Philanthropy Newsletter of the Centre

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South-.Asian Fundraising Workshop

The 17th South-Asian Fundraising Workshop (SAFRW) will be held atJaypee Palace, Hotel & Convention Center, Agra, from 05-07 Sept 2006. Leaders and fundraisers from over 250 non-profit organisations from all over South Asia will attend and learn how to increase support for the causes they represent. The theme "Building Relationships for Sustainability" is most timely and appropriate.

The strong speaker line-up will feature over 20 of the world's leading fundraising experts. Highlights include: Ken Brunett, the veteran Ashok Khosla, President Development Alternatives, Simon Collings, Mal Warwick and many other experts.

The speakers will educate, motivate, inspire, energise and engage participants who will discover new ideas and best practice in resource mobilisation from around the world but fully relevant to our environment. The programme will feature case studies and presentations from a wide range of practitioners who will be detailing their experiences of leveraging resources from all sources possible. It includes a wide spectrum of topics.

The programme and booking information is available online at
www.safrg.org

For further queries, please contact: South Asian Fund Raising Group, D -7 / 7346, Vasant Kunj, New Delhi-110070, India Tel: +91-11-26132024 / 26132086
Email: ceoCG?safrg.org or chair@safrg.org

BCAS Foundation's `Right to Information Clinic'

The Right to Information Clinic (RTI Clinic) is headed by Mrs. Hema Sampat, a research scholar on the subject of RTI. The Clinic has two RTI activists, Mr. Kewal Semlani and Mr. Shailesh Gandhi, as advisors. Mr. A. K. Asher, Advocate, also assists in the working of the Clinic.

The Clinic provides help and guidance to BCAS members and to non-members, i.e., all citizens, for making applications under the RTI Act and also assists in resolving any related difficulties on the subject of RTI.

The Clinic will operate twice a month from Bombay Chartered Accountants' Society (BCAS) office at:
7, jolly Bhavan No. 2, ground floor, New Marine Lines,
Mumbai - 400 020 Tel: (022) 66595601-05 Fax: (022) 66595606

NGOs, trusts, societies, institutions and public spirited individuals are urged to take advantage of this new service and empower themselves.

Overview Of The International
The international funding scenario is changing profoundly. International NGOs (INGOs)* are facing demands for new approaches and products, from increasingly well informed, difficult to please and sophisticated donors. INGOs also work in a more demanding program environment, for better informed target groups and recipients - whether they are individuals, CBOs, national NGOs or host governments. They do so in complicated arrangements. "Giving" is a less appropriate term by the day. Rather, financial transfers are, these days, part of more mature and equitable set of exchanges, in often more complex collaborative frameworks at different levels from the grass-roots up to international level.

National NGOs and CBOs looking at INGOs as a source of funding are also similarly impacted. They need to have a minimum level of competence in adding value and offer a minimum promise, to deserve funding for investment in further building their capacity. Organizations that wish to be serious players, or, indeed, players at all, need a clear vision of their goals, a good understanding of their strengths and weaknesses, and a willingness to change with the times. A properly structured
strategy, with the right alliances and lobbying, can also create trends and provide leadership. However, where there is a sound project backed by the right techniques and skills set, the funds flow easily.

Trends In International Founding
Following are some of the developments in funding trends which affect INGOs, National NGOs and CBOs, and therefore require new strategic answers and organizational development.
Mega private funds - The emergence of the Soros Foundation, Bill and Melinda Gates Foundation and others illustrate a growing social responsibility of the international business community. There is a tendency among these large funders to seek equally large partnerships of INGOs and forprofits.
Official Development Assistance and world problems The trends are towards greater effectiveness, good governance, donor co-ordination, partnerships, local ownership and Comprehensive Development Framework. Enormous global issues - persistent poverty, AIDS/ HIV, global security, international migration, displaced persons and refugees all make a compelling
case for an increase in international aid levels.

NGOs are also increasingly being pressed to measure and report their outcomes regularly to funders and other constituents. NGOs themselves are also increasingly recognizing that they need some form of regular feedback on their outcomes to help them improve their services.

Fundraising and delivery borders. European economic integration has opened the Euro-market for national fundraisers and not-for-profit service providers. The Internet has become an essential channel for fundraising. Also, larger fundraising investments are made, for instance, to enter new markets.

Branding and visibility Major INGOs have gone through a re-branding process. This helps the organizations to be recognised, build brand equity

DONOR REPORTING
Funding Scenario
Ajani
and defend or expand market share in fundraising markets. Organizations have become more media savvy, for instance, when disaster strikes, to get free publicity and be seen as associated with an important cause where, in the past, charity and anonymity were seen to be synonymous.
. Specialisation
Inevitable trends towards greater effectiveness and efficiency have led to the emergence of specialized agencies for marketing, fundraising, program management, implementation. and evaluation
. Accountability

- Trends in improved communications and transparency continue. NGOs work under selfimposed norms of accountability and efficiency.
- The causes of change in the environment of INGOs are many and varied but the key ones seem to be:
- .increased public and media awareness of development issues and the various solutions;
- .demands for increased transparency and proof of impact delivery;
- .trends towards development partnerships, capacity building and donor co-ordination;
- .technological development, especially new communication technology. Trend

NGOs are accountable to a range of stakeholders, including communities and beneficiaries, donors, governments, public opinion, private sector organizations, their own membership, staff, volunteers and boards. Different kinds of accountability mechanisms are necessary for satisfying different

stakeholders. In many cases, mechanisms of accountability from NGOs to donors are well developed through donor specified reporting requirements and evaluations.
Donor funding is generally agreed in line with each donor's priorities, strategies, criteria and guidelines. Recent times have witnessed increased planning and implementation requirements, with tighter appraisal mechanisms and reporting and budgeting requirements. There is also an exponential growth in the demand for qualitative and quantitative financial reporting. These tools of aid-management play a vital role in shaping the nature and quality of aid relationships

Donor Reporting
(partnerships). There has beei. a shift from relatively minimal procedures, light measures of evaluation and a responsive approach to a more structured and organized set of systems with an accompanying growth in policies and procedures.

Outcomes are the results of an organization's work. An outcome describes a specific desirable result or quality of its services.
NGOs are also increasingly being pressed to measure and report their outcomes regularly to funders and other constituents. In fact, many funders have gone a step further and are already using the Outcome Funding approach. NGOs
themselves are also increasingly recognizing that they need some form of regular feedback on their outcomes to help them improve their services.
me Reporting

Outcome reporting and a number of other related concepts are taking a rapid grip on many big funding organizations. In particular, the Community Fund, Britain's single largest funder of Charity and voluntary activity, has decided, "We intend to put a greater emphasis on outcomes. This means that organizations and groups that we fund will have to demonstrate that they are making a measurable short term difference and contributing to making a long term difference to the lives of people they seek to help."
Outcomes are the results of an organization's work. An outcome
(Cont'd. on page 12)

Section 139(4) makes it incumbent for every trust and non-profit organisation claiming exemption under section 11 to file a return. There is also a special return form, Form 3A, for all entities which are claiming exemption under section 11.

Importance of Return
The income tax return is the very keystone of all assessment proceedings and requires the highest standard of care in its compilation and preparation. The old proverb, "Measure ten times and cut once", is very apt for the process since if a return is filed hurriedly, it is very difficult to set right later, notwithstanding the provisions for filing of a revised return. The proverb, "Look before you leap", should be kept in mind.
The return is not only the most preliminary stage in the process of assessment, but may well turn out to be the most crucial one. Lack of due care and attention at this stage may land even the most innocent and honest of tax payers in the soup!
Wise old Confucius, the Chinese philosopher, had stated that success depends on previous preparation. This adage holds true because successful tax management starts with careful preparation and compilation of the return of income.
Disclosure of all particulars
correctly and completely in the return of income may well protect the tax payer (or the tax-exempt entity) from disallowances, additions, re-assessment, penalty and prosecutions and in the sphere of correct compilation and filing of returns, "a stitch in time may well save nine hundred stitches" at a subsequent stage.

Section 139(4) makes it incumbent for every trust and non-profit organisation claiming exemption under section 11 to file a return. There is also a special return form, Form 3A, for all entities which are claiming exemption under section 11,

Collection of Information
All the materials required for compilation of the return need not wait till, perhaps, a week before the due date for filing, as is generally the case. Preferably, all the information which is available when a transaction occurs should be updated simultaneously into the schedule or annexure which accompanies the return or tax audit report.

Examples in this regard would be the names and addresses of persons who may have been given medical or educational help, or donations made to institutions in consonance with the objects of the non-profit organisation.

At every stage, all available records should be checked and verified. The observation made in Miller vs. Cotton (1848) that "trust the smallest slip of paper for truth, than the strongest and most retentive memory, ever bestowed upon mortal man", is very pertinent in this regard.

interim Audit

Another advantage of this approach is that the statutory auditors may be requested to conduct an interim examination of the books for three or six month periods. Most auditors welcome such a request since it is generally an off-peak period and they can devote time and resources to such interim audit. The auditors would also check the back-up documentation and verify the entries. Errors, if any, can be rectified at an early date and need not "fester" or compound, till the annual audit.

All information, therefore, will be doubly checked by the accountant, as well as the auditor, prior to its inclusion in the Return of Income.

Non-Profit Organisation

R. Daruwala

Pertinent Facts should be disclosed in the Return

The Indian income tax law is based on the Schedular system prevalent in English law. However, since special rules of computation apply to non-profit organisations by virtue of sections 11, 12 and 13 of the Income Tax Act 1961, the rules enunciated by these provisions should be carefully applied. Further, any special rules due to other related legislations like the Bombay Public Trusts Act 1950 and the Foreign Contribution (Regulation) Act 1976, in relation to separate books of account, also need to be followed.

Such rules give a broad framework for maintenance of accounts, as well as disclosure, and the same should be followed consistently from year to year.

The extent of following of such rules would vary on a case-to-case basis, dependent on the magnitude and scale of the non-profit organisation, as well as its activity. A few such instances for illustrative purposes only would be as follows:

i) following of Accounting Standards 1 and 2, as prescribed by section 145A of the Income Tax Act 1961;
ii) maintaining separate books of account for any business activity carried on by the non-profit organisation;
iii) separate set of books as prescribed by the Foreign Contribution (Regulation) Act 1976 for foreign contributions received;
iv) separate file for all voluntary contribution letters directing that the contribution in question be applied to the corpus;
v) obtaining PAN for all donors above a certain threshold limit. (This information is generally called for by the assessing officer.)

Separate books of account should be maintained far any business activity carried on by the nonprofit organisation and a separate set of books should also be maintained for foreign contributions received.

Reconcilation with Information in Schedules and Books of Account and Past Returns

accompanying the return does not reconcile with it, due to lack of care in preparation and compilation. Many-a-time, the opening balances of the current year do not tally with the closing balances of the previous year. In the case of non-profit organisations, this error commonly occurs in the following areas:

i) application to the assessing officer for deferring the `application of income' to objects of the organisation to the subsequent Assessment Year [section 11(1)];
ii) filing of Form 10 towards accumulation of income, if done for more than one year, under . the provisions of section 11(2). Care should be taken to ensure that the previous year's closing balance is the same as the current year's opening balance;
iii) where depreciation is claimed, the written down value of the previous year must be carried forward as the opening balance of the current year;

iv) in case multiple general ledgers are maintained due to either having a business carried on by the non-profit organisation or as per the provisions of the Foreign Contribution (Regulation) Act 1976 and these ledger balances aggregated on the closing of accounts for a previous year, proper and accurate segregation of balances for the multiple ledgers of the subsequent year should be done.

In Law, there is a dictum that one does not owe full disclosure of the truth to all men, at all times. However, in the case of preparation and compilation of the return of income, especially for an exempt non-profit organisation, one does owe a duty of full disclosure to the assessing officer and a flirting with facts on the assumption that an innocent untruth or mistake is not a lie, may bring the assessee to grief.

Further, after such reconciliation with the past year's returns and books is.done, one should examine any significant variations and ensure that an explanation for each such variation is enclosed with the return of income. Indeed, in an ideal situation, all the entries made in the books should be easily explainable, since any unexplained entries, investments, expenditure, etc., are deemed to be the income of the year in question and liable to be taxed accordingly, with attendant interest and penalties.

Omissions and Errors

One cannot stress too strongly that the accountant or office-bearer responsible for compiling the return, must check and re-check along with the tax auditor, since errors or omissions should be avoided / minimised at all costs for the following reasons:

i) it is likely to prejudice the assessing officer who may suspect escapement and start assessment proceedings under section 143(3) or re-assessment proceedings under section 147;
ii) admission of an omission or error may amount to a self incrimination, voluntarily made;
iii) it may lead to scrutiny/ audit / re-assessment of previous
iv) it will weaken the case of the assessee and strengthen the case of the Department in any proceedings [before CIT (Appeals), ITAT or even the High Courts];
v) explanation to section 271(1)(c) deems that the assessee has concealed income wherever there is a difference between assessed and retained income (as is the case even with an innocent omission) and makes the assessee liable to penalty. The argument that a non-profitorganisation's income is exempt may not hold much water here. This is contrary to the principle of criminal law that a person is innocent until proven guilty and needs a guilty mind (mens rea) to convert an act into an offence.Under the income tax law, therefore, an assessee is "guilty until proven innocent" and the burden of proof falls on the assessee to prove innocence and absence of mens rea;
vi) for any non-profit organisation, there is the added threat of cancellation of registration by the CIT for sufficient reason under the provisions of section 12AA. Such proceedings for de-registration may be set in motion for omissions or errors in the return of income and the organisation would have to make out a very strong case for continuance of its registration.

A passage from language and the law is very pertinent in this context: "To be detected in a mistake, even though it be wholly irrelevant to the issue, is always unfortunate because it leads to a suspicion of inaccuracy in other and more vital matters."

Other Matters to be Considered In Compiling and Preparation of the Return of Income
The following points, though not exhaustive, briefly discuss other matters to be aware of in the preparation and compiling of the Return of Income:

i) Correct year to claim deductions

Ensure that the income or deduction is offered for assessment in the correct year. This statement, on the face of it, seems very mundane and easy, but has led to grief for many an assessee.

The leading judgement on this issue CIT v/s Deai Films P. Ltd. (1990) 182 ITR 200 (Mad), where a claim for a bad debt was disallowed in an assessment year as, in the opinion of the assessing officer, it related to the subsequent year and this disallowance was accepted by the assessee. In the subsequent year, it was disallowed as pertaining to the earlier year! In Appeal, the High Court decided that it was pertaining to the earlier year and ruled that the assessee should have appealed against the disallowance in that earlier year itself although it stated "notwithstanding our sympathies to the assessee";

ii) Filing return and documentation within the time limit

Care must be taken to ensure that all documents and the return itself are filed well within the time allowed. Particular care should be taken in relation to:

a) audit report (Form lOB);

b) application for carrying forward surplus to be spent in subsequent year;

c) application for accumulation of income under section 11(2) for a specific purpose

For the sake of convenience, applications under b) or c) above should be filed a day in advance of the return and a photocopy of the acknowledgement of such application enclosed with the return.

The consequences of not filing a return in time could range from withdrawal of exemption, penalty, prosecution or even disallowance of any set-offs or carry forwards. Even the benefit of filing a revised return is not available when original return is filed late;

The consequences filing a return in time could range from withdrawal of exemption, penalty, prosecution or even disallowance of any set-offs or carry forwards. Even the benefit of filing a revised return is not available when original return is filed late,

iii) Instructions in the return form

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The instructions in the return form, though non-statutory, often provide useful indicators in filling in the Form. Initially, care should be taken to ensure that the latest version of the Form is used, since the department frequently changes the format at very short notice.

The Form should be filled with all the relevant details like the year of settling the trust, names and addresses of trustees or office-bearers, names of substantial contributors, etc., and signed with the appropriate rubber stamps also affixed with such signature.

No column must be left blank and where no figure or information has to be filled in, the words "NIL", "NA" or even "---" have to be put.

It should be noted that a return without all relevant particulars may be treated as a defective return and if the assessee fails to rectify such defect on notice by the assessing officer within 15 days, it will be treated as "non-filing" of return, with the attendant penal consequences.

iv) Filing of return - better late than never

Sometimes, despite the best intentions, the return is not filed within the time limit and the trustees or office-bearers are in a dilemma, viz., "to file or not to file, that is the question". In this regard, the best advice is to file a return, even belatedly, and pay the interest because non-filing may have, inter-alia, the following serious consequences:

a) the non-profit organisation's registration u/s 12AA may be cancelled;

By Noshir

Q Is the Income Tax Act applicable to charitable Organization is India ?

A. The Income Tax Act, 1961 is a federal/central piece of legislation which affects all charitable/non-profit organizations (trust, society or company) uniformly throughout India.

Q: Do charitable organizations have to pay taxes on their various forms of income such as voluntary donations, interest/dividends, safe of products, etc.?

A. An important principle under the Income Tax Act is that nonprofit organizations in India are not liable to any income tax, provided certain conditions required under law are fulfilled.
Some of these conditions include:
i) the non-profit organization must utilize at least 85oIo of its income in any financial year (Ist April to 31st March) on the objects of the organization;
(ii) the funds of the organization are deposited according to the forms and modes specified uls 11(5) of the Income Tax Act;
(iii)no part of the income or property of the organization is used or applied directly or indirectly for the benefit of the founder, trustee, relative of the founder or trustee or a person who has contributed in excess
(iv) The direction for taking the donation to the corpus of the NGO should be given in writing by the donor.
Are all charita
of Rs.50,000/- to the organization in a financial year;
the organization files its return of income in Form 3A annually within the prescribed time limit, after applying for a PAN in Form 49A, along with audit report in Form IOB, if applicable;

religious community or caste are not eligible for tax exemption (u/s 11 and 12). However, a non-profit organization for the benefit of scheduled caste, backward class, scheduled tribe, women and children is not considered as an organization for a particular religious community or caste and as such, its income is exempt.

Q: What if the organization is unable to spend $5% of its income during any financial year?

A. in case the organization is unable to spend 85°fo of its income in the previous financial year due to late receipt of income or any other reason, the trustees may exercise the option u/s 11(1) to spend the surplus during the immediately following 12 months. Surplus income can also be accumulated for a specific project, for a maximum number of five years after filing Form No.10.

Q: Is the organization allowed to build corpus fund? If yes, what conditions should be fulfilled?
A. Corpus donations are capital contributions and should be deducted while computing the total income of the organization.

They should be held as corpus or capital of the trust and should not be used as expenditure on the objects like any other income. The accounts of the organization should reflect this position clearly.
The direction for taking the donation, whatever be the amount, to the corpus of the organization can only be given by the donor. Such a direction should be given in writing by the donor by means of a specific letter.
If the non-profit organization accepts membership fees, all life membership subscriptions and entrance fees (being a collection from members and in the nature of capital receipt and not for any specific service) may be taken towards the corpus (and therefore not treated as income for the purpose of computing total income).
Such membership fees and subscriptions, however, cannot be deemed as "donation" or "voluntary contribution."

Q.What is the tax treatment for `Business Income (If any) of a charitable)organization'
A. Section 11(4A) of the Income Tax Act, 1961 has been amended w.e.f. 1-4-1992 and,

accordingly, if the income from business is incidental to the attainment of the objects of the non-profit organization and separate books of account are maintained by such an organization in respect of such business, the profit is not

considered for taxation. In other words, the profit is fully exempt from tax.

Income from a business undertaking which is itself held under trust for charitable purpose [under section 11(1)(a)] is also exempt.

Further, an activity resulting in profit need not always be treated as income from business. Income of a non-profit organization from letting out halls (for private or public functions), rest houses or auditoriums does not amount to business.

Q: Is capital gains tax applicable to charitable organizations?

If a non-profit organization sells its capital asset, capital gain arising on such sale is not liable to tax if the net sale proceeds are invested in the purchase of new capital asset. Such reinvestment should, as far as possible, be made during the same accounting year.

Q: What is the benefit of having an 8UG certificate?

The 80G certificate is of no direct benefit to the organization. An organization may even choose not to have one. However, 80G certificate can help attract donors.
A donor (whether an individual, association, company, etc.) is entitled to a deduction (in computing his total income) if he makes a donation to a nonprofit organization enjoying exemption u/s 80G of the Income Tax Act. The amount donated, however, should not exceed 10% of the donor's gross total income as reduced by the deductions (other than the deduction u/s 80G) for the purpose of such deduction. If the donation is in excess of 10% of the donor's gross total income, the amount in excess of 10% cannot be considered for deduction under this section.
Donations in kind (like computers, medical equipment,
vehicles, etc.) are not eligible for deduction u/s 80G. The donation must be a certain sum of money.

Q. What Conditions must ne fulfilled to obtain 80G certificate?

In order to qualify for exemption u/s 80G, the nonprofit organization should be a charitable, recognized tax-exempt institution and should not be for the benefit of any particular religious community or caste.

Q. Is there any way by which an organization established for the benefit of any particular religious community or caste (e.9, only for Jains or only for the Bohra community) enjoy the benefits of 80G?

A non-profit organization exclusively for the benefit of any particular religious community or caste may create a separate "women and children fund" and donations given to this fund would qualify for deduction u/s 80G, although the organization as a whole may be for the exclusive benefit of only a particular religious community or caste. A separate account of the funds received and disbursed through this fund, for the welfare of women and children, would have to be maintained.

Q: How much deduction would donor enjoy on making a gift to a charitable organization having 80G certificate?
While donations made to various funds set up by the National or State Government (like the National Defence Fund, the Jawaharlal Nehru Memorial Fund, the Prime Minister's Drought Relief Fund, the National Foundation for Communal Harmony) qualify for 100% tax deduction (i.e., the whole of the amount donated is allowable as a deduction), donations made to non-government, non-profit organizations exempt u/s 80G(5) of the Income Tax Act qualify for only 50% deduction from income, subject to ceiling of 10% of donor's income. Receipts issued to donors by non-profit organizations should bear the number and date of the current valid 80G certificate and indicate the period for which the certificate is valid.

Q. Do religious institutions after qualify for 80G certificate?

Places of worship like temples, mosques, gurudwaras, churches or other places notified by the Central Government to be of historic, archaeological or artistic importance or to be a place of public worship of renown throughout any state or states may qualify for exemption, u/s 80G(2)(vii)(b) of the Income Tax Act for renovation or repair. A donor contributing towards the repair or renovation of such a place of worship would be entitled to a 50% deduction from income while computing his income for tax purpose.

Q : Is certificate uls 35AC different for 80G? Which is better?

Section 35AC was inserted in the income tac act 1961 by the finance (No.2) Act 1991 and came into force w.ef april 1,1992
Contributions made to a project /scheme notified as an eligible project or scheme for the purpose of section 35 AC of the income Tax act would entitle the donor (individual, institution or company or company) to a 100% deduction of the amount of such contribution
For the donor deduction u/s 35AC would certainly be more attractive than 80G

Q. What are some of the `eligible projects' uls 35AC?

a) construction and maintenance of drinking water projects in rural areas and in urban slums, including installation of pumpsets, digging of wells, tubewells and laying of pipes for supply of drinking water;
b) ¨construction of dwelling units for the economically weaker sections;
c) construction of school buildings, primarily for children belonging to the economically weaker sections of the society;
d)establishment and running of non-conventional and renewable source of energy systems;
e)construction and maintenance of bridges, public highways
Section 3,5AC was inserted in the Income Tax Act, 1961 by the Finance (No. 2) Act, 1991 and came into force w.e.f. April 1, 1992.

Sectarian Communal Trust
We are planning to set up a religious trust for the exclusive benefit of a particular religious denomination which is a recognised minority community in India. We would like to know the income-tax implications for registering such a trust. Would the income of such a trust be exempt? Can we have a mix of religious and charitable objectives?

Concerned Trustees

The Income Tax Act 1961 essentially deals with "income" derived from property held under trust, either "wholly for charitable purposes" or "religious purposes" [section 11(1)(a)].

In the case of a trust or institution established exclusively for "religious purposes", either before or after 1-4-1962, the income of such a trust or institution would be exempt u/s 11.

While section 2(15) defines "charitable purpose", the term "religious purpose" is not defined.
One could, therefore, infer that "religious purpose" relates "exclusively to religious teaching or worship." [inferred from section 9(1)(4) of the Bombay Public Trusts Act 19.50].

Please note that in the case of a trust or institution created or established for "charitable purpose" [see definition in section 2(15) of Income Tax Act] after 1-4-1962, its income would not be exempt u/s 11, if the trust or institution is created or established for the benefit of any particular religious community or caste [section 13(1)(b)]. In other words, if a trust or institution is established exclusively for "religious purposes", irrespective of whether it is for the benefit of any particular religious community or caste, its income would be exempt u/s 11.

On the other hand, if the trust or institution is established for "charitable purpose" after 1-4-1962 for the benefit of any particular religious community or caste, its income would not be exempt u/s 11.

In view of the above, we would suggest that you establish the trust only for "religious purpose" if you are keen on tax exemption.

THE FINANCE ACT 2006

The Finance Bill 2006has become an Act of Parliament. I would invite your attention to an important provision contained therein , for the benefit of the readers of the Centre's newsletter, `Philanthropy'.
Wide computing the total income of an individual, term deposits for a period of not less than five years with a scheduled bank [along with other specified instruments] will be allowed as a deduction for an amount not exceeding Rs. one lakh in the aggregate. A consolidated limit of Rs. one lakh from savings in specified instruments is allowed as deduction front total income. The whole of the amount deposited will be allowed as deduction.
There are no sectoral caps (except for Public Provident Fund, the ceiling being Rs.70,000) for investment. An individual may make investments in bank deposits or any one or more of other specified instruments within the overall ceiling specified. Interest earned on deposits is liable to tax. General perception that interest so earned is exempt from tax is misconceived.

R.S.Gae
Law Secretary
Govt. of India (Retd.)

Trends in Donor Reporting

(ConYd. from page 3)
describes a specific desirable result or quality of its services. For example, an outcome relevant to an organization whose mission is to help keep teenagers in school would be a youth's completion of high school, rather than dropping out. Funders expect outcomes to be assessed, or even require them to be measurable.
Outcome measurement involves the identification of outcomes, development of appropriate outcome indicators and data collection procedures, data analysis to better understand organization achievements and user-friendly,
regular reporting of the
findings.
Outcome reporting is new to most NGOs, which are more often familiar with monitoring and reporting such information as the number of clients served, the quantity of services, programs, or activities provided, the number of volunteers or volunteer hours contributed and the amount of donations received. These are important data, but they do not help managers or constituents understand how well they are helping their clients; that is, such statistics provide administrative information about programs, but not about the program's results. For program improvement, further examination of the reasons for good or poor results is needed.
A cautionary note is that it will usually not be appropriate to conclude that an agency's program is fully responsible for the outcomes reported, whether the outcomes are good or bad, because many other factors usually contribute to service outcomes. Rather, outcome measurement enables program managers to have a running score of how their programs are doing and to identify areas where attention is needed. The extent to which the program has caused the outcomes can best be determined by in-depth program evaluations. These evaluations, however, are generally expensive and are normally funded by the donor agency itself.

Outcome measurement involves the identification of outcomes, development of appropriate outcome indicators and data collection procedures, data analysis to better understand organization achievements and user-friendly, regular reporting of the findings.

Outcome Examples
Change in awareness:
Change knowledge
Change in attitude Motivations or aspirations
Change in skills
Change in behavior
Change in pa¨act
Change in policies
Change in circumstance and/ or system
Change in human, economic,
Civic or environmental condition

Outcome Funding
Outcome funding is approach to contracting and grantmaking that is increasingly being used by funders and commissioners
of services to help make the shift from the funding of activities to investing for results. The approach begins with the premise that funders have three primary questions:

What are we buying?

What is the probability that we will get it?

Is this good use of our money?

In Outcome Funding, the real point is not to improve accountability for results. It is to increase the results that get counted.

Outcome funding asks providers to be very clear on the following matters:

Performance targets:

Targets are specific and verifiable accomplishments that a group getting money commits
to achieve. They concern jobs, houses and many forms of human gains - not the number of visits, trainings or publications produced. Targets penetrate the traditional process language such as "capacity building", "empowerment" and "technical assistance" by forcing the question of results. For example:
"You want our money to build capacity. We want to know just what it is that you can do when you get capacity that you can't do now. And we want
evidence that you are
doing it as a result of our investment."

2. Milestones:
NGOs typically focus on their workplans - steps they take. Ticking off steps becomes a form of procedural compliance that may or may not get to results. Typically, the target involves a behavioural change - someone must do something differently to improve health, to get a job or a house or a business improvement. In outcome terms, it is critical that the provider fully understands the critical path that these "customers" go through to get from where they are now to new behaviours and conditions. Those steps are milestones and they are often expressed as a funnel, which shows the nature of the "shrinkage" from customers who begin the programme to those who come through it to a specified result.

Key people:
Donors "bet" that most projects have a success rate that is linked less to programme design and more to the quality of individuals who will carry them out. The person truly matters. It is not a matter of how many degrees or years of experience that the staff possesses. It is how much energy and skill they bring to their role.

4. Financial projections:
Most projects contain a line item budget. This concerns "money at rest" and often invites the wrong
kind of scrutiny. T h e b e s t question is not about what t h e executive director o r counselor is paid;
its what they achieve relative to their cost to understand money “ cost accounting is needed to distribute costs onto each projects activites and results this is a new but a powerful way or thinking. It allows for building up costs to what it really takes to get a target – rather than to work downward from available

O u t c o m e measurement enables program managers to have a running score of how their programs are doing and to identify areas where attention is needed. The extent to which the program has caused the outcomes can best be determined by in-depth program evaluations. money.

Outcome Funding has become Outcome Management from the perspective of the Donor. Among the shifts that are evident in this regard, are:

From database to data use:
Many NGOs are busy generating and reporting out information, but are remarkably unclear how they themselves use the data to actively manage their projects.
From informing to persuad
sometimes have unpredictable outcomes and timescales. Uncertainties are to be expected. However, what is welcome in these approaches is the emphasis on evidence of effectiveness. The marking on the wall is clear - outcome funding is fast becoming the winning formula.
References:
.From job descriptions to results descriptions.
Job descriptions describe the inputs to a job - qualifications, reporting lines, activities. What high performing people really need is a result description - what people are prepared to achieve in the next six months, for example.
From evaluation to learning:
Learning in outcome terms means behavioural change. It is not enough to store new insights or knowledge, especially about programme performance. The need is to use the information to improve programmes. If no one is prepared to do anything differently, little will happen.

Conclusion

The emerging trends in donor reporting and funding are as much "back to basic" as the introduction of something novel. These approaches are not without their own share of problems. For example, how do you define and measure soft outcomes, such as increased self-esteem or reduced risk of disadvantage? Projects involving preventative activities can be particularly difficult to pin down, as can advice provision and support through a helpline service. In **more general terms, projects will**
About the author:
Mrs. Rozmin Ajani is a Chartered Accountant and a Management Accountant working exclusively with not-for-profit organizations. She advises Not-for-Profit organizations on finance issues and provides support through training, capacity building, audit, consultancy, evaluations and reviews. She has authored the basic draft o f the Technical Guide on Accounting and Auditing in Not-for-Profit Organizations, which has been published by the Institute of Chartered Accountants of India, as a recommendatory Guide for NGOs in India.
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Global Policy Forum www.globalpolicy.org
Community Fund website: www.communityfund.org.uk
Many groups who say they are "educating" people are actually trying to persuade them to do something. In the outcome-funding model, they quickly learn that informing is not enough.

Return of Income.:!
(Cont'd. from page 7)

b)the organisation would lose its `exempt' status;
c) interest burden will mount due to the compounding effect;
d) best judgement assessment, reassessment, search and survey are more likely;
e) penalty and prosecution are attracted;
f)the longer the time of default, the more time available to the assessing officer to assess the entire income as having escaped assessment under section 147.
It should also be noted that a revised return cannot be filed where the original return has not been filed in time;

v) General points to be noted:
a) collect information and prepare all schedules contemporaneously, as far as possible;
b) file all documents carefully and in time;
c) ensure tax audit is done in time;
d) make all claims and deductions correctly and accurately (especially TDS refund claims);
e)disclose ...disclose...disclose;
f) check and re-check all balances and totals;
g) set up a tax calendar and honour it carefully. Remember, Time and Tide wait for no man.... neither doth the taxman.

Thus, to sum up, one cannot over-emphasize the necessity of filing a correct, timely and accurate return with full disclosures, as it is the very foundationstone of a smooth and hassle-free assessment process.

Non-compliance of these principles is likely to lead to a lot of self-caused grief to the assessee and the words of Ben Johnson may well be applicable, "I have betrayed myself with my own tongue (Return of Income), the case is altered."

Men Against Violence & Abuse (MAVA), ndia's first men's organization working to stop and prevent gender-based violence has started in May 2006 a Counseling, Guidance & Resource Center in Mumbai - the first of its kind ~in India. Open to the public - men and women, for providing personalized and telephonic counseling on issues of gender and sexuality by a team of trained professionals, the Center would also provide the much-needed space to adolescent boys and young men to ventilate and share their thoughts, ~fears and concerns on gender-related issues
An experienced team of trained counselors, psychiatrists, serologists and lawyers are providing their services at the center. Apart from counseling, there would be a periodic Study Circle held at the Center, encouraging exchange of ideas, insights and concerns on a wide range of gender matters among men. Workshops on Anger Management and dealing with dilemmas and emotions will also be organized for groups of men. The Center Iwould also be providing reading and resource material, by way of news-clippings, posters, films, books and studies on Masculinities, Gender, Violence land Sexuality, useful to students, academicians, ;developmental and media professionals. Details can be had on help line no. 2682 6062 between 10 a.m. to 6 p.m.
or on www.mavaindia.org

Harish Sadani Hon.
Secretary, MAVA •

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FAQ On Income Tax...
(Cont'd. from page 10)
and other roads;
f) pollution-control projects
g) promotion of sports;
h) any other programme for uplift of the rural poor or the urban slum dwellers, as the national committee may consider fit for support, including family welfare and immunization ,tree plantation, social forestry, development of irrigation resources, rural sanitation - construction of low-cost latrines, medical camps in rural areas, rural health programmes, land development and reclamation of waste land or degraded land with special emphasis on ecological improvement, soil and water conservation including harvesting of runoff water, non-formal education and literacy, specially for women and children, rural nonfarm activities, creation of employment opportunities for urban and rural population living below the poverty line,
supportive services for women to engage in productive work (care of children of working women by providing an improved environment, care and food and by establishing creches/balwadis, etc.), leprosy eradication, etc.

Q: **Is there a special deduction for scientific research?**

Weighted deduction of 125% is allowed to donors for contribution(s) made to organizations approved u/s 35(1)(ii) (like scientific research institutes or an university, college or other institution) specifically for "scientific research" and u/s 35(1)(iii) specifically for "research in social science or statistical research".
An organization which is approved u/s 35(1)(ii) or 35(1)(iii) must maintain a separate account of the sums received by it for `scientific research' or `research in social science or statistical research' and must submit to the prescribed authority, each financial year, a copy of the audited annual return showing the total income and expenditure and balance sheet indicating its assets and liabilities.
The auditors should also certify that amounts received by the organization for "scientific research" or "research in social science or statistical researches" are spent for that purpose only.

Q: **Is financial audit necessary?**

Under the Income Tax Act, the accounts are required to be audited by a practicing chartered accountant only if the total income of the organization exceeds Rs.50,000/- in any financial year.
Non-profit organizations which require their accounts to be audited by a practicing chartered accountant should do so annually within six months of the date of closing the accounts.

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