



to the village in the form of schemes/projects. The cost of taking the taxes up and then returning the taxes down to the beneficiary are enormous. As a result, the net amount that reaches the downtrodden will be less. The government, realizing this, has been allowing charitable organizations which pledge 100 per cent of their business income towards development purposes, exemption from tax.

These agencies take on the government's role and lessen its burden. The government too should lend a hand but unfortunately it is lending a harsh hand.

After the amendment, it will be practically impossible to conduct the affairs of charitable organizations in a smooth way. There is a very thin line demarcating the charitable act and the service act. This will cause problems in accounting and affect the organizations' programmes!

It is true that influential people and organizations should not misuse this tax shelter and evade taxes, thereby depriving the government of its dues. At the same time, really deserving candidates should not be denied this benefit either. There are better options available. For instance, the government could have amended the provisions of Sec.11,12 and 13 instead of Sec.2(15). There are even cases where Courts have agreed with the views of the deponent like *CIT vs. P.Iyya Nadar Charitable Trust (2006)* where the assessee lost the exemption.

The voluntary organizations try to aim for sustainability. It is part of their strategy.

Therefore they undertake many income generating activities. Such income generating activities have been exempted from tax irrespective of what the objectives of the NGO/charitable organization to become sustainable are. Now the exemption has been withdrawn. Unless there is a specific connection between the income generating activities of the voluntary organization and its objectives, it is not likely to get the exemption.

A World Bank Report discusses two important tests, which should be taken into consideration for extending tax exemption to organizations.

The first is the test of 'principal purposes' which looks at whether the principal activities and expenditure of the organization are for non-commercial purposes. They may be permitted provided (i) no profit or earnings are distributed to founders, members and so on and (ii) if the NGO is organized and operated principally for the purpose of conducting appropriate (not for profit) activities.

The second is the test for 'destination of incomes'. Here if the surplus earned from the activity of trade/business is committed for and actually utilized for the activities of NGO, the organization should be entitled to the advantages of tax exemption.

Genuine charitable organizations deserve encouragement from the government. But they are thought of mostly at the time of natural disasters and forgotten during Budget presentations. It is unfortunate that there was no strong network or lobby in the voluntary sector to take important issues to the Finance Minister.

The only hope for charitable organizations now is to start a dialogue with the CBDT and request that the explanatory circular should take care of the feelings of genuine organizations, protect their interests and permit them to use their surplus for charitable activities.