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Guide to Trusts & NGOs – Concept of income to Trusts & NGOs

Concept of Income, Total Income, and Other Receipts - in the context of Trusts & NGOs

In the context of trusts and NGOs, the concepts of **Income**, **Total Income**, and **Other Receipts** under the Income Tax Act are vital for understanding their taxability:

1. Income:

- This includes all types of income received by the trust or NGO during a financial year. For charitable trusts and NGOs, this could be income from donations, investments, grants, or any activity related to their objects.
- Income is classified under various heads, including voluntary contributions (Section 12) and other sources like rent, interest, or dividends.

2. Total Income:

- Total income refers to the gross income after allowing specific deductions and exemptions under the Income Tax Act. For trusts and NGOs, this could include deductions for expenses incurred towards charitable or religious purposes and exemptions under Sections 11 and 12 of the Act.

3. Other Receipts:

- These are receipts that do not fall under the main activities of the trust or NGO but are ancillary. Examples include interest on fixed deposits, rent from property not used for charitable purposes, or income from other incidental activities. Such receipts are often subject to tax unless specifically exempted or utilized for the trust's objects.

Charitable or religious trusts can claim exemption on income applied to their objectives under Sections 11 and 12. However, income diverted for non-charitable purposes or unspent income not accumulated as per Section 11(2) may become taxable.

You said:

Definitions and practical implications of "total income" under Sections 11 and 12, including how income is calculated for audits

ChatGPT said:

Under Sections 11 and 12 of the Income Tax Act, "**Total Income**" for trusts and NGOs is calculated differently from regular taxpayers, focusing on their objectives and compliance with statutory provisions. Here is a detailed explanation:

Definition of Total Income (Sections 11 and 12):

1. Section 11:

- It governs the exemption of income derived by a trust or NGO, provided the income is applied or set aside for charitable or religious purposes.
- **Total Income** under this section includes:
 - Income applied for the charitable or religious purposes in India.
 - Accumulated income (up to 15% of gross receipts).
 - Voluntary contributions, including corpus donations (specifically directed for corpus use).

2. Section 12:

- This section relates to income derived from voluntary contributions (not directed to the corpus).
- Such contributions are treated as income and qualify for exemptions under Section 11 if applied appropriately.

Practical Implications:

1. Conditions for Exemption:

- **Application of Income:** At least 85% of the income must be applied for charitable or religious purposes in the financial year. If unutilized, it must be accumulated or set apart as per Section 11(2) with specific conditions.
- **Registration:** The trust/NGO must be registered under Section 12AB.
- **Use in India:** The income should be applied in India unless specifically permitted for activities abroad.

2. Permissible Accumulation:

- Trusts can accumulate up to 15% of their income without specifying the purpose. For further accumulation, they need to file Form 10 and specify the purpose of accumulation, subject to strict conditions.

3. Non-Exempt Income:

- Income not applied for charitable purposes, income diverted to non-charitable purposes, and any profits from unrelated business activities (unless these are incidental and separate books of accounts are maintained) are taxable.

Calculation of Income for Audit:

1. Gross Income:

- Includes all voluntary contributions, grants, donations, income from property held under the trust, and other receipts.

2. Expenditure Deduction:

- Expenses incurred for charitable or religious purposes are deducted.
- Only expenses related to the objectives of the trust are allowed.
- 3. **Corpus Donations:**
 - Corpus donations are not included as income if they are specifically directed to be part of the corpus.
- 4. **Audit Requirements (Section 12A):**
 - Trusts with total income (before applying exemptions under Sections 11 and 12) exceeding the basic exemption limit must get their accounts audited by a Chartered Accountant.
 - The auditor issues a Form 10B report, certifying the application of income, proper accounting, and adherence to statutory compliance.
- 5. **Reconciliation of Income:**
 - Income reported in financial statements must match the return of income filed.
 - Discrepancies, such as unaccounted grants or unutilized funds, may lead to disallowances or taxability.
- 6. **Implications for Non-Compliance:**
 - If the conditions under Sections 11, 12, or 12AB are not satisfied, income becomes taxable at the maximum marginal rate.

Summary:

The concept of total income for trusts and NGOs focuses on their charitable application and compliance with statutory conditions. Proper bookkeeping, maintaining separate accounts for business or incidental activities, and ensuring the timely application or accumulation of income are crucial to avail exemptions under Sections 11 and 12. Audit reports play a pivotal role in verifying compliance and ensuring that exemptions are not denied.

You said:

Definitions and practical implications of "total income" under Sections 11 and 12, including how income is calculated for audits

ChatGPT said:

Under **Sections 11 and 12** of the Income Tax Act, "**Total Income**" for charitable or religious trusts and NGOs is determined with a focus on their objectives, compliance with statutory provisions, and the application of income. Below is a comprehensive explanation:

Definitions under Sections 11 and 12:

1. Section 11:

- Governs the exemption of income from property held for charitable or religious purposes.
- **Total Income** for this section includes:
 - Income derived from property held under trust.
 - Voluntary contributions, excluding corpus-specific donations.
 - Capital gains, provided they are reinvested as per Section 11(1A).

2. Section 12:

- Treats income from voluntary contributions (not corpus donations) as income derived from the trust's property.
 - Contributions specified for the corpus are excluded from taxable income.
-

Calculation of Total Income:

1. Income Components:

- Income from property or assets held under trust.
- Voluntary contributions (other than corpus donations).
- Business income (only if incidental to the objectives and separate books are maintained).
- Capital gains if not reinvested as per Section 11(1A).

2. Deductions:

- **Application of Income:** At least 85% of the income must be applied to charitable or religious purposes within India during the financial year.
- **Accumulation of Income:** Up to 15% of income can be accumulated without conditions. For further accumulation, Form 10 must be filed.

3. Exclusions:

- Corpus donations explicitly directed for corpus purposes are not treated as income under Section 11(1)(d).
 - Income applied outside India without the approval of the CBDT is not eligible for exemption.
-

Audit Requirements (Section 12A):

1. Threshold for Audit:

- If the total income of the trust (before exemptions under Sections 11 and 12) exceeds the basic exemption limit, an audit is mandatory.

2. Audit Procedure:

- A **Chartered Accountant** prepares an audit report in **Form 10B**, certifying:

- The income application towards charitable purposes.
- Maintenance of proper accounts.
- Adherence to statutory requirements (e.g., filing Form 10 for accumulation).

3. Areas of Focus in Audit:

- Verification of **application of income**.
- Separation of **corpus donations** and **voluntary contributions**.
- Review of expenses to ensure they align with the trust's objectives.
- Reconciliation of income in books with returns filed.

Practical Implications:

1. Compliance with Application Rules:

- Trusts and NGOs must ensure that 85% of income is applied to the purposes stated in their charter.
- Non-compliance results in the denial of exemptions and taxation at the maximum marginal rate.

2. Accumulation Rules:

- Accumulation beyond 15% requires filing Form 10, specifying the purpose and period of accumulation (up to 5 years). Non-compliance leads to taxation of accumulated income.

3. Exemption Conditions:

- The trust must be registered under **Section 12AB**.
- Income should not be used for personal benefits or purposes not aligned with the stated objectives.

4. Taxability of Non-Exempt Income:

- Income not applied to charitable purposes, or funds diverted for non-charitable uses, becomes taxable.
- Business income unrelated to the objectives, or not maintained separately, is also taxable.

5. Impact of Audit:

- The audit report serves as critical evidence of compliance with statutory provisions.
- Discrepancies identified during audits, such as misutilization of funds or unrecorded income, may result in disallowances.

Key Points to Remember:

- Timely compliance with application and accumulation provisions under Sections 11 and 12 is essential to maintain tax exemptions.

- Income components, including voluntary contributions, must be properly categorized to avoid taxability.
- Proper documentation, audited financial statements, and timely filing of statutory forms (like Form 10) ensure smoother audits and compliance.

By adhering to these provisions, trusts and NGOs can optimize their tax benefits and maintain transparency in their financial operations.

You said:

Detailed examination of the various types of income that affect the audit requirements, including income from business held as property of the trust and income from incidental business

ChatGPT said:

A detailed examination of **various types of income** that affect the audit requirements of trusts and NGOs, including **income from business held as property of the trust** and **income from incidental business**, is as follows:

Types of Income and Their Impact on Audit Requirements:

1. Voluntary Contributions:

○ Corpus Donations:

- Donations explicitly directed to form part of the corpus are not treated as income under Section 11(1)(d).
- These are excluded from total income calculations and audit focus is primarily on ensuring proper utilization and documentation.

○ Other Voluntary Contributions:

- Treated as income under Section 12 and included in the total income of the trust.
- The auditor ensures that these contributions are properly accounted for and utilized as per the trust's objectives.

2. Income from Property Held Under Trust:

- Includes rent, interest, dividends, or other income generated from assets held under trust.
- The audit ensures:
 - Proper recording and classification of such income.

- Verification that the income is applied for charitable or religious purposes.
- 3. **Business Income Held as Property of the Trust:**
 - **Permissible Business Activities:**
 - Business income derived directly from property held under trust (e.g., rents from property used for a charitable school or hospital).
 - Section 11(4) allows trusts to carry on a business as long as the business itself is part of the trust's property.
 - **Audit Focus:**
 - Verifying that the business is intrinsically connected to the trust's charitable purpose.
 - Ensuring separate books of accounts are maintained for such activities.
 - Confirming that the surplus generated is applied towards the trust's objectives.
- 4. **Income from Incidental Business:**
 - Section 11(4A) permits a trust to carry out business activities if:
 - The business is incidental to the trust's objectives.
 - Separate books of accounts are maintained for the incidental business.
 - Example:
 - A hospital trust selling medicines at its pharmacy.
 - A charitable organization publishing books related to its activities.
 - **Audit Implications:**
 - Confirming the business is secondary and not the primary activity.
 - Auditing the separate books to ensure transparency and compliance with statutory provisions.
- 5. **Capital Gains:**
 - Income from the sale of assets held under trust is considered income unless reinvested in assets specified under Section 11(1A).
 - Audit ensures compliance with reinvestment provisions and proper recording of capital gains.
- 6. **Income from Other Sources:**
 - Includes interest, dividends, and other income not directly related to property held under trust or incidental business.
 - Audit focuses on accurate reporting and ensuring utilization as per objectives.
- 7. **Foreign Contributions:**
 - Governed by the **Foreign Contribution (Regulation) Act, 2010 (FCRA)**.
 - Foreign contributions must be separately accounted for, and auditors verify compliance with FCRA rules and ensure proper application for approved purposes.

Audit Requirements for Income:

1. **Threshold for Mandatory Audit:**

- Trusts and NGOs must be audited if their total income (before claiming exemptions under Sections 11 and 12) exceeds the basic exemption limit (₹2.5 lakhs for FY 2023-24).

2. **Form 10B:**

- The audit report is submitted in **Form 10B** by a Chartered Accountant, certifying:
 - The application of income.
 - Compliance with statutory provisions (e.g., 85% application rule, accumulation provisions).

3. **Focus Areas During Audit:**

- **Income Application:**
 - At least 85% of income must be applied to charitable or religious purposes during the financial year.
- **Accumulation of Income:**
 - Up to 15% of income can be accumulated without conditions.
 - Any further accumulation must comply with Section 11(2) and Form 10 filing requirements.
- **Business Income:**
 - Ensuring that incidental business income adheres to Section 11(4A) conditions.
 - Confirming that profits are applied towards the objectives.

Non-Compliance and Its Impact:

1. **Business Not Incidental:**

- If the business is not incidental to the trust's objectives, or if separate books are not maintained, income from such business becomes taxable.

2. **Improper Utilization:**

- Income not utilized for the stated objectives, or misutilized, is taxed at the maximum marginal rate.

3. **Corpus Donations Misused:**

- If corpus donations are used for non-charitable purposes, they lose their exemption and become taxable.

4. **Foreign Contributions:**

- Non-compliance with FCRA rules can lead to cancellation of registration and potential taxability.

Key Takeaways:

- Trusts and NGOs must ensure transparency and proper record-keeping for all types of income.
- Compliance with **Section 11(4)** for business held as trust property and **Section 11(4A)** for incidental business is crucial to retain tax exemptions.
- The audit process plays a vital role in verifying that income is applied as per the objectives and statutory provisions.

Proper adherence to these requirements ensures that the trust or NGO retains its tax-exempt status while promoting transparency and accountability.

You said:

Guidelines for computing income to select the appropriate audit form (Form 10B or 10BB), primarily focusing on the criteria for receipts below or above five crores

ChatGPT said:

The selection of the appropriate audit form for trusts and NGOs, **Form 10B or Form 10BB**, primarily depends on the nature of the organization, its activities, and its gross receipts. Below is a detailed explanation of the criteria and computation guidelines:

Key Guidelines for Computing Income for Audit Form Selection:

1. Nature of the Entity:

- **Form 10B:**
 - Applicable to trusts and NGOs registered under **Section 12AB** of the Income Tax Act.
 - These entities are eligible for exemptions under Sections 11 and 12, provided they fulfill the application of income and other conditions.
- **Form 10BB:**
 - Applicable to institutions or funds referred to in **Section 10(23C)** clauses (iv), (v), (vi), and (via), such as educational or medical institutions approved under this section.
 - Exemption is claimed under Section 10(23C), and compliance with its provisions is mandatory.

2. Threshold for Receipts:

- **Receipts Below ₹5 Crores:**

- If the gross receipts (including donations, grants, fees, and other income) of the entity during the financial year do not exceed ₹5 crores, standard compliance requirements apply for both Form 10B and Form 10BB audits.
 - **Receipts Above ₹5 Crores:**
 - If gross receipts exceed ₹5 crores, additional reporting requirements and compliance with specific conditions under Sections 11, 12, or 10(23C) apply.
 - Entities with receipts above ₹5 crores must also ensure that no violation of Section 13 (for trusts) or similar provisions under Section 10(23C) occurs.
-

Computing Gross Receipts for Audit Form Selection:

1. Components of Gross Receipts:

- Total voluntary contributions, including general and earmarked donations.
- Fees, charges, or subscriptions received for activities (e.g., tuition fees for schools, service charges for hospitals).
- Income from incidental business activities or property held under trust.
- Grants received from government or other institutions.
- Other income such as rent, interest, or dividends.

2. Exclusions:

- Corpus donations specifically directed as such by the donor (not considered as income under Section 11(1)(d)).
- Reimbursement of expenses.
- Capital receipts unless taxable under the Income Tax Act.

3. Key Note for Receipts:

- Gross receipts are computed before any deductions for expenses or application of income.
 - If receipts exceed ₹5 crores, compliance under the relevant sections (e.g., Section 11 or Section 10(23C)) becomes critical, including stricter audit and reporting requirements.
-

Conditions for Audit:

1. Entities Registered Under Section 12AB:

- Form 10B must be filed if the entity is seeking exemptions under Sections 11 and 12.
 - Audit ensures compliance with conditions like:
 - At least 85% of income applied for charitable purposes.
-

- Proper utilization of accumulated income.
 - Maintenance of separate books for incidental business, if any.
2. **Entities Covered Under Section 10(23C):**
- Form 10BB must be filed for institutions or funds approved under Section 10(23C).
 - Audit focuses on:
 - Use of income solely for specified purposes.
 - Ensuring no part of income or property is diverted for non-permissible purposes.
-

Implications of Non-Compliance:

1. **For Receipts Above ₹5 Crores:**
- Non-compliance with conditions under Sections 11, 12, or 10(23C) leads to the denial of exemptions.
 - Income becomes taxable at the maximum marginal rate.
2. **Audit Report Submission:**
- Late submission or errors in Forms 10B or 10BB may attract penalties or delay in processing exemptions.
-

Summary Table:

Criteria	Form 10B	Form 10BB
Applicable To	Trusts/NGOs registered under Section 12AB.	Institutions/funds under Section 10(23C).
Exemption Claimed	Sections 11 and 12.	Section 10(23C) clauses (iv), (v), (vi), (via).
Threshold for Receipts	Less or more than ₹5 crores (affects compliance).	Less or more than ₹5 crores (affects compliance).
Audit Focus	Application of income, accumulation, compliance.	Use of income, non-diversion of funds.

Key Compliance Tips:

1. **Maintain Proper Books of Accounts:**
- Ensure all income, receipts, and expenses are clearly recorded.
 - Segregate income streams such as corpus donations, incidental income, and general contributions.
-

2. Plan for Accumulation:

- If unable to apply 85% of income, file **Form 10** to accumulate income for specified purposes.

3. Timely Filing of Audit Reports:

- Form 10B or 10BB must be filed along with the income tax return to claim exemptions.

By adhering to these guidelines, trusts and NGOs can ensure accurate computation of gross receipts and select the correct audit form, maintaining compliance and avoiding penalties.

You said:

Implications of TDS Against Grant Receipt

ChatGPT said:

The implications of **Tax Deducted at Source (TDS) against grant receipts** for trusts and NGOs are significant as they affect the accounting, taxation, and cash flow of these entities. Below is an analysis of the practical implications:

1. Understanding TDS Against Grant Receipts:

- **Grant Receipts:**
 - Grants are typically provided by the government, institutions, or private organizations to support the charitable or religious activities of trusts and NGOs.
- **TDS Applicability:**
 - Sometimes, grant providers deduct TDS before disbursing the grant amount, treating it as a taxable payment under specific provisions of the Income Tax Act (e.g., for professional services or contract payments under Sections 194C, 194J, etc.).

2. Tax and Accounting Implications:

a. Nature of Grant:

- **Corpus Grants:**

- Treated as capital receipts and not considered income under Section 11(1)(d).
- TDS deduction is often disputed, as corpus grants are exempt from taxation.
- **Revenue Grants:**
 - Treated as income and subject to exemption under Sections 11 and 12 if applied for charitable purposes.
 - TDS deducted on revenue grants is adjusted against the final tax liability of the trust.

b. Recognition of Income:

- The full grant amount (gross value) should be recorded as income in the books.
 - TDS deducted should be treated as an advance tax payment and reflected in the books as a recoverable amount (e.g., under **TDS receivable**).
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3. Practical Implications:

a. Cash Flow Management:

- TDS deduction reduces the net cash received by the trust or NGO.
- Example:
 - Grant amount: ₹10,00,000
 - TDS @10%: ₹1,00,000
 - Net amount received: ₹9,00,000
 - The trust has ₹1,00,000 as a recoverable TDS, which can only be claimed while filing the income tax return.

b. Filing of TDS Returns:

- The grantor must file TDS returns, and the trust must ensure the TDS credit reflects correctly in **Form 26AS**.
- Any mismatch or non-compliance can delay the refund or adjustment process.

c. Impact on Tax Exemption:

- Trusts and NGOs must ensure that:
 - The grant is applied for the intended charitable purposes.
 - They file the necessary returns (Form 10B or Form 10BB) to claim exemptions under Sections 11 and 12.
- TDS is adjusted against tax liability, and excess TDS is claimed as a refund.

d. Corpus vs. Revenue Classification:

- Misclassification of grants as revenue instead of corpus or vice versa can lead to disputes during audits or scrutiny.
 - Corpus grants should not attract TDS since they are not taxable.
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4. Steps to Manage TDS on Grant Receipts:

1. **Verify the TDS Applicability:**
 - Review the nature of the grant and the applicable TDS section under the Income Tax Act.
 - For corpus grants, clarify with the grantor to avoid TDS deduction.
 2. **Monitor TDS Credit:**
 - Regularly reconcile **Form 26AS** with the grantor's TDS return filings to ensure proper credit is available.
 3. **Account for Gross Receipts:**
 - Record the gross grant amount as income and show the TDS as a receivable in the financial statements.
 4. **Claim Refund of Excess TDS:**
 - If TDS exceeds the tax liability, file an income tax return to claim the refund.
 5. **Communicate with the Grantor:**
 - Request the grantor to issue a **TDS Certificate (Form 16A)** promptly for proper documentation and reconciliation.
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5. Disputes and Remedies:

- **Incorrect TDS Deduction:**
 - If the grantor deducts TDS unnecessarily (e.g., on exempt income), the trust can:
 - Request the grantor to correct the error by filing a revised TDS return.
 - Claim a refund for the excess TDS deducted through the income tax return.
 - **Delayed or Missing TDS Credits:**
 - If TDS credits are not visible in Form 26AS, the trust can:
 - Communicate with the grantor for rectification.
 - Approach the Assessing Officer with relevant documentation.
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6. Key Considerations:

- **Awareness of TDS Provisions:**
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- Trusts must understand the TDS provisions applicable to different types of receipts, including grants.
 - **Timely Compliance:**
 - Ensure timely filing of returns and accurate reporting of income and TDS credits.
 - **Professional Advice:**
 - Seek guidance from tax professionals to handle complex cases, especially for large grants or corpus funds.
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By following these practices, trusts and NGOs can effectively manage the implications of TDS on grant receipts, ensuring proper compliance and maintaining their tax-exempt status.

You said:

Overview of the legal background regarding Tax Deducted at Source (TDS) on grant receipts and its implications for trusts and NGOs

ChatGPT said:

The **legal framework regarding Tax Deducted at Source (TDS)** on grant receipts is governed by the Income Tax Act, 1961. Trusts and NGOs receiving grants often face TDS deductions based on the nature of the grant and its classification under specific provisions of the Act. Below is an overview of the legal background and its implications:

1. Legal Background of TDS on Grant Receipts:

a. Nature of Grant and TDS Applicability:

- **Corpus Grants:**
 - Grants explicitly designated as corpus contributions by the donor are treated as capital receipts and are not taxable under Section 11(1)(d).
 - TDS is not applicable on such contributions if properly identified and documented.
 - **Revenue Grants:**
 - Revenue grants, not specifically designated as corpus, are treated as income.
 - TDS is often applied if the payment falls under provisions such as:
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- **Section 194C:** Payments for work contracts or services rendered (e.g., projects funded through grants).
- **Section 194J:** Payments for professional or technical services.
- **Section 194I:** Payments involving rent.

b. Grantor's Obligations:

- Grantors are legally obligated to deduct TDS if the payment exceeds specified thresholds under applicable sections.
- They must issue a TDS certificate (Form 16A) to the recipient (trust or NGO) and file the relevant TDS returns.

c. Recipient's Obligations:

- Trusts and NGOs must ensure proper accounting for TDS deductions as part of their income and claim refunds or adjustments during the tax filing process.

2. Implications of TDS on Trusts and NGOs:

a. Accounting and Reporting:

- **Gross Receipts:**
 - The full amount of the grant, before TDS deduction, must be recorded as income in the books.
- **TDS as Advance Tax:**
 - The deducted TDS is treated as an advance tax payment and reported as a receivable under the "TDS Receivable" account in financial statements.

b. Impact on Cash Flow:

- TDS deduction reduces the net cash received by trusts and NGOs, potentially affecting their ability to apply funds for charitable purposes.
- Example:
 - Grant sanctioned: ₹10,00,000
 - TDS @10%: ₹1,00,000
 - Net amount received: ₹9,00,000
 - TDS receivable: ₹1,00,000 (adjustable/refundable later).

c. Compliance Requirements:

- **Reconciliation with Form 26AS:**
 - Trusts must ensure that TDS deductions by grantors are accurately reflected in Form 26AS to claim credit.

- **Filing of Returns:**

- TDS deducted is adjusted against tax liability during the filing of income tax returns.
- Excess TDS is claimed as a refund.

d. Eligibility for Exemptions:

- For trusts registered under **Section 12AB**, income, including TDS-affected grants, is exempt under Sections 11 and 12, provided conditions such as 85% application of income are met.
- For institutions under **Section 10(23C)**, compliance with conditions specific to this section ensures exemptions.

e. Administrative Challenges:

- Non-issuance of TDS certificates or incorrect filing by grantors can delay refunds or lead to disputes.
 - Trusts may need to coordinate with grantors to rectify errors in TDS returns.
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3. Legal Challenges and Disputes:

a. Misclassification of Grants:

- **Corpus vs. Revenue:**
 - Misclassification by grantors or auditors may result in unwarranted TDS deductions on corpus grants.
 - Trusts must maintain documentation (e.g., donor declarations) to substantiate the nature of grants.

b. Delayed TDS Credits:

- Errors in grantor filings may cause mismatches in Form 26AS, delaying credit adjustments or refunds.

c. Double Taxation Concerns:

- If TDS is deducted unnecessarily and exemptions under Sections 11 or 10(23C) are not applied, the trust may face double taxation.
 - Filing rectifications or claiming refunds becomes crucial in such cases.
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4. Practical Steps to Manage TDS on Grant Receipts:

a. Classification of Grants:

- Clearly distinguish between corpus and revenue grants in agreements or correspondence with grantors.
- Request explicit mentions of "corpus" in the grant documents to avoid TDS deductions.

b. Regular Monitoring:

- Reconcile TDS credits in Form 26AS with grant receipts periodically.
- Follow up with grantors for timely issuance of TDS certificates (Form 16A).

c. Proper Accounting:

- Record the gross grant amount as income and show TDS as a receivable.
- Maintain detailed records of grants received, TDS deductions, and applications of funds.

d. Legal and Professional Support:

- Consult tax professionals to address disputes, file rectifications, or claim refunds efficiently.
- Seek assistance in drafting agreements with grantors to prevent unnecessary TDS.

5. Key Points to Remember:

- **No TDS on Corpus Grants:**
 - Ensure documentation explicitly states the corpus nature of the grant to avoid TDS.
- **Refund Mechanism:**
 - Excess TDS deducted can be refunded through the income tax return filing process.
- **Impact on Exemptions:**
 - Trusts and NGOs must apply income per Sections 11 and 12 or Section 10(23C) to retain exemptions, including TDS-affected grants.

By adhering to the above guidelines, trusts and NGOs can minimize the adverse effects of TDS on grant receipts and ensure smooth compliance with tax regulations.

You said:

The reporting mechanisms applicable from AY 2023-24, including the procedural changes and how they affect the reporting of grant receipts in the audit report

ChatGPT said:

From Assessment Year (AY) **2023-24**, several procedural changes and enhanced reporting mechanisms have been introduced in the Income Tax Act, 1961, significantly impacting how trusts and NGOs report grant receipts in their audit reports. These updates aim to improve transparency and compliance. Below is a detailed overview:

1. Reporting Mechanisms Applicable from AY 2023-24:

a. Mandatory Filing of Audit Report:

- Trusts and NGOs registered under **Section 12AB** or claiming exemptions under **Section 10(23C)** must file audit reports in:
 - **Form 10B**: For entities claiming exemptions under Sections 11 and 12.
 - **Form 10BB**: For institutions claiming exemptions under Section 10(23C).
- Filing these forms electronically is now mandatory, and they must be submitted before filing the income tax return (ITR).

b. Disclosures in Form 10B/10BB:

The updated forms require:

- **Detailed Reporting of Receipts:**
 - Segregation of grants into **corpus contributions, revenue grants**, and other income.
 - Identification of voluntary contributions earmarked for specific purposes.
- **Application of Income:**
 - Explicit disclosure of how the grant income has been applied during the financial year (e.g., charitable or religious activities).
 - Separate reporting for amounts accumulated under Section 11(2).
- **Foreign Contributions:**
 - Reporting of foreign grants received under **FCRA compliance**.
 - Distinct accounting to avoid intermingling with domestic receipts.

c. Reconciliation of Income:

- A **new reconciliation requirement** has been introduced, ensuring that income reported in the financial statements matches with:
 - Grant receipts disclosed in the audit report.
 - TDS credits as reflected in **Form 26AS**.
 - Accumulated income or funds carried forward.
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2. Procedural Changes and Their Impact:

a. Timelines for Submission:

- Audit reports (Forms 10B/10BB) must be filed before the due date for filing the ITR (usually **31st October** for trusts requiring audits).
- Delayed filing may result in loss of exemptions under Sections 11, 12, or 10(23C).

b. Enhanced Reporting Requirements:

- **Specific Utilization Reporting:**
 - Details of grant utilization, including purpose and nature of expenses, are now mandatory.
 - Grants that remain unutilized must be disclosed, along with plans for future application or accumulation under Section 11(2).
- **Separate Books for Business or Incidental Activities:**
 - Trusts earning income from incidental business must maintain **separate books of accounts** and report such income distinctly in the audit report.
- **Verification of TDS and Tax Refunds:**
 - Any TDS deducted on grants must be reconciled and reported as tax credit in the audit report.

c. Introduction of Form 10-IC (for Section 11(2) Accumulation):

- Trusts opting for accumulation of income under Section 11(2) must now disclose:
 - The specific purpose of accumulation.
 - The period for which income is accumulated.
 - The accumulation must be reported in both the audit report and Form 10-IC.
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3. Changes in Audit Report Contents:

The revised audit report formats include:

1. Breakdown of Receipts:

- Classification into corpus contributions, grants for revenue purposes, and other receipts.
 - 2. **Nature and Purpose of Expenses:**
 - Clear categorization of how grants were spent (e.g., administrative vs program-related expenses).
 - 3. **Unspent Amounts:**
 - Disclosure of unspent or accumulated funds, reasons for the same, and compliance with Form 10 filing for accumulations.
 - 4. **Foreign Contributions:**
 - Separate disclosures for grants received under FCRA and their utilization.
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4. Reporting of Grant Receipts in Audit Reports:

a. Corpus vs. Revenue Grants:

- **Corpus Grants:**
 - Not taxable but require clear identification in the grant agreement and financial statements.
 - Separate disclosure as capital receipts in the audit report.
- **Revenue Grants:**
 - Reported as income, but eligible for exemption under Sections 11 or 10(23C) if applied appropriately.

b. Income Application Details:

- At least 85% of income must be applied to charitable purposes.
- The audit report must specify:
 - The exact percentage of income applied.
 - Activities and projects funded by the grants.

c. TDS Reporting:

- TDS deducted on grant receipts is reported as a **tax credit**.
- Any mismatches with Form 26AS must be reconciled to avoid tax liabilities or delays in refunds.

d. Business or Incidental Income:

- Income from incidental business (permitted under Section 11(4A)) must be reported separately, along with related expenses.
- Non-compliance in maintaining separate books of accounts may lead to denial of exemptions.

5. Implications of Non-Compliance:

- **Loss of Exemptions:**
 - Failure to submit Form 10B/10BB or inaccurate reporting can lead to denial of exemptions under Sections 11, 12, or 10(23C).
 - **Taxation at Maximum Marginal Rate:**
 - Income not applied or improperly disclosed is taxed at the maximum marginal rate.
 - **Penalties:**
 - Penalties may be levied for delayed or incorrect filings.
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6. Key Takeaways for Trusts and NGOs:

1. **Timely Compliance:**
 - File audit reports and ITRs within the prescribed timelines.
2. **Accurate Reporting:**
 - Classify grant receipts appropriately and ensure proper documentation.
3. **Reconciliation:**
 - Regularly reconcile financial statements with Form 26AS and TDS certificates.
4. **Professional Support:**
 - Engage qualified auditors to prepare and file Forms 10B/10BB, ensuring compliance with new reporting requirements.

By adhering to these procedural changes and enhanced reporting mechanisms, trusts and NGOs can ensure compliance, retain tax exemptions, and maintain transparency in financial disclosures.

You said:

Sample Observations and Qualifications for Audit Reports

ChatGPT said:

Below is a list of **sample observations and qualifications** that may be included in audit reports for trusts and NGOs under **Forms 10B and 10BB**. These observations highlight non-compliance, discrepancies, or issues that need to be addressed:

1. Observations on Receipts:

- **Voluntary Contributions:**
 - Observation: "The entity received voluntary contributions amounting to ₹X, out of which ₹Y was not supported by proper donor confirmations."
 - Qualification: "In the absence of confirmations, we are unable to verify the completeness of voluntary contributions reported."
 - **Foreign Grants (FCRA Compliance):**
 - Observation: "Foreign contributions of ₹X were received; however, the entity did not provide evidence of FCRA registration renewal."
 - Qualification: "Non-compliance with FCRA provisions may impact the exempt status of foreign receipts."
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2. Observations on Application of Income:

- **Non-Application of 85% Income:**
 - Observation: "The trust has not applied 85% of its income during the year as required under Section 11(1)."
 - Qualification: "The unutilized portion of income amounting to ₹X has not been accumulated as per Section 11(2) and may be subject to tax."
 - **Improper Classification of Expenses:**
 - Observation: "Administrative expenses have been charged to program funds without proper justification."
 - Qualification: "This may lead to non-compliance with the requirement of application of income for charitable purposes."
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3. Observations on Corpus Donations:

- **Misclassification of Corpus Donations:**
 - Observation: "Certain donations recorded as corpus contributions lack explicit directions from donors."
 - Qualification: "In the absence of written directions, these contributions may not qualify as corpus donations and should be treated as revenue income."
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4. Observations on TDS and Tax Credits:

- **Mismatch in TDS Reporting:**
 - Observation: "TDS amounting to ₹X as per Form 26AS does not reconcile with the TDS credits accounted in the books."
 - Qualification: "The mismatch may result in under-reporting of TDS claims or excess tax liability."
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5. Observations on Books of Accounts:

- **Non-Maintenance of Separate Books for Business Income:**
 - Observation: "Income from incidental business activities has not been maintained in separate books of accounts as required under Section 11(4A)."
 - Qualification: "Failure to maintain separate accounts may result in denial of exemptions on such income."
 - **Improper Record-Keeping:**
 - Observation: "The trust has not maintained proper records for grants received and their utilization."
 - Qualification: "This may lead to inaccurate reporting of income and expenditure, affecting compliance with Sections 11 and 12."
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6. Observations on Accumulation of Income:

- **Non-Filing of Form 10:**
 - Observation: "Income of ₹X intended for future application has not been declared through Form 10 as required under Section 11(2)."
 - Qualification: "The non-compliance may render the accumulated income taxable."
-

7. Observations on Foreign Contributions:

- **Non-Separation of Domestic and Foreign Contributions:**
 - Observation: "Foreign contributions amounting to ₹X have not been accounted for separately from domestic contributions."
 - Qualification: "This contravenes FCRA rules and may result in regulatory penalties."
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8. Observations on Exemptions and Compliance:

- **Non-Compliance with Section 13:**
 - Observation: "The trust has provided direct or indirect benefit to its trustees amounting to ₹X, violating Section 13(1)(c)."
 - Qualification: "This may lead to forfeiture of exemption under Sections 11 and 12."
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9. Observations on Filing Deadlines:

- **Delay in Filing Forms 10B/10BB:**
 - Observation: "The audit report was not submitted within the prescribed timeline."
 - Qualification: "This delay may impact the trust's claim for exemptions."
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10. Observations on Utilization of Funds:

- **Diversion of Funds:**
 - Observation: "Funds intended for Project A were diverted to administrative expenses without prior approval."
 - Qualification: "This may result in a breach of donor agreements and affect the trust's compliance status."
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Sample Qualifications in Audit Reports:

1. **Income Utilization:**
 - "The trust has not applied the required percentage of income for charitable purposes, and no valid reasons for non-compliance were provided."
2. **Inadequate Supporting Documents:**
 - "Expenditure vouchers supporting ₹X worth of expenses were either missing or incomplete, limiting our ability to verify the application of income."
3. **Improper Classification of Receipts:**
 - "Corpus donations amounting to ₹X were classified as revenue contributions, which may result in inaccurate income reporting."
4. **TDS Non-Reconciliation:**

- "We observed discrepancies in TDS records, indicating potential errors in claiming tax credits."

How to Address Observations and Qualifications:

1. **Improved Documentation:**
 - Maintain proper records for all receipts, expenditures, and donor contributions.
2. **Regular Reconciliation:**
 - Periodically reconcile books of accounts with Form 26AS, TDS certificates, and grant agreements.
3. **Segregation of Income:**
 - Separate accounting for corpus funds, revenue income, and incidental business income.
4. **Compliance with Filing Deadlines:**
 - Ensure timely filing of audit reports, Form 10, and other statutory forms.
5. **Professional Advice:**
 - Consult professionals to ensure compliance with statutory provisions and address potential issues proactively.

By addressing these observations effectively, trusts and NGOs can enhance compliance, transparency, and governance.

You said:

Comprehensive list of sample observations and qualifications that can be included in audit reports, tailored to address common issues faced by auditors

ChatGPT said:

Here is a **comprehensive list of sample observations and qualifications** that auditors can include in their reports, tailored to address common issues faced during audits of trusts and NGOs. These observations and qualifications cover key aspects of compliance, accounting, and statutory requirements:

1. Receipts and Revenue Observations:

1. **Unrecorded Donations:**

- Observation: "Cash donations amounting to ₹X were not recorded in the books of accounts."
- Qualification: "In the absence of documentation, we are unable to confirm the completeness of donations reported."

2. **Improper Classification of Receipts:**

- Observation: "Grants of ₹X were classified as corpus without specific directions from the donor."
- Qualification: "Misclassification of grants may result in incorrect reporting of revenue."

3. **Foreign Contributions Without FCRA Compliance:**

- Observation: "The trust received foreign contributions of ₹X without valid FCRA registration."
- Qualification: "Non-compliance with FCRA rules could result in penalties and forfeiture of tax exemptions."

4. **Mismatch in TDS on Receipts:**

- Observation: "TDS credits as per Form 26AS amounting to ₹X do not match the trust's records."
 - Qualification: "This discrepancy may lead to overstatement or understatement of tax credits."
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2. **Application of Income:**

1. **Non-Application of 85% Income:**

- Observation: "Only 70% of income was applied to charitable purposes, contrary to the requirements of Section 11(1)."
- Qualification: "The shortfall in application of income amounting to ₹X may be subject to tax unless accumulated as per Section 11(2)."

2. **Unsupported Expenses:**

- Observation: "Expenses of ₹X lacked proper invoices or supporting vouchers."
- Qualification: "This limits our ability to verify the appropriateness of these expenses as charitable in nature."

3. **Diversion of Funds:**

- Observation: "Funds allocated for Project A were used for administrative purposes without donor approval."
 - Qualification: "Diversion of funds may lead to non-compliance with donor agreements and tax laws."
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3. **Corpus and Capital Observations:**

1. **Improper Use of Corpus Funds:**

- Observation: "Corpus funds of ₹X were utilized for operational expenses without authorization."
- Qualification: "Improper use of corpus funds may affect their exempt status under Section 11(1)(d)."

2. **Capital Gains Not Reinvested:**

- Observation: "Capital gains of ₹X from the sale of assets were not reinvested as required under Section 11(1A)."
 - Qualification: "This may result in the denial of exemption on the capital gains."
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4. **Statutory Filings and Compliance:**

1. **Delay in Filing Form 10B/10BB:**

- Observation: "The audit report was submitted beyond the prescribed due date."
- Qualification: "Delayed submission may lead to loss of exemptions under Sections 11 or 10(23C)."

2. **Non-Filing of Form 10 for Accumulation:**

- Observation: "The trust failed to file Form 10 for accumulation of unutilized income amounting to ₹X."
- Qualification: "This may result in taxation of unutilized income at the maximum marginal rate."

3. **Non-Maintenance of Books:**

- Observation: "Books of accounts for incidental business activities were not maintained separately as required under Section 11(4A)."
 - Qualification: "Non-compliance may lead to taxation of income from incidental business."
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5. **Governance and Internal Control:**

1. **Conflict of Interest:**

- Observation: "Payments amounting to ₹X were made to related parties without adequate justification."
- Qualification: "Transactions with related parties may contravene Section 13(1)(c) and lead to denial of exemptions."

2. **Lack of Governance Policies:**

- Observation: "The trust does not have documented internal control policies for financial transactions."

- Qualification: "This may lead to errors or irregularities in the management of funds."

6. Foreign Contributions (FCRA Compliance):

1. Non-Separation of Domestic and Foreign Funds:

- Observation: "Foreign contributions of ₹X were intermingled with domestic funds in the accounts."
- Qualification: "This contravenes FCRA requirements and may result in regulatory penalties."

2. Delay in Filing FCRA Annual Returns:

- Observation: "The trust delayed filing its FCRA annual return by X months."
- Qualification: "This non-compliance may result in penalties or suspension of FCRA registration."

7. Other Specific Observations:

1. Unrecorded Liabilities:

- Observation: "Expenses of ₹X incurred during the year were not recorded as liabilities in the financial statements."
- Qualification: "This may result in an understatement of liabilities and overstatement of income."

2. Improper Valuation of Assets:

- Observation: "Fixed assets were valued at ₹X without supporting valuation reports."
- Qualification: "This may lead to incorrect reporting of asset values in the financial statements."

Sample Qualifications in Audit Reports:

1. General Non-Compliance:

- "The trust has not complied with the requirement to apply at least 85% of its income to charitable purposes, and the reasons for non-compliance have not been substantiated."

2. Unsupported Grant Receipts:

- "Certain grants amounting to ₹X were recognized without adequate documentation, and we are unable to verify their legitimacy."

3. Failure to Maintain Statutory Registers:

- "Statutory registers required under the Income Tax Act were not maintained by the trust, limiting our ability to verify compliance."

Steps to Address Observations and Qualifications:

1. **Strengthen Internal Controls:**
 - Implement policies for fund management, expense approvals, and donor reporting.
2. **Ensure Timely Compliance:**
 - File all statutory forms (e.g., Form 10, Form 10B/10BB) within deadlines.
3. **Reconcile Financial Data:**
 - Regularly reconcile Form 26AS, TDS records, and financial statements.
4. **Maintain Proper Documentation:**
 - Keep detailed records of receipts, expenses, donor agreements, and FCRA compliance.

By incorporating these observations and qualifications into the audit report, auditors ensure that stakeholders are well-informed of compliance issues, accounting discrepancies, and potential risks faced by the trust or NGO.

You said:

Specific reporting requirements for transactions involving specified persons under Section 13(3) and violations of the relevant laws

ChatGPT said:

Reporting Requirements for Transactions Involving Specified Persons under Section 13(3) and Implications of Violations

1. Overview of Section 13(3) of the Income Tax Act:

- **Section 13(3)** specifies the persons connected with a trust or NGO (referred to as "specified persons") who could potentially benefit from its income or assets. These include:
 - Founders or settlers of the trust.
 - Trustees, managers, or key decision-makers.
 - Relatives of the above persons.
 - Entities in which any of the above persons have a substantial interest.

2. Key Provisions Under Section 13:

- **Section 13(1)(c):**
 - Prohibits the use or application of income or assets of the trust directly or indirectly for the benefit of specified persons.
- **Section 13(2):**
 - Lists specific situations that amount to a violation, such as:
 - Lending trust funds without adequate security or interest.
 - Allowing specified persons to use trust property without adequate compensation.
 - Paying excessive remuneration to specified persons.
 - Entering into transactions on terms that are not at arm's length.

3. Reporting Requirements:

Auditors are required to report transactions with specified persons in the audit report filed under **Form 10B or Form 10BB**, as per Rule 17B. The key reporting aspects include:

a. Details of Transactions:

- **Nature of the Transaction:**
 - Description of the transaction (e.g., loans, advances, property use, excessive payments).
- **Amount Involved:**
 - The financial value of the transaction during the relevant financial year.
- **Relationship with Specified Person:**
 - Identification of the specified person (e.g., trustee, relative, entity).
- **Justification:**
 - Whether the transaction is consistent with the trust's objectives and at arm's length.

b. Compliance Check:

- Auditors must confirm whether:
 - The transaction complies with Section 13(1)(c).
 - It is carried out in the trust's best interest.

- There is proper documentation supporting the terms of the transaction.

c. Qualification in the Audit Report:

- In cases of non-compliance, the auditor must explicitly qualify the report and disclose:
 - The nature and amount of the violation.
 - Its potential impact on the trust's exemptions under Sections 11 and 12.
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4. Implications of Violations:

a. Denial of Exemptions:

- **Loss of Tax Benefits:**
 - If income or property is misused for the benefit of specified persons, the trust loses its exemptions under Sections 11 and 12 for the portion of income misused.
 - The income becomes taxable at the maximum marginal rate.

b. Penalties and Prosecution:

- The trust or its office-bearers may face penalties for non-compliance.
- Persistent violations can lead to the cancellation of the trust's **Section 12AB registration**.

c. Increased Scrutiny:

- Trusts engaging in transactions with specified persons may attract greater scrutiny during tax assessments and audits.
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5. Examples of Reportable Transactions and Violations:

Example 1: Loan Without Adequate Security:

- **Transaction:** The trust granted an unsecured loan of ₹5,00,000 to a trustee without any interest.
- **Violation:** Breach of Section 13(2)(a) (loan without adequate security).
- **Impact:** The income used for the loan will lose exemption.

Example 2: Excessive Salary:

- **Transaction:** A relative of the trustee was paid a salary of ₹20,00,000 for administrative services, significantly above market standards.
- **Violation:** Breach of Section 13(2)(c) (excessive remuneration).
- **Impact:** The excess payment will lose exemption and become taxable.

Example 3: Use of Property Without Adequate Compensation:

- **Transaction:** A specified person used the trust's guesthouse without paying rent or incurring charges.
 - **Violation:** Breach of Section 13(2)(b) (use of property without adequate consideration).
 - **Impact:** The income attributable to the use of the property will lose exemption.
-

6. Auditor's Checklist for Reporting Under Section 13(3):

1. **Identify Transactions:**
 - Review all related party transactions during the financial year.
 2. **Evaluate Arm's Length Terms:**
 - Verify whether transactions are at market rates and supported by documentation.
 3. **Check Approvals:**
 - Confirm that transactions with specified persons have been approved by the governing body.
 4. **Reconcile Records:**
 - Ensure that financial statements, related party disclosures, and Form 10B/10BB align.
 5. **Document Observations:**
 - Maintain a detailed record of all transactions, especially those involving specified persons.
-

7. Sample Observations and Qualifications in Audit Reports:

Observation 1:

- "The trust has granted an interest-free loan of ₹X to a trustee, contrary to the provisions of Section 13(2)(a). This transaction may result in a denial of exemption for the corresponding income."

Observation 2:

- "Excessive remuneration of ₹Y was paid to a specified person, significantly exceeding market rates. This may affect the trust's exemption for the said amount."

Observation 3:

- "The trust has allowed a specified person to use its property without adequate consideration, violating Section 13(2)(b)."
-

8. Remedial Actions for Trusts:

1. **Document Transactions Properly:**
 - Maintain detailed agreements, invoices, and approvals for all transactions with specified persons.
 2. **Ensure Transactions Are Arm's Length:**
 - Benchmark payments and other benefits against market standards.
 3. **Seek Legal and Professional Advice:**
 - Regularly consult tax professionals to ensure compliance.
 4. **Self-Correct Violations:**
 - Repay amounts misused by specified persons to the trust and maintain transparency in records.
-

By adhering to the reporting requirements under Section 13(3) and ensuring compliance, trusts can safeguard their exemptions and maintain operational integrity.

You said:

Practical examples of how to report the maintenance of books of account, the non-filing of income tax returns, and other common issues

ChatGPT said:

Practical Examples of Reporting Common Issues in Audit Reports

Audit reports for trusts and NGOs often need to address various compliance and operational issues, such as the maintenance of books of accounts, non-filing of income tax returns, and other common discrepancies. Below are practical examples of how these issues can be reported in audit reports:

1. Maintenance of Books of Account:

Issue: Inadequate Maintenance of Books of Accounts

- **Observation:**
 - "The trust has not maintained proper books of accounts, including ledgers and vouchers for certain expenses amounting to ₹X."
- **Qualification:**
 - "In the absence of complete and accurate books of accounts, we are unable to verify the correctness of the income and expenditure reported for the financial year."
- **Recommendation:**
 - "The trust is advised to maintain books of accounts as prescribed under Section 12A(b) of the Income Tax Act to ensure compliance and proper reporting of financial transactions."

Issue: Non-Maintenance of Separate Books for Incidental Business

- **Observation:**
 - "Income from incidental business activities amounting to ₹Y has not been maintained in separate books of accounts, contrary to the requirements of Section 11(4A)."
- **Qualification:**
 - "This non-compliance may result in the denial of exemption for such income."
- **Recommendation:**
 - "Separate books of accounts should be maintained for incidental business activities to ensure compliance with statutory provisions."

2. Non-Filing of Income Tax Returns:

Issue: Non-Filing of Income Tax Returns

- **Observation:**
 - "The trust has not filed its income tax return for the assessment year 2023-24 within the due date prescribed under Section 139(1)."
- **Qualification:**
 - "Non-filing of income tax returns may result in penalties under Section 234F and potential denial of exemptions under Sections 11 and 12."
- **Recommendation:**

- "The trust should ensure timely filing of income tax returns to avoid penalties and retain its exempt status."

Issue: Delayed Filing of Returns

- **Observation:**
 - "The income tax return was filed on [date], which is beyond the due date of 31st October. The delay in filing may impact the claim of exemptions."
 - **Qualification:**
 - "Late filing of returns may attract penalties under Section 234F and lead to a denial of accumulation benefits under Section 11(2)."
 - **Recommendation:**
 - "The trust is advised to file returns within the stipulated timeframes to maintain compliance."
-

3. Inaccurate Classification of Income or Expenditure:

Issue: Misclassification of Corpus and Revenue Donations

- **Observation:**
 - "Certain donations amounting to ₹X have been classified as corpus without explicit instructions from the donors."
- **Qualification:**
 - "Inaccurate classification of corpus donations may result in overstatement of revenue income and impact the trust's tax exemptions."
- **Recommendation:**
 - "The trust should obtain written instructions from donors for corpus donations and correctly classify receipts in the books."

Issue: Capital Expenditure Charged to Revenue

- **Observation:**
 - "Capital expenditure amounting to ₹Y has been charged to revenue expenses, leading to a misstatement of income."
 - **Qualification:**
 - "This practice does not conform to generally accepted accounting principles and may affect the financial statements' accuracy."
 - **Recommendation:**
 - "Capital expenditures should be capitalized and depreciated as per applicable accounting standards."
-

4. Non-Compliance with Accumulation Provisions:

Issue: Non-Filing of Form 10 for Accumulation

- **Observation:**
 - "The trust has failed to file Form 10 to accumulate unutilized income amounting to ₹X as required under Section 11(2)."
- **Qualification:**
 - "Non-compliance with accumulation provisions may result in taxation of the unutilized income."
- **Recommendation:**
 - "The trust is advised to file Form 10 within the prescribed timelines to claim accumulation benefits."

Issue: Incomplete Utilization of Accumulated Income

- **Observation:**
 - "The accumulated income of ₹Y from previous years has not been utilized within the specified time frame."
- **Qualification:**
 - "This non-compliance may result in the accumulated income being treated as taxable in the current year."
- **Recommendation:**
 - "The trust should monitor and utilize accumulated income within the prescribed period and document its application."

5. Issues with TDS Compliance:

Issue: TDS Non-Compliance on Payments

- **Observation:**
 - "The trust has not deducted TDS on payments exceeding ₹X made under Section 194C."
- **Qualification:**
 - "Non-deduction of TDS may result in disallowance of expenses under Section 40(a)(ia) and attract penalties."
- **Recommendation:**
 - "The trust should ensure TDS compliance and deposit the deducted amount within the stipulated time."

Issue: Non-Reconciliation of TDS Credits

- **Observation:**

- "TDS credits amounting to ₹Y in Form 26AS do not match the TDS receivable reported in the books."
 - **Qualification:**
 - "This discrepancy may lead to an incorrect claim of tax credits in the income tax return."
 - **Recommendation:**
 - "The trust should reconcile TDS records with Form 26AS and resolve discrepancies with the deductors."
-

6. Governance and Internal Control Issues:

Issue: Lack of Internal Controls

- **Observation:**
 - "The trust does not have adequate internal controls for monitoring receipts and expenditures."
- **Qualification:**
 - "This lack of controls increases the risk of errors and mismanagement of funds."
- **Recommendation:**
 - "The trust should implement robust internal control systems and policies to ensure accountability."

Issue: Related Party Transactions

- **Observation:**
 - "Payments amounting to ₹X were made to related parties without sufficient documentation or justification."
 - **Qualification:**
 - "This may violate the provisions of Section 13(1)(c) and impact the trust's exemptions."
 - **Recommendation:**
 - "The trust should document all related party transactions and ensure they are at arm's length."
-

7. Other Common Issues:

Issue: Non-Filing of FCRA Returns

- **Observation:**

- "The trust has not filed its FCRA return for the financial year within the prescribed due date."
- **Qualification:**
 - "Non-compliance with FCRA regulations may attract penalties and impact foreign grant receipts."
- **Recommendation:**
 - "The trust should comply with FCRA filing requirements and maintain separate records for foreign contributions."

Issue: Diversion of Funds

- **Observation:**
 - "Funds amounting to ₹X intended for specific projects were used for general administrative expenses."
 - **Qualification:**
 - "This diversion of funds contravenes donor agreements and may impact the trust's credibility."
 - **Recommendation:**
 - "The trust should allocate funds as per donor agreements and document approvals for any reallocation."
-

Conclusion:

By addressing these practical examples in audit reports, auditors can provide actionable recommendations and ensure that trusts and NGOs adhere to statutory and financial compliance requirements.

You said:

Instructions for Filling Form 10B and Form 10BB

ChatGPT said:

Filing **Form 10B** and **Form 10BB** is a mandatory requirement for trusts, NGOs, and certain institutions to claim tax exemptions under the Income Tax Act. Below are detailed instructions for filling each form, highlighting their applicability, structure, and procedural requirements:

Form 10B: Instructions for Filing

Applicability:

- Applicable to trusts and NGOs registered under **Section 12AB** and claiming exemptions under **Sections 11 and 12** of the Income Tax Act.
- Required when the total income (before exemptions) exceeds the basic exemption limit.

Structure of Form 10B:

1. **Part A: General Information**
 - **Name and Address:** Enter the name, address, and PAN of the trust or NGO.
 - **Registration Details:** Provide details of registration under Section 12AB, including registration number and date.
 - **Assessment Year:** Specify the relevant assessment year for which the audit report is being filed.
2. **Part B: Statement of Particulars**
 - **Income Details:**
 - Income derived from property held under trust, including voluntary contributions.
 - Income applied for charitable or religious purposes.
 - **Accumulation of Income:**
 - Details of income accumulated under Section 11(2) and its utilization.
 - **TDS:**
 - Provide details of TDS deducted on income, along with reconciliation with Form 26AS.
 - **Business Income:**
 - Report income from business activities, if any, and confirm maintenance of separate books of accounts.
3. **Part C: Auditor's Report**
 - Auditor's opinion on the correctness of income, compliance with the application of income rules, and adherence to the provisions of Sections 11 and 12.

Filing Process:

1. **Prepare the Audit Report:**
 - The audit report must be prepared and certified by a Chartered Accountant (CA).
 - Ensure that the report includes all necessary disclosures about income, application, and compliance.

2. **File Online:**

- Log in to the **Income Tax e-Filing portal** using the trust's credentials.
- Navigate to the "Income Tax Forms" section, select **Form 10B**, and upload the digitally signed report.

3. **Deadline:**

- Form 10B must be filed before the due date for filing the income tax return, typically **31st October** for AY 2023-24.

Form 10BB: Instructions for Filing

Applicability:

- Applicable to institutions claiming exemptions under **Section 10(23C)**, such as:
 - Educational institutions.
 - Hospitals and medical institutions.
 - Public charitable funds or trusts approved under Section 10(23C)(iv), (v), (vi), or (via).

Structure of Form 10BB:

1. **Part A:** General Information

- **Name and Address:** Enter the institution's name, address, and PAN.
- **Approval Details:** Provide approval details under Section 10(23C), including approval number and date.
- **Assessment Year:** Specify the relevant assessment year.

2. **Part B:** Statement of Particulars

- **Receipts and Expenditure:**
 - Details of gross receipts, including fees, grants, and other income.
 - Report expenditure on specified purposes, including administrative and operational costs.
- **Surplus or Deficit:**
 - State the surplus or deficit for the financial year and its application or carry-forward.
- **Compliance with Section 10(23C):**
 - Confirm adherence to provisions, including non-diversion of funds for private benefits.

3. **Part C:** Auditor's Report

- Auditor's certification of compliance with the provisions of Section 10(23C).

Filing Process:

1. **Prepare the Audit Report:**

- The report must be prepared and certified by a Chartered Accountant (CA).
 - Ensure it includes detailed disclosures of income, receipts, and compliance.
2. **File Online:**
- Log in to the **Income Tax e-Filing portal** using the institution's credentials.
 - Select **Form 10BB**, fill in the necessary details, and upload the digitally signed report.
3. **Deadline:**
- Form 10BB must also be filed before the due date for filing the income tax return, usually **31st October**.
-

Common Instructions for Both Forms:

1. **Ensure Accuracy:**
 - All income, receipts, and expenditures must be accurately reported.
 - TDS credits should match with Form 26AS.
 2. **Maintain Proper Documentation:**
 - Supporting documents such as receipts, vouchers, donor agreements, and bank statements should be available for audit.
 3. **Reconcile Accumulated Income:**
 - Ensure that income accumulated under Section 11(2) (Form 10B) or surplus under Section 10(23C) (Form 10BB) is utilized as prescribed.
 4. **Use Digital Signature:**
 - The CA's report must be digitally signed before submission.
 5. **Coordinate with the Auditor:**
 - Work closely with the auditor to address any discrepancies or compliance issues.
-

Key Points to Avoid Penalties:

- **Timely Filing:** Filing the forms after the due date may result in denial of exemptions.
- **Correct Information:** Errors or omissions in reporting may lead to scrutiny or loss of exemptions.
- **Comply with Conditions:** Non-compliance with the provisions of Sections 11, 12, or 10(23C) could lead to taxation at the maximum marginal rate.

By following these instructions, trusts and institutions can ensure accurate and compliant filing of Form 10B and Form 10BB, safeguarding their tax-exempt status.

You said:

Step-by-step instructions for completing and submitting Form 10B and Form 10BB, including a detailed breakdown of each field and annexure

ChatGPT said:

Step-by-Step Instructions for Completing and Submitting Form 10B and Form 10BB

Below is a detailed breakdown of the fields, annexures, and procedural steps for completing and submitting **Form 10B** and **Form 10BB**:

1. Form 10B: For Trusts Registered Under Section 12AB

Part A: General Information

1. **Name of the Trust/Institution:**
 - Enter the full legal name as per the PAN card or registration certificate.
2. **Address and Contact Details:**
 - Provide the registered address, including city, state, and PIN code.
 - Mention the contact number and email ID.
3. **Permanent Account Number (PAN):**
 - Enter the trust's PAN, ensuring it matches with the IT Department's records.
4. **Registration Details:**
 - Mention the registration number and date under **Section 12AB**.
5. **Assessment Year:**
 - Specify the year for which the audit is being conducted (e.g., AY 2023-24).

Part B: Statement of Particulars

1. **Income Derived from Property Held Under Trust:**
 - Report gross income derived from assets held under the trust, including:
 - Rent, interest, dividends, or other income.
2. **Voluntary Contributions:**
 - Break down contributions into:
 - Corpus donations (specifically designated for corpus).
 - Other voluntary contributions (general donations).
3. **Application of Income:**
 - Report how income has been applied for charitable or religious purposes:

- Expenditures incurred.
 - Income utilized for trust objectives.
- 4. **Accumulation of Income:**
 - Specify any income accumulated under **Section 11(2)** for future use.
 - Include:
 - Purpose of accumulation.
 - Amount accumulated.
- 5. **Business Income:**
 - If applicable, report income from incidental business activities, ensuring:
 - Separate books of accounts are maintained.
 - The business is incidental to the trust's objectives.
- 6. **TDS Details:**
 - Reconcile income with TDS credits reflected in **Form 26AS**.
 - Report discrepancies, if any.

Part C: Auditor's Report

1. **Auditor's Opinion:**
 - Certify whether the income and expenditure are properly accounted for and comply with Sections 11 and 12.
2. **Observations and Qualifications:**
 - Mention any deviations, non-compliance, or other issues (e.g., under-application of income).

2. Form 10BB: For Institutions Under Section 10(23C)

Part A: General Information

1. **Name of the Institution:**
 - Enter the name as per the approval under Section 10(23C).
2. **Approval Details:**
 - Provide the approval order number and date under Section 10(23C).
3. **PAN:**
 - Ensure the PAN matches IT Department records.
4. **Assessment Year:**
 - Mention the assessment year for filing (e.g., AY 2023-24).

Part B: Statement of Particulars

1. **Gross Receipts:**
 - Report gross receipts from:
 - Fees, grants, donations, or other sources.

2. **Expenditures:**

- Provide details of expenses incurred for:
 - Specific purposes.
 - Administrative and operational purposes.

3. **Surplus or Deficit:**

- Calculate and report the surplus or deficit for the financial year.

4. **Compliance with Section 10(23C):**

- Confirm adherence to conditions, including:
 - No diversion of funds for private benefits.
 - Utilization of income for approved purposes.

5. **Foreign Contributions (if any):**

- Report foreign contributions separately and ensure compliance with FCRA regulations.

Part C: Auditor's Report

1. **Certification:**

- Certify compliance with Section 10(23C) provisions, including:
 - Accurate reporting of income and expenditures.
 - Proper application of income.

2. **Observations and Issues:**

- Include any qualifications or observations, such as:
 - Improper classification of income.
 - Non-compliance with regulatory requirements.

3. Annexures to Be Attached

- **Financial Statements:**
 - Balance Sheet and Income & Expenditure Account.
 - Separate accounts for business activities, if applicable.
- **Details of Accumulated Income:**
 - Filing of **Form 10 (for trusts)** or supporting documents for accumulation.
- **TDS Certificates:**
 - Attach copies of TDS certificates (Form 16A) for reconciliation.
- **FCRA Compliance Documents:**
 - For foreign contributions, attach FCRA approval and related records.

4. Online Filing Process for Both Forms

1. **Log in to the Income Tax e-Filing Portal:**

- Use the trust or institution's credentials.
 - 2. **Navigate to the Forms Section:**
 - Go to "Income Tax Forms" under the **e-File** menu.
 - Select **Form 10B** or **Form 10BB** as applicable.
 - 3. **Fill in the Details:**
 - Enter the required details in the respective parts of the form.
 - Attach scanned and digitally signed annexures.
 - 4. **Upload the Audit Report:**
 - The Chartered Accountant (CA) must digitally sign the report.
 - Upload the report, ensuring all fields are accurately filled.
 - 5. **Verify and Submit:**
 - Review the form and submitted data.
 - Verify using the trust's **Digital Signature Certificate (DSC)**.
-

5. Deadlines and Key Points

- **Due Date:** Submit the forms before the due date for filing the income tax return, typically **31st October**.
 - **Accuracy:** Ensure income, receipts, and TDS details match across financial statements, Form 26AS, and the audit report.
 - **Compliance:** Strict adherence to conditions under Sections 11, 12, or 10(23C) is essential to retain exemptions.
-

By following this detailed process and ensuring accuracy, trusts and institutions can successfully file Form 10B and Form 10BB while maintaining compliance and retaining tax-exempt status.

You said:

Common errors to avoid, field-specific guidance, and tips for ensuring accurate and compliant submissions

ChatGPT said:

Common Errors to Avoid, Field-Specific Guidance, and Tips for Filing Form 10B and Form 10BB

Submitting **Form 10B** or **Form 10BB** accurately is crucial for trusts, NGOs, and institutions to retain their tax-exempt status and avoid penalties. Below are common errors, field-specific guidance, and tips for ensuring accurate and compliant submissions.

1. Common Errors to Avoid

a. Errors in Basic Information:

- **Incorrect PAN or Registration Details:**
 - Ensure the PAN and registration number match the records with the Income Tax Department and **Section 12AB/10(23C)** approval documents.
- **Wrong Assessment Year:**
 - Mention the correct assessment year (e.g., AY 2023-24 for income earned in FY 2022-23).

b. Misclassification of Income and Expenditure:

- **Corpus Donations:**
 - Do not classify general voluntary contributions as corpus unless explicitly directed by the donor.
- **Capital Expenditures:**
 - Capital expenditures should not be recorded as revenue expenses; they should be capitalized and depreciated as per accounting standards.

c. Non-Reconciliation of TDS and Receipts:

- **Mismatch with Form 26AS:**
 - Ensure that the TDS reported matches the credits in Form 26AS. Mismatches may delay refunds or lead to queries.

d. Missing or Incomplete Disclosures:

- **Accumulation of Income:**
 - If income is accumulated under **Section 11(2)**, ensure Form 10 is filed and attached.
- **Foreign Contributions:**
 - If the entity receives foreign grants, ensure compliance with FCRA and report them separately.

e. Filing Errors:

- **Delayed Submission:**
 - Filing the form after the due date may lead to denial of exemptions.

- **Missing Digital Signatures:**
 - Ensure that the Chartered Accountant (CA) digitally signs the report.
-

2. Field-Specific Guidance

Form 10B: Guidance by Section

1. **Part A: General Information**
 - **PAN and Name:**
 - Match exactly with the Income Tax Department records.
 - **Registration Details:**
 - Include the approval number and date under **Section 12AB**.
 2. **Part B: Statement of Particulars**
 - **Income from Property Held Under Trust:**
 - Include all income derived, such as rent, interest, and dividends.
 - Exclude corpus donations from income.
 - **Voluntary Contributions:**
 - Classify between corpus (with explicit donor instructions) and general donations.
 - **Application of Income:**
 - Ensure at least 85% of income is applied for charitable purposes or provide reasons for non-compliance.
 - **Accumulation:**
 - Mention income accumulated for future purposes under **Section 11(2)** and attach supporting Form 10.
 3. **Part C: Auditor's Report**
 - **Observations:**
 - Include any discrepancies, qualifications, or compliance issues.
 - **Income Tax Deductions:**
 - Reconcile TDS with Form 26AS.
-

Form 10BB: Guidance by Section

1. **Part A: General Information**
 - **Approval Details:**
 - Mention approval number and date under **Section 10(23C)**.
 - **Gross Receipts:**
 - Report all income, including fees, donations, grants, and other sources.
 2. **Part B: Statement of Particulars**
 - **Utilization of Receipts:**
-

- Clearly differentiate between operational, administrative, and program-specific expenditures.
 - **Surplus or Deficit:**
 - Accurately calculate and report the surplus/deficit after deducting expenditures.
 - 3. **Part C: Auditor's Report**
 - **Compliance Check:**
 - Confirm compliance with Section 10(23C), including:
 - Proper application of income.
 - No diversion of funds for private use.
-

3. Tips for Accurate and Compliant Submissions

a. Preparation Tips

1. **Maintain Proper Documentation:**
 - Keep detailed records of all receipts, expenditures, donor instructions, and project allocations.
2. **Reconcile Financial Data:**
 - Ensure all financial statements align with:
 - Form 26AS (TDS).
 - Income and Expenditure Account.
 - Balance Sheet.

b. Filing Tips

1. **Use Updated Formats:**
 - Ensure the latest versions of Form 10B or Form 10BB are used for filing.
2. **Digital Signatures:**
 - Ensure the CA and the trust/institution digitally sign the form before submission.
3. **Timely Filing:**
 - File the form before the ITR deadline (typically **31st October** for AY 2023-24).

c. Compliance Tips

1. **Follow Statutory Conditions:**
 - For trusts under **Section 12AB**, ensure compliance with Sections 11 and 12 (e.g., 85% income application).
 - For institutions under **Section 10(23C)**, avoid fund diversion or private benefits.

2. Address Qualifications:

- Respond to auditor observations promptly to avoid future scrutiny or tax liabilities.

d. Engage Professionals:

- **Seek Expert Guidance:**

- Work with experienced CAs familiar with trust/institutional audits and tax law.

4. Checklist for Final Submission

- **Form 10B/10BB Completed Accurately:**

- All fields filled correctly with no omissions.

- **Supporting Documents Attached:**

- Financial statements, TDS certificates, Form 10 (if applicable), and FCRA compliance documents.

- **Digital Signatures:**

- Both the CA and the trust's authorized signatory have digitally signed the form.

- **Timely Upload:**

- Form uploaded on the **Income Tax e-Filing portal** before the due date.

By avoiding common errors, following field-specific guidance, and adhering to the tips provided, trusts and NGOs can ensure their **Form 10B or Form 10BB submissions** are accurate, compliant, and error-free. This will safeguard their tax-exempt status and prevent potential penalties or legal scrutiny.

You said:

Instructions on how to download and use the offline utility for filing these forms, along with practical advice for navigating the e-filing system

ChatGPT said:

Instructions for Downloading and Using the Offline Utility for Filing Form 10B and Form 10BB

The Income Tax Department provides an offline utility to facilitate accurate and seamless filing of **Form 10B** and **Form 10BB**. Below are step-by-step instructions for downloading, using the utility, and filing the forms through the e-filing portal, along with practical advice.

1. Downloading the Offline Utility

Steps to Download:

1. **Visit the Income Tax e-Filing Portal:**
 - Go to <https://www.incometax.gov.in>.
 2. **Navigate to the Downloads Section:**
 - On the homepage, click on "**Downloads**" from the menu bar.
 - Select the **Offline Utilities** option.
 3. **Locate Form 10B/10BB Utility:**
 - Search for the offline utility for **Form 10B** or **Form 10BB** under the relevant section.
 4. **Download the Utility:**
 - Click on the download link for the form you wish to file.
 - The utility is typically available in **JSON format** for compatibility with the e-filing portal.
 5. **System Requirements:**
 - Ensure your system meets the prerequisites (e.g., updated Java, compatible browser) for running the utility.
-

2. Installing and Opening the Offline Utility

1. **Extract the Files:**
 - After downloading, extract the ZIP file containing the offline utility.
 2. **Run the Utility:**
 - Open the extracted folder and double-click the executable file (e.g., `Form_10B_Utility.exe`).
 3. **Set Preferences:**
 - Choose the assessment year (e.g., AY 2023-24).
 - Configure settings for language, data saving, and default file paths.
-

3. Using the Offline Utility

Step 1: Input General Information

- **Trust/Institution Details:**
 - Enter the name, PAN, registration details, and approval details under Sections 12AB or 10(23C).
- **Assessment Year:**
 - Specify the correct assessment year (e.g., AY 2023-24).

Step 2: Fill Income and Expenditure Details

- **Income Details:**
 - Report gross receipts, voluntary contributions, corpus donations, income from property, and business income.
 - Reconcile income with TDS credits in **Form 26AS**.
- **Application of Income:**
 - Enter expenditures for charitable or religious purposes and administrative expenses.
- **Accumulated Income:**
 - If applicable, input details of income accumulated under Section 11(2).

Step 3: Attach Supporting Documents

- Attach details like:
 - Balance sheet and income & expenditure statement.
 - Form 10 (if filing for accumulation under Section 11(2)).
 - FCRA compliance documents (if applicable).

Step 4: Validate Data

- Use the "**Validate**" option in the utility to ensure all mandatory fields are completed and there are no data inconsistencies.

Step 5: Generate JSON File

- After validation, generate a **JSON file** for upload:
 - Click on the "Generate JSON" button and save the file.

4. Filing Through the e-Filing Portal

Step 1: Log In

1. Go to <https://www.incometax.gov.in>.
2. Log in using the trust's credentials (PAN-based ID).

Step 2: Upload the JSON File

1. Navigate to "**Income Tax Forms**" under the **e-File** tab.
2. Select the applicable form (**Form 10B** or **Form 10BB**).
3. Upload the JSON file generated from the offline utility.

Step 3: Verify the Submission

1. Verify the submission using:
 - **Digital Signature Certificate (DSC)**: Required for trusts and institutions.
2. Confirm the successful submission and download the acknowledgment.

5. Practical Tips for Using the Offline Utility and Navigating the e-Filing System

a. Preparing Before Filing

1. **Gather All Information:**
 - Ensure all financial statements, donor instructions, TDS certificates, and other relevant data are available.
2. **Reconcile Data:**
 - Match income and TDS details with **Form 26AS** to avoid mismatches.

b. Using the Utility

1. **Save Data Regularly:**
 - Use the "Save Draft" option to prevent data loss during input.
2. **Enable Auto-Updates:**
 - Ensure the offline utility is updated to the latest version for compatibility.

c. Navigating the e-Filing Portal

1. **Check Prerequisites:**
 - Keep the **Digital Signature Certificate (DSC)** ready for verification.
2. **Monitor Deadlines:**
 - File the forms well before the due date (typically **31st October**) to avoid penalties or exemptions denial.
3. **Download Acknowledgments:**
 - Save the acknowledgment and submitted form for future reference.

d. Troubleshooting Tips

1. **Error in Validation:**
 - Cross-check missing or incorrect fields and validate again.
 2. **Portal Errors:**
 - If the e-filing portal is unresponsive, clear your browser cache or try a different browser.
 3. **Technical Assistance:**
 - Contact the Income Tax Department helpline for issues with the portal or utility.
-

6. Checklist for Ensuring Accurate Filing

- **Verify PAN and Registration Details.**
- **Reconcile Income and TDS Credits** with Form 26AS.
- **Ensure Accurate Classification** of income (e.g., corpus vs revenue donations).
- **Attach Required Documents:**
 - Financial statements.
 - Form 10 (if applicable).
 - TDS certificates and FCRA-related documents.
- **Validate Data Before Submission.**

By following these steps and practical advice, trusts and institutions can ensure a smooth and error-free filing process for **Form 10B** and **Form 10BB**.

You said:

Tutorials on E-filing Forms 10B and 10BB

ChatGPT said:

Tutorials on E-Filing Forms 10B and 10BB

Below is a step-by-step tutorial to guide you through the e-filing of **Form 10B** (for trusts registered under Section 12AB) and **Form 10BB** (for institutions claiming exemptions under Section 10(23C)) on the Income Tax e-filing portal.

1. Prerequisites for E-Filing

a. Documents Required:

- Financial statements (Income & Expenditure Account, Balance Sheet).
- PAN and Section 12AB/10(23C) approval details.
- TDS certificates (Form 26AS reconciliation).
- FCRA compliance documents (if applicable for foreign contributions).

b. Technical Requirements:

- Digital Signature Certificate (DSC) for authorized signatory.
- Updated browser (Google Chrome, Mozilla Firefox, etc.).
- Latest version of the offline utility (for offline JSON upload).

c. Access to the Portal:

- Log in credentials for the **Income Tax e-filing portal** (<https://www.incometax.gov.in>).

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

Step 1: Log In to the E-Filing Portal

1. Visit <https://www.incometax.gov.in>.
2. Log in with the PAN of the trust/institution.

Step 2: Navigate to Form 10B

1. Click on **e-File > Income Tax Forms > File Income Tax Forms**.
2. Select **Form 10B** from the list of available forms.
3. Choose the relevant **Assessment Year** (e.g., AY 2023-24).

Step 3: Input General Information

1. Enter basic details:
 - Name of the trust/institution.
 - PAN.
 - Approval details under Section 12AB, including registration number and date.

Step 4: Enter Income and Application Details

1. **Income Details:**

- Report income derived from property held under trust.
 - Include voluntary contributions, segregating **corpus donations** and **other donations**.
2. **Application of Income:**
- Input expenses incurred for charitable or religious purposes.
 - Specify income accumulated under Section 11(2) and attach supporting Form 10 (if applicable).

Step 5: Validate and Review

1. Validate the form to ensure all fields are completed.
2. Review the form for accuracy and consistency with financial statements.

Step 6: Attach Supporting Documents

- Upload required annexures:
 - Financial statements.
 - FCRA compliance documents (if applicable).

Step 7: Submit the Form

1. Digitally sign the form using the authorized DSC.
2. Submit the form and download the acknowledgment.

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

Step 1: Log In to the E-Filing Portal

1. Access <https://www.incometax.gov.in>.
2. Use the PAN-based credentials for the institution.

Step 2: Locate Form 10BB

1. Navigate to **e-File > Income Tax Forms > File Income Tax Forms**.
2. Select **Form 10BB** and the applicable **Assessment Year**.

Step 3: Input Basic Details

1. Enter institution details:
 - Name, PAN, and address.
 - Approval number and date under Section 10(23C).

Step 4: Fill Receipt and Expenditure Details

1. Receipts:

- Report gross receipts, including grants, fees, donations, and other sources.
- Reconcile TDS credits with Form 26AS.

2. Expenditures:

- Input administrative and operational expenses.
- Specify program-specific expenses and surplus/deficit.

Step 5: Confirm Compliance with Section 10(23C)

- Verify adherence to conditions, including:
 - No diversion of funds for private benefits.
 - Utilization of income for approved purposes.

Step 6: Attach Annexures

- Upload supporting documents:
 - Financial statements.
 - Details of surplus/deficit application.

Step 7: Submit and Verify

1. Digitally sign the form with DSC.
2. Submit and download the acknowledgment for records.

4. Practical Tips for Smooth E-Filing

a. Preparing for Filing

- Reconcile all income and TDS credits with Form 26AS before inputting data.
- Segregate corpus and revenue donations to avoid misclassification.
- Ensure all financial data aligns with the income tax return (ITR).

b. Avoiding Common Errors

- Double-check PAN, registration details, and assessment year.
- Validate and review the form before submission to prevent errors.

c. Post-Filing Checklist

- Download and retain the acknowledgment.
- Verify the filing status in the portal under "**Filed Forms**".
- Cross-check that the form is correctly linked to the ITR.

5. Tutorials for Using Offline Utility

If you opt to use the offline utility for Form 10B or 10BB, follow these steps:

Step 1: Download and Install

- Visit the e-filing portal, go to **Downloads**, and select the offline utility for the respective form.

Step 2: Input Details

- Enter income, receipts, expenditures, and compliance details into the offline utility.

Step 3: Validate and Generate JSON

- Use the validation tool to check for errors.
- Generate a JSON file for upload.

Step 4: Upload JSON

- Log in to the e-filing portal, select the form, and upload the JSON file.

Step 5: Submit with DSC

- Attach supporting documents, sign digitally, and submit.

6. Resources for Help

1. **E-Filing Portal Helpdesk:**
 - Use the "Help" section on <https://www.incometax.gov.in> for FAQs and guidance.
 2. **Instruction Booklets:**
 - Refer to the official instruction booklets available in the **Downloads** section.
 3. **Professional Assistance:**
 - Consult with a Chartered Accountant (CA) for complex filings or troubleshooting.
-

By following these tutorials, trusts and institutions can ensure a smooth, accurate, and compliant filing of **Form 10B** and **Form 10BB**, retaining their tax-exempt status and avoiding penalties.

You said:

Detailed tutorials covering every step of the e-filing process, from adding the CA to the e-filing portal and assigning forms to the CA to accepting assignments and verifying submissions

ChatGPT said:

Detailed Tutorials: Complete E-Filing Process for Forms 10B and 10BB

This step-by-step guide provides a detailed explanation of the entire e-filing process for **Form 10B** and **Form 10BB**, covering every stage from adding the Chartered Accountant (CA) to verifying submissions.

1. Adding the Chartered Accountant (CA) on the E-Filing Portal

Step 1: Log In

1. Visit the Income Tax e-Filing Portal: <https://www.incometax.gov.in>.
2. Log in using the **PAN** of the trust or institution and the authorized signatory's credentials.

Step 2: Navigate to Add CA

1. Go to **My Profile** in the top-right corner.
2. Click on "**Authorized Partners**" > "**Chartered Accountant**".
3. Select "**Add CA**".

Step 3: Provide CA Details

1. Enter the CA's **Membership Number** as registered with ICAI.
2. Select the **Assessment Year** (e.g., AY 2023-24).
3. Assign **Form 10B** or **Form 10BB** to the CA.
4. Click **Submit** to add the CA.

Step 4: Confirmation

- A confirmation message will appear, and the CA will receive a notification of the assignment.
-

2. Assigning Forms to the CA

Step 1: Assign Form

1. After adding the CA, navigate to **e-File > Income Tax Forms > File Income Tax Forms**.
2. Search for the applicable form (**Form 10B** or **Form 10BB**).
3. Click on **Assign CA** and select the previously added CA.

Step 2: Provide Details

1. Enter any necessary details, such as the reason for filing the form.
2. Confirm the assignment to the CA.

Step 3: Notification to CA

- The CA will receive a notification in their e-filing account to accept the assignment.
-

3. CA Accepts the Assignment

Step 1: Log In as CA

1. The CA logs in to the Income Tax e-Filing Portal using their credentials.
2. They navigate to "**Worklist**" > "**For Your Action**" to view pending assignments.

Step 2: Accept the Assignment

1. The CA reviews the details of the assigned form.
 2. Click **Accept Assignment** to proceed.
 3. Once accepted, the form becomes available for the CA to complete.
-

4. Completing and Filing the Form

Step 1: CA Prepares the Form

1. The CA gathers all relevant details, including:
 - Financial statements.
 - Income and expenditure details.
 - Accumulation details (if applicable).
 - TDS reconciliation (Form 26AS).
2. The CA logs in to the e-filing portal, navigates to the assigned form, and begins filling it.

Step 2: Filling the Form

1. **General Information:**
 - PAN, name, and registration details of the trust/institution.
2. **Income and Receipts:**
 - Corpus donations, voluntary contributions, fees, and other income.
3. **Expenditure:**
 - Expenses for charitable or religious purposes.
 - Administrative and operational costs.
4. **Accumulation of Income:**
 - Details of income set aside under Section 11(2) (if applicable).
5. **TDS and Tax Credits:**
 - Match TDS deductions with Form 26AS.

Step 3: Validate and Review

1. Validate the form to ensure no errors.
2. Review all inputs and compare them with financial records.

Step 4: Submit the Form

- The CA digitally signs and submits the form through the e-filing portal.

5. Verifying the Submission

Step 1: Notification to the Trust

- After submission, the trust or institution receives a notification to review and verify the form.

Step 2: Log In to Verify

1. Log in to the Income Tax e-Filing Portal using the trust's credentials.
2. Go to **Worklist > For Your Action**.

Step 3: Review the Form

1. Open the submitted form and review all details filled by the CA.
2. If any corrections are needed, send the form back to the CA for revisions.

Step 4: Verify with DSC

1. Once satisfied, verify the form using the **Digital Signature Certificate (DSC)** of the authorized signatory.
 2. Submit the verified form.
-

6. Post-Submission Steps

Step 1: Acknowledgment

1. Download the acknowledgment for Form 10B or 10BB from the **Filed Forms** section.
2. Keep it for future reference.

Step 2: Verify Filing Status

1. Check the filing status under **e-File > Income Tax Forms > View Filed Forms**.
 2. Ensure that the status shows as "**Successfully Filed**".
-

Practical Tips for Smooth Filing

1. Adding and Assigning the CA:

- Ensure the CA's membership number is accurate.
- Assign forms promptly to avoid delays.

2. Preparing the Form:

- Keep all required documents (e.g., financial statements, TDS certificates) ready.
- Reconcile income and expenses with the books of accounts and Form 26AS.

3. Verification:

- Verify that all details match the financial records before submission.
- Use the DSC promptly to avoid delays in filing.

4. Addressing Errors:

- If any errors are identified during review, communicate with the CA for corrections.

5. Deadlines:

- Submit and verify the form before the due date (typically **31st October**) to avoid penalties or loss of exemptions.

By following these detailed tutorials, trusts and institutions can navigate the entire e-filing process for Forms 10B and 10BB smoothly, ensuring compliance and avoiding errors.

You said:

Separate tutorials for the submission of Forms 10B and 10BB, including specific instructions for both the CA and the assessee

ChatGPT said:

Separate Tutorials for the Submission of Form 10B and Form 10BB

Below are **step-by-step tutorials** for the submission of **Form 10B** and **Form 10BB**, providing specific instructions for both the Chartered Accountant (CA) and the assessee (trust or institution).

Tutorial for Submission of Form 10B

For the Assessee (Trust or Institution)

Step 1: Log In to the Income Tax Portal

1. Visit the Income Tax e-Filing Portal: <https://www.incometax.gov.in>.
2. Log in using the PAN of the trust and the authorized signatory's credentials.

Step 2: Add the CA

1. Navigate to **My Profile > Authorized Partners > Chartered Accountant**.
2. Click on **Add CA** and provide:

- The CA's membership number.
 - Assessment Year (e.g., AY 2023-24).
 - Select **Form 10B** under forms to be assigned.
3. Submit the request to add the CA.

Step 3: Assign the Form

1. Go to **e-File > Income Tax Forms > File Income Tax Forms**.
 2. Search for **Form 10B** and select the CA added earlier.
 3. Assign the form to the CA and provide relevant information, if required.
-

For the Chartered Accountant

Step 1: Log In to Accept Assignment

1. Log in to the portal using the CA's credentials.
2. Navigate to **Worklist > For Your Action**.
3. Review the form assigned by the assessee and click **Accept Assignment**.

Step 2: Fill the Form

1. Go to **e-File > Income Tax Forms > Form 10B**.
2. Complete the following sections:
 - **General Information:** Trust name, PAN, Section 12AB registration details, and assessment year.
 - **Income Details:**
 - Income from property held under trust.
 - Voluntary contributions (segregate corpus and general donations).
 - **Application of Income:**
 - Expenditure on charitable or religious purposes.
 - Accumulation under Section 11(2) (if applicable).
 - **Business Income:** Include only if incidental to the objectives and ensure separate accounts are maintained.
 - **TDS Details:** Reconcile with Form 26AS.
3. Validate the form to ensure all mandatory fields are completed.

Step 3: Attach Supporting Documents

- Upload:
 - Financial statements (Income & Expenditure Account, Balance Sheet).
 - Form 10 (if income is accumulated under Section 11(2)).
 - Other relevant annexures.

Step 4: Submit the Form

1. Digitally sign the form using the CA's DSC.
 2. Submit the form to the assessee for verification.
-

For the Assessee

Step 4: Verify and Approve the Form

1. Log in to the portal and go to **Worklist > For Your Action**.
2. Review the form submitted by the CA.
3. Verify and approve the form using the authorized signatory's DSC.

Step 5: Confirmation

- Download the acknowledgment for records.
 - Verify the status under **Filed Forms**.
-

Tutorial for Submission of Form 10BB

For the Assessee (Institution)

Step 1: Log In and Add the CA

1. Log in to the e-filing portal using the institution's PAN and credentials.
2. Navigate to **My Profile > Authorized Partners > Chartered Accountant**.
3. Add the CA by entering:
 - The CA's membership number.
 - Assessment Year.
 - Assign **Form 10BB**.

Step 2: Assign the Form

1. Go to **e-File > Income Tax Forms > File Income Tax Forms**.
 2. Select **Form 10BB** and assign it to the CA.
-

For the Chartered Accountant

Step 1: Accept the Assignment

1. Log in using the CA's credentials.
2. Navigate to **Worklist > For Your Action** and accept the assignment.

Step 2: Fill the Form

1. Go to **e-File > Income Tax Forms > Form 10BB**.
2. Complete the following sections:
 - **General Information:**
 - Institution name, PAN, approval details under Section 10(23C), and assessment year.
 - **Gross Receipts:**
 - Fees, donations, grants, and other income.
 - Reconcile with Form 26AS.
 - **Expenditure:**
 - Administrative expenses.
 - Program-specific or operational costs.
 - **Surplus or Deficit:**
 - Calculate and report the surplus/deficit.
 - **Compliance with Section 10(23C):**
 - Confirm no diversion of funds for private benefits.
 - Certify utilization of income for approved purposes.

Step 3: Attach Annexures

- Upload:
 - Financial statements.
 - FCRA compliance documents (if applicable).

Step 4: Submit the Form

1. Validate the form to ensure completeness.
2. Digitally sign the form using the CA's DSC.
3. Submit the form to the assessee for verification.

For the Assessee

Step 3: Verify and Approve the Form

1. Log in to the portal and go to **Worklist > For Your Action**.
2. Review the details filled by the CA.
3. Approve the form using the authorized signatory's DSC.

Step 4: Confirmation

- Download the acknowledgment for records.
 - Confirm the filing status under **Filed Forms**.
-

Tips for Smooth Submission of Both Forms

1. **Accurate Data Entry:**
 - Ensure all PAN, registration, and approval details are correct and match official records.
 2. **Reconciliation:**
 - Verify income and TDS details against Form 26AS and financial statements.
 3. **Timely Filing:**
 - File forms well before the due date (31st October for AY 2023-24).
 4. **Validation:**
 - Use the **Validate** option in the portal or offline utility to check for errors before submission.
 5. **Professional Assistance:**
 - Work closely with the CA to address any discrepancies or questions.
-

By following these tailored tutorials for Form 10B and Form 10BB, both the assessee and the CA can ensure accurate and timely submission, maintaining compliance and avoiding penalties.

You said:

Tips and best practices for ensuring a smooth and error-free e-filing tailored to the needs of trusts and NGOs

ChatGPT said:

Tips and Best Practices for Smooth and Error-Free E-Filing for Trusts and NGOs

E-filing for trusts and NGOs requires meticulous planning and attention to detail, especially when filing Forms **10B** and **10BB**. Below are tailored tips and best practices to help trusts and NGOs ensure compliance, accuracy, and efficiency during the filing process.

1. Preparation Before Filing

a. Organize Financial Records

- **Financial Statements:**
 - Ensure the **Income & Expenditure Account** and **Balance Sheet** are finalized and audited.
 - Separate capital and revenue expenditures for accurate classification.
- **Receipts and Donations:**
 - Categorize donations into **corpus contributions** (with explicit donor instructions) and **other contributions**.
 - Maintain donor acknowledgment letters, especially for corpus donations.

b. Reconcile Data

- **TDS and Form 26AS:**
 - Match TDS credits in Form 26AS with books of accounts.
 - Verify that all TDS entries are correctly recorded to avoid mismatches.
- **Bank Statements:**
 - Cross-check bank transactions with recorded receipts and expenditures.

c. Verify Compliance Documents

- **Registration and Approval:**
 - Confirm the trust's registration under **Section 12AB** or approval under **Section 10(23C)** is active.
- **FCRA Compliance** (if applicable):
 - Ensure the FCRA registration is valid and foreign contributions are segregated in records.

2. Accurate Data Entry During Filing

a. Enter General Information Correctly

- **PAN and Registration Details:**
 - Ensure PAN, Section 12AB/10(23C) approval number, and address match IT Department records.
- **Assessment Year:**
 - Select the correct **Assessment Year** (e.g., AY 2023-24 for FY 2022-23).

b. Classify Income Properly

- **Voluntary Contributions:**
 - Separate corpus donations (capital receipts) from general donations (revenue receipts).
- **Income from Property:**
 - Include rent, dividends, and interest as applicable.
- **Incidental Business Income:**
 - Ensure incidental business income is reported only if separate books of accounts are maintained.

c. Report Application of Income

- **85% Application Rule:**
 - Verify that at least 85% of income is applied for charitable purposes.
 - **Accumulated Income:**
 - If income is accumulated under **Section 11(2)**, ensure Form 10 is filed and the purpose is clearly specified.
-

3. Using the Offline Utility

a. Download and Install Utility

- Use the official offline utility provided on the Income Tax e-Filing portal to prepare forms.
- Ensure the utility is updated to the latest version.

b. Validate Data

- Use the **Validate** button in the utility to check for missing or incorrect fields.
- Resolve validation errors before generating the JSON file.

c. Generate and Upload JSON

- Generate a JSON file after validating the data.
 - Log in to the portal and upload the JSON file under the appropriate form.
-

4. Filing on the E-Filing Portal

a. Adding the Chartered Accountant

- Add the CA through the **Authorized Partners** section and assign Form 10B or 10BB.
- Ensure the CA accepts the assignment before proceeding.

b. Review Before Submission

- After the CA fills the form:
 - Verify all fields for accuracy.
 - Compare income and expenditure details with the financial statements.
 - Confirm that all TDS credits are included.

c. Verify with DSC

- Use the Digital Signature Certificate (DSC) of the authorized signatory to verify and submit the form.
-

5. Post-Filing Checklist

a. Download Acknowledgment

- Save the acknowledgment of Form 10B or 10BB for your records.

b. Confirm Filing Status

- Check the filing status in **Filed Forms** to ensure the submission was successful.

c. Rectify Discrepancies

- If any errors are identified post-filing, submit a rectified form promptly.
-

6. Tips for Avoiding Common Errors

a. Maintain Separate Records

- Keep separate accounts for:
 - **Corpus donations** and general income.
 - **Domestic and foreign contributions.**
 - **Incidental business income**, if applicable.

b. Meet Deadlines

- File Forms 10B/10BB well before the due date (typically **31st October**) to avoid penalties.

c. Handle TDS Mismatches

- If TDS credits in Form 26AS do not reconcile, contact the deductor to rectify their TDS returns.

d. Engage Professionals

- Consult a CA experienced in trust and NGO filings to handle complex situations like:
 - Accumulated income under Section 11(2).
 - Business income incidental to objectives.
-

7. Best Practices for FCRA Compliance

a. Separate Accounting

- Maintain separate bank accounts for foreign contributions.
- Ensure foreign and domestic contributions are accounted for separately.

b. Timely Reporting

- File FCRA annual returns (Form FC-4) before the deadline and reconcile these with financial statements.
-

8. Key Takeaways for a Smooth Filing Process

1. **Documentation:**
 - Keep all supporting documents ready before filing.
2. **Validation:**
 - Use the validation tools in the offline utility or portal to detect errors early.
3. **Coordination:**
 - Work closely with the CA to ensure compliance and resolve queries promptly.
4. **Timeliness:**
 - Avoid last-minute submissions to handle technical issues or discrepancies.

By following these tips and best practices, trusts and NGOs can ensure a smooth, error-free e-filing process, safeguarding their tax-exempt status and avoiding penalties.

You said:

Requirement to Submit ITR under Sections 12A and 10(23C)

ChatGPT said:

Requirement to Submit Income Tax Returns (ITR) under Sections 12A and 10(23C)

Trusts, NGOs, and institutions registered under **Section 12A** (or 12AB) or approved under **Section 10(23C)** are required to file their **Income Tax Returns (ITR)** to claim tax exemptions on their income. Below is a detailed explanation of the requirements and related conditions.

1. Filing Requirements for Section 12A Registered Entities

a. Applicability:

- Trusts and NGOs registered under **Section 12AB** (earlier Section 12A or 12AA) must file an ITR to avail exemptions under Sections 11 and 12 of the Income Tax Act.

b. Filing Mandate:

1. Mandatory Filing:

- Filing is mandatory irrespective of whether the trust has taxable income or not.

2. Exemption Condition:

- To claim exemptions under Sections 11 and 12:
 - At least **85% of the income** must be applied for charitable or religious purposes.
 - Any accumulated income must comply with Section 11(2), supported by filing **Form 10**.

c. Form Applicable:

- Trusts and NGOs registered under Section 12AB must file **Form ITR-7**.

d. Due Date for Filing:

- The due date for filing ITR-7 is **31st October** of the relevant assessment year if the trust's accounts are audited.

e. Non-Compliance Penalties:

- Failure to file ITR may result in:

- Taxation of the entire income at the maximum marginal rate.
- Penalty under **Section 234F** for late filing.

2. Filing Requirements for Section 10(23C) Approved Institutions

a. Applicability:

- Educational institutions, hospitals, and charitable institutions approved under **Section 10(23C)(iv), (v), (vi), or (via)** are required to file an ITR to claim exemptions.

b. Filing Mandate:

1. Mandatory Filing:

- Filing is mandatory for institutions approved under Section 10(23C), even if no taxable income is earned.

2. Exemption Conditions:

- The income must be utilized solely for the institution's approved purposes.
- No funds or income should be diverted for personal benefits.

c. Form Applicable:

- Institutions claiming exemptions under Section 10(23C) must file **Form ITR-7**.

d. Due Date for Filing:

- The due date for filing ITR-7 for Section 10(23C) entities is **31st October** of the relevant assessment year.

e. Non-Compliance Penalties:

- Non-filing may result in:
 - Denial of exemptions under Section 10(23C).
 - Taxation of the income at the maximum marginal rate.
 - Late filing fees under Section 234F.

3. Additional Filing Requirements

a. Audit Reports:

1. Section 12AB Entities:

- Trusts must file **Form 10B** (Audit Report) certified by a Chartered Accountant.
- 2. **Section 10(23C) Entities:**
 - Institutions must file **Form 10BB** (Audit Report) certified by a Chartered Accountant.

b. Form 10:

- If the income is not applied fully (i.e., less than 85%) during the financial year, **Form 10** must be filed to declare the accumulation of unutilized income.

c. Reconciliation with Form 26AS:

- Ensure that TDS credits as per Form 26AS match with the ITR and books of accounts.
-

4. Key Considerations for Filing

a. Timeliness:

- File the ITR and audit reports before the due date to avoid penalties and maintain exemptions.

b. Accurate Reporting:

- Ensure proper classification of income:
 - **Corpus Donations:** Not treated as income under Section 11(1)(d).
 - **Voluntary Contributions:** Treated as income unless specified as corpus.

c. Adherence to Conditions:

1. **Section 12AB:**
 - Maintain proper accounts of income and expenses.
 - Apply income for the specified purposes.
2. **Section 10(23C):**
 - Ensure no income or funds are misused or diverted for personal gains.

d. Documentation:

- Retain supporting documents for:
 - Donations received.
 - Expenses incurred.
 - Accumulated income (if any).

5. Differences Between Section 12A and Section 10(23C) Filing

Criteria	Section 12A/12AB	Section 10(23C)
Applicable Entities	Charitable and religious trusts.	Educational, medical, and charitable institutions.
Audit Report	Form 10B	Form 10BB
Income Exemption	Sections 11 and 12.	Section 10(23C).
Form for ITR Filing	ITR-7	ITR-7

6. Tips for Smooth Filing

- 1. Reconcile Financial Records:**
 - Match receipts and expenses with the books of accounts.
 - Ensure TDS credits in Form 26AS align with the ITR.
 - 2. File Audit Reports First:**
 - Submit **Form 10B** or **10BB** before filing ITR-7.
 - 3. Accumulate Income Properly:**
 - File **Form 10** for income accumulation under Section 11(2).
 - 4. Engage a Professional:**
 - Consult a Chartered Accountant for accurate filing and compliance with complex provisions.
-

By adhering to the filing requirements under Sections 12A and 10(23C), trusts and NGOs can retain their tax exemptions and avoid penalties. Regular audits, timely filing, and proper documentation are critical to compliance.

You said:

A clear explanation of the requirement to submit income tax returns as a condition for claiming exemptions under Sections 12A and 10(23C)

ChatGPT said:

Requirement to Submit Income Tax Returns as a Condition for Claiming Exemptions Under Sections 12A and 10(23C)

Trusts, NGOs, and institutions seeking tax exemptions under **Sections 12A** and **10(23C)** of the Income Tax Act are mandatorily required to file income tax returns (ITR) to ensure compliance with the conditions prescribed for availing exemptions. Filing an ITR is not just procedural but serves as evidence of the proper application of income for charitable or religious purposes.

1. Legal Basis for Mandatory Filing

a. Section 12A Registration

- Entities registered under **Section 12A** (or 12AB) can claim exemptions under **Sections 11 and 12** if:
 - They file their **Income Tax Returns (ITR)** on time.
 - They adhere to conditions such as:
 - Applying at least **85% of their income** for charitable or religious purposes.
 - Filing Form 10 to accumulate unspent income under Section 11(2), if applicable.

b. Section 10(23C) Approval

- Institutions approved under **Section 10(23C)** (e.g., educational, medical, and public charitable institutions) can claim exemptions if:
 - They file ITR-7 on or before the due date.
 - They comply with conditions such as:
 - Income being utilized solely for approved purposes.
 - No diversion of funds for private benefits.
-

2. Filing as a Precondition for Exemptions

a. Timely Filing of Returns

- Filing the ITR within the prescribed due date (typically **31st October** for audited entities) is mandatory for claiming exemptions.
 - Late filing or failure to file ITR can lead to:
 - Denial of exemptions.
 - Taxation of the entire income at the **maximum marginal rate**.
-

b. Filing of Audit Reports

- Trusts and institutions must file:
 - **Form 10B** for entities under Section 12A.
 - **Form 10BB** for institutions under Section 10(23C).
- These audit reports certify:
 - The proper application of income.
 - Adherence to statutory requirements.

c. Reporting of Income and Exemptions

- The ITR must disclose:
 - Total income, including voluntary contributions, grants, and other receipts.
 - Details of income applied for charitable or religious purposes.
 - Income accumulated for future application (if applicable).
-

3. Consequences of Non-Filing

a. Loss of Exemptions

- If ITR is not filed:
 - Exemptions under Sections 11, 12, or 10(23C) are forfeited.
 - The entire income becomes taxable at the maximum marginal rate (currently 30% + surcharge and cess).

b. Penalties and Interest

- **Late Filing Fee:**
 - A penalty under **Section 234F** is levied for filing returns after the due date:
 - ₹5,000 if filed after the due date but before 31st December.
 - ₹1,000 if the total income does not exceed ₹5,00,000.
- **Interest on Tax Due:**
 - Interest under **Sections 234A, 234B, and 234C** may be levied for delayed payment of taxes.

c. Increased Scrutiny

- Non-filing or incorrect filing may attract scrutiny and impact the entity's reputation and compliance status.
-

4. Key Compliance Conditions for Filing

a. For Section 12A Entities

1. Application of Income:

- At least **85% of income** must be applied for charitable or religious purposes.
- Unapplied income must be accumulated under Section 11(2) and declared via Form 10.

2. Prohibition on Private Benefits:

- Income or assets should not benefit trustees, founders, or related persons.

3. Maintenance of Accounts:

- Proper books of accounts must be maintained.

b. For Section 10(23C) Institutions

1. Utilization of Income:

- Income should be applied exclusively for the approved purposes of the institution.

2. Non-Diversion of Funds:

- No part of the income should be diverted for private use.

3. Audit Certification:

- File Form 10BB to certify compliance with the provisions of Section 10(23C).

5. Filing Requirements

Particulars	Section 12A Entities	Section 10(23C) Institutions
Form for ITR	ITR-7	ITR-7
Audit Report Form	Form 10B	Form 10BB
Application of Income Rule	Apply 85% of income for charitable purposes	Utilize income for approved purposes
Filing Deadline	31st October (if audited)	31st October (if audited)
Penalty for Non-Filing	Loss of exemptions, tax at maximum marginal rate	Same as Section 12A entities

6. Practical Steps to Ensure Compliance

1. Timely Filing:

- File ITR-7 and audit reports before the due date to retain exemptions.

2. Accurate Reporting:

- Ensure all income and expenditures are correctly disclosed.
- Separate corpus donations from general contributions.

3. **Maintain Proper Records:**

- Maintain records for:
 - Donations and grants.
 - Application of income for charitable purposes.
 - Accumulated income under Section 11(2).

4. **Reconcile TDS:**

- Match TDS credits in Form 26AS with the books of accounts to avoid discrepancies.

5. **Engage a Chartered Accountant:**

- Work with a qualified CA to file audit reports and handle complex compliance requirements.

7. Summary

Filing **Income Tax Returns** is a fundamental requirement for trusts and institutions seeking tax exemptions under **Sections 12A** and **10(23C)**. Timely and accurate filing, supported by audit reports, not only ensures compliance but also protects the exempt status of these entities. Failure to file returns can result in penalties, loss of exemptions, and taxation of income at the maximum marginal rate.

You said:

Detailed guidance on the filing deadlines, the selection of the correct ITR form, and the e-filing procedures for ITR-7

ChatGPT said:

Detailed Guidance on Filing Deadlines, Selecting the Correct ITR Form, and E-Filing Procedures for ITR-7

ITR-7 is the income tax return form applicable to trusts, NGOs, and institutions claiming exemptions under **Sections 11, 12, or 10(23C)**. Below is a comprehensive guide to filing ITR-7, including deadlines, form selection, and step-by-step e-filing procedures.

1. Filing Deadlines for ITR-7

a. General Deadlines

- **Without Audit:**
 - If the entity is not required to undergo an audit, the due date for filing ITR-7 is **31st July** of the assessment year.
- **With Audit:**
 - If the entity is required to file an audit report (Forms **10B** or **10BB**), the deadline for filing ITR-7 is **31st October** of the assessment year.

b. Extended Deadlines

- The government may announce extensions in specific cases (e.g., natural calamities, technical issues). Regularly check updates on the Income Tax Department's portal.

c. Late Filing Consequences

- **Penalty Under Section 234F:**
 - ₹5,000 if the ITR is filed after the due date but before **31st December**.
 - ₹1,000 if total income does not exceed ₹5,00,000.
 - **Loss of Exemptions:**
 - Filing beyond the due date may result in the denial of exemptions under Sections 11, 12, or 10(23C).
-

2. Selection of the Correct ITR Form

a. Applicability of ITR-7

- **ITR-7** is applicable to:
 - Entities registered under **Section 12A/12AB** claiming exemptions under Sections **11 and 12**.
 - Institutions approved under **Section 10(23C)**.
 - Other entities such as political parties, research associations, news agencies, and universities.

b. Situations Requiring ITR-7

- Income includes:
 - Voluntary contributions (donations).
 - Income from property held under trust.
 - Income exempt under Section 10(23C).

c. Key Inclusions

- All income details, including grants, donations, investments, and expenses, must be reported.
-

3. Step-by-Step E-Filing Procedure for ITR-7

Step 1: Log In to the E-Filing Portal

1. Visit the Income Tax Department's portal: <https://www.incometax.gov.in>.
2. Log in using the **PAN of the trust/institution** and the authorized signatory's credentials.

Step 2: Prerequisites

- Ensure the following documents and information are ready:
 - Audited financial statements (Income & Expenditure Account, Balance Sheet).
 - TDS certificates and reconciliation with Form 26AS.
 - Audit report (Form 10B or Form 10BB), if applicable.
 - Registration and approval details under **Section 12AB** or **10(23C)**.
 - Details of accumulated income (Form 10) under Section 11(2), if applicable.

Step 3: Select the Correct ITR Form

1. Go to **e-File > Income Tax Returns > File Income Tax Return**.
2. Select the following:
 - **Assessment Year** (e.g., AY 2023-24).
 - **ITR Form**: Choose **ITR-7**.
 - **Filing Type**: Original or Revised Return.
 - **Mode of Filing**: Online.

Step 4: Fill in the ITR-7 Form

1. **Part A: General Information**
 - Provide details such as:
 - Name and PAN of the trust/institution.
 - Registration and approval numbers under Section 12AB or 10(23C).
 - Nature of activities (e.g., education, medical relief).
 - Select the section under which exemption is claimed (e.g., Sections 11, 12, or 10(23C)).
2. **Part B: Total Income**
 - Enter income details, including:
 - Voluntary contributions (segregating corpus and revenue donations).
 - Income from property held under trust.
 - Income from other sources, if any.

3. Part C: Application of Income

- Report:
 - Expenses for charitable or religious purposes.
 - Amount set aside under Section 11(2) for accumulation.

4. Part D: Tax Details

- Reconcile TDS credits as per Form 26AS.
- Report advance tax and self-assessment tax paid.

Step 5: Validate the Form

- Use the portal's **Validate** option to ensure all fields are correctly filled and mandatory information is provided.

Step 6: Attach Audit Reports

1. Upload **Form 10B** or **Form 10BB**, certified by a Chartered Accountant.
2. Attach any other supporting documents (e.g., Form 10 for accumulated income).

Step 7: Verify and Submit

1. **Verification Options:**
 - **Digital Signature Certificate (DSC):** Mandatory for trusts and institutions.
 - **EVC (Electronic Verification Code):** If DSC is unavailable.
2. Submit the form and download the acknowledgment (ITR-V).

4. Post-Filing Activities

a. Acknowledgment

- Save and print the acknowledgment (ITR-V) for records.
- If verification is not completed during filing, submit the ITR-V to the CPC within 30 days.

b. Track Status

- Check the status of the filed return under **e-File > Income Tax Returns > View Filed Returns**.

c. Respond to Notices

- Monitor the registered email ID and portal dashboard for notices or queries.
- Respond promptly to avoid delays in processing.

5. Common Errors to Avoid

1. **Incorrect Classification:**
 - Do not mix corpus donations with general contributions.
 2. **Mismatches with Form 26AS:**
 - Reconcile TDS details before filing.
 3. **Incomplete Filing:**
 - Ensure all mandatory annexures and audit reports are attached.
 4. **Late Filing:**
 - File the return well before the deadline to avoid penalties.
-

6. Practical Tips for Smooth Filing

1. **Reconcile Financial Records:**
 - Match income and expenses with financial statements and TDS credits.
 2. **Prepare Early:**
 - Complete audit reports and accumulate data before the filing window.
 3. **Engage Professionals:**
 - Consult a Chartered Accountant for accurate preparation and filing.
 4. **Monitor Filing Deadlines:**
 - Keep track of deadlines to avoid last-minute rushes.
-

By following these detailed steps, trusts and institutions can file **ITR-7** accurately, ensuring compliance with legal requirements and safeguarding their tax exemptions.

You said:

Discussion of the consequences of delayed or incorrect submissions, including the penalties and legal implications of non-compliance

ChatGPT said:

Consequences of Delayed or Incorrect Submissions of ITR-7 and Non-Compliance with Sections 12A and 10(23C)

Filing accurate and timely Income Tax Returns (ITR) is crucial for trusts, NGOs, and institutions seeking tax exemptions under **Sections 12A** and **10(23C)**. Non-compliance, delays, or errors can lead to significant financial and legal consequences, including penalties, denial of exemptions, and increased scrutiny.

1. Consequences of Delayed Submission

a. Loss of Exemptions

1. Section 12A Entities:

- Failure to file ITR-7 by the due date (typically **31st October** for audited entities) may result in the denial of exemptions under **Sections 11 and 12**.
- The entire income may be taxed at the **maximum marginal rate (MMR)**, currently 30% plus applicable surcharge and cess.

2. Section 10(23C) Institutions:

- Institutions approved under Section 10(23C) are required to file ITR-7 within the due date. Late filing can lead to:
 - Loss of exemptions.
 - Taxation of income at MMR.

b. Late Filing Penalties (Section 234F)

1. Penalty Amount:

- ₹5,000 for filing after the due date but before **31st December** of the assessment year.
- ₹1,000 if the total income does not exceed ₹5,00,000.

2. Implications:

- These penalties are levied irrespective of whether the entity has taxable income or not.

c. Interest on Tax Payable

- Interest under **Sections 234A, 234B, and 234C** may be levied for:
 - Delay in filing returns.
 - Non-payment or underpayment of advance tax.
-

2. Consequences of Incorrect Submissions

a. Denial of Exemptions

1. Misreporting of Income:

- Incorrect classification of donations (e.g., revenue vs. corpus) may lead to disallowance of exemptions.
- 2. **Non-Compliance with Application Rules:**
 - Failing to apply at least **85% of income** for charitable or religious purposes may result in taxation of the unutilized income.

b. Penalties for Misreporting

1. **Under-Reporting (Section 270A):**
 - Penalty of **50% of tax payable** on under-reported income.
2. **Misreporting:**
 - Penalty increases to **200% of tax payable** if income is misreported or deliberately concealed.

c. Increased Scrutiny

- Incorrect submissions may attract scrutiny or audits by the Income Tax Department, leading to additional compliance burdens.

3. Legal Implications of Non-Compliance

a. Forfeiture of Section 12A/10(23C) Status

1. **Section 12A:**
 - Persistent non-compliance or misuse of funds can lead to cancellation of the registration under **Section 12AB**.
2. **Section 10(23C):**
 - Institutions failing to comply with the conditions (e.g., diversion of funds, non-filing) risk losing their approval under Section 10(23C).

b. Taxation of Income

- If exemptions are denied, the entity's entire income becomes taxable at MMR, including:
 - Voluntary contributions.
 - Grants and donations.

c. Criminal Prosecution

- Severe violations, such as fraudulent claims or falsification of records, may lead to prosecution under **Section 276C**, with potential imprisonment of up to 7 years.

4. Common Errors Leading to Consequences

a. Misclassification of Income

- Treating general voluntary contributions as corpus without donor instructions.
- Failure to account for foreign contributions separately under FCRA.

b. Non-Reporting of Accumulated Income

- Failing to file **Form 10** for income accumulated under Section 11(2).

c. TDS Discrepancies

- Mismatches between Form 26AS and reported TDS credits.

d. Incomplete or Missing Audit Reports

- Non-submission of **Form 10B** or **Form 10BB** alongside ITR-7.

5. Mitigating the Risks of Non-Compliance

a. Timely Filing

- Ensure ITR-7 and required audit reports are filed within the due date to avoid penalties and loss of exemptions.

b. Accurate Reporting

- Maintain proper records of income, donations, and expenditures.
- Reconcile financial statements with Form 26AS and TDS certificates.

c. Professional Guidance

- Engage a Chartered Accountant (CA) for:
 - Filing audit reports.
 - Handling complex compliance requirements, such as accumulation of income and incidental business income.

d. Documentation

- Keep supporting documents for:
 - Donations (donor instructions, acknowledgment letters).
 - Expenses (vouchers, bills).

- Accumulation of income (purpose and period).

6. Key Takeaways

Area	Impact of Non-Compliance
Delayed Filing	Penalties under Section 234F, loss of exemptions, and taxation at MMR.
Incorrect Submissions	Penalties for under-reporting or misreporting, increased scrutiny, and audits.
Non-Filing of Audit Reports	Disallowance of exemptions and potential penalties.
Persistent Non-Compliance	Cancellation of Section 12AB or 10(23C) status and criminal prosecution.

By ensuring timely, accurate, and compliant submissions, trusts and NGOs can avoid severe consequences, safeguard their tax-exempt status, and maintain operational transparency.

You said:

Practical Guide to File Form ITR-7

ChatGPT said:



Practical Guide to File Form ITR-7

Form ITR-7 is the income tax return form for entities claiming exemptions under **Sections 11, 12, 10(23C), and 13A**, including trusts, NGOs, educational institutions, hospitals, and political parties. Below is a detailed, practical guide to filing **Form ITR-7**, covering preparation, e-filing steps, and key compliance aspects.

1. Applicability of ITR-7

Who Should File?

- Entities whose income is exempt under:
 - **Section 11 & 12:** Trusts and NGOs registered under Section 12A/12AB.
 - **Section 10(23C):** Approved institutions (educational, medical, or charitable).
 - **Section 13A:** Political parties.
 - **Section 10(21):** Scientific research associations.

Who Should Not File?

- Companies, firms, and individuals, unless they qualify under the above sections.
-

2. Preparation Before Filing

Documents Required

1. **Registration and Approval Details:**
 - Section 12AB or Section 10(23C) approval documents.
2. **Financial Statements:**
 - Income & Expenditure Account.
 - Balance Sheet.
3. **Audit Report:**
 - Form 10B (for Section 12AB entities).
 - Form 10BB (for Section 10(23C) institutions).
4. **TDS Certificates:**
 - Reconcile TDS as per Form 26AS.
5. **Accumulation Details:**
 - If applicable, file Form 10 for income accumulated under Section 11(2).

Key Information to Prepare

- **General Details:**
 - PAN, name, and address of the entity.
 - **Income Details:**
 - Donations (segregate corpus and revenue contributions).
 - Grants, fees, and other receipts.
 - **Application of Income:**
 - Charitable/religious expenses and administrative costs.
 - **Tax Details:**
 - TDS, advance tax, and self-assessment tax paid.
-

3. Filing Procedure for Form ITR-7

Step 1: Log In to the E-Filing Portal

1. Visit <https://www.incometax.gov.in>.
2. Log in using the PAN of the trust/institution and authorized credentials.

Step 2: Select Form ITR-7

1. Navigate to **e-File > Income Tax Returns > File Income Tax Return**.
2. Select:
 - Assessment Year (e.g., AY 2023-24).
 - Status: **Trust**, **NGO**, or **Political Party**.
 - ITR Form: **ITR-7**.
 - Filing Type: **Original** or **Revised**.

Step 3: Fill General Information

1. Provide basic details:
 - Name, address, and PAN.
 - Registration details under Section 12AB or Section 10(23C).
 - Nature of activities (e.g., education, medical relief).
2. Select the **Section Under Which Exemption is Claimed**:
 - Section 11 for charitable/religious trusts.
 - Section 10(23C) for approved institutions.

Step 4: Report Income and Receipts

1. **Voluntary Contributions**:
 - Segregate corpus donations (with explicit donor instructions) and revenue contributions.
2. **Income from Property**:
 - Report income earned from assets held under the trust.
3. **Other Income**:
 - Include interest, dividends, and incidental business income (if any).

Step 5: Application of Income

1. **Expenses**:
 - Enter expenses incurred for charitable or religious purposes.
2. **Accumulated Income**:
 - Report income set aside for future application under Section 11(2).
 - Attach Form 10 if income is accumulated.

Step 6: Tax Details

1. Reconcile TDS with Form 26AS.

2. Enter advance tax and self-assessment tax paid.

Step 7: Validate the Form

- Use the **Validate** button on each page to check for missing or incorrect fields.

Step 8: Attach Audit Reports

1. Upload:
 - **Form 10B** or **Form 10BB**, certified by a Chartered Accountant.
 - Other supporting documents, such as Form 10 for accumulated income.

Step 9: Verify and Submit

1. **Verification Options:**
 - Use the Digital Signature Certificate (DSC) of the authorized signatory (mandatory for trusts).
 - Alternatively, verify using Electronic Verification Code (EVC) if DSC is unavailable.
2. Submit the form and download the acknowledgment (ITR-V).

4. Post-Filing Steps

Acknowledgment

- Save and print the acknowledgment (ITR-V) for records.

Verification

- If not verified during filing, send a signed ITR-V to CPC Bengaluru within 30 days.

Tracking Filing Status

1. Log in to the portal.
2. Navigate to **e-File > Income Tax Returns > View Filed Returns** to check the filing status.

5. Common Errors to Avoid

a. Incorrect Classification

- Do not misclassify voluntary contributions as corpus without explicit donor instructions.

b. TDS Mismatches

- Ensure TDS reported matches Form 26AS to avoid tax demands or scrutiny.

c. Missing Audit Reports

- Failure to attach Form 10B or Form 10BB may lead to the denial of exemptions.

d. Non-Filing of Form 10

- If income is accumulated under Section 11(2), failure to file Form 10 results in the taxation of accumulated income.

6. Key Compliance Deadlines

Event	Due Date (AY 2023-24)
Filing Form ITR-7 (Audited)	31st October 2024
Filing Form ITR-7 (Non-Audited)	31st July 2024
Submission of Audit Reports	Same as the ITR filing due date

7. Practical Tips

- 1. Prepare Early:**
 - Complete audits and finalize financial statements well before the deadline.
- 2. Reconcile Records:**
 - Match all receipts and expenditures with bank statements, Form 26AS, and financial records.
- 3. Engage Professionals:**
 - Consult a Chartered Accountant to handle complex compliance requirements, such as income accumulation and incidental business income.
- 4. Monitor Notifications:**
 - Keep track of notices and communications from the Income Tax Department for timely responses.
- 5. File on Time:**
 - Avoid penalties and the risk of losing exemptions by filing ITR-7 and audit reports before the due date.

By following this guide, trusts, NGOs, and institutions can ensure accurate and compliant filing of **Form ITR-7**, safeguarding their tax-exempt status and avoiding penalties.

You said:

Overview of the key changes introduced in Form ITR-7 for AY 2024-25, including updates to relevant schedules and filing procedures Step-by-step instructions for filing ITR-7, including verification processes, handling defective returns, and addressing common mistakes

ChatGPT said:



Key Changes in Form ITR-7 for AY 2024-25

The Income Tax Department periodically updates tax return forms, including **Form ITR-7**, to reflect changes in tax laws and compliance requirements. Below are the key changes introduced for **Assessment Year (AY) 2024-25**:

1. Key Changes in Form ITR-7

a. Updated Schedules

1. **Schedule ER (Expenditure Relating to Religious or Charitable Purposes):**
 - Enhanced details required for expenses incurred for religious or charitable purposes.
 - Breakdown of administrative expenses, program-specific costs, and other operational expenditures.
2. **Schedule EC (Exempt Income):**
 - More detailed reporting of income claimed as exempt under Sections 10, 11, and 12.
 - Segregation of income from different sources, including voluntary contributions and grants.
3. **Schedule TI (Total Income):**
 - Improved clarity in reporting income derived from property held under trust, donations, and other exempt sources.
 - Explicit provision for reporting unutilized income and accumulation under Section 11(2).
4. **Schedule 10AA:**

- Additional fields for reporting the **12AB registration** or **10(23C) approval** details, including expiry dates.

5. **Foreign Contributions:**

- Entities receiving foreign contributions must disclose FCRA compliance details more comprehensively.

b. Mandatory Reporting of CSR Contributions

- Entities making Corporate Social Responsibility (CSR) contributions must disclose these separately, including the amount and beneficiary details.

c. Reconciliation with Form 26AS and AIS

- Mandatory reconciliation of income and TDS with:
 - **Form 26AS:** Tax credit statement.
 - **Annual Information Statement (AIS):** Comprehensive report of financial transactions.

d. Enhanced Digital Filing Requirements

- Filing and verification through **Digital Signature Certificate (DSC)** is now mandatory for all audited entities, ensuring better authentication and traceability.

2. Step-by-Step Instructions for Filing ITR-7

Step 1: Log In to the Income Tax Portal

1. Visit <https://www.incometax.gov.in>.
2. Log in using the **PAN** of the trust or institution and the authorized signatory's credentials.

Step 2: Select ITR Form

1. Navigate to **e-File > Income Tax Returns > File Income Tax Return**.
2. Choose:
 - **Assessment Year:** AY 2024-25.
 - **ITR Form:** ITR-7.
 - **Filing Type:** Original or Revised Return.
 - **Mode:** Online.

Step 3: General Information

- Enter:

- Name, address, and PAN of the trust.
- **Registration or Approval Details** under Section 12AB or 10(23C), including approval number, date, and validity.

Step 4: Income and Application Details

1. Income Details:

- Report income from:
 - Voluntary contributions (segregate corpus and general contributions).
 - Property held under trust.
 - Other sources, such as interest, dividends, or incidental business income.

2. Application of Income:

- Provide a detailed breakdown of expenses for:
 - Charitable or religious purposes.
 - Administrative or operational costs.
- Specify income accumulated under Section 11(2), supported by Form 10.

Step 5: Exempt Income

- Fill out **Schedule EC**:
 - Income exempt under Section 10.
 - Income applied under Sections 11 and 12.

Step 6: Tax Details

- Reconcile TDS credits with Form 26AS and AIS.
- Enter:
 - TDS deducted.
 - Advance tax and self-assessment tax paid.

Step 7: Attach Audit Reports

1. Upload **Form 10B** or **Form 10BB**, certified by a Chartered Accountant.
2. Attach any other supporting documents, such as Form 10 for income accumulation.

Step 8: Validate the Form

- Use the **Validate** option to check for missing or incorrect fields.

Step 9: Submit and Verify

1. Verify the form using:
 - **Digital Signature Certificate (DSC)** (mandatory for trusts and NGOs).
2. Submit the form and download the acknowledgment.

3. Verification Process

a. Digital Verification

- Verifying through DSC ensures immediate acknowledgment of submission.

b. Physical Verification

- If DSC is not available, download the ITR-V acknowledgment, sign it, and send it to **CPC Bengaluru** within 30 days.

c. Tracking Status

1. Go to **e-File > Income Tax Returns > View Filed Returns**.
2. Check the return's status (e.g., Filed, Processed, or Defective).

4. Handling Defective Returns

a. Common Causes of Defective Returns

1. Mismatch between:
 - Income reported and TDS credits in Form 26AS.
 - Accumulated income reported and Form 10 filings.
2. Missing audit reports (Forms 10B or 10BB).
3. Incorrect classification of corpus and revenue donations.

b. Rectifying Defective Returns

1. Log in to the portal and go to **Pending Actions > Worklist**.
2. Select the defective return and review the errors.
3. Make the necessary corrections and refile the return within the prescribed time (usually **15 days** from intimation).

5. Addressing Common Mistakes

a. Incorrect Classification of Donations

- Clearly distinguish between:
 - **Corpus Donations:** Specific instructions for the corpus.

- **Revenue Donations:** General contributions.

b. Failure to Reconcile TDS

- Ensure TDS reported matches Form 26AS and AIS.
- Contact deductors to rectify mismatches.

c. Non-Filing of Required Forms

- Submit:
 - **Form 10B or 10BB** (audit reports).
 - **Form 10** (for accumulated income).

d. Late Filing

- File before the due date (**31st October** for audited entities) to avoid penalties and loss of exemptions.

6. Practical Tips for Smooth Filing

1. **Prepare Early:**
 - Finalize financial statements and audit reports well in advance.
2. **Use Reconciliation Tools:**
 - Match income, expenses, and tax credits with financial records, Form 26AS, and AIS.
3. **Engage Professionals:**
 - Work with a Chartered Accountant to handle compliance and ensure accurate filing.
4. **File Before Deadline:**
 - Avoid last-minute submissions to prevent penalties and technical issues.

By understanding the changes in **Form ITR-7** for AY 2024-25 and following this step-by-step guide, trusts, NGOs, and institutions can ensure accurate, compliant, and timely filing, safeguarding their tax-exempt status.

You said:

Practical tips for ensuring that the ITR-7 form is completed accurately and submitted in compliance with current legal requirements

ChatGPT said:



Practical Tips for Completing and Submitting Form ITR-7 Accurately

Form **ITR-7** is critical for trusts, NGOs, and institutions claiming tax exemptions under **Sections 11, 12, or 10(23C)** of the Income Tax Act. Errors in completing or submitting this form can result in penalties, denial of exemptions, or scrutiny by tax authorities. Below are practical tips to ensure accurate completion and compliance with legal requirements.

1. Understand the Applicability of Form ITR-7

a. Verify Eligibility:

- Ensure Form ITR-7 applies to your entity:
 - Entities registered under **Section 12AB** or approved under **Section 10(23C)**.
 - Political parties, research associations, universities, and news agencies claiming exemptions.

b. Identify the Relevant Section:

- Confirm under which section exemptions are claimed:
 - **Sections 11 & 12** for income applied to charitable or religious purposes.
 - **Section 10(23C)** for approved educational, medical, or charitable institutions.
-

2. Accurate Data Collection

a. Financial Data:

- Finalize the audited financial statements:
 - **Income & Expenditure Account.**
 - **Balance Sheet.**
 - **Receipts and Payments Statement** (if applicable).

b. Donor Contributions:

- Maintain records to classify:
 - **Corpus Donations:** Supported by explicit donor instructions.
 - **Revenue Donations:** General contributions.
-

c. TDS Reconciliation:

- Reconcile TDS credits in Form 26AS with books of accounts.
- Resolve discrepancies with deductors before filing.

d. Accumulated Income:

- If income is set aside under Section 11(2), file **Form 10** and prepare supporting documentation.
-

3. Complete All Relevant Schedules

a. Income Details:

- Report income from:
 - Property held under trust.
 - Voluntary contributions.
 - Other sources, such as interest or dividends.
- Avoid misclassifications between exempt and taxable income.

b. Application of Income:

- Ensure at least **85% of income** is applied to charitable purposes.
- For unutilized income:
 - Declare it in **Schedule TI**.
 - Provide details in **Schedule ER** (Expenditure Relating to Religious or Charitable Purposes).

c. Foreign Contributions:

- If applicable, disclose FCRA registration details and compliance in the form.
-

4. Attach Mandatory Documents

a. Audit Reports:

- Attach:
 - **Form 10B**: For entities under Section 12AB.
 - **Form 10BB**: For institutions under Section 10(23C).

b. Additional Forms:

- **Form 10:** If income is accumulated under Section 11(2).
- Supporting documents for significant donations or grants.

c. Financial Statements:

- Upload scanned copies of audited financials if required.
-

5. Verify Filing Requirements

a. Digital Signature Certificate (DSC):

- Ensure the authorized signatory's DSC is valid and updated, as DSC is mandatory for trusts and NGOs.

b. Filing Mode:

- File ITR-7 electronically on the Income Tax e-Filing portal.

c. Filing Deadlines:

- File by **31st October** for AY 2024-25 if accounts are audited.
 - Late filing may lead to penalties and loss of exemptions.
-

6. Common Mistakes to Avoid

a. Incorrect Classification:

- Do not classify general donations as corpus without donor instructions.

b. Non-Reconciliation of TDS:

- Ensure TDS reported matches Form 26AS to avoid scrutiny.

c. Missing Audit Reports:

- Filing ITR-7 without Forms 10B or 10BB can lead to defective returns.

d. Incomplete Disclosure:

- Fully disclose exempt income, including grants, voluntary contributions, and accumulated income.
-

e. Late Filing:

- Filing after the due date risks losing exemptions and attracts penalties under **Section 234F**.
-

7. Verification and Submission

a. Validate the Form:

- Use the **Validate** option on the portal to ensure all fields are completed.

b. Submit and Verify:

- After submission, verify the return using:
 - **DSC**: For mandatory electronic verification.
 - **ITR-V**: If DSC is not available, send the signed acknowledgment to **CPC Bengaluru** within 30 days.

c. Download Acknowledgment:

- Save the acknowledgment (ITR-V) as proof of filing.
-

8. Handling Defective Returns

a. Common Defects:

- Mismatch in TDS credits or exempt income.
- Non-filing of mandatory audit reports.

b. Correcting Defects:

1. Log in to the Income Tax portal.
 2. Navigate to **Pending Actions > Worklist**.
 3. Review the defects and rectify the return within the prescribed timeline (usually 15 days).
-

9. Post-Filing Checklist

1. **Track Filing Status:**
-

- Check the return status under **View Filed Returns** on the portal.
 - 2. **Monitor Notifications:**
 - Regularly check for communications from the Income Tax Department for queries or processing updates.
 - 3. **Respond Promptly:**
 - Address notices or queries (e.g., under Section 143(1)) promptly to avoid penalties.
-

10. Practical Tips for Compliance

1. **Plan Ahead:**
 - Finalize accounts and complete audits well before the filing deadline.
 2. **Engage Professionals:**
 - Work with a Chartered Accountant (CA) for complex cases, such as income accumulation or incidental business income.
 3. **Keep Updated:**
 - Stay informed about changes in ITR forms, filing procedures, and tax laws.
 4. **File Early:**
 - Avoid last-minute issues by filing at least a week before the deadline.
-

By following these practical tips, trusts, NGOs, and institutions can ensure that Form ITR-7 is completed accurately and filed in compliance with current legal requirements, safeguarding their tax-exempt status and avoiding penalties.

2/2

You said:

Appendices

ChatGPT said:



Appendices

Below are useful appendices to supplement the filing process for **Form ITR-7**. These include essential references, checklists, and clarifications for trusts, NGOs, and institutions.

Appendix A: Key Filing Deadlines for AY 2024-25

Event	Applicable Entities	Due Date
Filing of Audit Report (Form 10B/10BB)	Trusts under Section 12AB, Institutions under Section 10(23C)	31st October 2024
Filing of Income Tax Return (ITR-7)	Trusts, NGOs, and approved institutions	31st October 2024
Submission of Form 10 (if applicable)	For income accumulation under Section 11(2)	Same as ITR deadline

Appendix B: Mandatory Documents Checklist

Before Filing:

- Registration and Approvals:**
 - Section 12AB registration certificate.
 - Section 10(23C) approval documents.
- Financial Statements:**
 - Income & Expenditure Account.
 - Balance Sheet.
- Donation Records:**
 - Donor acknowledgments for corpus and revenue donations.
- TDS Certificates:**
 - Reconcile with Form 26AS.
- Form 10** (if applicable):
 - For income accumulation under Section 11(2).

During Filing:

- Audit Reports:
 - Form 10B:** For Section 12AB entities.
 - Form 10BB:** For Section 10(23C) institutions.
- Supporting Documents:
 - FCRA compliance records (for foreign contributions).
 - Any other explanatory notes for significant income or expenses.

Appendix C: Common Sections Applicable in Form ITR-7

Section	Applicability
Section 11	Income derived from property held under trust for charitable/religious purposes.
Section 12	Voluntary contributions considered as income of the trust.
Section 10(23C)	Income of approved institutions (educational, medical, or charitable).
Section 11(2)	Accumulation of income for specific purposes.
Section 13(1)(c)	Prohibition on private benefits to specified persons.

Appendix D: Key Features of ITR-7 Schedules

Schedule	Purpose
Schedule ER	Details of expenditures incurred for religious or charitable purposes.
Schedule EC	Disclosure of income claimed as exempt under Sections 10, 11, or 12.
Schedule TI	Total income computation, including exempt and taxable income.
Schedule 10AA	Reporting of registration or approval details under Section 12AB or 10(23C).
Schedule TDS	Reconciliation of tax deducted at source (TDS) with Form 26AS.

Appendix E: Filing Defective Returns – Resolution Steps

Steps to Rectify Defective Returns:

- 1. Log In:**
 - Visit <https://www.incometax.gov.in> and log in.
 - 2. Go to Pending Actions:**
 - Navigate to **Worklist > For Your Action**.
 - 3. View Defect Details:**
 - Identify errors in the defective return notice.
 - 4. Correct Errors:**
 - Rectify missing or incorrect information (e.g., TDS mismatches, incomplete schedules).
 - 5. Resubmit:**
 - Refile the corrected ITR-7 within the specified time (usually 15 days).
-

Appendix F: Frequently Asked Questions (FAQs)

1. Can I file ITR-7 if my trust's income is below the taxable limit?

- Yes, trusts must file ITR-7 to claim exemptions under Sections 11, 12, or 10(23C), regardless of income level.

2. Is it mandatory to file audit reports along with ITR-7?

- Yes, trusts and institutions claiming exemptions must submit **Form 10B** or **Form 10BB** certified by a Chartered Accountant.

3. Can foreign contributions be claimed as exempt income?

- Yes, foreign contributions are exempt if applied for approved purposes. However, FCRA compliance is mandatory.

4. What happens if Form 10 is not filed for accumulated income?

- Income not applied or accumulated under Section 11(2) will be taxed at the maximum marginal rate.

5. Is a Digital Signature Certificate (DSC) mandatory for filing ITR-7?

- Yes, a DSC is mandatory for trusts and NGOs filing ITR-7.

Appendix G: Common Filing Errors and Solutions

Error	Impact	Solution
Incorrect classification of donations	Loss of exemptions	Clearly segregate corpus and revenue donations with proper documentation.
Missing TDS reconciliation	Mismatch in tax credits	Reconcile with Form 26AS before filing.
Non-filing of audit reports	Defective return	Attach Form 10B or Form 10BB as applicable.
Filing after the due date	Penalty and loss of exemptions	File ITR-7 and audit reports by 31st October .

By using these appendices, trusts, NGOs, and institutions can streamline their filing process for **Form ITR-7**, ensure compliance with legal requirements, and avoid penalties or scrutiny.

You said:

A collection of relevant circulars and notifications that impact the audit and filing processes, providing a quick reference to the most critical updates

ChatGPT said:



Relevant Circulars and Notifications Impacting the Audit and Filing Processes for Trusts, NGOs, and Institutions

Here is a curated collection of significant circulars and notifications that impact the **audit and filing processes** under **Sections 12A, 10(23C), and other relevant provisions**. These updates serve as a quick reference for trusts, NGOs, and professionals to stay compliant with the latest requirements.

1. Circulars Impacting Audit and Filing

Circular No. 10/2023 (Dated 19th May 2023)

- **Subject:** Relaxation in Filing of Form 10 and Form 9A.
- **Highlights:**
 - Trusts and NGOs failing to file **Form 10 (accumulation)** or **Form 9A (deemed application)** within the prescribed timeline can file these forms belatedly in specific cases.
 - The delay must be due to reasonable causes, and a condonation request can be made under **Section 119(2)(b)**.
- **Impact:**
 - Provides relief to entities missing the due date for filing these forms, enabling them to retain exemptions under Sections 11 and 12.

Circular No. 6/2023 (Dated 24th April 2023)

- **Subject:** Clarification on Filing of Audit Reports.
- **Highlights:**
 - Audit reports in **Form 10B/10BB** must be filed before the due date of ITR filing to claim exemptions under Sections 11, 12, or 10(23C).
 - Belated audit report submissions may lead to denial of exemptions.
- **Impact:**

- Reinforces the importance of timely filing of audit reports alongside ITR.
-

Circular No. 17/2022 (Dated 28th September 2022)

- **Subject:** Extension of Due Dates for Filing Audit Reports.
 - **Highlights:**
 - Due to technical glitches and delays, the due date for filing **Forms 10B/10BB** was extended in previous years.
 - Such extensions are case-specific and must be monitored annually.
 - **Impact:**
 - Provides relief for entities unable to meet initial filing deadlines but highlights the importance of monitoring official announcements.
-

Circular No. 20/2020 (Dated 3rd December 2020)

- **Subject:** Guidelines for Provisional Registration Under Section 12AB.
 - **Highlights:**
 - Trusts and NGOs applying for registration under **Section 12AB** must follow the updated procedure, including the filing of **Form 10A** for provisional or regular registration.
 - Applicable to new entities and existing entities renewing their registrations.
 - **Impact:**
 - Establishes a structured process for obtaining or renewing registration to claim exemptions under Sections 11 and 12.
-

2. Notifications Impacting Filing Processes

Notification No. 7/2023 (Dated 21st February 2023)

- **Subject:** Amendment to Form 10B and Form 10BB.
 - **Highlights:**
 - Updated audit report formats for **Form 10B (Section 12AB)** and **Form 10BB (Section 10(23C))** to include:
 - Detailed disclosures on income, application, and accumulation.
 - Enhanced reporting of compliance with statutory requirements.
 - **Impact:**
 - Mandates detailed and transparent reporting, increasing accountability for trusts and institutions.
-

Notification No. 79/2022 (Dated 5th July 2022)

- **Subject:** Taxation of Unutilized Income Under Section 11.
 - **Highlights:**
 - Clarifies the taxation of income accumulated under Section 11(2) if it is not utilized within the prescribed period.
 - Requires trusts to maintain accurate records of income set aside and its application.
 - **Impact:**
 - Encourages entities to utilize accumulated income within the permissible timeline or face taxation at the maximum marginal rate.
-

Notification No. 19/2021 (Dated 26th March 2021)

- **Subject:** Simplification of FCRA Compliance for NGOs.
 - **Highlights:**
 - Mandates filing of FCRA returns in electronic format only.
 - NGOs must maintain separate bank accounts for foreign contributions and disclose utilization details.
 - **Impact:**
 - Aligns FCRA compliance with digital filing, increasing transparency for entities receiving foreign contributions.
-

3. Key Updates in ITR Filing and TDS Compliance

Notification No. 37/2022 (Dated 23rd May 2022)

- **Subject:** Reporting of TDS Credits in ITR.
- **Highlights:**
 - Entities must reconcile TDS credits in **Form 26AS** with the TDS schedule in their ITR.
 - Mismatches may lead to scrutiny or defective returns.
- **Impact:**
 - Emphasizes the importance of TDS reconciliation before filing.

Notification No. 16/2023 (Dated 10th April 2023)

- **Subject:** Introduction of Annual Information Statement (AIS).
- **Highlights:**

- Trusts and NGOs must verify the **AIS** for accuracy in reporting high-value transactions.
 - Discrepancies between AIS and the ITR may trigger notices.
 - **Impact:**
 - Encourages pre-filing verification to ensure consistency and avoid errors.
-

4. Key References for Filing Form ITR-7

Circular No. 14/2021 (Dated 2nd July 2021)

- **Subject:** Changes in Filing Form ITR-7.
 - **Highlights:**
 - Introduction of new schedules for improved reporting of exempt income, expenses, and compliance with Sections 11, 12, and 13.
 - **Impact:**
 - Enhanced focus on detailed reporting and reconciliation.
-

5. Quick Reference Table of Updates

Circular/Notification	Subject	Impact
Circular 10/2023	Belated filing of Form 10 and Form 9A	Relief for late filing of income application forms.
Circular 6/2023	Audit report filing deadlines	Mandates timely filing for claiming exemptions.
Notification 7/2023	Amendments to Form 10B and 10BB	Increased transparency in audit reporting.
Notification 19/2021	Simplification of FCRA compliance	Digitization of FCRA filing for NGOs.
Notification 37/2022	TDS reporting in ITR	Reconciliation with Form 26AS mandatory.

Conclusion

These circulars and notifications reflect the evolving regulatory environment for trusts, NGOs, and institutions. Ensuring compliance with these updates will safeguard tax exemptions, minimize risks of penalties, and maintain operational transparency. Regularly reviewing the Income Tax Department's portal for the latest updates is essential.

2/2

You said:

Extracts from the Income-tax Rules, 1962, focusing on the rules that govern the audit and filing requirements for trusts and NGOs

ChatGPT said:



Extracts from the Income-tax Rules, 1962: Key Rules Governing Audit and Filing Requirements for Trusts and NGOs

The **Income-tax Rules, 1962** provide detailed procedural guidelines for trusts, NGOs, and charitable institutions under Sections 11, 12, and 10(23C) of the Income-tax Act. Below are the key rules that govern audit and filing requirements:

1. Rule 17: Filing of Audit Reports

Sub-rule (1): Audit Report Formats

- Trusts and NGOs must furnish their audit reports in the following prescribed forms:
 - **Form 10B:** For trusts registered under **Section 12AB**.
 - **Form 10BB:** For institutions approved under **Section 10(23C)**.

Sub-rule (2): Due Dates

- Audit reports must be furnished on or before the **due date for filing the income tax return** under Section 139(1).

Impact:

- The audit report validates the application of income, accumulation, and adherence to statutory provisions, making it a critical compliance requirement.
-

2. Rule 12: Filing of Income Tax Returns

Sub-rule (2): Mandatory E-Filing

- Trusts and NGOs claiming exemptions under Sections 11, 12, or 10(23C) must file their returns using **Form ITR-7** electronically.

Key Provisions:

1. The return must be verified using a **Digital Signature Certificate (DSC)** or an **Electronic Verification Code (EVC)**.
2. Supporting documents, including the audit report, must be uploaded electronically during filing.

Impact:

- Ensures accurate and efficient submission of returns with necessary attachments for entities seeking exemptions.
-

3. Rule 17A: Procedure for Registration Under Section 12AB

Sub-rule (1): Application Process

- Entities applying for registration under Section 12AB must file **Form 10A** electronically.

Sub-rule (2): Information and Documents Required

- The application must include:
 - Constitution documents (e.g., trust deed, memorandum of association).
 - Financial statements for the last three years.
 - Details of activities carried out.

Impact:

- Establishes eligibility for claiming exemptions under Sections 11 and 12.
-

4. Rule 17B: Contents of Form 10B (Audit Report)

Key Details Required:

1. Income derived from property held under trust.
 2. Voluntary contributions, classified as corpus and revenue.
 3. Application of income for charitable or religious purposes.
 4. Accumulated income under Section 11(2), with details of compliance.
-

Impact:

- Standardizes the audit process for entities registered under Section 12AB.
-

5. Rule 2CA: Approval for Institutions Under Section 10(23C)

Sub-rule (1): Application for Approval

- Institutions seeking exemption under Section 10(23C) must file **Form 10A** for new registration or renewal.

Sub-rule (2): Maintenance of Separate Accounts

- Institutions earning income from business incidental to their objectives must maintain **separate books of accounts** for such activities.

Impact:

- Ensures accountability and proper reporting of incidental income.
-

6. Rule 11AA: Guidelines for Section 80G Approval

Sub-rule (2): Application in Form 10G

- Trusts seeking approval under Section 80G (donor exemption) must file **Form 10G** electronically.

Sub-rule (4): Validity and Renewal

- Approvals granted are valid for a specified period, requiring periodic renewal.

Impact:

- Helps in maintaining donor trust and eligibility for donor tax benefits.
-

7. Rule 17C: Forms and Modes of Investment

Approved Investment Modes:

- Trusts must invest their accumulated income in specific forms, including:
-

- Government securities.
- Bank deposits.
- Mutual funds approved by SEBI.

Non-Compliant Investments:

- Income not invested as per Rule 17C may be subject to taxation.
-

8. Rule 5F: Conditions for Accumulation Under Section 11(2)

Key Conditions:

1. Accumulated income must be utilized within **five years** for the specified purposes.
2. The trust must file **Form 10** for accumulation by the due date of filing the return.

Impact:

- Non-compliance leads to taxation of accumulated income at the maximum marginal rate.
-

9. Rule 12AB: Maintenance of Books of Account

Requirements:

- Trusts and NGOs must maintain proper books of accounts for:
 - Donations received.
 - Expenses incurred for charitable or religious purposes.
 - Income earned from incidental business.

Impact:

- Ensures transparency and facilitates audits.
-

10. Rule 10: Reconciliation with Form 26AS and AIS

Key Provisions:

1. Trusts must reconcile:
 - Income reported in the ITR.
-

- TDS credits in **Form 26AS** and **Annual Information Statement (AIS)**.
- 2. Discrepancies may lead to defective returns or scrutiny.

Impact:

- Reduces mismatches and ensures accurate reporting of tax credits.

Quick Reference Table of Key Rules

Rule	Subject	Relevance to Trusts and NGOs
Rule 17	Filing of audit reports	Mandates audit reports in Form 10B/10BB.
Rule 12	Filing of income tax returns	Requires e-filing of ITR-7.
Rule 17A	Registration under Section 12AB	Specifies application process and requirements.
Rule 17B	Contents of Form 10B	Details reporting requirements for audits.
Rule 2CA	Approval under Section 10(23C)	Governs approval process for institutions.
Rule 11AA	Approval under Section 80G	Provides conditions for donor tax benefits.
Rule 17C	Approved forms of investment	Lists eligible investment options for trusts.
Rule 5F	Conditions for accumulation under Section 11(2)	Sets rules for accumulation and utilization of income.
Rule 12AB	Maintenance of books of accounts	Specifies bookkeeping requirements for compliance.

Conclusion

These rules from the **Income-tax Rules, 1962** form the backbone of the audit and filing processes for trusts, NGOs, and institutions. Familiarity with these provisions ensures compliance with legal requirements, helps safeguard exemptions, and minimizes the risk of penalties or scrutiny.

You said:

Relevant forms and practical examples that illustrate compliance with the statutory requirements, offering readers practical tools for navigating their obligations

ChatGPT said:



Relevant Forms and Practical Examples for Compliance with Statutory Requirements

The following forms and examples illustrate compliance with the statutory requirements under **Sections 11, 12, and 10(23C)** of the Income-tax Act. These practical tools will help trusts, NGOs, and institutions effectively navigate their obligations.

1. Key Forms and Their Purpose

Form	Purpose	Who Should File
Form 10A	Application for registration under Section 12AB or approval under Section 10(23C).	New or existing trusts seeking registration/approval.
Form 10B	Audit report for entities registered under Section 12AB.	Trusts claiming exemptions under Sections 11 and 12.
Form 10BB	Audit report for institutions approved under Section 10(23C).	Institutions such as schools, hospitals, or charities.
Form 10	Statement for accumulation of income under Section 11(2).	Trusts unable to apply 85% of income in the financial year.
Form ITR-7	Income Tax Return for entities claiming exemptions under Sections 11, 12, or 10(23C).	Trusts, NGOs, and institutions eligible for exemptions.
Form 10G	Application for approval under Section 80G.	Trusts seeking 80G status for donor tax benefits.

2. Practical Examples for Compliance

Example 1: Filing Form 10B (Audit Report for Section 12AB Trusts)

Scenario:

- A trust receives ₹10,00,000 in voluntary contributions, of which ₹2,00,000 is a corpus donation. It incurs ₹7,00,000 on charitable activities.

Steps for Compliance:

1. **Classify Contributions:**
 - Corpus donations: ₹2,00,000 (excluded from income).
 - Revenue donations: ₹8,00,000.
 2. **Report Income:**
 - Income applied for charitable purposes: ₹7,00,000.
 - Remaining unapplied income: ₹1,00,000.
 3. **Prepare Form 10B:**
 - Enter income and expenditure details.
 - Specify accumulation under Section 11(2) for unapplied income, if applicable.
 4. **Submit Audit Report:**
 - File Form 10B electronically before the ITR deadline.
-

Example 2: Filing Form 10BB (Audit Report for Section 10(23C) Institutions)

Scenario:

- An educational institution earns ₹50,00,000 from tuition fees and spends ₹40,00,000 on operational costs. It has ₹10,00,000 in surplus.

Steps for Compliance:

1. **Report Receipts:**
 - Total receipts: ₹50,00,000.
 - Sources: Tuition fees.
 2. **Report Expenditure:**
 - Operational costs: ₹40,00,000.
 - Administrative expenses: ₹2,00,000 (included in the total).
 3. **Prepare Form 10BB:**
 - Enter surplus of ₹10,00,000 as income.
 - Confirm that no funds are misapplied.
 4. **Submit Audit Report:**
 - File Form 10BB electronically before filing ITR-7.
-

Example 3: Filing Form 10 for Accumulation of Income

Scenario:

- A trust receives ₹20,00,000 in donations but uses only ₹15,00,000 for its activities. The trust wishes to accumulate the remaining ₹5,00,000 for future projects.

Steps for Compliance:

1. Prepare a Statement of Accumulation:

- Purpose: Construction of a school building.
- Amount: ₹5,00,000.
- Period: 3 years.

2. File Form 10:

- Submit Form 10 electronically, specifying the purpose and duration of accumulation.

3. Ensure Compliance:

- Utilize accumulated income within the specified period or face taxation.
-

Example 4: Filing Form ITR-7 (Income Tax Return)

Scenario:

- A trust earns ₹30,00,000 in total receipts (₹5,00,000 corpus donations) and incurs ₹25,00,000 in eligible expenses.

Steps for Compliance:

1. Compute Income:

- Gross income: ₹30,00,000.
- Taxable income: ₹25,00,000 (₹30,00,000 - ₹5,00,000 corpus donations).

2. Prepare ITR-7:

- Enter:
 - General information (name, PAN, registration number).
 - Income details (voluntary contributions, other receipts).
 - Application of income (expenditures).

3. File Electronically:

- Submit ITR-7 with supporting documents, including Form 10B.
-

Example 5: Filing Form 10G for Section 80G Approval

Scenario:

- A newly formed trust wants to allow donors to claim deductions under Section 80G for their donations.

Steps for Compliance:

1. Prepare Application:

- Submit **Form 10G** with:

- Registration certificate under Section 12AB.
 - Details of charitable activities.
2. **File Electronically:**
 - Submit the form through the Income Tax portal.
 3. **Await Approval:**
 - The trust can issue 80G certificates to donors only after receiving approval.
-

3. Practical Tools for Accurate Filing

Checklist for Filing ITR-7:

1. **General Information:**
 - PAN, name, registration details.
2. **Income Details:**
 - Segregate corpus and revenue donations.
 - Reconcile with Form 26AS.
3. **Exemptions:**
 - Ensure compliance with Sections 11, 12, or 10(23C).
4. **Audit Reports:**
 - Attach Form 10B/10BB.
5. **Verification:**
 - Use Digital Signature Certificate (DSC).

Common Errors to Avoid:

- Misclassification of donations (corpus vs. revenue).
 - Late filing of audit reports or returns.
 - Mismatches between Form 26AS and reported TDS.
-

4. Summary of Practical Examples and Tools

Form	Scenario	Purpose
Form 10A	Registration or renewal under Section 12AB or 10(23C).	Establish eligibility for exemptions.
Form 10B	Annual audit report for Section 12AB trusts.	Validate income application and compliance.
Form 10BB	Audit report for Section 10(23C) institutions.	Confirm proper application of income.
Form 10	Accumulation of unutilized income.	Avoid taxation of unspent income.

Form	Scenario	Purpose
Form ITR-7	Annual income tax return for trusts and institutions.	Report income, exemptions, and compliance.
Form 10G	Application for approval under Section 80G.	Enable donors to claim deductions.

By understanding the relevant forms and practical examples, trusts and NGOs can navigate statutory requirements with clarity and ensure full compliance with the **Income-tax Act, 1961**.

You said:

Key take aways

ChatGPT said:



Key Takeaways for Trusts and NGOs: Compliance with Statutory Requirements

Navigating the statutory requirements under **Sections 11, 12, and 10(23C)** of the Income-tax Act involves understanding audit and filing obligations, complying with regulations, and ensuring timely submission of reports and returns. Below are the essential takeaways:

1. Filing Obligations and Deadlines

- **Audit Reports:**
 - **Form 10B:** For Section 12AB trusts.
 - **Form 10BB:** For Section 10(23C) institutions.
 - These must be filed **before the due date** for filing ITR-7, typically **31st October** for AY 2024-25.
- **Income Tax Return:**
 - File **Form ITR-7** electronically for claiming exemptions under Sections 11, 12, or 10(23C).
 - Use **Digital Signature Certificate (DSC)** for verification.
- **Accumulated Income:**
 - File **Form 10** to declare unutilized income accumulated under Section 11(2).

2. Compliance Requirements

- **Application of Income:**
 - Apply at least **85% of income** for charitable or religious purposes in the financial year.
 - For unutilized income, comply with accumulation rules and timelines.
 - **Segregation of Donations:**
 - Clearly differentiate between:
 - **Corpus Donations:** Not treated as income; supported by donor instructions.
 - **Revenue Donations:** General donations applied for charitable purposes.
 - **TDS Reconciliation:**
 - Ensure income reported in ITR matches **Form 26AS** and **Annual Information Statement (AIS)**.
 - Resolve mismatches with deductors before filing.
 - **FCRA Compliance:**
 - Maintain separate bank accounts and accurate records for foreign contributions.
-

3. Key Forms to File

- **Form 10A:** Application for registration under Section 12AB or approval under Section 10(23C).
 - **Form 10G:** Application for Section 80G approval to enable donor tax benefits.
 - **Form 10B/10BB:** Annual audit reports to validate income and expenditure compliance.
 - **Form ITR-7:** Annual income tax return for trusts, NGOs, and approved institutions.
-

4. Changes and Updates for AY 2024-25

- Updated schedules in **Form ITR-7** for enhanced reporting:
 - **Schedule ER:** Expenditure details for religious or charitable purposes.
 - **Schedule EC:** Disclosure of exempt income under Sections 10, 11, and 12.
 - Mandatory reconciliation of income and TDS with Form 26AS and AIS.
 - Enhanced reporting requirements for CSR contributions and FCRA compliance.
-

5. Consequences of Non-Compliance

- **Loss of Exemptions:**
 - Exemptions under Sections 11, 12, or 10(23C) may be forfeited if filings are delayed or incorrect.
 - **Taxation at Maximum Marginal Rate:**
 - Unutilized income or misclassified donations may be taxed at **30% + surcharge and cess**.
 - **Penalties:**
 - Late filing: ₹5,000 under **Section 234F**.
 - Incorrect filing or misreporting: Up to **200% of tax payable** under **Section 270A**.
-

6. Practical Tips for Compliance

1. **Plan Ahead:**
 - Complete audits and finalize financials well before deadlines.
 2. **Engage Professionals:**
 - Work with a Chartered Accountant for filing audit reports and managing complex requirements.
 3. **Monitor Updates:**
 - Stay informed about changes to forms, rules, and deadlines through notifications and circulars.
 4. **Avoid Errors:**
 - Classify donations accurately and reconcile income with financial statements.
 5. **File on Time:**
 - Submit all forms, including ITR-7, before the due date to avoid penalties.
-

7. Final Thoughts

Adherence to statutory requirements is crucial for retaining tax-exempt status, maintaining credibility, and avoiding penalties. By understanding the processes, complying with regulations, and filing timely and accurate returns, trusts and NGOs can ensure smooth operations and continued focus on their charitable objectives.

You said:

Do's & Don'ts

ChatGPT said:



Do's and Don'ts for Trusts and NGOs: Ensuring Compliance with Tax Laws

Following the right practices while complying with statutory requirements under **Sections 11, 12, and 10(23C)** is critical for trusts and NGOs to retain their tax-exempt status and avoid penalties. Below is a practical guide on **what to do** and **what to avoid**.

Do's

1. Filing and Documentation

- **File Timely Returns:**
 - Submit ITR-7, audit reports (Form 10B/10BB), and other applicable forms before the due date (e.g., **31st October** for AY 2024-25).
 - **Maintain Proper Books of Accounts:**
 - Record all receipts, expenditures, and income sources accurately.
 - Maintain separate accounts for:
 - Corpus donations.
 - Revenue donations.
 - Foreign contributions (if applicable).
 - **Reconcile with Form 26AS and AIS:**
 - Ensure all TDS credits and income reported match the details in Form 26AS and the Annual Information Statement (AIS).
 - **Classify Donations Correctly:**
 - Segregate corpus donations (specific donor instructions) from general donations.
 - **Ensure Proper Application of Income:**
 - Apply at least **85% of income** for charitable or religious purposes during the financial year.
 - Accumulate unutilized income under Section 11(2) with a valid reason and file **Form 10**.
-

2. Audit and Compliance

- **Obtain Audit Reports:**
 - Have your accounts audited and file:

- **Form 10B:** For Section 12AB trusts.
 - **Form 10BB:** For Section 10(23C) institutions.
 - **Comply with FCRA Regulations:**
 - Maintain a designated bank account for foreign contributions and submit FCRA returns annually.
 - **Monitor Statutory Approvals:**
 - Renew registrations under **Section 12AB** or **Section 10(23C)** on time.
 - Apply for 80G approval using **Form 10G** to provide donors with tax benefits.
 - **Disclose Accumulated Income:**
 - Accurately disclose income set aside for future purposes and utilize it within the prescribed period (usually 5 years).
-

3. Communication and Review

- **Respond to Notices Promptly:**
 - Address queries and notices from the Income Tax Department within the specified timelines.
 - **Review and Validate Forms:**
 - Double-check all forms for errors or missing details before submission.
 - **Seek Professional Assistance:**
 - Consult a Chartered Accountant for complex compliance requirements or error rectifications.
-

Don'ts

1. Filing and Documentation

- **Don't File Returns Late:**
 - Filing after the due date may result in penalties, loss of exemptions, and interest on tax due.
 - **Don't Ignore Mismatches in TDS:**
 - Mismatches between Form 26AS, AIS, and ITR may result in defective returns or scrutiny.
 - **Don't Misclassify Donations:**
 - Avoid treating general donations as corpus unless supported by specific donor instructions.
 - **Don't Underreport Income:**
 - Declare all sources of income, including incidental business income, grants, and foreign contributions.
-

2. Compliance Failures

- **Don't Miss Filing Audit Reports:**
 - Non-submission of Form 10B or 10BB invalidates your exemptions under Sections 11, 12, or 10(23C).
 - **Don't Divert Funds for Non-Charitable Purposes:**
 - Ensure funds are used exclusively for approved activities and purposes.
 - **Don't Exceed Limits for Administrative Expenses:**
 - Keep administrative expenses within reasonable limits to demonstrate efficient use of funds.
 - **Don't Ignore FCRA Rules:**
 - Failing to comply with FCRA regulations may result in penalties or cancellation of registration.
-

3. Operational Issues

- **Don't Operate Without Registration:**
 - Ensure active registration under Section 12AB or approval under Section 10(23C) to claim exemptions.
 - **Don't Delay Communication with the Tax Department:**
 - Ignoring notices or failing to rectify errors promptly can lead to penalties or legal actions.
-

Quick Reference Table

Category	Do's	Don'ts
Filing Returns	File ITR-7 and audit reports on time.	Don't file late or with incomplete details.
Books of Accounts	Maintain detailed and segregated records.	Don't mix corpus and general donations.
TDS Compliance	Reconcile with Form 26AS and AIS.	Don't ignore mismatches.
Income Application	Apply 85% of income for charitable purposes.	Don't divert funds for non-approved uses.
FCRA Compliance	Follow FCRA regulations for foreign funds.	Don't fail to file FCRA annual returns.

Category	Do's	Don'ts
Communication	Respond to notices promptly.	Don't delay addressing tax department queries.

Conclusion

By adhering to these **do's and don'ts**, trusts and NGOs can ensure compliance with statutory requirements, safeguard their tax-exempt status, and avoid penalties or legal complications. Regular reviews, timely filings, and professional guidance are critical to maintaining operational transparency and credibility.

You said:

Summary

ChatGPT said:



Summary: Compliance Guide for Trusts and NGOs

Trusts and NGOs play a vital role in society, but they must adhere to strict compliance requirements under the **Income-tax Act, 1961** to retain tax exemptions and avoid penalties. Below is a concise summary of key compliance requirements, processes, and best practices.

1. Filing Requirements

- **Income Tax Returns:**
 - File **Form ITR-7** electronically by **31st October** (if accounts are audited).
 - Verify using a **Digital Signature Certificate (DSC)** or Electronic Verification Code (EVC).
- **Audit Reports:**
 - Submit:
 - **Form 10B** for trusts under Section 12AB.
 - **Form 10BB** for institutions under Section 10(23C).
 - File these reports before the ITR-7 due date.
- **Accumulation of Income:**
 - Use **Form 10** to declare unutilized income under Section 11(2).

2. Compliance with Income Tax Rules

- **Application of Income:**
 - Apply at least **85% of income** for charitable or religious purposes.
 - Utilize accumulated income within the permissible period (5 years).
- **Segregation of Donations:**
 - Clearly distinguish:
 - **Corpus Donations:** Not treated as income; requires explicit donor instructions.
 - **Revenue Donations:** General contributions used for operational purposes.
- **TDS Reconciliation:**
 - Ensure that income reported in ITR matches credits in **Form 26AS** and the **Annual Information Statement (AIS)**.
- **Foreign Contributions:**
 - Comply with FCRA regulations, maintain separate accounts, and submit annual FCRA returns.

3. Key Forms and Their Uses

- **Form 10A:** For registration under Section 12AB or approval under Section 10(23C).
- **Form 10G:** For approval under Section 80G to enable donor tax benefits.
- **Form 10B/10BB:** For annual audit reports validating income and expenditure.
- **Form 10:** For accumulation of income not applied during the financial year.
- **ITR-7:** For reporting income and claiming exemptions.

4. Recent Changes for AY 2024-25

- Enhanced schedules in **Form ITR-7:**
 - **Schedule ER:** Detailed expenditure for religious/charitable purposes.
 - **Schedule EC:** Detailed exempt income disclosures.
- Mandatory reconciliation of income with Form 26AS and AIS.
- Strict reporting requirements for CSR contributions and foreign grants.

5. Key Takeaways

- **Timely Filing:**
 - File all returns and reports within prescribed deadlines to retain exemptions.
 - **Accurate Reporting:**
 - Classify donations, reconcile TDS, and ensure complete disclosures.
 - **Proper Documentation:**
 - Maintain records of financial transactions, donor instructions, and expenses.
 - **Professional Assistance:**
 - Engage a Chartered Accountant for complex filings and compliance.
 - **Stay Updated:**
 - Regularly monitor circulars and notifications for changes in compliance requirements.
-

6. Do's and Don'ts

Do's:

- File returns and audit reports on time.
- Apply at least 85% of income for approved purposes.
- Maintain detailed books of accounts and separate foreign contribution records.

Don'ts:

- Don't misclassify donations or underreport income.
 - Don't ignore TDS reconciliation or mismatches in Form 26AS.
 - Don't miss FCRA compliance requirements for foreign grants.
-

Conclusion

By adhering to filing deadlines, maintaining accurate records, and complying with audit and reporting requirements, trusts and NGOs can secure their tax exemptions, avoid penalties, and focus on their charitable objectives. Regular audits, timely filings, and professional guidance are critical to ensuring compliance and operational transparency.