

FAQs - ITR of political parties

1. Do political parties get tax exemption? If so, how much?

Under Section 13A of the Income Tax Act, political parties are exempt from paying Income Tax but are required to file their Income Tax returns annually to the Income Tax Department. They enjoy 100% tax exemption from all sources of income.

2. Under what Act do the Political Parties enjoy tax exemption?

Political parties registered with the Election Commission of India are exempt from paying Income Tax under Section 13A of Income Tax Act, 1961 as long as the political parties file their Income Tax Returns every Assessment Year along with their audited accounts, Income/ Expenditure details and balance sheet.

There is a proviso to Sec 13A as follows:

“Provided further that if the treasurer of such political party or any other person authorised by that political party in this behalf fails to submit a report under subsection (3) of section 29C of the Representation of the People Act, 1951 (43 of 1951) for a financial year, no exemption under this section shall be available for that political party for such financial year.”

3. Under what section do the political parties have to file their income tax returns and how often?

Similar to the Income Tax Returns (ITR) filed by individual tax payers in India, registered political parties too have to file their Income Tax Returns every year. According to Section 139 (4B), returns of a political party is required to be filed of a particular financial year, audited and submitted by the 30th of September.

4. How to get a copy of the ITR of a particular political party?

For obtaining a copy of the ITR of a political party, an RTI has to be drafted to the Income Tax Department of the city in which the political party is registered. Examples of such RTIs can be found at <http://adrindia.org/content/rtis-scanned-copies-filed-political-parties-income-tax-returns-donations> where both the RTIs and their replies from the concerned authority have been made available.

5. What is the main information to look for in an ITR filed by the political party?

There are five components that provide information relating to the functioning of the political party. They are:

- Balance Sheet: Contains a broad information of the main sources of funds (Corpus fund, general funds, loans etc) and the application of those funds (assets, investments, advances etc)
- Income and Expenditure Account: Income from fee/ grants, donations, sale of coupons etc and the Expenses towards election, finance, employee costs etc
- Schedules: This is the breakup of individual component in the balance sheet wherein every detail regarding loans taken, given, details of purchase of any asset, details of investments etc
- Contribution report: This is the report containing details of donors who have made contribution above Rs 20,000 to the political party during the specified financial year. A copy of this report this sent to the Election

Commission on an annual basis (mandatory) which correlates with the Income Tax department for tax exemption.

- Assessment order: Ordering scrutiny of the accounts provided by the party

6. What is an assessment order and who issues it?

If the income tax returns filed by the political party come into scrutiny by the Income Tax Department, a notice is issued to the party requesting their presence for an assessment proceeding. Such a notice is called an assessment order, the proceedings of which should be conducted by the Income Tax Department by the end of the next financial year. An example where an assessment order might be issued is when a political party declares NIL income during a particular financial year. Once called for assessment proceedings, the said political party has to show adequate proof for declaring NIL income in its returns.

7. What are the sources from which political parties derive their income?

From the Income Tax Returns filed by political parties, it can be safely said that they function mainly on the basis of donations from individuals and companies/ institutions. Apart from voluntary contributions, income received from sale of coupons, membership fee collected and interest earned form the major sources of income of political parties.

8. One of the sources of income has been given as 'Sale of Coupons'. What are coupons and how are they made available to the political parties for sale?

Coupons are one of the ways devised by the political parties for collecting donations and hence are printed by the party itself. There is no cap or limit as to how many coupons can be printed or the total quantum (that is the total amount/worth of coupons). Details of donors is not required for coupons with small amounts (say Rs 5/10/20 etc), and might be where all the unaccounted/black money might be pumped in. The only source of information regarding the coupon system is the party itself and no one else. Coupon system does not come under the scope of Election Commission of India and they have no control over it.

9. How is the 'donations' given in the ITR different from the donations report submitted to the ECI?

Donations, mentioned as one of the sources of income, given in the Income Tax returns is the sum of donations received through various means during that financial year such as through sale of coupons, through a party rally, while conducting public meeting and need not necessarily be above Rs 20,000 and do not provide information about the individual amount collected nor the mode of payment of these donations whereas the donations report submitted to the ECI are those made above Rs 20,000 listing the details of the donors, their address and their mode of payments.

10. What are the types of accounting methods followed by the political parties and what is the suggested method of accounting?

There are two types of accounting methods currently being followed by political parties: The Cash accounting and the accrual method of accounting. The former method registers the transactions when the related cash transactions take place. Thus, the revenue of political parties such as donations, grants etc is recognized when funds are actually received while failing to show a proper picture of the financial position of the party. On the other hand, the accrual method of accounting, records transactions during the period they occur such as revenue, expenses, assets and liabilities in real-time thus providing information about the real level of organisation's activities.

Accrual basis of accounting is recommended by the Institute of Chartered Accountants of India (ICAI) for the political parties.

11. Have there been any concerns about the way political parties have been filing their Income Tax Returns?

As all political parties do not employ the same method of accounting, there is a concern that the present auditing techniques do not meet the financial information requirements of the public at large. Hence a sound accounting and auditing framework for standardising the procedure of filing returns would improve the accountability of political parties towards utilising their financial resources.

12. What is the Institute of Chartered Accountants of India (ICAI)?

The Institute of Chartered Accountants of India is the body which defines the way the Income Tax returns have to be audited and submitted. It is a known fact that the funding of the political parties are diversified hence the objective of accountability and transparency is of great importance. ICAI had laid down a few recommendations to the ECI for improving transparency and accountability in dissemination of accounts of the political parties which were accepted by the ECI.

13. What are the latest recommendations by the ICAI towards filing of Income Tax Returns by the political parties?

The recommendations aim at bringing in a standard format through which the political parties can file their Income Tax returns. The document containing guidelines issued to the Chartered Accountants by ICAI for a uniform audit can be viewed at

http://adrindia.org/sites/default/files/Guidance_Note_on_Accounting_Auditing_of_Political_Parties.pdf

As mentioned earlier, cash flow of accounting has a few flaws whereas accrual method, though superior, did not capture the cash flow of the party effectively. Hence the new recommendations suggest that a format be used so that the advantages of both the methods be utilised. The suggested ITR to contain:

- Balance Sheet
- Income and Expenditure Account
- Cash flow Statement: Similar to the cash mode of accounting giving information of cash receipts/ payments as they occur
- Notes forming part of financial statements: Notes giving reasons for not following the suggested changes and any additions made to the suggested changes

Recommendations for Auditing of Political Parties

ICAI has recommended for audit of the accounts of political parties, by a firm of Chartered Accountants, **appointed on rotation every 3 years**, by the ECI. Auditors would be required to follow the Auditing and Assurance Standards issued by the ICAI, while auditing the accounts of the political parties.