
CHARITABLE TRUST

QUESTION 1:

Seva Niketan, a charitable trust registered under section 12AB runs an educational institution, which is engaged solely in education and a hospital for treatment of persons suffering from mental disorder solely for philanthropic purposes.

The trust furnished the following information:

- (i) The total receipts of the trust for the P.Y. 2025-26 for educational institution is ₹ 3.10 crores and for the hospital it is ₹ 3.40 crores.
- (ii) Voluntary contributions [included in (i) above] received for the P.Y. 2025-26 from the public amounted to ₹ 105 lakhs. It includes corpus donations of ₹ 55 lakhs (for purchase of building for the trust) and anonymous donations of ₹ 20 lakhs.
- (iii) During the P.Y. 2025-26, computers purchased for ₹ 80 lakhs out of:
 - Corpus fund mentioned in (ii) above ₹ 30 lakhs.
 - Loan – ₹ 25 lakhs
 - Voluntary contributions - ₹ 25 lakhs
- (iv) Corpus donations received during the current year are invested in –
 - Post Office Savings Accounts ₹ 10 lakhs
 - Canara Bank as Fixed deposits ₹ 5 lakhs
 - Non-banking Financial Corporation (NBFC) ₹ 10 lakhs
- (v) Repaid loan of ₹ 3 lakhs which was utilized for purchase of furniture during P.Y. 2021-22.
- (vi) Corpus fund of ₹ 7 lakhs and ₹ 5 lakhs utilised for purchase of building during the P.Y. 2022-23 and P.Y. 2023-24, respectively – Deposited back in post office savings account during PY 2025-26.
- (vii) Payment of ₹ 4 lakhs to contractor during P.Y. 2024-25. TDS on the same has been deducted and deposited in December 2025.
- (viii) Payment of professional fees of ₹ 2 lakhs by crossed cheque.

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- (ix) Income of ₹ 12 lakhs could not be applied during the P.Y. 2025-26 due to genuine reason. The trust has furnished Form No. 9A in this regard on 31st October, 2026.
 - (x) Income of 7 lakhs was applied for the benefit of trustee's son.
 - (xi) Operating Expenses of the trust during the P.Y. 2025-26 amounted to ₹ 240 lakhs out which ₹ 8 lakhs was outstanding.
 - (xii) Acquired a building for ₹ 80 lakhs on 1.6.2025 for expansion of hospital (cost of land included therein ₹ 50 lakhs). Stamp duty value of the land and building ₹ 210 lakhs.
 - (xiii) Excess of expenditure over income in the P.Y. 2024-25 ₹ 2 lakhs.
 - (xiv) Amount paid to another trust registered u/s 12AB by way of donation of ₹ 10 lakhs. Out of the said amount ₹ 2 lakhs was given as corpus donations.
 - (xv) ₹ 6 lakhs, being the amount set apart in the P.Y.2024-25 by the trust for charitable purposes u/s 11(2) utilized in the P.Y. 2025-26 for making donation to another charitable trust, whose object is also education.
 - (xvi) ₹ 90 lakhs – accumulated for future charitable purpose. Statement in Form No. 10 was furnished on 24th Oct., 2026.
- Compute the total income of the trust for A.Y. 2026-27.

ANSWER:

STATEMENT OF TOTAL INCOME

Particulars	₹
<u>Incomes eligible for exemption:</u>	
Receipts other than donations [3.1+ 3.4 – 1.05cr.]	5,45,00,000
Donations:	
→ Corpus donation [₹15L invested in prescribed mode i.e. P.O./Bank]	—
→ Anonymous Donation to the extent of: (↑ 5% of Total donations i.e. 5% of ₹105L) (₹ 1,00,000)	5,25,000
→ Other Donations (105L – 55L Corpus – 20L Anonymous)	30,00,000
	5,80,25,000

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Less: 15% Exempt	(87,03,750)
	4,93,21,250
Less: Applied:	
Purchase of computers out of Corpus donation	—
Purchase of computers out of Loan	—
Purchase of computers out of donations	- 25,00,000
Corpus utilised in P.Y. 22-23 deposited back in P.O.	- 7,00,000
Corpus utilised in P.Y. 23-24 deposited back in P.O.	- 5,00,000
Repayment of loan used in P.Y. 21-22	- 3,00,000
Paid to contractor – disallowed in P.Y. 24-25 (30%)	- 1,20,000
Payment of professional fees by crossed cheque	—
Applied for the benefit of trustee's son	—
Operating expenses paid [240 L – 8 L]	- 2,32,00,000
Acquired building at low price [sec 56(2)(x) – N.A.]	- 80,00,000
Donation to other trust [10 L – 2 L] x 85%	- 6,80,000
Excess application of P.Y.2024-25	—
	1,33,21,250
Less: Not Applied because not received	—
Less: Not Applied (other reason) (Note 1)	- 12,00,000
Less: Accumulated for future purpose (Note 1)	- 90,00,000
	31,21,250
Add: Incomes not eligible for exemption:	
Corpus donation not invested [30L + 10L]	+ 40,00,000
Accumulated in PY 2024-25 misused	+ 6,00,000
Excess Anonymous donation (₹20 L – 5.25 L)	+ 14,75,000
Taxable Income	91,96,250

Note 1:

Statement of Accumulation in Form No.10 and Statement of Deemed application in Form No. 9A should be furnished **at least 2 months prior to the due date** of filing return. However, as per CBDT circular, exemption for deemed application and accumulation cannot be denied if the Form 10/9A is furnished **up to the due date** of filing return.

QUESTION 2:

The Balance Sheet of M/s Shanti Niketan Charitable Trust as on 31.1.26, and its other information is given hereunder:

Particulars	₹ (lakhs)
Liabilities	
Corpus fund	800.00
Sundry creditors	335.00
Total	1135.00
Assets	
Land (purchased in the year 2012)	100.00
Land and buildings purchased in the year 2018	800.00
2000 quoted equity shares in X Ltd.	20.00
15,000 unquoted equity shares in Z Pvt. Ltd.	1.50
Balance in fixed deposits with scheduled banks	200.00
Cash in hand	12.00
Tax Deducted at Source	1.50
Total	1135.00

The application for registration was made on 15.4.2015 and registration was granted on 1.7.2015. However, the registration was cancelled on 31.1.2026. An appeal was preferred against the order of cancellation, which was dismissed by the Appellate authorities. The order confirming the cancellation was received on 31.3.2026.

Additional Information:

- (1) SDV of the land (purchased in 2012) as on 31.1.2026 was ₹ 120 lakhs but if sold in the open market, the property would fetch ₹ 250 lakhs as per a registered valuer's certificate.
- (2) Land and building (purchased in 2018), if sold in the open market will fetch ₹ 1000 lakhs as per a registered valuer's certificate. SDV as on 31.1.2026 was ₹ 1050 lakhs.
- (3) The highest and lowest value per share of X Ltd. traded on 31.1.2026 was ₹ 1099 and ₹ 1051 respectively.
- (4) Sundry Creditors include Rs. 30 lakhs provided on estimated basis to contractors for which no bills are received.

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(5) With respect to Z Pvt. Ltd, following additional information is available as on 31.1.2026:

- a) 1,00,000 equity shares of Rs. 10 each
- b) Total book value of assets [other than bullion and jewellery] is Rs. 60 lakhs
- c) Market value of bullion and jewellery is Rs. 30 lakhs
- d) Liabilities amounting to Rs. 35 lakhs

Based on the above information, calculate the exit tax payable by the Charitable Trust and state the latest day on which the said tax must be paid. Give working notes wherever necessary.

ANSWER:

As per section 115TD, the accreted income of M/s Shanti Niketan Charitable Trust, registered under section 12AA would be chargeable to tax @ 34.944% [30% plus surcharge @ 12% plus cess @ 4%] for the reason of cancellation of registration.

COMPUTATION OF EXIT TAX

S Shares & securities [Quoted eq. shares of X Ltd.] Avg of stock ex. price (2,000 shares x 1075)	21,50,000
U Unquoted equity shares of Z Pvt Ltd. (S + U + J 30 L + I + O 60 L – 35 L) x 15%	8,25,000
B Business undertaking of trust	Nil
I Immovable property	
Land purchased in 2012 [before regn.]	Nil
Land & Building purchased in 2018 (Higher of FMV 1,000 L & SDV 1,050 L)	10,50,00,000
O Other Assets (except Misc. exp. & Adv. tax/TDS)	
FD with Scheduled Banks	2,00,00,000
Cash in hand	12,00,000
Less: Liabilities	
Sundry creditors (other than unascertained liab)	- 3,05,00,000
	9,86,75,000
Exit Tax @34.94% on above	3,44,77,045

The latest day on which such tax must be paid is 14th April, 2026, being 14 days from 31.3.2026, the date on which the order confirming the cancellation is received.

QUESTION 3:

Reliance foundation, a charitable trust registered u/s 12AB runs a hospital. The trust furnished the following information:

- (i) The total receipts of the trust ₹ 8 crores.
 - (ii) Voluntary contributions ₹ 1 crore
 - (iii) A land belonging to trust which was purchased in 2022-23 for ₹ 80 lakhs was sold for ₹ 95 lakhs. Out of the sale proceeds of this land, another land was purchased for ₹ 92 lakhs.
 - (iv) Mr. Shaurya, son of Mr. Neeraj, who is founder of the trust, was admitted in the hospital for heart surgery. He was charged a total fee of ₹ 3,00,000 as against the amount of ₹ 7,00,000 charged by hospital for similar treatment to the general public.
 - (v) Income of ₹ 7 crores was applied for the objects of the trust.
- Compute the total income of the trust for P.Y. 2025-26.

ANSWER:

STATEMENT OF TOTAL INCOME

Particulars	₹
Total Receipts other than donations	8,00,00,000
Donations	1,00,00,000
LTTCG on sale of land [95L – 80L]	15,00,000
	9,15,00,000
Less: 15% Exempt	(1,37,25,000)
	7,77,75,000
Less: Applied	
Capital gains reinvested	- 12,00,000
[Cost of new asset – cost of old asset] [92L - 80L]	
Applied for the objects of the trust	- 7,00,00,000
Add: Free or concessional service to founder's son	+ 4,00,000
[Deemed income = 7L – 3L]	
Taxable Income	69,75,000

QUESTION 4:

Examine and discuss each of the following independent cases of charitable trust/institutions based on the relevant provisions of Income-tax Act, 1961 for the AY 2026 -27:

1. KRA Foundation is a charitable trust registered u/s 12AB engaged in the activity of providing old-age homes to senior citizens. The total receipts of the trust for the financial year 2025-26 was ₹ 145 lakhs. This receipt of ₹ 145 lakhs includes a voluntary contribution received from Mr. Keshav, a resident individual, amounting to ₹ 1,70,000. During F.Y. 2025-26, out of the total receipts, the trust gave an unsecured loan of ₹ 5 lakhs to Mr. Keshav at an interest rate of 12% p.a. The scheduled banks charge interest at the rate of 11.50% for a similar kind of loan. The trust has always applied 85% of the total receipts for its objects. Discuss the implications in the hands of the trust as per the provision of the I.T. Act, 1961.

Answer:

If any part of the income of the trust is lent to any "specified person" referred to in section 13(3) for any period during the previous year without either adequate security or adequate interest or both, such income is to be deemed to have been used or applied for the benefit of a person referred to in section 13(3). In the present case, Mr. Keshav has made a substantial contribution of ₹ 1,70,000 which exceeds the limit of ₹ 1,00,000 to KRA Foundation, he would fall within the category of persons specified u/s 13(3).

KRA Foundation trust gave loan of ₹ 5 lakhs out of the income of the trust without any security to Mr. Keshav though rate of interest i.e., 12% is higher than the market rate of 11.50%, such income/loan amount of ₹ 5 lakhs is deemed to have been used or applied for the benefit of Mr. Keshav, being a person specified u/s 13(3). Such income shall not be excluded from the total income of the P.Y. 2025-26.

Consequently, the income of ₹ 5 lakhs would be considered as specified income u/s 115BBI and be taxable @30%.

Further, in terms of section 271AAE, penalty of ₹ 5 lakhs would also be leviable, calculated at 100% of income provided as a benefit, where the violation is noticed for the first time during any previous year.

2. M/s Medi Care Foundation, a trust registered u/s 12AB of the Income- tax Act, 1961, runs a hospital. During the financial year 2023 -24, it received a voluntary contribution of ₹ 95 lakhs with a specific direction that it should form part of the corpus of the trust. The trust invested such amount in the shares of M/s Healthy Care Ltd., a public sector company. On March 31, 2026, due to disinvestment by the Government, M/s Healthy Care Ltd. ceases to be a public sector company.

Answer:

Voluntary contribution of ₹ 95 lakhs received with a specific direction that it should form part of the corpus of the trust, would be eligible for exemption, since investment in shares of M/s Healthy Care Ltd. a public sector company is permissible mode of investment under section 11(5).

However as per provisions of section 11(5), where an investment is made in the shares of any public sector company and such public sector company ceases to be a public sector company, the investment so made shall be deemed to be a valid investment for a period of 3 years from the date of such cessation.

Therefore, it would continue to be eligible for exemption for a period of 3 years from the cessation date i.e., 31.3.2026 on which M/s Healthy Care Ltd., ceases to be a public sector company due to the disinvestment.

3. Yashoda Green Charitable Trust having its main object as “advancement of object of general public utility” provide electrical scooter to the various corporate employees of Cyber Hub Gurugram for their daily commute. With this business activity, it generates receipts of ₹ 45 lakh, which has been applied for the object of general public utility. The total receipts for the F.Y. 2025-26 of Yashoda Green Charitable Trust was ₹ 190 Lakh.

Answer:

If a trust having its main object as advancement of any other object of general public utility, derives income from an activity in the nature of trade during a financial year, it will lose its charitable status if aggregate receipts from such activity is more than 20% of the total receipts of the trust in that year even if it applies such income for its main object.

In the present case, receipts from the business of providing electrical scooters to various corporate employees i.e., ₹ 45 lakhs exceed 20% of total receipts of ₹ 190 lakhs (i.e., ₹ 38 lakhs) during the previous year 2025-26. Accordingly, Yashoda Green Charitable trust would lose its charitable status for the P.Y. 2025-26 and would not be eligible for the exemption under section 11 and 12.

4. “Light of Hope” Charitable Trust having objective of providing ‘clean drinking water’ started its welfare activities in 2019 by providing clean water to some villages of Uttar Pradesh. In August 2024, a similar objective trust named ‘Water for All’ was formed by a group of people in Jharkhand. They also provide clean drinking water to villagers on a small scale. “Light of Hope” offers the “Water for All” trust to merge with them so that they can scale the benefits and share resources. However, they are concerned about the exit tax levied at the time of merger of trusts.

Answer:

As per section 12AC, if a trust or institution approved u/s 10(23C) or registered u/s 12AB merges with another trust or institution, the exit tax provisions contained in Chapter XII-EB would not apply if –

- the other trust or institution has same or similar objects.
- the other trust or institution is approved u/s 10(23C) or registered u/s 12AB; and
- the said merger fulfils such conditions as may be prescribed.

In the present case, since the both the trust has similar objects, the exit tax under Chapter XII-EB would not be applied, assuming the both the trust are registered and fulfills the conditions as prescribed.

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5. Devayani Trust is a registered charitable trust under section 12AB. During the previous year 2025-26, the trust had applied ₹ 4,50,000/- for the benefit of the trustee and ₹ 2,50,000/- for the benefit of Mr. Sujan Dave, who has donated ₹ 3,75,000/- to the trust during PY 2025-26. Also, an amount of ₹ 2,50,000/- set apart in the P.Y. 2023-2024 by the trust for charitable purposes under section 11(2) has been utilized in the P.Y. 2025-26 for making donation to another registered charitable trust with similar object as Devayani Trust.

What is the amount of 'specified income' liable to tax @30% under section 115BBI for assessment year 2026-27? Explain with reasons.

Answer:

COMPUTATION OF SPECIFIED INCOME

Income A ccumulated not in accordance with the provisions of Income Tax Act	Nil
Income A ccumulated in past not used/misused/ceases to remain invested	2,50,000
Income D eemed to be applied in past not used	
Income not I nvested u/s 11(5)	Nil
Income used/applied for the benefit of specified person [A uthor, trustee etc..]	
⇒ Benefit of Trustee	4,50,000
⇒ Benefit of substantial contributor	2,50,000
SPECIFIED INCOME TAXABLE u/s 115BBI	9,50,000

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