

A Comparative Overview: Taxation and Registration of NPOs under the Income Tax Act, 1961 vs. Income Tax Bill, 2025



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Introduction: A Move Towards Simplification

The current Income Tax Act, 1961 devotes approximately 12,800 words to the provisions governing NPOs. In contrast, the Income Tax Bill, 2025 reduces this to 7,600 words, emphasizing clarity and precision. This reduction is not merely cosmetic—it reflects a deeper reorganization of the law, replacing scattered legalese and multiple provisos with structured tables, defined timelines, and concise definitions.

Definition and Scope of NPOs – Introduction of a Uniform Term

One of the most notable changes is the standardization of terminology. Under the 1961 Act, different sections used varied expressions—such as “educational institutions existing solely for educational purposes” [Sec 10(23C)], “trusts,” “hospitals,” or “societies.” The 2025 Bill introduces a uniform umbrella term: “Registered NPOs”, which includes trusts, societies under the Societies Registration Act, 1860, Section 8 companies, religious institutions like temples and mosques, and others.

Structural Consolidation – Provisions under a Single Chapter

Provisions related to NPOs in the current Act are fragmented across five chapters. The Income Tax Bill, 2025 consolidates all these provisions under Chapter XVII-B, divided into seven sub-parts, covering registration, compliance, audit, taxability in case of contravention, and more.

Continuity of Existing Registrations

Entities already registered under the existing Act will not be required to re-register, provided their registration is valid and has not been cancelled.

New Compliance Expectations and Tax Implications

The Bill introduces concepts like Regular Income and Taxable Regular Income, and consolidates rules regarding anonymous donations, misapplied funds, and other violations under Section 332.

Restriction on Commercial Activity

The 2025 Bill explicitly prohibits NPOs from engaging in commercial activities except those incidentals to their objectives, unlike the current Act which does not state this clearly.

Capital Gains and Investment

The Bill removes the reinvestment route for capital gains, factoring them into the 85% application rule.

Transition Mechanism

Entities that missed registering under the new regime since 2021 are offered a new opportunity to register.

Comparative Snapshot: Income Tax Act, 1961 vs. Income Tax Bill, 2025

S. No.	Basis	Income Tax Act, 1961	Income Tax Bill, 2025
1	Term Expression	Uses varied terms (trust, society, etc.)	Standard term: "Registered NPO"
2	Definition	No specific definition of eligible persons	Section 332 defines eligible applicants
3	Structure	Scattered across 5 chapters	Consolidated into Chapter XVII-B
4	Capital Gains	Exempt if reinvested or 85% applied	Reinvestment option removed; 85% rule prevails
5	Commercial Activities	No explicit restriction	Specifically prohibited except if incidental
6	Transition Window	No fresh opportunity	Fresh window to register if missed in 2021

7	Tax Exemption	Blanket exemption for many entities	Exemption linked to registration with conditions
8	Taxation of Violations	Under Sections 13, 115BBC, etc.	Consolidated under Section 332
9	Return Filing Delay	Leads to taxation of net income	Covered under new 'Specified Income' clause
10	Audit/Compliance	Scattered requirements	Detailed norms within Chapter XVII-B

Conclusion

The Income Tax Bill, 2025 represents a paradigm shift in how non-profit entities are taxed and regulated in India. It brings greater legal clarity, administrative efficiency, and standardization, while also imposing stricter compliance obligations. Although it offers flexibility and continuity for already registered institutions, the regime demands a more accountable, transparent, and formalized operation of charitable organisations going forward. NPOs would do well to revisit their structures, operations, and compliance mechanisms in light of this significant legislative reform.

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