---

### 8. Key Deadlines

| Action               | Due Date            |
|----------------------|---------------------|
| Filing Form 10B/10BB | 30th September 2024 |
| Filing ITR-7         | 31st October 2024   |

---

### 9. Conclusion

Filing audit reports in **Forms 10B and 10BB** requires careful preparation, timely execution, and compliance with statutory deadlines. By following this step-by-step process and adhering to procedural tips, trusts and institutions can ensure seamless submissions and avoid penalties.

## Guide to Trusts & NGOs – Your Queries on Audit Reports (Form Nos. 10B & 10BB) & Income-tax Return (ITR-7)

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Let me know if you need further assistance or templates for specific scenarios!

You said:

FAQs on the above

ChatGPT said:

### FAQs on Filing Audit Reports (Form 10B and Form 10BB)

This FAQ guide addresses common queries related to the **filing process**, **deadlines**, and **practical tips** for Forms **10B** and **10BB**, ensuring trusts and institutions comply with audit requirements under the Income-tax Act.

---

#### 1. General Overview

##### Q1: What are Form 10B and Form 10BB?

- **Form 10B:** Audit report for trusts/institutions registered under **Section 12A/12AB**, ensuring compliance with exemption conditions under Sections 11 and 12.
  - **Form 10BB:** Audit report for institutions approved under **Section 10(23C)**, validating gross receipts and their utilization for specified objectives.
- 

##### Q2: Who is required to file Form 10B?

Trusts/institutions registered under **Section 12A/12AB** must file Form 10B if their **total income exceeds ₹2.5 lakhs** before claiming exemptions.

---

##### Q3: Who is required to file Form 10BB?

Institutions approved under **Section 10(23C)** must file Form 10BB if their **gross receipts exceed ₹1 crore**.

---

## Guide to Trusts & NGOs – Your Queries on Audit Reports (Form Nos. 10B & 10BB) & Income-tax Return (ITR-7)

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### Q4: Are Forms 10B and 10BB mandatory for filing ITR-7?

Yes, audit reports in Forms **10B/10BB** must be filed before or along with **ITR-7** to claim exemptions.

---

## 2. Filing Process

### Q5: What are the steps for filing Forms 10B/10BB?

1. Add the **Chartered Accountant (CA)** on the Income Tax Portal.
  2. The CA prepares the audit report and digitally signs it.
  3. The trust/institution verifies and submits the report.
- 

### Q6: How can the CA be added on the portal?

- Go to **My Profile > Authorized Partners > My Chartered Accountant**.
  - Enter the CA's **Membership Number** and assign the required forms.
  - The CA must accept the assignment from their portal login.
- 

### Q7: How is the audit report verified by the trust/institution?

The trust/institution logs in to the Income Tax Portal, reviews the filed report under **e-File > Income Tax Forms > View Filed Forms**, and completes verification using **DSC, Aadhaar OTP, or EVC**.

---

### Q8: What supporting documents are required for filing audit reports?

- Audited **Income & Expenditure Account, Balance Sheet, and Receipts & Payments Account**.
  - Details of donations and investments.
  - Relevant schedules (e.g., Schedule VC for voluntary contributions).
- 

### Q9: Can the audit reports be revised after submission?

## Guide to Trusts & NGOs – Your Queries on Audit Reports (Form Nos. 10B & 10BB) & Income-tax Return (ITR-7)

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No, Forms 10B and 10BB cannot be revised. Ensure all details are accurate before submission.

---

### 3. Filing Deadlines

#### Q10: What is the due date for filing Forms 10B and 10BB?

The deadline for filing Forms **10B/10BB** is **30th September** of the assessment year (e.g., 30th September 2024 for A.Y. 2024-25).

---

#### Q11: What is the consequence of late filing of Forms 10B or 10BB?

Late filing attracts a penalty of **₹1,000 per day**, up to a maximum of **₹1,00,000**, under Section 271B.

---

#### Q12: Is there any extension for filing audit reports?

Extensions may be announced by the **CBDT** in exceptional circumstances (e.g., system outages or natural calamities). Stay updated with notifications on the Income Tax Portal.

---

### 4. Common Filing Errors and Solutions

#### Q13: What are common errors in filing audit reports?

1. **Incorrect PAN or registration details:** Report rejection.
  2. **Mismatch in income figures:** Scrutiny or rejection.
  3. **Missing attachments:** Delayed processing.
  4. **DSC errors:** Filing failure.
- 

#### Q14: How can I avoid errors in filing?

- Verify PAN and registration details before filing.
  - Reconcile income figures with financial statements and pre-filled data in ITR-7.
  - Attach all supporting documents in PDF format.
  - Ensure the CA's DSC is valid and registered on the portal.
-

## **5. Practical Tips for Filing**

### **Q15: How can I ensure timely filing of audit reports?**

- Start audits early and prepare financial statements well before the deadline.
  - Communicate regularly with the CA for updates on audit progress.
- 

### **Q16: What are the best practices for reconciling data?**

- Match income and expenditure details in audit reports with Form **26AS**, AIS, and financial statements.
- 

### **Q17: Can audit reports be filed without a DSC?**

No, filing audit reports requires the CA to use a valid **Digital Signature Certificate (DSC)**.

---

## **6. Consequences of Non-Compliance**

### **Q18: What are the penalties for non-compliance with audit requirements?**

| <b>Nature of Default</b>             | <b>Penalty/Impact</b>                                       |
|--------------------------------------|-------------------------------------------------------------|
| Late filing of Forms 10B/10BB        | ₹1,000 per day, up to ₹1,00,000 under <b>Section 271B</b> . |
| Filing ITR-7 without an audit report | Denial of exemptions and possible scrutiny.                 |
| Non-compliance with Section 11(5)    | Taxation of income related to non-compliant investments.    |

---

### **Q19: What happens if the auditor identifies non-compliance?**

Non-compliance (e.g., prohibited transactions, shortfall in income application) must be reported in the audit report, and the corresponding income may become taxable.

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## **7. Miscellaneous**

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## Guide to Trusts & NGOs – Your Queries on Audit Reports (Form Nos. 10B & 10BB) & Income-tax Return (ITR-7)

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### Q20: Can a trust change its auditor during the filing process?

Yes, a trust can change its auditor, but the new auditor must complete the filing within the statutory deadline.

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### Q21: Can a trust with gross receipts below ₹2.5 lakhs file Form 10B?

No, Form 10B is required only if total income exceeds ₹2.5 lakhs before claiming exemptions.

---

### Q22: Can Forms 10B and 10BB be filed for the same trust in one year?

No, an entity cannot claim exemptions under both **Section 12A** and **Section 10(23C)** in the same assessment year.

---

## 8. Key Takeaways

1. **Plan Early:** Begin audits well in advance of the deadline.
  2. **Reconcile Data:** Cross-check audit reports with financial records and pre-filled data.
  3. **Monitor Deadlines:** File audit reports by **30th September** to avoid penalties.
  4. **Ensure Accuracy:** Double-check details before submission, as audit reports cannot be revised.
- 

This FAQ guide simplifies the filing process for **Forms 10B and 10BB**, ensuring compliance and avoiding penalties. Let me know if further clarifications or examples are needed!

**You said:**

Detailed guidance on disclosure and reporting requirements in the annexures to Form 10B/10BB

**ChatGPT said:**

**Detailed Guidance on Disclosure and Reporting Requirements in Annexures to Form 10B/10BB**

The annexures to **Form 10B** (for Section 12A/12AB entities) and **Form 10BB** (for Section 10(23C) entities) are critical components that provide additional disclosures to ensure compliance with the provisions of the Income-tax Act, 1961. Below is a detailed guide on the **disclosure and reporting requirements** for these annexures.

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**1. Common Disclosure Requirements for Forms 10B and 10BB**

| <b>Aspect</b>                   | <b>Requirement</b>                                                               |
|---------------------------------|----------------------------------------------------------------------------------|
| <b>Basic Entity Information</b> | Name, PAN, registration number, and assessment year details.                     |
| <b>Income Details</b>           | Voluntary contributions, other income (e.g., interest, property, capital gains). |
| <b>Utilization Details</b>      | Income applied for charitable or specified purposes.                             |
| <b>Accumulated Income</b>       | Income accumulated under applicable sections (e.g., Section 11(2)).              |
| <b>Investment Details</b>       | Compliance with approved modes under Section 11(5) or Section 10(23C).           |
| <b>Prohibited Transactions</b>  | Disclosure of transactions with trustees or related parties under Section 13.    |

---

**2. Annexures to Form 10B: Key Disclosures**

**A. Income and Voluntary Contributions**

- 1. Voluntary Contributions (Corpus and Non-Corpus):**
    - **Corpus Donations:** Report separately as they are capital receipts and not part of income.
    - **Non-Corpus Donations:** Include under income and subject them to the **85% application rule**.
  - 2. Other Income Sources:**
    - Rent, interest, dividends, and income from property held under trust must be disclosed.
    - **Foreign Contributions:** Specify amounts received and their application, ensuring FCRA compliance.
-

**B. Income Application**

1. **Application of Income for Charitable/Religious Purposes:**
    - Disclose total income applied (e.g., expenses on programs, grants, or operational costs).
    - Administrative expenses related to the trust's objectives can also be included.
  2. **Unutilized Income Accumulated Under Section 11(2):**
    - Provide details of accumulated income, purposes, and timelines for utilization.
    - Link this with Form 10 filed for accumulation.
- 

**C. Investment Compliance (Section 11(5))**

1. **Approved Investments:**
    - List investments in government securities, scheduled banks, or other approved modes.
  2. **Non-Compliant Investments:**
    - Disclose investments in prohibited modes (e.g., equity shares or deposits in cooperative banks).
    - Highlight corrective actions taken, if any.
- 

**D. Prohibited Transactions**

1. **Transactions Involving Trustees or Specified Persons (Section 13):**
    - Loans, benefits, or payments to trustees or related parties must be disclosed.
  2. **Impact on Exemptions:**
    - Note whether these transactions have led to the forfeiture of tax exemptions.
- 

**E. Observations and Qualifications**

1. **Observations:**
    - Example: "Income applied exceeds the mandatory 85% application requirement."
  2. **Qualifications:**
    - Example: "A loan of ₹2 lakhs to a trustee violates Section 13(1)(c)."
- 

**3. Annexures to Form 10BB: Key Disclosures**

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## **Guide to Trusts & NGOs – Your Queries on Audit Reports (Form Nos. 10B & 10BB) & Income-tax Return (ITR-7)**

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### **A. Gross Receipts and Income**

1. **Segregation of Gross Receipts:**
    - Tuition fees, medical charges, and grants must be reported separately.
  2. **Voluntary Contributions:**
    - Include corpus and non-corpus donations, ensuring separate disclosure for anonymous donations.
- 

### **B. Utilization of Funds**

1. **Utilization for Specified Objectives:**
    - Report amounts spent on activities like education or healthcare directly related to the institution's purpose.
  2. **Administrative Expenses:**
    - Specify amounts spent on administration, ensuring they are reasonable.
  3. **Unutilized Funds:**
    - If any, disclose these amounts with explanations.
- 

### **C. Prohibited Transactions**

1. **Transactions Benefiting Trustees or Related Parties:**
    - Similar to Form 10B, any loans, payments, or benefits must be disclosed under Section 13.
  2. **Non-Compliant Investments:**
    - Highlight investments not aligned with Section 10(23C) conditions.
- 

### **D. Compliance with Section 10(23C)**

1. **Conditions Compliance:**
    - Ensure and disclose whether the institution's activities align with the objectives for which approval was granted.
  2. **Taxability of Non-Compliant Income:**
    - Disclose any taxable income arising from non-compliance.
- 

### **E. Observations and Qualifications**

1. **Observations:**
-

## Guide to Trusts & NGOs – Your Queries on Audit Reports (Form Nos. 10B & 10BB) & Income-tax Return (ITR-7)

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- Example: "The institution has utilized 95% of its gross receipts for educational purposes."
  - 2. **Qualifications:**
    - Example: "Prohibited transaction identified: A trustee received undue benefits worth ₹50,000."
- 

### 4. Common Reporting Challenges

| Challenge                                 | Solution                                                                          |
|-------------------------------------------|-----------------------------------------------------------------------------------|
| <b>Incomplete Donor Records</b>           | Maintain detailed records of donations, segregating corpus and non-corpus.        |
| <b>Foreign Contributions Reporting</b>    | Align disclosures with FCRA requirements to avoid penalties.                      |
| <b>Non-Compliant Investments</b>          | Divest non-compliant investments before year-end and disclose corrective actions. |
| <b>Prohibited Transactions Disclosure</b> | Ensure transparent reporting and highlight remedial measures taken.               |

---

### 5. Filing Tips for Annexures

1. **Reconcile Data:**
    - Match figures with audited financial statements and pre-filled ITR-7 data.
  2. **Attach Supporting Documents:**
    - Include PDF copies of financial statements, Form 10 (for accumulation), and donation schedules.
  3. **Use Standard Formats:**
    - Follow ICAI-recommended formats for financial statements to ensure uniformity.
  4. **Maintain Compliance with Deadlines:**
    - File Forms 10B/10BB by **30th September**, with ITR-7 due by **31st October**.
- 

### 6. Penalties for Incorrect or Incomplete Disclosures

| Nature of Default                           | Penalty/Impact                                     |
|---------------------------------------------|----------------------------------------------------|
| Late filing of Forms 10B/10BB               | ₹1,000 per day up to ₹1,00,000 under Section 271B. |
| Inaccurate reporting of anonymous donations | Tax at 30% under Section 115BBC.                   |

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## Guide to Trusts & NGOs – Your Queries on Audit Reports (Form Nos. 10B & 10BB) & Income-tax Return (ITR-7)

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| Nature of Default                    | Penalty/Impact                                                            |
|--------------------------------------|---------------------------------------------------------------------------|
| Non-compliance with investment rules | Taxation of income related to non-compliant investments under Section 13. |
| Undisclosed prohibited transactions  | Loss of exemptions and potential scrutiny by tax authorities.             |

---

### 7. Key Takeaways

- Segregate Income Clearly:**
    - Ensure clear reporting of corpus and non-corpus donations, foreign contributions, and gross receipts.
  - Monitor Investments:**
    - Regularly review investments to ensure compliance with Section 11(5) or 10(23C) rules.
  - Highlight Non-Compliance Transparently:**
    - Disclose prohibited transactions and steps taken to rectify issues.
  - File Timely:**
    - Submit Forms 10B and 10BB by the due date to avoid penalties.
- 

This detailed guidance ensures trusts and institutions accurately complete annexures to **Form 10B and Form 10BB**, complying with reporting and disclosure obligations. Let me know if you need additional templates or examples!

**You said:**

FAQs on the above

ChatGPT said:

### FAQs on Disclosure and Reporting Requirements in Annexures to Form 10B/10BB

This FAQ guide addresses common queries about the **disclosure and reporting requirements** in the annexures to **Form 10B and Form 10BB**, ensuring compliance with tax laws and accurate filing.

### 1. General Overview

#### Q1: Why are annexures required in Forms 10B and 10BB?

Annexures provide detailed disclosures on the income, application, investments, and compliance with tax exemption provisions, ensuring transparency and accountability for trusts and institutions.

#### Q2: Are annexures mandatory for filing Forms 10B and 10BB?

Yes, annexures are an integral part of the forms and must be completed to validate compliance with the Income-tax Act.

---

### 2. Income and Contribution Disclosures

#### Q3: What is the difference between corpus and non-corpus donations?

- **Corpus Donations:** Contributions meant for the permanent capital or corpus of the trust and not part of income application.
  - **Non-Corpus Donations:** General contributions used for charitable or specified purposes and subject to the **85% application rule**.
- 

#### Q4: How should foreign contributions be disclosed?

Foreign contributions must be separately reported, detailing the source, amount, and utilization, ensuring compliance with **FCRA regulations**.

---

#### Q5: What income sources must be disclosed in Form 10B?

- Voluntary contributions (corpus and non-corpus).
  - Income from property held under trust.
  - Interest, dividends, and other investments.
  - Capital gains.
- 

#### Q6: How are gross receipts reported in Form 10BB?

## Guide to Trusts & NGOs – Your Queries on Audit Reports (Form Nos. 10B & 10BB) & Income-tax Return (ITR-7)

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Gross receipts must be segregated into:

- Tuition fees (for educational institutions).
  - Hospital charges (for medical institutions).
  - Grants or other income.
- 

### Q7: Is it mandatory to disclose anonymous donations?

Yes, anonymous donations exceeding ₹1 lakh or **5% of total donations**, whichever is higher, must be disclosed and taxed at **30% under Section 115BBC**.

---

## 3. Application of Income

### Q8: What is the 85% income application rule?

At least **85% of income** must be applied for charitable or specified purposes in the financial year to claim exemptions under Sections 11 and 10(23C).

---

### Q9: What should be disclosed about unutilized income?

Unutilized income must be:

- Reported as accumulated income under **Section 11(2)** in Form 10B.
  - Linked to Form 10, specifying the purpose and utilization timeline.
- 

### Q10: Can administrative expenses be included in income application?

Yes, reasonable administrative expenses directly related to the trust's objectives can be included.

---

## 4. Investment Compliance

### Q11: What investments must be disclosed in Form 10B?

- Investments in approved modes under **Section 11(5)**, such as:
    - Government securities.
-

## **Guide to Trusts & NGOs – Your Queries on Audit Reports (Form Nos. 10B & 10BB) & Income-tax Return (ITR-7)**

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- Scheduled bank fixed deposits.
  - Post-office savings schemes.
- 

### **Q12: How are non-compliant investments reported?**

Non-compliant investments, such as equity shares or deposits in cooperative banks, must be flagged, and any corrective actions taken should be disclosed.

---

### **Q13: What happens if non-compliant investments are not disclosed?**

Income from non-compliant investments becomes taxable, and exemptions may be denied under Section 13.

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## **5. Prohibited Transactions**

### **Q14: What are prohibited transactions under Section 13?**

Transactions involving undue benefits to trustees, relatives, or specified persons, such as loans or payments, are considered prohibited.

---

### **Q15: Are prohibited transactions reported in both Form 10B and Form 10BB?**

Yes, all prohibited transactions must be disclosed, regardless of whether the entity files Form 10B or Form 10BB.

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## **6. Observations and Qualifications**

### **Q16: What are observations in audit reports?**

Observations are factual findings by the auditor regarding compliance.

- Example: "The trust applied 90% of its income towards charitable purposes."
- 

### **Q17: What are qualifications in audit reports?**

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## Guide to Trusts & NGOs – Your Queries on Audit Reports (Form Nos. 10B & 10BB) & Income-tax Return (ITR-7)

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Qualifications are deviations or non-compliance noted by the auditor.

- Example: "The trust made an investment of ₹1 lakh in equity shares, violating Section 11(5)."
- 

### 7. Practical Tips for Filing Annexures

#### Q18: How can I ensure accurate reporting of donations?

- Maintain detailed donor records, segregating corpus and non-corpus donations.
  - Reconcile donation figures with financial statements.
- 

#### Q19: What documents should be attached to the annexures?

- Audited financial statements (Income & Expenditure Account, Balance Sheet).
  - Donation schedules.
  - Investment schedules.
- 

#### Q20: How should prohibited transactions be disclosed?

Provide detailed information, including the nature of the transaction, amount involved, and parties benefiting, along with corrective actions taken.

---

### 8. Filing Challenges and Solutions

| Challenge                            | Solution                                                                     |
|--------------------------------------|------------------------------------------------------------------------------|
| Mismatch in income figures           | Reconcile income details with Form 26AS and financial statements.            |
| Incomplete donor details             | Maintain updated records of all donations, including sources and amounts.    |
| Non-compliance with investment rules | Divest non-compliant investments and disclose actions taken to correct them. |
| Errors in gross receipt segregation  | Use accounting software to automate and validate income classifications.     |

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## Guide to Trusts & NGOs – Your Queries on Audit Reports (Form Nos. 10B & 10BB) & Income-tax Return (ITR-7)

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### 9. Key Deadlines and Penalties

| Aspect                               | Requirement                              | Penalty for Non-Compliance                          |
|--------------------------------------|------------------------------------------|-----------------------------------------------------|
| Filing Forms 10B and 10BB            | By 30th September of the assessment year | ₹1,000 per day, capped at ₹1,00,000 (Section 271B). |
| Reporting anonymous donations        | Include in gross income and pay tax      | Taxed at 30% under Section 115BBC.                  |
| Disclosing non-compliant investments | Mandatory in Form 10B/10BB               | Income from such investments becomes taxable.       |

---

### 10. Key Takeaways

- Segregate Income and Donations:**
    - Clearly classify corpus, non-corpus, and anonymous donations.
  - Monitor Investments:**
    - Ensure all investments comply with Section 11(5) or 10(23C).
  - Highlight Non-Compliance Transparently:**
    - Disclose prohibited transactions and corrective actions taken.
  - File Timely and Accurately:**
    - Complete and verify annexures before submitting Forms 10B or 10BB.
- 

This FAQ guide simplifies the disclosure and reporting requirements for annexures in **Forms 10B and 10BB**. Let me know if additional clarifications or examples are needed!

**You said:**

Law and Practice Relating to Audit of Trusts and Institutions and ITR-7

ChatGPT said:

### Law and Practice Relating to Audit of Trusts and Institutions and Filing of ITR-7

This guide provides a comprehensive overview of the **laws, procedures, and best practices** relating to the audit of **trusts and institutions**, as well as the filing of **ITR-7** under the Income-tax Act, 1961.

## **1. Legal Framework for Audit of Trusts and Institutions**

### **A. Governing Sections**

1. **Section 12A/12AB:**
  - Registration requirements for trusts and institutions seeking exemptions under **Sections 11 and 12**.
  - Mandatory audit if **total income exceeds ₹2.5 lakhs** before claiming exemptions.
2. **Section 10(23C):**
  - Exemptions for educational and medical institutions with gross receipts exceeding **₹1 crore**.
  - Audit required to validate compliance with conditions.
3. **Section 44AB:**
  - Tax audit requirements for businesses or professionals if turnover exceeds prescribed thresholds.

---

### **B. Key Compliance Obligations**

1. **Audit Reports:**
  - **Form 10B:** For entities registered under Section 12A/12AB.
  - **Form 10BB:** For institutions approved under Section 10(23C).
2. **Tax Returns:**
  - **ITR-7:** For trusts and institutions filing under Sections **139(4A), 139(4B), 139(4C), or 139(4D)**.
3. **Income Application:**
  - At least **85% of income** must be applied for charitable or specified purposes.
  - Accumulated income under **Section 11(2)** requires separate disclosure.
4. **Investment Compliance:**
  - Investments must adhere to **Section 11(5)** or the entity risks losing exemptions.

---

## **2. Audit Process for Trusts and Institutions**

### **A. Steps in the Audit Process**

1. **Prepare Financial Statements:**
  - Income & Expenditure Account, Balance Sheet, and Receipts & Payments Account.

## Guide to Trusts & NGOs – Your Queries on Audit Reports (Form Nos. 10B & 10BB) & Income-tax Return (ITR-7)

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### 2. **Examine Income:**

- Verify income sources, including voluntary contributions, interest, and property income.

### 3. **Review Application of Income:**

- Check expenses on charitable activities, administrative expenses, and accumulation.

### 4. **Verify Investments:**

- Confirm compliance with approved modes under Section 11(5).

### 5. **Flag Non-Compliance:**

- Identify and report prohibited transactions (e.g., loans to trustees under Section 13).

### 6. **Prepare and File Audit Report:**

- Complete Form 10B or 10BB and file it electronically using the CA's **Digital Signature Certificate (DSC)**.
- 

## B. Key Audit Reporting Requirements

### 1. **Form 10B:**

- Income application, investment details, and prohibited transactions under Section 13.

### 2. **Form 10BB:**

- Gross receipts, utilization for specified purposes, and compliance with Section 10(23C).
- 

## 3. Filing of ITR-7

### A. Applicability

ITR-7 is applicable to entities filing returns under the following provisions:

1. **Section 139(4A):** Income of trusts or institutions claiming exemptions under Sections 11 and 12.
  2. **Section 139(4B):** Income of political parties.
  3. **Section 139(4C):** Income of scientific research associations, educational institutions, medical institutions, etc.
  4. **Section 139(4D):** Income of universities or colleges not required to file returns under other provisions.
- 

## B. Filing Process

## Guide to Trusts & NGOs – Your Queries on Audit Reports (Form Nos. 10B & 10BB) & Income-tax Return (ITR-7)

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1. **Preparation:**
    - Ensure all audit reports (Form 10B/10BB) are completed before filing.
  2. **Login to Portal:**
    - Use the trust's or institution's PAN credentials to log in to the [Income Tax Portal](#).
  3. **Select ITR-7:**
    - Navigate to **e-File > Income Tax Returns > File Income Tax Return**.
  4. **Complete Schedules:**
    - **Schedule VC:** Voluntary contributions (corpus and non-corpus).
    - **Schedule AI:** Accumulated income under Section 11(2).
    - **Schedule EC:** Exempt income.
  5. **Verify and Submit:**
    - Use **DSC, Aadhaar OTP, or EVC** to complete the submission.
- 

### C. Important Schedules in ITR-7

1. **Schedule VC:**
    - Disclose voluntary contributions, segregating corpus donations, non-corpus donations, and anonymous donations.
  2. **Schedule AI:**
    - Details of accumulated income under Section 11(2) and its intended utilization.
  3. **Schedule EC:**
    - Bifurcation of exempt income under Sections 11, 12, and 10(23C).
  4. **Schedule ER:**
    - Report application of income for charitable or specified purposes.
- 

### D. Deadlines for Filing ITR-7

| Action                | Due Date            |
|-----------------------|---------------------|
| Filing Forms 10B/10BB | 30th September 2024 |
| Filing ITR-7          | 31st October 2024   |

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### 4. Consequences of Non-Compliance

| Nature of Default             | Penalty/Impact                                 |
|-------------------------------|------------------------------------------------|
| Late filing of Forms 10B/10BB | ₹1,000 per day up to ₹1,00,000 (Section 271B). |

---

## Guide to Trusts & NGOs – Your Queries on Audit Reports (Form Nos. 10B & 10BB) & Income-tax Return (ITR-7)

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| Nature of Default                        | Penalty/Impact                                           |
|------------------------------------------|----------------------------------------------------------|
| Late filing of ITR-7                     | ₹5,000 under Section 234F (if income exceeds ₹5 lakhs).  |
| Non-compliance with Section 11(5)        | Taxation of income related to non-compliant investments. |
| Prohibited transactions under Section 13 | Denial of exemptions and taxation of income.             |

---

### 5. Best Practices for Compliance

- 1. Start Early:**
    - Initiate audits and prepare financial records well before the deadlines.
  - 2. Reconcile Data:**
    - Match income and expenditure figures in audit reports with Form 26AS and AIS.
  - 3. Monitor Investments:**
    - Regularly review investment portfolios to ensure compliance with Section 11(5).
  - 4. Segregate Donations:**
    - Clearly classify corpus and non-corpus donations to avoid misreporting.
  - 5. Engage Qualified Professionals:**
    - Use experienced Chartered Accountants for audits and filings.
- 

### 6. Key Takeaways

- 1. Audit Compliance:**
    - File Forms 10B/10BB before the due date to retain exemptions.
  - 2. ITR-7 Filing:**
    - Ensure all relevant schedules are completed accurately to avoid penalties.
  - 3. Disclosure Obligations:**
    - Be transparent about income, donations, investments, and application of funds.
  - 4. Track Deadlines:**
    - File audit reports by **30th September** and ITR-7 by **31st October** to avoid penalties.
- 

This comprehensive guide ensures trusts and institutions comply with the **audit requirements** and **ITR-7 filing obligations** under the Income-tax Act. Let me know if further details, templates, or clarifications are required!

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# Guide to Trusts & NGOs – Your Queries on Audit Reports (Form Nos. 10B & 10BB) & Income-tax Return (ITR-7)

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You said:

Comprehensive overview of audit requirements under Section 12A and Section 10(23C), including who must file and when

ChatGPT said:

## Comprehensive Overview of Audit Requirements under Section 12A and Section 10(23C)

This guide outlines the **audit requirements, filing obligations, and timelines** for trusts and institutions registered under **Section 12A** and **Section 10(23C)** of the Income-tax Act, 1961.

---

### 1. Audit Requirements under Section 12A

#### A. Applicability

1. **Who Must Comply:**
  - Trusts and institutions registered under **Section 12A/12AB** that claim exemptions under **Sections 11 and 12**.
2. **Income Threshold:**
  - Audit is mandatory if **total income exceeds ₹2.5 lakhs** before claiming exemptions.

#### B. Purpose of Audit

1. **Compliance with Exemption Conditions:**
  - Ensure that at least **85% of income** is applied for charitable or religious purposes.
2. **Verification of Investments:**
  - Confirm compliance with approved investment modes under **Section 11(5)**.
3. **Reporting of Prohibited Transactions:**
  - Highlight any violations under **Section 13** (e.g., benefits to trustees).

#### C. Audit Report Format

- **Form 10B:**
  - To be filed by a Chartered Accountant after completing the audit.

## Guide to Trusts & NGOs – Your Queries on Audit Reports (Form Nos. 10B & 10BB) & Income-tax Return (ITR-7)

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### D. Filing Timelines

| Form     | Due Date            |
|----------|---------------------|
| Form 10B | 30th September 2024 |
| ITR-7    | 31st October 2024   |

### E. Key Disclosures in Form 10B

1. Income details, including voluntary contributions.
  2. Application of income for charitable purposes.
  3. Accumulated income under Section 11(2).
  4. Investments and compliance with Section 11(5).
  5. Reporting of prohibited transactions under Section 13.
- 

## 2. Audit Requirements under Section 10(23C)

### A. Applicability

1. **Who Must Comply:**
  - Institutions approved under **Section 10(23C)**, such as:
    - Educational institutions.
    - Medical institutions.
    - Entities specified in Section 10(23C)(iv) to (v).
2. **Gross Receipts Threshold:**
  - Audit is mandatory if **gross receipts exceed ₹1 crore**.

### B. Purpose of Audit

1. **Utilization of Receipts:**
  - Validate that gross receipts are utilized for the institution's approved objectives.
2. **Verification of Conditions Compliance:**
  - Ensure adherence to exemption conditions, including fund application and utilization.
3. **Reporting of Prohibited Transactions:**
  - Highlight non-compliant transactions under Section 13.

### C. Audit Report Format

- **Form 10BB:**
  - To be filed by a Chartered Accountant after completing the audit.

## Guide to Trusts & NGOs – Your Queries on Audit Reports (Form Nos. 10B & 10BB) & Income-tax Return (ITR-7)

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### D. Filing Timelines

| Form      | Due Date            |
|-----------|---------------------|
| Form 10BB | 30th September 2024 |
| ITR-7     | 31st October 2024   |

### E. Key Disclosures in Form 10BB

1. Segregation of gross receipts (e.g., tuition fees, medical charges, grants).
  2. Utilization of funds for approved objectives.
  3. Prohibited transactions under Section 13.
  4. Compliance with conditions for claiming exemptions under Section 10(23C).
- 

## 3. Common Aspects of Audit Requirements for Both Sections

| Aspect                                   | Section 12A                                            | Section 10(23C)                              |
|------------------------------------------|--------------------------------------------------------|----------------------------------------------|
| <b>Applicability</b>                     | Trusts/institutions registered under Section 12A/12AB. | Institutions approved under Section 10(23C). |
| <b>Income/Gross Receipts Threshold</b>   | Income > ₹2.5 lakhs.                                   | Gross receipts > ₹1 crore.                   |
| <b>Audit Report</b>                      | Form 10B.                                              | Form 10BB.                                   |
| <b>Deadline for Audit Report</b>         | 30th September of the assessment year.                 | 30th September of the assessment year.       |
| <b>ITR Filing Deadline</b>               | 31st October of the assessment year.                   | 31st October of the assessment year.         |
| <b>Prohibited Transactions Reporting</b> | Mandatory under Section 13.                            | Mandatory under Section 13.                  |
| <b>Investment Compliance</b>             | Section 11(5).                                         | Section 10(23C) conditions.                  |

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## 4. Practical Tips for Compliance

### A. Start Early

1. Initiate audits well before the deadline to identify and address non-compliance issues.
  2. Maintain updated financial records, including:
    - Income and expenditure accounts.
    - Details of donations (corpus and non-corpus).
-

# Guide to Trusts & NGOs – Your Queries on Audit Reports (Form Nos. 10B & 10BB) & Income-tax Return (ITR-7)

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## B. Reconcile Data

1. Match income and expenditure figures in audit reports with:
    - Financial statements.
    - Form 26AS (TDS data).
    - Annual Information Statement (AIS).
- 

## C. Monitor Investments

1. Regularly review investments to ensure compliance with approved modes under **Section 11(5)**.
  2. Divest non-compliant investments before the financial year-end.
- 

## D. Segregate Donations

1. Separate corpus donations from non-corpus donations in financial records and reports.
  2. Maintain detailed donor records to avoid misclassification.
- 

## E. Ensure Timely Filing

1. File Forms 10B/10BB by **30th September** and ITR-7 by **31st October** to avoid penalties.
- 

## 5. Consequences of Non-Compliance

| Nature of Default                        | Penalty/Impact                                           |
|------------------------------------------|----------------------------------------------------------|
| Late filing of Form 10B/10BB             | ₹1,000 per day up to ₹1,00,000 under Section 271B.       |
| Late filing of ITR-7                     | ₹5,000 under Section 234F (if income exceeds ₹5 lakhs).  |
| Non-compliance with investment rules     | Taxation of income related to non-compliant investments. |
| Prohibited transactions under Section 13 | Denial of exemptions and taxation of income.             |

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## 6. Key Takeaways

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## Guide to Trusts & NGOs – Your Queries on Audit Reports (Form Nos. 10B & 10BB) & Income-tax Return (ITR-7)

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### 1. Understand Applicability:

- **Section 12A:** Trusts/institutions with income exceeding ₹2.5 lakhs.
- **Section 10(23C):** Institutions with gross receipts exceeding ₹1 crore.

### 2. Adhere to Deadlines:

- File audit reports (Forms 10B/10BB) by **30th September**.
- Submit ITR-7 by **31st October**.

### 3. Focus on Compliance:

- Ensure adherence to the **85% income application rule**.
- Monitor and correct prohibited transactions or non-compliant investments.

### 4. Maintain Transparency:

- Provide detailed disclosures in audit reports regarding income, application, and compliance.

---

This comprehensive overview ensures trusts and institutions meet the **audit and filing requirements under Sections 12A and 10(23C)**. Let me know if additional details, examples, or templates are required!

**You said:**

Detailed guidance on maintaining books of account, covering the types of records required, their retention period, and where they should be kept

ChatGPT said:

## Detailed Guidance on Maintaining Books of Account for Trusts and Institutions

Maintaining accurate and compliant books of account is essential for trusts and institutions to meet legal obligations under the Income-tax Act, 1961, and related laws. This guide covers the **types of records required, retention period**, and guidelines on **where they should be kept**.

---

### 1. Legal Framework

#### A. Applicability

## Guide to Trusts & NGOs – Your Queries on Audit Reports (Form Nos. 10B & 10BB) & Income-tax Return (ITR-7)

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1. **Trusts Registered Under Section 12A/12AB:**
    - Required to maintain books of account to claim exemptions under Sections 11 and 12.
  2. **Institutions Approved Under Section 10(23C):**
    - Must maintain books of account to validate gross receipts and fund utilization.
  3. **Entities Under Section 44AB:**
    - Tax audit provisions apply to businesses or professionals exceeding turnover or receipt thresholds, necessitating proper accounting.
- 

### B. Governing Provisions

1. **Section 44AA:**
    - Specifies the maintenance of books of account for certain professions and businesses.
  2. **Rule 6F:**
    - Lists the types of records to be maintained for specified professions.
  3. **Income Tax Act:**
    - Trusts and institutions must maintain adequate records to ensure compliance with tax exemption conditions.
- 

## 2. Types of Books and Records to Be Maintained

### A. Financial Records

1. **Primary Books of Account:**
    - **Cash Book:** Daily record of all cash transactions.
    - **Bank Book:** Details of all bank transactions.
    - **Ledger:** Comprehensive record of all income, expenses, assets, and liabilities.
  2. **Supporting Records:**
    - **Receipt and Payment Account:** A summary of cash inflows and outflows.
    - **Income and Expenditure Account:** Details of income earned and expenses incurred.
    - **Balance Sheet:** Snapshot of assets, liabilities, and fund positions.
  3. **Donation Records:**
    - **Corpus Donations:** Contributions earmarked for the corpus of the trust.
    - **Non-Corpus Donations:** General-purpose donations.
    - **Anonymous Donations:** Record source and amount to comply with **Section 115BBC**.
-

## Guide to Trusts & NGOs – Your Queries on Audit Reports (Form Nos. 10B & 10BB) & Income-tax Return (ITR-7)

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### B. Records for Specific Transactions

1. **Investment Records:**
    - Details of investments made in approved modes under Section 11(5).
  2. **Property Records:**
    - Records of properties held under trust, including rental agreements, sale deeds, and maintenance expenses.
  3. **Grant Utilization Records:**
    - Details of grants received and their application for approved objectives.
  4. **Foreign Contribution Records:**
    - Maintain details as per **FCRA** requirements, including source, purpose, and utilization of funds.
- 

### C. Other Records

1. **Minutes of Meetings:**
    - Resolutions passed in trustee or management meetings.
  2. **Employee and Salary Records:**
    - Employee details, salary payments, and statutory deductions (e.g., PF, ESI).
  3. **Statutory Records:**
    - GST filings, TDS records, and challans.
- 

### 3. Retention Period for Books of Account

| Record Type                  | Retention Period                                                     | Legal Reference                            |
|------------------------------|----------------------------------------------------------------------|--------------------------------------------|
| Income Tax Records           | Minimum <b>6 years</b> from the end of the relevant assessment year. | Section 149 of the Income-tax Act.         |
| Foreign Contribution Records | Minimum <b>5 years</b> from the end of the financial year.           | Rule 17, FCRA Rules, 2011.                 |
| GST Records                  | <b>6 years</b> from the due date of the annual return.               | Section 36 of the CGST Act.                |
| Other Financial Records      | As required under applicable laws or audit obligations.              | Best practices suggest <b>8–10 years</b> . |

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### 4. Location for Maintaining Books of Account

#### A. Registered Office

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## Guide to Trusts & NGOs – Your Queries on Audit Reports (Form Nos. 10B & 10BB) & Income-tax Return (ITR-7)

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### 1. Primary Location:

- Books must generally be maintained at the **registered office** of the trust/institution.
- This ensures accessibility for audits, inspections, and compliance reviews.

## B. Digital Records

### 1. Permissibility:

- Digital or electronic maintenance is allowed, provided they are:
  - Readily accessible.
  - Authenticated with a digital signature or system-generated logs.

## C. Branch Offices

### 1. Branch Records:

- Records specific to branch operations may be maintained locally but must be consolidated at the registered office.

## D. Retention and Backup

### 1. Backup Systems:

- Regularly back up records (physical and digital) to ensure data security and recovery.

---

## 5. Practical Tips for Maintaining Books of Account

### A. Use Technology

#### 1. Accounting Software:

- Utilize software like Tally, QuickBooks, or other cloud-based tools for efficient record-keeping.

#### 2. Automation:

- Automate recurring transactions and generate reports directly from the system.

---

### B. Maintain Separate Accounts

#### 1. Donation Segregation:

- Clearly separate corpus and non-corpus donations.

#### 2. FCRA Funds:

- Maintain separate bank accounts for foreign contributions and their utilization.

### C. Regular Audits

1. **Internal Audit:**
    - Conduct periodic internal audits to identify discrepancies.
  2. **Statutory Audit:**
    - Ensure compliance with annual statutory audit requirements.
- 

### D. Reconcile Regularly

1. **Bank Reconciliation:**
    - Reconcile bank accounts monthly to match book entries with bank statements.
  2. **TDS Reconciliation:**
    - Verify TDS deductions and match them with Form 26AS.
- 

### E. Stay Updated with Legal Requirements

1. **Compliance Changes:**
    - Keep track of changes in tax laws, FCRA rules, and other statutory obligations.
  2. **Professional Guidance:**
    - Consult a Chartered Accountant for guidance on complex transactions and compliance.
- 

## 6. Consequences of Non-Compliance

| Nature of Default                     | Penalty/Impact                                                             |
|---------------------------------------|----------------------------------------------------------------------------|
| Failure to maintain books of account  | Penalty under Section 271A: ₹25,000.                                       |
| Incorrect reporting of income         | Taxable income and potential scrutiny.                                     |
| Non-compliance with FCRA requirements | Suspension or cancellation of FCRA registration.                           |
| Inadequate records for GST            | Penalty equal to the amount of tax evaded or ₹10,000, whichever is higher. |

---

## 7. Key Takeaways

## Guide to Trusts & NGOs – Your Queries on Audit Reports (Form Nos. 10B & 10BB) & Income-tax Return (ITR-7)

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1. **Comprehensive Record-Keeping:**
    - Maintain all financial and statutory records as per legal requirements.
  2. **Regular Monitoring:**
    - Conduct periodic reviews to ensure accuracy and compliance.
  3. **Digital Transition:**
    - Adopt technology to streamline and secure accounting processes.
  4. **Retention and Accessibility:**
    - Retain records for the prescribed period and ensure they are readily accessible.
  5. **Seek Professional Help:**
    - Engage Chartered Accountants or professionals to ensure proper compliance.
- 

This guide ensures that trusts and institutions maintain accurate and compliant books of account, meeting statutory obligations and safeguarding their exempt status. Let me know if further clarifications or templates are needed!

**You said:**

In-depth discussion on the ramifications of not obtaining an audit report and the consequences of not maintaining proper books of account

**ChatGPT said:**

### Ramifications of Not Obtaining an Audit Report and Consequences of Not Maintaining Proper Books of Account

The failure to obtain a required **audit report** or maintain proper **books of account** can result in severe legal, financial, and reputational consequences for trusts, institutions, and other entities under the **Income-tax Act, 1961**, and other relevant laws.

---

#### 1. Ramifications of Not Obtaining an Audit Report

##### A. Applicability of Audit Report

1. **Section 12A/12AB:**
    - Audit under **Form 10B** is mandatory if total income exceeds ₹2.5 lakhs before exemptions.
-

### 2. Section 10(23C):

- Audit under **Form 10BB** is required if gross receipts exceed ₹1 crore.
- 

## B. Consequences of Not Filing the Audit Report

### 1. Loss of Tax Exemption

- If the audit report is not filed, the entity loses its tax-exempt status for the assessment year.
- Entire income, including donations and grants, will be taxable at normal rates.

#### Example:

- A trust with ₹50 lakhs in income but no audit report will face taxation on the full amount without the benefit of Section 11 or 10(23C) exemptions.
- 

### 2. Penalties Under Section 271B

- **Penalty:** ₹1,000 per day of delay, capped at ₹1,00,000.
- Applies to entities failing to file **Form 10B/10BB** within the prescribed timeline.

#### Example:

- Filing Form 10B for A.Y. 2024-25 on **15th October 2024** (15 days late) incurs a penalty of ₹15,000.
- 

### 3. Increased Scrutiny and Assessments

- Non-filing of an audit report triggers scrutiny or reassessment by the tax department.
  - The department may deny deductions or add back expenses claimed by the entity.
- 

### 4. Impact on Donor Confidence

- Donors often rely on audit compliance to ensure proper utilization of their contributions.
  - Lack of an audit report can damage the entity's reputation and reduce future funding opportunities.
-

**5. Disqualification of Accumulated Income**

- Accumulated income under **Section 11(2)** requires an audit report for validation.
  - Failure to provide the report results in taxation of the unutilized income.
- 
- 

**2. Consequences of Not Maintaining Proper Books of Account**

**A. Legal Requirement to Maintain Books**

| Section                    | Applicability                                                      |
|----------------------------|--------------------------------------------------------------------|
| <b>Section 44AA</b>        | Mandatory for trusts, institutions, professionals, and businesses. |
| <b>Section 12A/10(23C)</b> | Trusts and institutions claiming tax exemptions.                   |
| <b>Rule 6F</b>             | Specifies records for professionals and specified entities.        |

---

**B. Penalties and Financial Consequences**

**1. Penalty Under Section 271A**

- **Penalty Amount:** ₹25,000 for failure to maintain books of account.

**Example:**

- A trust failing to maintain records for its ₹10 lakh corpus donation will incur a penalty of ₹25,000.
- 

**2. Denial of Tax Exemptions**

- Proper books are critical for proving income application under Sections 11 and 12.
- Without adequate records, exemptions will be denied, leading to taxation of the entire income.

**Example:**

- A trust with ₹20 lakhs in income, failing to prove 85% application, will face taxation on the full amount.
- 
-

## Guide to Trusts & NGOs – Your Queries on Audit Reports (Form Nos. 10B & 10BB) & Income-tax Return (ITR-7)

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### 3. Increased Tax Liability

- Without records, expenses and deductions cannot be substantiated.
- Donations, grants, or income treated as unexplained receipts will be taxed under **Section 115BBE** at **60%**.

#### Example:

- Unexplained income of ₹5 lakhs will attract tax of ₹3 lakhs (60%) plus surcharge and cess.
- 

### 4. Legal and Compliance Risks

- Non-maintenance of books violates multiple statutes, including the Income-tax Act, FCRA (if applicable), and GST laws.
  - This may result in cancellation of FCRA registration or GST penalties.
- 

### 5. Inability to Face Audits or Inspections

- Regulatory bodies or donors may request financial records during audits or inspections.
  - Inadequate records lead to loss of credibility and possible funding restrictions.
- 
- 

## C. Reputational Consequences

### 1. Loss of Donor Trust

- Donors expect accountability and transparency.
- Inadequate records deter future contributions.

### 2. Adverse Publicity

- Scrutiny by tax authorities or adverse findings during audits can tarnish the entity's reputation.
- 
- 

## 3. Practical Challenges Without Books or Audit

| Challenge                             | Impact                                                                 |
|---------------------------------------|------------------------------------------------------------------------|
| Difficulty in Preparing Audit Reports | Lack of records makes it impossible to prepare and file Form 10B/10BB. |

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## Guide to Trusts & NGOs – Your Queries on Audit Reports (Form Nos. 10B & 10BB) & Income-tax Return (ITR-7)

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| Challenge                         | Impact                                                                    |
|-----------------------------------|---------------------------------------------------------------------------|
| <b>Proving Income Application</b> | Failure to prove 85% application results in loss of tax exemptions.       |
| <b>Reconciliation Issues</b>      | Mismatches between reported income and Form 26AS lead to scrutiny.        |
| <b>Donor and Grant Compliance</b> | Inability to track funds may result in repayment demands or funding bans. |

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### 4. Mitigation and Compliance Best Practices

#### A. Timely Audit

1. Initiate audits well before the deadline.
  2. Engage experienced Chartered Accountants to ensure compliance with Form 10B/10BB requirements.
- 

#### B. Maintain Comprehensive Records

1. **Segregate Donations:**
    - Clearly distinguish corpus and non-corpus contributions.
  2. **Track Investments:**
    - Ensure all investments comply with Section 11(5).
  3. **Prepare Financial Statements:**
    - Income & Expenditure Account, Balance Sheet, and Receipts & Payments Account.
- 

#### C. Regular Internal Reviews

1. Conduct internal audits to identify and address discrepancies.
  2. Reconcile books of account with Form 26AS and AIS data.
- 

#### D. Leverage Technology

1. Use accounting software to automate record-keeping and generate reports.
  2. Maintain digital backups of all financial records.
-

### 5. Key Deadlines and Penalties

| Action                       | Due Date       | Penalty/Impact                                          |
|------------------------------|----------------|---------------------------------------------------------|
| Filing Form 10B/10BB         | 30th September | ₹1,000/day up to ₹1,00,000 (Section 271B).              |
| Maintaining Books of Account | Ongoing        | ₹25,000 penalty for non-maintenance (Section 271A).     |
| Filing ITR-7                 | 31st October   | ₹5,000 under Section 234F (if income exceeds ₹5 lakhs). |

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### 6. Key Takeaways

- Legal and Financial Risks:**
    - Failing to maintain books or file audit reports results in severe penalties and loss of exemptions.
  - Operational and Reputational Impact:**
    - Trusts and institutions risk losing donor confidence and facing increased scrutiny.
  - Proactive Compliance:**
    - Regular audits, accurate bookkeeping, and timely filing of reports ensure smooth operations and exemption retention.
  - Engage Professionals:**
    - Employ Chartered Accountants and financial experts to manage compliance and mitigate risks.
- 

This guide provides a detailed understanding of the ramifications of non-compliance and offers strategies to ensure adherence to legal and financial obligations. Let me know if further clarifications or templates are required!

**You said:**

A clear breakdown of the specific requirements for filing Form 10B and Form 10BB, including an overview of the forms, the structure of the reports, and the annexures that need to be attached

**ChatGPT said:**



## Clear Breakdown of Filing Requirements for Form 10B and Form 10BB

This guide provides a detailed breakdown of **Form 10B** and **Form 10BB**, including their **overview**, **structure**, and **annexures**, to help trusts and institutions comply with audit and reporting obligations under the Income-tax Act, 1961.

---

### 1. Overview of Form 10B and Form 10BB

| Aspect                  | Form 10B                                                                                                                 | Form 10BB                                                                                |
|-------------------------|--------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------|
| <b>Applicability</b>    | For trusts/institutions registered under <b>Section 12A/12AB</b> .                                                       | For institutions approved under <b>Section 10(23C)</b> .                                 |
| <b>Income Threshold</b> | Mandatory if total income exceeds ₹2.5 lakhs (before claiming exemptions).                                               | Mandatory if gross receipts exceed ₹1 crore.                                             |
| <b>Purpose</b>          | Validate compliance with <b>Sections 11 and 12</b> (income application, investments).                                    | Validate compliance with <b>Section 10(23C)</b> (fund utilization, conditions).          |
| <b>Due Date</b>         | 30th September of the assessment year.                                                                                   | 30th September of the assessment year.                                                   |
| <b>Filing Mode</b>      | Online filing through the Income Tax Portal with <b>Digital Signature Certificate (DSC)</b> of the Chartered Accountant. | Online filing through the Income Tax Portal with <b>DSC</b> of the Chartered Accountant. |

---

### 2. Structure of Form 10B

Form 10B is divided into **three main parts**:

#### A. General Information

##### 1. Basic Details:

- Name and PAN of the trust/institution.
- Registration number under Section 12A/12AB.
- Assessment year and filing date.

##### 2. Nature of Activities:

- Mention whether the activities are charitable, religious, or both.

## **B. Financial Details**

### **1. Income Details:**

- Voluntary contributions (segregated into corpus and non-corpus).
- Income from property held under trust.
- Income from other sources like investments, dividends, and capital gains.

### **2. Application of Income:**

- Amount applied for charitable/religious purposes (meeting the **85% rule**).
- Details of unutilized income accumulated under **Section 11(2)**.

### **3. Investment Compliance:**

- Investments in approved modes under **Section 11(5)**.
  - Disclosure of non-compliant investments.
- 

## **C. Reporting Non-Compliance**

### **1. Prohibited Transactions (Section 13):**

- Details of transactions benefiting trustees or related parties.

### **2. Observations and Qualifications:**

- Auditor's comments on any discrepancies or deviations.
- 
- 

## **3. Structure of Form 10BB**

Form 10BB is divided into **four main sections**:

### **A. General Information**

#### **1. Institution Details:**

- Name, PAN, and approval number under Section 10(23C).
- Nature of activities (educational, medical, or other specified purposes).

#### **2. Gross Receipts:**

- Segregate receipts into categories like tuition fees, hospital charges, grants, or other income.
- 

### **B. Utilization of Funds**

#### **1. Purpose of Utilization:**

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- Amount utilized for the institution's primary objectives.
  - Administrative expenses (reasonable and justifiable).
  - 2. **Unutilized Funds:**
    - Disclosure of unutilized funds and plans for their application.
- 

### C. Prohibited Transactions and Compliance

1. **Prohibited Transactions (Section 13):**
    - Loans, benefits, or payments to trustees or related parties.
  2. **Investment Compliance:**
    - Details of funds invested as per approval conditions.
- 

### D. Observations and Auditor's Remarks

1. **Observations:**
    - Factual findings regarding compliance with conditions.
  2. **Qualifications:**
    - Discrepancies or deviations from the exemption conditions.
- 
- 

## 4. Annexures to Be Attached

| Form             | Mandatory Annexures                                                                                   |
|------------------|-------------------------------------------------------------------------------------------------------|
| <b>Form 10B</b>  | - Financial Statements: Income & Expenditure Account, Balance Sheet, and Receipts & Payments Account. |
|                  | - Investment Schedule: Details of compliant and non-compliant investments.                            |
|                  | - Donation Details: Corpus and non-corpus contributions.                                              |
|                  | - Form 10: If income is accumulated under Section 11(2).                                              |
| <b>Form 10BB</b> | - Financial Statements: Income & Expenditure Account, Balance Sheet, and Receipts & Payments Account. |
|                  | - Segregation of Receipts: Tuition fees, hospital charges, and grants.                                |
|                  | - Investment Schedule: Details of funds applied and invested.                                         |

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## 5. Filing Process

### A. Steps for Filing Form 10B/10BB

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### 1. Add Chartered Accountant (CA):

- Log in to the Income Tax Portal, go to **My Profile > Authorized Partners > My Chartered Accountant**, and assign the CA to file the relevant form.

### 2. Preparation by CA:

- The CA logs in, selects the assigned form, and completes the required fields and annexures.

### 3. Verification by Trust/Institution:

- After the CA files the report, the trust/institution must verify and e-sign the report using DSC or EVC.

### 4. Submission and Acknowledgment:

- Submit the report and download the acknowledgment for records.
- 

## B. Important Deadlines

| Action               | Due Date            |
|----------------------|---------------------|
| Filing Form 10B/10BB | 30th September 2024 |
| Filing ITR-7         | 31st October 2024   |

---

## 6. Penalties for Non-Compliance

| Nature of Default                  | Penalty/Impact                                  |
|------------------------------------|-------------------------------------------------|
| Late Filing of Form 10B/10BB       | ₹1,000 per day up to ₹1,00,000 (Section 271B).  |
| Filing ITR-7 Without Audit Report  | Loss of tax exemptions for the assessment year. |
| Inaccurate or Incomplete Reporting | Scrutiny and potential denial of exemptions.    |

---

## 7. Practical Tips for Compliance

### 1. Prepare Early:

- Start preparing financial statements and investment schedules well in advance of the deadline.

### 2. Reconcile Data:

- Match income and expenditure figures with Form 26AS and financial statements.

### 3. Monitor Investments:

- Ensure investments comply with Section 11(5) or conditions under Section 10(23C).

### 4. Engage Professionals:

- Use experienced Chartered Accountants to ensure accuracy in filing and compliance with legal provisions.
-

### 8. Key Takeaways

- **Form 10B:** Focuses on income application, compliance with Section 11(5), and reporting prohibited transactions.
- **Form 10BB:** Validates utilization of gross receipts and compliance with Section 10(23C) conditions.
- **Annexures:** Include financial statements, donation details, and investment schedules to support disclosures.
- **Timely Filing:** File audit reports by **30th September** to avoid penalties and retain exemptions.

---

This detailed guide ensures accurate and compliant filing of **Form 10B** and **Form 10BB**. Let me know if you need further clarifications or templates for specific schedules!

**You said:**

Analysis of the applicability of tax audit under Section 44AB, including the criteria for applicability and the relationship between tax audits and audits under Sections 12A and 10(23C)

ChatGPT said:



### Analysis of Tax Audit Applicability Under Section 44AB and Its Relationship with Audits Under Sections 12A and 10(23C)

**Section 44AB** of the Income-tax Act, 1961 mandates a **tax audit** for certain taxpayers to ensure proper compliance with tax laws, accurate income reporting, and appropriate deductions. This guide explores its applicability, the relationship with audits under **Sections 12A and 10(23C)**, and key compliance considerations.

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## 1. Overview of Tax Audit Under Section 44AB

### A. Purpose of Tax Audit

## Guide to Trusts & NGOs – Your Queries on Audit Reports (Form Nos. 10B & 10BB) & Income-tax Return (ITR-7)

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The tax audit ensures that:

1. The taxpayer's accounts are properly maintained and reflect true and correct income.
  2. Compliance with various provisions of the Income-tax Act is ensured, such as TDS compliance, record-keeping, and income disclosures.
- 

### B. Applicability Criteria

| Category of Taxpayer                          | Threshold for Tax Audit                                                                         |
|-----------------------------------------------|-------------------------------------------------------------------------------------------------|
| <b>Businesses (Normal Cases)</b>              | Turnover exceeds <b>₹1 crore</b> in the financial year.                                         |
| <b>Businesses (With Digital Transactions)</b> | Turnover exceeds <b>₹5 crore</b> , provided cash transactions are $\leq 5\%$ of turnover.       |
| <b>Professionals</b>                          | Gross receipts exceed <b>₹50 lakhs</b> in the financial year.                                   |
| <b>Presumptive Taxation (Section 44AD)</b>    | Total turnover exceeds ₹2 crore or presumptive income is less than 6%/8% of turnover.           |
| <b>Presumptive Taxation (Section 44ADA)</b>   | Total gross receipts exceed ₹50 lakhs or presumptive income is less than 50% of gross receipts. |

---

### C. Due Date for Filing Tax Audit Report

The tax audit report must be filed by **30th September** of the assessment year (e.g., 30th September 2024 for A.Y. 2024-25).

---

## 2. Relationship Between Tax Audit Under Section 44AB and Audits Under Sections 12A and 10(23C)

### A. Section 12A Audit (Form 10B)

- **Applicability:**
    - Trusts and institutions registered under **Section 12A/12AB** must file **Form 10B** if their total income (before exemptions) exceeds ₹2.5 lakhs.
  - **Objective:**
    - Verify compliance with exemption conditions (e.g., 85% income application, investment compliance under Section 11(5)).
  - **Key Difference:**
    - The audit under Section 12A focuses on tax exemptions, whereas a tax audit under Section 44AB focuses on turnover thresholds and income reporting.
-

### B. Section 10(23C) Audit (Form 10BB)

- **Applicability:**
    - Institutions approved under **Section 10(23C)** must file **Form 10BB** if gross receipts exceed ₹1 crore.
  - **Objective:**
    - Validate utilization of funds and compliance with exemption conditions.
  - **Key Difference:**
    - The audit under Section 10(23C) is specific to exemption conditions, while Section 44AB applies based on turnover or gross receipts.
- 

### C. Commonalities

| Aspect                 | Tax Audit (Section 44AB)                                            | Section 12A/10(23C) Audits                                           |
|------------------------|---------------------------------------------------------------------|----------------------------------------------------------------------|
| <b>Applicability</b>   | Based on turnover or gross receipts.                                | Based on income thresholds or exemption claims.                      |
| <b>Focus</b>           | Proper income reporting, TDS compliance, and adherence to tax laws. | Compliance with exemption conditions, such as income application.    |
| <b>Report Form</b>     | <b>Form 3CA/3CB</b> with <b>Form 3CD</b> .                          | <b>Form 10B</b> (Section 12A) or <b>Form 10BB</b> (Section 10(23C)). |
| <b>Filing Due Date</b> | 30th September.                                                     | 30th September.                                                      |

---

### 3. Scenarios Where Both Audits Apply

#### 1. Large Charitable Trusts or Institutions

- If a trust registered under Section 12A operates a business with turnover exceeding ₹1 crore, it will require both:
  - **Tax Audit (Form 3CA/3CB & 3CD)** under Section 44AB.
  - **Exemption Audit (Form 10B)** under Section 12A.

#### Example:

- A trust running a hospital earns ₹1.5 crore from business activities.
- It must undergo a tax audit under Section 44AB and file Form 10B to claim exemptions.

#### 2. Educational Institutions with High Receipts

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- An institution approved under Section 10(23C) with gross receipts exceeding ₹1 crore also earning business income exceeding ₹5 crore will require both:
  - **Tax Audit** under Section 44AB.
  - **Exemption Audit (Form 10BB)** under Section 10(23C).

### Example:

- A university earns ₹6 crore from digital education programs.
  - It will need to file Form 10BB and undergo a tax audit.
- 

## 4. Penalties and Consequences of Non-Compliance

### A. Penalty for Non-Compliance with Section 44AB

| Nature of Default                | Penalty                                            |
|----------------------------------|----------------------------------------------------|
| Failure to file tax audit report | ₹1,50,000 or 0.5% of turnover, whichever is lower. |

---

### B. Penalty for Non-Compliance with Section 12A/10(23C)

| Nature of Default           | Impact                                     |
|-----------------------------|--------------------------------------------|
| Non-filing of Form 10B/10BB | Loss of exemptions; entire income taxable. |

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## 5. Practical Tips for Compliance

- 1. Assess Applicability Early**
  - Determine whether turnover, gross receipts, or income thresholds trigger tax audits or exemption audits.
- 2. Maintain Comprehensive Records**
  - Properly segregate business income, gross receipts, and donations to ensure accurate reporting.
- 3. Engage Professionals**
  - Appoint a Chartered Accountant experienced in both tax audits and exemption audits.
- 4. File Timely**
  - File all relevant audit reports and ITR-7 before the statutory deadlines to avoid penalties.
- 5. Use Technology**
  - Leverage accounting software to streamline record-keeping and audit preparation.

### 6. Summary of Applicability

| Type of Audit                   | Threshold                                                          | Form               | Focus                                |
|---------------------------------|--------------------------------------------------------------------|--------------------|--------------------------------------|
| <b>Tax Audit (Section 44AB)</b> | Business turnover > ₹1 crore or professional receipts > ₹50 lakhs. | Form 3CA/3CB & 3CD | Income reporting and compliance.     |
| <b>Section 12A Audit</b>        | Total income > ₹2.5 lakhs.                                         | Form 10B           | Income application and exemptions.   |
| <b>Section 10(23C) Audit</b>    | Gross receipts > ₹1 crore.                                         | Form 10BB          | Utilization of funds and exemptions. |

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### 7. Key Takeaways

- 1. Understand Applicability**
    - Section 44AB tax audits focus on income and turnover thresholds, while Section 12A and 10(23C) audits address exemption compliance.
  - 2. Filing Deadlines**
    - Tax audit and exemption audit reports are due by **30th September** of the assessment year.
  - 3. Avoid Penalties**
    - Timely compliance with both audits ensures exemption retention and prevents penalties.
  - 4. Holistic Compliance**
    - Entities meeting criteria for both audits must maintain clear records and ensure alignment of financial statements across reports.
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This detailed analysis helps entities navigate the interplay between **tax audits (Section 44AB)** and **exemption audits (Sections 12A and 10(23C))**, ensuring comprehensive compliance. Let me know if you need further clarifications or examples!