

E-NEWSLETTER

AN ANALYSIS OF CHANGES IN INCOME TAX FORM ITR-7

ISSUE NO 12. | JUNE 2020 | Volume I



E-Mail: ashis@ngoenable.com
Contact No: 9038966010

Every year the Finance Ministry notifies the Income Tax Return Forms and usually, those come with some or the other changes. In the latest development, CBDT vide Notification No. 31/2020 dated 29th May, 2020 have notified the ITR Forms for AY 2020-21. Though in the recently notified ITR -7, no major changes were found except handful of minor ones, for the previous year i.e. AY 2019-20, there were quite a number of changes which were notified by the Department. The Income Tax Return has been made more informative and transparent.

As you all are aware that the Income Tax Department is now processing everything online, its high time the income tax returns are filled completely as well as accurately in order to enable smooth processing of returns. Most of the income tax related issues and litigations crop up only because of inaccurate furnishing of returns. With the income tax e-proceedings already in place, where the assessing officer and the assessee will be unknown to each other and might be even from different city or state, it will not be that easy to clarify the errors and/or discrepancies, as was possible in case of face-to-face proceedings.

The Team NGOenabler have compiled a brief analysis of such changes that the organizations need to be aware of filing the return form ITR -7.

DISCUSSION ON RECENT CHANGES NOTIFIED IN FORM ITR -7

1. INFORMATION RELATED TO APPLICATION UNDER NEW PROVISIONS

In the table related to “**Details of registration or approval under the Income Tax Act**”, now the information related to application under the new provisions i.e. Section 12AB, inserted vide Finance Act, 2020, thus repealing the earlier Section 12AA, has been added.

- a) Whether application for registration made under the new provisions
- b) Section under which registration is applied
- c) Date on which such application was made
- d) Section of exemption opted for.

2. DETAILS OF CORPUS DONATION SHIFTED

In Schedule-ER, corpus donation have been removed from under the sub-head “Expenditure on objects of the trust/institution” and has been added as a line item under the “Disallowable Expenditure”. This change is line with the amendment made in Finance Act 2019 of not allowing corpus donation as an application of income as the same was exempt in the hand of the donee organization.

3. ADDITIONAL INFORMATION RELATED TO BANK ACCOUNTS

In the table related to bank details, a column have been added to indicate the account which is being used for digital receipts and payments. This seems to have been done in order to discourage the cash payments and increase reliance on digital platforms for transactions

DISCUSSION ON MAJOR CHANGES MADE IN FORM ITR-7

DURING AY 2019-2020



1. REPORTING OF GROUP-WISE EXPENDITURE AND SOURCE OF FUND TO MEET SUCH EXPENDITURE

The Schedule-ER has been divided into 5 parts, where the revenue expenditure were bifurcated into three heads, namely:

- A) Establishment and Administrative Expenses
- B) Expenditure on objects of the trust/institution
- C) Disallowable Expenditure

Part-D being the addition of above three, arriving at the total revenue expenditure and;

In Part-E, the source of funds to meet the above revenue expenditure have to be specified out of the following possibilities:

- a) Income derived from the property/income earned during the previous year
- b) Income deemed as application in anyb preceeding year under Clause 2 to Explanation 1 of Section 11
- c) Income of earlier years upto 15% accumulated or set apart
- d) Borrowed Fund
- e) Any other (specify the source)

In case of overutilization of income in any particular year i.e. total expenditure is more than the total income, part c and part d above shall

Thus from the above it can be understood the level of transparency being brought into the return form in respect of sources of fund and expenditure being incurred by charitable organizations.

2. ADDITIONAL REPORTING FOR CAPITAL EXPENDITURE

Now, under Schedule-EC, the cost of new asset for claim of exemption u/s 11(1A) has to be specified, which was not required earlier. The amount shall, however, have to be restricted to the net consideration.

Apart from this, similar to Schedule-ER related to revenue expenditure, even for meeting capital expenditure, the source of funds have to be now specified out of the same heads as mentioned in aforesaid schedule.

However, we are of the view that in the Schedue – EC, the option of “Amount accumulated or set apart u/s 11(2)” should have been provided instead of “Income deemed as application in anyb preceeding year under Clause 2 to Explanation 1 of Section 11” because practically Section 11(2) which is opted for 5 years is used for incurring capital expenditure by the organization. So, such accumulation also is one of the sources of fund for

3. SCOPE OF AGGREGATE INCOME WIDENED

Now, under Schedule-AI, net consideration on transfer of capital assets have been included thereby widening the scope of aggregate income to include capital receipts thereof. Earlier this line item related to sale of capital assets was to be disclosed under the Schedule –EC itself and in order to consider it in the aggregate income of the organization, have to be reported under “any other income” with specific mention of such of receipt.

However, by specifically including this line item under Schedule-AI, more transparency have been brought in, with proper disclosure of segregation of aggregate income.

4. INCOME AND EXPENDITURE STATEMENT

Schedule IE-1 to Schedule IE-4 was newly inserted in the return form ITR-7. These schedules were applicable to those assessee claiming exemption under various clauses of Section 10 (as mentioned against the relevant schedules) of the Income Tax Act and not to those claiming exemption u/s 11 and 12 of the said Act.

The Schedules IE-1 and IE-2 contain the following details to be filled for such organizations, as per the applicability:

a) Total Receipts including voluntary contribution

b) Application of income towards the object of the institution

c) Accumulation of income, if any

Schedule IE-3 and IE-4 in addition to above, also requires disclosure, as per the applicability, on:

a) Objective of the Institution and;

b) Complete addresses from where the activities are being carried out.

5. MODIFICATIONS IN STATEMENT OF INCOME

Pursuant to the changes made in Schedule-ER and EC related to the reporting of source of funds, under Part-B-TI, the line item "amount applied during the previous year – utilization of surplus accumulated during an earlier year" has been removed and rightly so, since the disclosure is already covered under the aforesaid schedule.

Apart from this, under the sub-head "Additions", two new line items were inserted, namely:

a) Amount disallowable u/s 11(1) or 10(23C) r.w.s 40(a)(ia)

b) Amount disallowable u/s 11(1) or 10(23C) r.w.s 40A(3)/(3A)

These have been inserted in line with the amendment made in Finance Act, 2018 where the scope of the aforesaid sections 40(a)(ia) and 40A(3)/(3A), which deals with the disallowance of expenditure in relation to non-deduction of TDS and cash payments above Rs. 10,000 respectively, was widened to include charitable organizations exempt from tax u/s 11 and 12 of the Act. Accordingly, a separate disclosure has been called for to keep a check on such non-compliances and take necessary actions, wherever required.

6. MODIFICATIONS IN BANK ACCOUNT DETAILS

In the earlier return form, the account in which refund is to be credited was required to be disclosed separately. Accordingly only one bank account could be mentioned in the table provided. Now, the organizations have an option to select more than one account for the purposes of refund as the specific disclosure have been done away with.

Considering the stringent norms and regular updation of forms, it is now very essential for the organizations to ensure that the return form is accurately filled and utmost care is taken while feeding the data. The Team NGOenabler suggests studying of the return forms very minutely and collecting all the relevant informations, especially for mandatory fields, before filling the form to ensure completeness and accuracy.