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Union Budget 2025: FM charitable to trusts; registration tenure is doubled

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For the first time in years, the Budget provisions have made life easier for charitable trusts and institutions. For instance, the period of validity of registration of a trust (registration is essential to claim tax exemption) has been extended from the current five years to 10 years. However, this applies only to smaller trusts with income below Rs 5 crore. Second, minor errors in the registration application will not result in deregistration of the trust. This is a significant development as deregistration meant that the fair market value of the assets of a trust becomes chargeable to tax. In Metro cities, trusts such as those engaged in education or medical have significant assets like land or buildings, and an 'exit tax' on deregistration was suicidal.

But reading between the lines is crucial. Gautam Nayak, tax partner at CNK & Associates, states, "When trusts have income (before exemption) of less than Rs 5 crore in each of the two years preceding the year of making application for renewal, registration will be granted for 10 years. This will apply to cases where application is made after March 31, 2025, and will not apply to provisional registration of new trusts, where registration is granted for 3 years. Small trusts whose approval was valid till Mar 31, 2026, will still have to make an application for renewal by Sept 30, 2025, but the renewal granted to them will then be for 10 years."

ANOTHER BIG DENT IN TAX BASE

Revised tax slabs exempt over a third of current taxpayers from paying taxes. A similar tax rebate after 2019-20 had led to a drop in taxpayers by 1.7 crore (from 3.6 crore in 2019-20 to 1.9 crore in 2020-21)

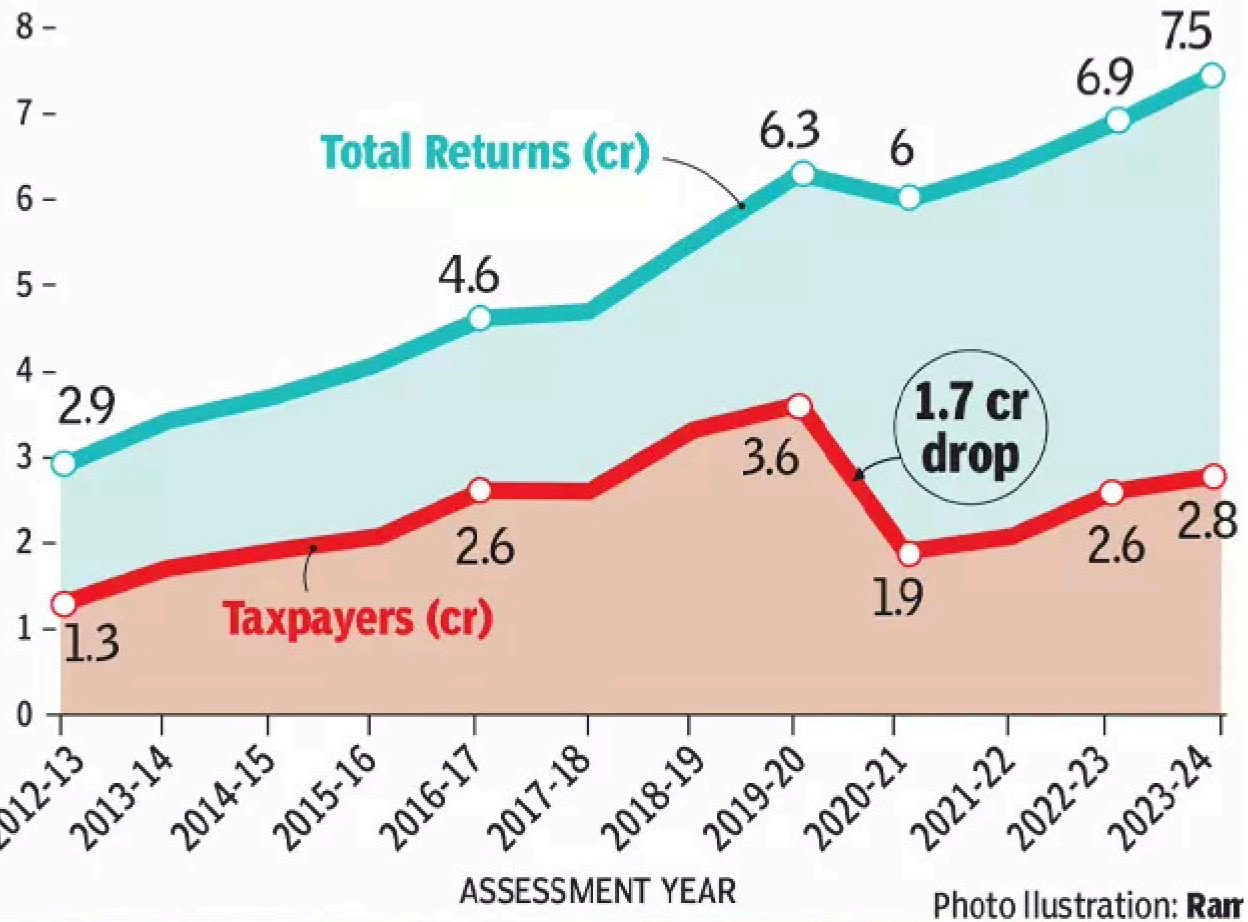
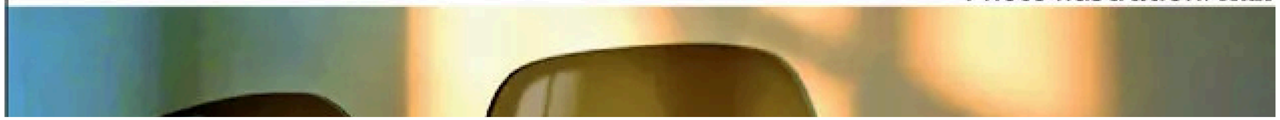


Photo Illustration: Ram



He adds that trusts would have to reapply every five years for approval under 80G. Only if the trust is approved can donors get a tax benefit (albeit under the old regime).

"The reason for cancellation of a registration by the commissioner would now only be in a case of false or incorrect information - the mere fact that the application was incomplete cannot be a ground for cancellation (which has significant adverse consequences of a heavy tax liability on the fair market value of assets of the trust)," adds Nayak.

Currently, a benefit provided to 'specified persons' by charitable trusts can result in loss of exemption to the extent of the benefit provided. The list of specified persons included a substantial contributor (a person who had made aggregate donations of more than Rs 50,000 since the inception of the trust), his relatives and concerns in which he held a substantial interest.

"This ridiculously low limit of Rs 50,000 had remained unchanged for 40 years since 1985, and trusts found it impossible to identify or obtain details of such donors, their relatives and concerns. The limit is now being changed to Rs 1 lakh for donations during the year, or aggregate of Rs 10 lakh since inception. Further, relatives or concerns of such donors are excluded from the list of specified persons. While this will provide much-needed relief to trusts in maintaining records, the retention of period of aggregation of donations from inception of the trust will still be problematic for trusts which are several decades old," concludes Nayak.