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UNDER SCANNER

I-T wants to limit tax sops to educational institutions

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AFTER levying a tax on educational institutions receiving anonymous donations, revenue authorities now want to restrict the scope of other income tax exemptions enjoyed by scores of private educational institutions. Many of these institutions are registered as charitable trusts and do not have to pay tax on their income including donations and capitation fees.

Top revenue authorities in the western region have proposed a host of amendments in the existing income tax provisions on charitable trusts to plug the misuse of these concessions and ensure better targetting. The intention is broadly in sync with the government's goal to phase out tax exemptions.

The pre-Budget wishlist includes a change in the definition of the term "charitable purpose". The present definition covers relief for the poor and education, medical relief, and the advancement of any other object of general public utility. Tax authorities have made out a case for qualifying the term education to cover "free or concessional education for socially and economically weaker sections".

Another recommendation is to attach a rider to the term voluntary contribution. The intention is to levy income tax on capitation fees and donations which many private educational institutions compulsorily charge. In technical parlance, voluntary contributions are deemed to be income derived from property held under a trust wholly for charitable or religious purposes. These contributions are exempt from tax. Therefore, private educational institutions registered as charitable trusts do not have to pay tax on voluntary contributions.

Tax authorities have proposed excluding "donations received directly or indirectly in lieu of or an addition to fees" from the ambit of voluntary contributions. One interpretation is that donation received from students cannot be construed as voluntary contribution.

Government sources admit that any move to weed out tax exemptions enjoyed by private educational institutions is politically sensitive. Recent deliberations in the context of reservation in higher education, for instance, has shown that raising seats in institutions by around 50% would require extra resources of around Rs 20,000 to Rs 25,000 crore. A consultation paper prepared by the government has made out a case for institutions of higher learning to raise their own resources. This could be partly come from charging higher fees and donations. Against this backdrop, any radical change in the income tax law to remove exemptions to educational institutions — enjoying the status of charitable trusts — may be counter-productive, reckon experts. However, a further tightening of the norms on tax concessions for such institutions cannot be ruled out.

"Over the last couple of years, the income tax department has enhanced the reporting requirements of charitable institutions in an effort to capture the unaccounted money in the economy," according to Daksha Baxi, senior associate, Nisith Desai Associates.

For instance, all educational and medical institutions claiming exemption are now required to file their tax returns where annual receipts are less than Rs 1 crore. Their accounts will also be audited.