

According to Section 80G of the Income Tax Act, a prescribed percentage of the amount of donations made to specified relief funds and notified charitable institutions can be claimed as deduction by the donor while calculating their taxable income. However, it was found that many taxpayers were falsely claiming such benefits through fake donation receipts. Accordingly, in the Union Budget 2017, with the aim of plugging such loophole of exploiting the tax benefit u/s 80G by getting fake receipts of cash donations, the existing limit for cash donations of Rs. 10, 000/- was reduced to Rs. 2,000/- .

However, the continuous focus of the Government in eliminating cash transactions and making time of time amendments in various provisions dealing with limits on cash payments and receipts, it have also put the charitable organizations in dilemma about whether they can accept cash donations above Rs. 2,000. So in this newsletter we have tried to cover the address this concern on limits of cash donations and provide clarity on the same, along with few interesting aspects related to the cash donations.

### **CLARIFICATION ON RESTRICTED LIMIT OF RS. 2000 FOR CASH DONATIONS**

In our opinion and understanding of the law, the limit of Rs. 2,000/- for cash donation has to be seen from the perspective of donor and not the donee organization. Accordingly, it can be understood that it's the donor who have been restricted to make the payment of more than Rs. 2,000 in cash and not the donee on accepting any such donation. However, the provisions laid down in Section 269ST introduced in the same budget also have to be complied with.

### **SECTION 269ST – MODE OF UNDERTAKING TRANSACTION**

Section 269ST introduced w.e.f 01.04.2017 restricted the cash transactions by providing that:

“No person shall receive an amount of Rs. 2 Lacs or more:

- a) In aggregate from a person in a day;
- b) In respect of a single transaction;
- c) In respect of transactions relating to one event or occasion from a person

otherwise than by an account payee cheque or an account payee bank draft or use of electronic clearing system through a bank account.”

This implies cash receipts have been restricted upto Rs. 2 Lacs and if a charitable trust or a society or Section 8 company, accepts cash donation above Rs. 2 Lac, it will be in contravention to Section 269ST, and they will be liable for penalty as prescribed i.e. equivalent to the amount so received.

Thus, in our opinion, considering both the amendments, it will be prudent, if no 80G receipts i.e. tax exemption receipts are issued by the Organisation against cash donation of above Rs. 2,000, though there is no restriction on receiving cash donations upto Rs. 2 Lac.

## CONCEPT OF ANONYMOUS AND NON-ANONYMOUS

### CASH DONATION



Before moving directly to that aspect, firstly it is very important to have a clarity and understanding that treating cash donation as anonymous is not prima-facie correct proposition, if the donor identity is available and can be disclosed, whenever required.

So, if the donor identity is available, even though the donation has been received in cash and is above Rs. 2,000, it cannot be made taxable in the hands of charitable organizations, unless provisions of Section 269ST, as explained above, is contravened.

However, in cases where the donor identity is not available, even if the amount of donation received in cash is below Rs. 2,000 i.e. within the limit prescribed for deduction u/s 80G, such donations shall be taxable in the hands of recipient organization @30% u/s 115BBC of the Act.

To summarize the above, the NGOs can receive cash donations above Rs. 2,000/- but below Rs. 2 Lacs and are advised not to issue tax exempt receipts to the donor against the same. However, the identity of donor i.e. the details of donor must be kept handy in case of any future investigations and scrutiny called for by the tax authorities.