

What is tax deduction under section 80G?

The first part is about tax exemption, which in my opinion is mandatory; I mean the most important for you. This 80G certificate for your organisation is important but well I would not say it's a life and death matter. Let us say you are blessed with a big endowment. You already got hundred crores in your fund and you are going to live off your interest then why do you need an 80G certificate.

Because 80G certificate gives a donor incentive. It is meaningless to your organisation. It provides you an indirect benefit. Whereas 12A certificate is a direct benefit which means your organisation does not pay any tax at all. Whereas here having 80G certificate is a sort of an attraction to the donor. They not only give it to you for a good cause but also when they compute their income for tax they get a fifty percent deduction.

so supposing I give you let us say ten thousand rupees you give me this 80G certificate when I am computing my income which is liable to tax I take various deductions. This is the money I paid for insurance premium, on med claim I take deduction, on my ppf account I put this much money And I get deduction. Like manner for giving to a charity its fifty percent deduction. So I give you ten thousand rupees I get a five thousand rupees deduction when I am computing my income which is liable to tax as a donor. So I repeat it is a benefit to the donor it is not a direct benefit to you. Having it attracts donor. But if you don't have it it's alright.

Why I say this because this is an important thing for grant makers, because grant makers often say that you don't have 80G that means you do not meet my due diligence things. Not necessary. Suppose that organisation is not dependent on donations than why should it have 80G.

But 12A is important because it means that income tax department says you are a non-profit you are a charitable organisation whose income is free from tax. So from a donor perspective this is an important point to tell you that 80G your organisation may or may not have. Suppose it's not donor driven you need not have 80G certificate. Because there is no need to have it. Alright. So donor whether an individual or association or a company is entitled to a deduction in his or her total income.

If the person makes the donation to a charitable donation enjoying exemption under 80G but the amount donated should not be ten percent of the donor's gross total income as reduced by deduction. This is once again for the donors understanding. Assuming hypothetical again that a donors income in any financial year is a lakh of rupees. For the purpose of 80G the donor can only give ten thousand and claim a five thousand deduction.

Let's say he gives twenty thousand rupees but still he will be entitled only to 10 percent of his income which is five thousand rupees will be deductible. So there is a ceiling of 10 percent on donor's income where 80G is concerned. This is specific only for 80G. Now this is an important part which has come in the last finance act, this was the new insertion in the finance act of 2012, 5(d) in section 80G. No deduction allowed

under this section in respect of donation in any sum exceeding rupees ten thousand in cash. So if any one comes to you and gives you eleven thousand rupees in cash, that donor will be unable to claim 50 percent deduction.

It has to be a sum given in cheque to you .So you should also avoid taking any cash donations in excess of rupees ten thousand as per this new amendment that has come .It is another important thing that it's a requirement under law that every donor contributing more than rupees fifty thousand to the organisation needs to provide PAN to the organisation. So any donor is giving you fifty thousand and above make sure you have the PAN number. There are many organisation which keep the PAN number for even five thousand rupees and ten thousand rupees donation. It's a good idea to have it .Where is the harm.