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INTERface
towards promoting accountability

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Between Us ...

Wanted ...... a healing touch

We are passing through a very difficult time in the human history. The new and innovative forms of terrorism has shaken the very faith in basic mutual trust and co-existence. A new religion of hatred and violence seems to be emerging in the horizon. The question that comes to our mind is "Why so many innocent lives are being targeted?" Probably lives lost had no relationship with the perpetrators of violence. However all these point to lack of accountability. A few are deciding the life or death of other people. They are not being accountable to any state, law or people at large. They do not care about any other thing except what they have decided. Therefore, it does not matter to them about the consequences that their acts might have.

In last few months, we have seen that the FC-3 form of FCRA has been amended, Income Tax form '3 A' has been changed and also some changes have come in personal income tax in terms of valuation of perquisites. In this issue, we are dealing with these changes. We are also circulating the revised FC-3 form for your ready reference. The ongoing debate of whether bank interest on foreign contribution is local income or foreign income seems to have been settled with the new FC-3 form requiring details of interest earned on foreign contribution to be reported.

As we begin the festive season, we wish all our readers Seasons Greetings.

In Solidarity

Sanjay Patra

Point of View

Changes in FCRA (FC - 3 Form)

The Government of India, Ministry of Home Affairs, has recently revised the Form FC-3 for annual filing under FC(R)(A), 1976 with effect from 26th July, 2001 onwards.

The significant changes in the Form FC-3 are given below :

1. Reporting of Interest earned on Foreign Contribution :

The new form now includes a new item no. 1A. (i) and (ii) wherein the total amount of foreign contribution received during the year and interest earned on the foreign contribution during the year is to be provided with the following break –up as to :

- in the designated bank account; and
- on investments made (Fixed Deposit Receipt etc.,) during the year or in the preceding years.

2. Classification of Expenses :

In item no. 2. the earlier form had 27 classifications to categorise the purpose for which the foreign contribution is received and utilised.

The revised form now contains a total no. of 56 classifications. Of which, most of the items are new classifications and in few the terminologies have been elaborated. Also some of the classifications as per the earlier form FC-3 has been excluded.

Centre for new FCRA

By Bisheshwar Mishra
Times News Network

NEW DELHI: The Union government will soon move a new Foreign Contribution Regulation Act (FCRA) to plug loopholes in existing legislation and enhance its abilities to monitor the flow of foreign funds to missionaries and fundamentalist organisations.

The Centre had decided to repeal the existing FCRA, 1976 and replace it by a law with more stringent provisions to check proselytisation by foreign Christian Missionaries in India and also transfer of such money from foreign-based Muslim and Buddhist organisations to subversive elements and religious fundamentalists, government sources told *The Times of India* on Monday.

Under the proposed new law, which is before the Union Cabinet and which will be introduced in the current session of Parliament as soon as it is cleared, the organisations' recovery of foreign funds will be under the constant supervision of both the Central and state governments and there will be special tab on the modes of receipt and expenditure of such funds, the sources stressed.

A number of foreigners from Buddhist countries like Japan, Indonesia and even China come to Bihar, Orissa, West Bengal and North-east states and pump in a lot of money through Buddhism related NGOs under FCRA. The source, on condition of anonymity, said, "The proposed law will have tighter provisions to prevent inflow of foreign funds for religious conversions or passing such resources into the hands of terrorists and subversives."

The new FCRA will require properly verified expenditure and receipt account books, duly certified by chartered accountants, to be submitted to the government annually. Besides, it prescribes deterrent punishment for misuse of such funds in the areas not intended by the donor organisation from western countries or Gulf countries.

Organisations or NGOs which are found violating the new FCRA rules will not only be delisted and debarred from functioning, but will be hauled up for stringent punishment admissible under the law of the land.

Under the existing law, organisations receiving foreign funds for various welfare promotional activities are registered with the ministry of home affairs. They are required to file their annual reports with the ministry in a routine manner, which has not helped the cause of curbing militancy, terrorism, proselytism and religious conversions.

3. Reporting of Establishment Expenses :

In the revised form the reporting of Establishment Expenses now needs to be classified under :

(i) Asset Building

- (a) Establishment of Corpus Fund, and
- (b) Purchase of land

(ii) Construction/Extension/Maintenance of office, administrative and other buildings.

(iii) Payment of salaries/honarariums

(iv) Publication of newsletter/literature/books etc.,

(v) Other expenses

On the whole, the objective of the revision of the form appears to be to have a more detailed classification of the purpose for which the funds have been received and utilised by the organisations.

[Note : The new Form (FC-3) is sent along with this issue of Newsletter as a supplement.]

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New Income-Tax Rules on Perks

As we all are aware, an attractive salary package generally consists of, besides basic salary, other benefits which are termed as allowances, perks, perquisites. The amount of these perquisites may vary from organisation to organisation depending on its size, capacity, resources etc., In fact, the perquisites need not necessarily be in the form of money ; it may even be in kind - like provision of a house, vehicle, telephone, furniture etc.,

Vide notification dated Sep.25, 2001, the Central Board of Direct Taxes (CBDT) has made new rules for the valuation of perquisites. These new rules are called the Income Tax (22nd Amendment) Rules 2001 and substituting the existing Rule 3 of the Income Tax Rules 1962.

The above mentioned Rules shall be deemed to come into force with effect from 01.04.2001 onwards.

In computing the income chargeable under the head "Salaries", the value of perquisite provided by the employer to the employee or to any member of his household by reason of his employment would be determined in accordance with the above Income Tax (22nd Amendment) Rule 2001.

The highlights of the Income Tax (22nd Amendment) Rule 2001 are listed below :

Accommodation

Where the employer is other than Union or State Govt. or Undertaking under the control of such Govt. and

a) **Employer Owned ……. Unfurnished accommodation is provided by such employer to its employees :-** its value would be determined by referring to the population of city in which the above mentioned accommodation is situated. In case,

   i) the city has population exceeding 4 lacs (as per 1991 census), the value of the perquisite would be taken as 10% of salaries for the period during which the said accommodation was occupied by the employee during the previous year as reduced by the rent, if any, paid by employee.

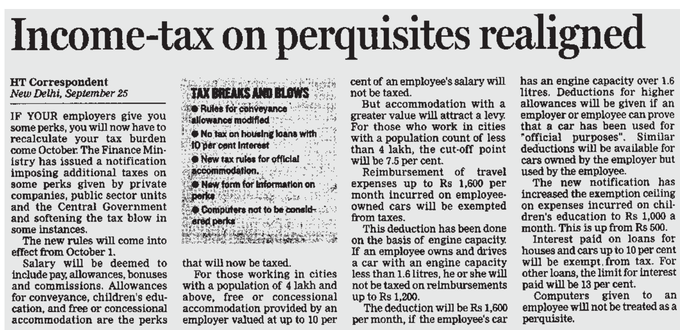
   ii) of other cities, the above percentage becomes 7.5 %.

b) **Employer Owned ……* Furnished accommodation is provided by such employer to its employees :-**

   i) determine the value of such accommodation as if it is unfurnished in a manner mentioned in point (a) above.

   ii) *the furniture owned and provided would be valued at 10% per annum of the cost of such furniture.

*However, if the furniture is hired by employer and such furniture is provided to employee, the



Income-tax on perquisites realigned

HT Correspondent
New Delhi, September 25

IF YOUR employers give you some perks, you will now have to recalculate your tax burden come October. The Finance Ministry has issued a notification imposing additional taxes on some perks given by private companies, public sector units and the Central Government and softening the tax blow in some instances.

The new rules will come into effect from October 1.

Salary will be deemed to include pay, allowances, bonuses and commissions. Allowances for conveyance, children's education, and free or concessional accommodation are the perks that will now be taxed.

TAX BREAKS AND BLOWS
- Rules for conveyance allowance modified
- No tax on housing loans with 10 per cent interest
- New tax rules for official accommodation.
- New form for information on perks
- Computers not to be considered perks

For those working in cities with a population of 4 lakh and above, free or concessional accommodation provided by an employer valued at up to 10 per cent of an employee's salary will not be taxed.

But accommodation with a greater value will attract a levy. For those who work in cities with a population count of less than 4 lakh, the cut-off point will be 7.5 per cent.

Reimbursement of travel expenses up to Rs 1,600 per month incurred on employee-owned cars will be exempted from taxes.

This deduction has been done on the basis of engine capacity. If an employee owns and drives a car with an engine capacity less than 1.6 litres, he or she will not be taxed on reimbursements up to Rs 1,200.

The deduction will be Rs 1,600 per month, if the employee's car has an engine capacity over 1.6 litres. Deductions for higher allowances will be given if an employer or employee can prove that a car has been used for "official purposes". Similar deductions will be available for cars owned by the employer but used by the employee.

The new notification has increased the exemption ceiling on expenses incurred on children's education to Rs 1,000 a month. This is up from Rs 500.

Interest paid on loans for houses and cars up to 10 per cent will be exempt from tax. For other loans, the limit for interest paid will be 13 per cent.

Computers given to an employee will not be treated as a perquisite.

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actual hire charges payable for the same as reduced by any charges paid or payable for the same by the employee during the previous year would be taken to be the value of such furniture.

The value of perquisite under (b) above would be sum total of amount determined under (i) and (ii).

c) **Employer takes the accommodation on lease and then such accommodation is provided to the employee :-** the value of such perquisite is either the actual amount of lease rental paid or payable by the employer or 10% of salary whichever is lower as reduced by the rent, if any actually paid by the employee.

Children Education Facilities

The good news is that the new notification has increased the exemption ceiling on expenses incurred on children's education to Rs.1000 per child per month. This is up from Rs.500 per child per month.

Motor Car

The Rule for reimbursement of expenses on office use of vehicle that is owned by employee have been modified to allow deduction of Rs.1200 to Rs.1600 p.m. depending on cubic capacity of the engine. If an employee owns and drives a car with a cubic capacity of engine being less than 1.6 litre, he or she will not be taxed on reimbursement up to Rs.1200 p.m. The deduction will be Rs.1600 p.m. if the employee car has a cubic capacity of engine over 1.6 litres. However where the employer or employee claims that higher amount has been spent for "official" use of the car, the deduction for higher amount can be claimed provided the necessary documents are maintained. Similar deduction will be available for cars owned by the employer but used by the employee.

Interest free or Concessional Loans

Interest paid on loans taken from employers for houses and cars up to 10 per cent will be exempt from tax. For other loans, the limit for interest paid will be 13 per cent.

However, no value would be charged if such loans are made available for medical treatment in respect of diseases specified in Rule – 3A of these Rules or where the amount of loans are petty not exceeding in the aggregate of Rs. 20,000.

The other important change is that employer will now have to fill up a new form (called Form No.12BA), stating the nature and value of perks backed with voucher, bill, receipt which in turn will be given to employee to be attached with his tax return. But this is required in case of employee drawing above Rs.1.5 lakhs.

The above are the main highlights of this Income Tax amendment notification. For complete details, The Gazette of India dated 25.09.2001 may be referred to.

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Changes in Income Tax Form 3A

Exemption of income of a trust for charitable or religious purposes is claimed u/s 10 or 11 of Income Tax Act. 1961. As per rule 12 (1) (C) of the Income Tax Rules, 1962, persons/organizations claiming exemption under section 10 or 11 of the Income Tax Act, 1961, are required to file return of income in the prescribed form 3A, when the income exceeds the taxable limit.

Recently there has been a revision in this Form 3A. The layout of this form has been altogether changed by incorporating new sections and re-arranging some old sections, which are provided here below:

1. New sections are introduced in case of following, asking for more detailed information:

❖ **Income from House Property :** Particulars of various house properties owned, expenses claimed etc.

❖ **Profits and Gains of Business or Profession :** Particulars of business or profession, Speculative business, deductions or expenses claimed etc.

❖ **Capital gains :** Details as to date of acquisition, transfer, consideration value, deductions or expenses claimed etc.

❖ **Income from Other Sources :** Details of various sources of income, deductions or expenses claimed etc.

❖ Statement of Set off of Current Year's loss under section 71.

❖ Details of amount accumulated/set apart within the meaning of Section 11 (2) in the last eleven years.

2. Computation of book profit for the purpose of section 115J has been re-drafted in view of the introduction of new Section 115JB by the Finance Act, 2000. This is as per Schedule J in the new Form 3A.

3. The following sections have been re-arranged into new sections:

PARTICULARS	OLD FORM 3A	NEW FORM 3A
Statement of Total Income	Part-I	Schedule F
Statement of Taxes	Part-III	Schedule G
Income claimed to be exempt	Part IV	S. No. 3 of Schedule J
Details of Investments	Annexure-D	Schedule K
Particulars of Author/ Founder/ Trustees/ Manager	Annexure F	Schedule L

(Contributed by S.P. Selvi, Purnima Wadhawan and Rahul Khanna)

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A man was charged with parking his car in a restricted area and brought to court. The judge asked him if he had anything to say in his defence. He said, "They should not put such misleading notices which say 'Fine for Parking Here'.

CHRISTIAN COMMISSION FOR DEVELOPMENT IN BANGLADESH (CCDB)

The Christian Commission for Development in Bangladesh (CCDB) was founded in 1973. CCDB is a successor organisation of the Bangladesh Ecumenical Relief and Rehabilitation Service (BERRS), which was created immediately after Bangladesh's War of Liberation by the World Council of Churches (WCC) for emergency relief and rehabilitation leading to mid and long-term development activities. CCDB is an associate body of the National Council of Churches of Bangladesh (NCCB) and governed by an inter-faith body called the Commission. The organisation expresses the national and global ecumenical concern creed, race or religion. These services are distinctly separate from evangelism. Initially, CCDB was primarily engaged in welfare and charity, addressing relief and rehabilitation needs in response to the devastation and destruction caused during the Liberation War. Since then it has gone through a significant process of evolution with regard to its world view and value premise. Correspondingly, there has also been an evolution in the analysis of the situation, development understanding and the perception of needs, strategies, concrete programmatic approaches and appropriate responses. It has a long history of self-criticism and continuous search for an appropriate alternative.

Over centuries, natural calamities have become a part of life and basic problems for the people of Bangladesh. As such, development and social change in Bangladesh are now closely linked with response to natural calamities. Accordingly, since inception, CCDB, as per its mandate, has been responding to all the major disasters in the country. In view of the geophysical and social realities in Bangladesh, disaster preparedness both at community and organisation levels, has become a priority area in CCDB's development initiatives. As a national organisation, CCDB has over the years gathered substantial experience in disaster preparedness and in rapid and appropriate responses to various kinds of natural disasters experienced in Bangladesh. CCDB co-ordinates a disaster preparedness network of 41 organisations operating in different disaster prone pockets of the country.

The experiences gained over the last three decades have made CCDB realise that in spite of all good intentions, CCDB's development efforts worked through some limiting factors. CCDB also realised that a different approach would be needed to achieve the objective of social transformation in favor of a just, participatory and sustainable society where the life of the marginalised people is secure and their dignity is restored and enhanced. CCDB perceived that without people's participation at all levels a sustainable development process cannot be ensured. This realisation led CCDB to opt for People's Participatory Process (PPP) as an alternative approach to sustainable development.

The organisation is engaged in participatory integrated rural development activities. At present it is operating its development programs in 89 Thanas under 19 districts of Bangladesh covering 129,660 poor reference families. The regular staff strength of CCDB is 379. Yearly operation budget is approximately US $2.1 million. CCDB'S program and budget is supported by 14 donor agencies from different parts of the world including Europe, Australia and USA. The World Council of Churches (WCC), Geneva, co-ordinates a Round Table for CCDB.

The reference groups include the landless, daily wage earners, sharecroppers, small shopkeepers and marginalised people, such as tribals and aboriginals. However, the focus of CCDB programs is on children and women, particularly widows and divorcees, since they are often the most vulnerable.

The nature and type of CCDB activities are:

a. People's Potential Enhancement

This component relates to activities like human and organisational potential enhancement, development of people's institutions, literacy, development of livelihood skills etc.

b. Livestock, Fisheries and Horticulture

This component addresses sustainable horticultural practices, locally maintainable livestock and mini fisheries.

c. Environment, Ecology and Emergency Preparedness

This relates to environmental awareness, massive afforestation, community based emergency preparedness, conservation of environment, control of pollution and reduction of man made disasters.

d. Capacity Building of Tribal and Aboriginal

This relates to activities and support to the tribals and aboriginals for their socio-economic uplift.

e. Gender Equity

This encompasses the attitudinal change of both sexes towards development.

f. Community Health and Family Planning

This component includes strengthening community based health and family planning activities.

g. People Managed Savings and Credit

The program is owned and managed by the People's Institutions. This involves generation of savings and utilisation of credit facilities for undertaking income generating activities by the members of the Forums (People's Institutions).

h. Training of Facilitators.

This includes arrangement of necessary human and organisational development related training courses and workshops for developing appropriate facilitators for CCDB and sister agencies.

i. Advocacy & Networking

This involves issue based participatory action research, particularly on gender, micro-credit and HIV/AIDS and interventions based on the research findings. For advocacy, effective networking with the like-minded groups/NGOs is one of the important interventions.

j. Disaster Preparedness and Response:

This includes training and other related activities for developing the capacities of CCDB, network organisation and community for dealing with disasters effectively.

k. Capacitation of Women's Small Local Organisation:

This involves necessary training, management and programmatic support to small local organisations run by women, for developing their organisational and management capacities.

Organisational System

The organisational management of CCDB has been reviewed in the light of participatory values and principles. Since the introduction of People's Participatory Process (PPP) in the organisation in 1992 a gradual transformation towards participatory management has taken place at project and central levels. To accelerate the process, over the years a number of concerted efforts were made in the form of training, dialogue, discussion, psycho-motivation and delegation of authority. Management committees at the project and central levels have been functioning taking representatives of different categories of staff and keeping in mind the issue of gender equity. However, the process requires a further boost to make it more effective and dynamic.

Financial System

CCDB's finance is managed by the Executive Director within the limit and scope of its constitution and / or within the limit of budget duly approved by the Commission. All payments are authorised by the Executive Director, unless specifically delegated to some other person or persons. The Project / Program Heads are responsible for all financial matters of the project within the approved budget limits and all payments and financial transactions are authorised by him/her.

Cash basis accounting system is followed for all financial transactions except adjustment of depreciation and advances made for official work and salaries for which accural basis is followed. ACCPAC Plus computerised accounting package program is used for posting of financial transactions and computer produced general ledger and trial balance are used for preparation of financial statement.

Financial reports comprising trial balance, balance sheet, income and expenditure account, receipts and payments account, cash flow statement and budget variance report are prepared on monthly, half-yearly and annual basis. All these reports are prepared by the project accountants and supplied to the management at project offices as well as central office. The project management prepared monthly cash flow keeping track with annual budget; and after approval of the same by the Executive Director, funds are transferred to the projects through bank draft on the basis of requisition submitted by the project managers and recommended by the co-ordinator / co-ordination officer. The books of accounts are audited on half-yearly basis by external auditors approved by the NGO Affairs Bureau. In addition, for establishing check and balance, internal auditing is done continuously by the internal auditors. The findings and observations are reported to the Executive Director every month.

- Sushanta Adhikari, CCDB

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Without Comment

Community service gives credibility

BANK TRADES IN 'FUTURES', ACCEPTS CREDIBILITY COLLATERAL

By Gunvanthi Balaram
Times News Network

MUMBAI: UTI Bank has stood guarantee for SPARC (Society for the Promotion of Area Resources Centre) in a civic project on the basis of the latter's excellent track record in community service.

UTI Bank chairman P.J. Nayak commissioned Anil Kumar as his dealing officer to survey SPARC's work performance. Mr Kumar made his presentation after he had visited some of SPARC's major projects in February this year. "I explored their Harbour Line rehab project at Mankhurd, their transit camps, the Dharavi project and their sanitation project in Pune. I wa[illegible] impressed at the manner in which they [illegible] been conceived and constructed and [illegible]re being managed by the community," [illegible] says.

"I was quite sceptical when I se[illegible] on the investigation which I was ask[illegible] conduct by our chairman, who had [illegible]eracted with SPARC in a mutual fund [illegible]tter in the past and been impressed b[illegible] style of functioning and technical v[illegible]ility. But I returned feeling very optim[illegible]," the officer confesses. Even so, it was [illegible] easy to frame SPARC's proposition [illegible] bankable project. After all, bankers a[illegible]ont to set great store by conventiona[illegible]d objective parameters such as profit[illegible]y, leverage, liquidity— which were co[illegible]uous by their absence in SPARC's ca[illegible] Subjective parameters such as integrity, t[illegible]ck performance and goodwill are given due consideration but are not all-im[illegible]tant.

"It was indeed a tricky situati[illegible]hich is why the bank had initially w[illegible]d to stay out of it," Mr Kumar adm[illegible]with a half-smile, "but we managed t[illegible]k through the problems." This the ba[illegible]d by getting the BMC to create an [illegible]w account for the project and extra[illegible] an undertaking from the civic agenc[illegible] it would route all the money (recei[illegible]nd payments) for the project throu[illegible]is dedicated account and inform t[illegible]ank in advance about each and every [illegible]ense to be incurred. SPARC was ask[illegible] obtain a counter-guarantee (Letter [illegible]omfort) from an international NGO— [illegible]ich it did from one of its collaborators, Homeless International.

"Once these conditions were fulfilled, we issued guarantees to the tune of Rs 6.5 crore—Rs 2.15 crore (which forms the five per cent performance guarantee that the NGO required to win the contract) plus Rs 4.35 crore (which covers the ten per cent advance on the total project cost that the agency can avail of when it gets the contract)," says Mr Kumar. "We are pleased at the agency's performance so far, it has been delivering ahead of schedule."

Of course, Rs 6.5 crore is not a big deal for a bank like UTI. But it is significant because the customer is a voluntary agency with an equity of Rs 25,000.

For India's NGOs however, it's a big deal—and it augurs well for those of them with a proven track record.

Fine(ance) Print

The term "Reserve" is very much familiar to all of us in our day to day lives. We often do reserve our seats in a cinema hall for a movie show; reserve tickets in a train for travel; we even see people reserving seats in buses by using handtowels or handkerchieves ! ! !

No doubt "Reserve" thus forms an integral part of our day–to–day lives. When we make reservations for a movie show, in train or a bus which lasts for only a few hours, we come to realise its importance and significance!

It is also evident that by making such a reservation we are actually confirming our plan of action which may of course last for only a few hours !!!

This being so, we do also realise that how important it is when we plan a project budget for a development programme for a period of 3 years or so.

While planning a project budget of a development programme, it is essential that we need to consider the unforeseen or contingency aspects that may happen and provide for the same in the budget we work upon. We therefore make a provision of a certain sum in our programme budget which will help to meet any unplanned or unforeseen expenditure.

Different people may term it differently – some may call it as "Contingency"; some may call it as "Provision for Unforeseen Expenses" etc., We call it as "Reserve".

Though terminologies may differ, the purpose and meaning do not differ.

Thus "Reserve" may be termed as a planned provision for any unplanned expenditure ! ! !

The importance of "Reserve" is realised not only by the partner organisations who prepare a budget and implement it ; its importance is equally realised by the funding partners who support and approve the programme funds.

No doubt EED/EZE realises it and has been always providing for it in its approved cost plan. In fact, EED/EZE includes this component in the project budget even in instances where the partner has not provided for it in his proposed budget.

The objective behind this is very simple and is also well known to us. In developing countries like India, Bangladesh, Nepal etc., where the inflation rate is quite high, cost escalation due to price rise and exchange rate fluctuations are quite frequent, a project budget supported by a foreign funding agency is bound to be affected by these factors. By making a provision for such contingencies we are able to secure the planned activities from being affected.

Having seen the general meaning and purpose of "Reserve", let us look into the specifics of the same from EED/EZE's view point and its present reporting requirements.

- "Reserve" is an amount kept aside as a "buffer" to be utilised for any excess expenditure on any cost item which may be due to price rise or exchange fluctuations or under calculations etc.,
- "Reserve" may also be utilised for any unforeseen expenditure or a programme activity which was not earlier included in the originally approved budget. However, the utilisation needs to be made only with a prior written approval of EED/EZE.
- We are aware that excess costs upto 30 % of the approved budget of a particular cost item is permissible by EED/EZE. Excess costs beyond the permissible limit of 30% and in instances where no savings are possible on other cost items, "Reserve" amount comes to our rescue which provides a back-up for such excess costs. Of course, the back-up needs to be availed only with a prior written approval of EED/ EZE.

Reporting to EED / EZE

After obtaining the necessary approval, the next question that comes to our mind is that, how the reporting is to be made in the financial reports to EED/EZE.

This can be seen under two heads :

*** Reporting of excess costs of a particular cost item where no savings are made on any other cost items.**

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In this instance, the excess costs incurred will be reported against the respective cost item only. It need not be reported against item "Reserve".

*** Reporting of unforeseen expenditure.**

Unforeseen expenses needs to be reported against the item "Reserve" with a break-up of the respective expenditure. However, detailed reporting of the activities against this unforeseen expenditure needs to be provided in the corresponding progress reports to EED/EZE.

It may be also noted that a break-up is required to be provided in the EED/EZE's Request for Transfer of Funds - Form No. 2 – whenever any estimation is made against this item "Reserve".

Thus, we note that "Reserve" is a "buffer" amount which provides a back-up when any excess cost is incurred due to price escalation or under calculation of budget.

However, there are instances, when a project nears completion and the partner notices that the amount against item "Reserve" remains unspent, approval of EZE is sought for utilisation of the same towards purchase of assets like vehicle, office equipments etc., It needs to be noted that this is not the correct procedure.

It should, therefore, be noted that "Reserve" is only a budget item and not a cost item and therefore need not necessarily be utilised.

To conclude, it may be stated that if adequate cost control measures are exercised by the organisation, proper "utilisation" of this unique item "Reserve" can be ensured.

Ms. Lorraine Mathias

Project Monitoring Officer

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Which is of more value – Rs. 5 or Re. 1 ?

His clothes were ragged; his hair was not oiled for a long time ; he roams aimlessly in that village.

People believed him to be mentally retarded.

A group of young boys of the village used to tease him everyday and laugh at him. They used to offer him two coins of Rs. 5 and Re. 1 each. He always used to pick up the Re. 1 coin. The young boys used to laugh at his stupidity. This was happening almost everyday.

A villager was watching this happening everyday. He wanted to make the mentally retarded man to understand that the value of the Five Rupees coin is greater than the One Rupee coin.

So he approached him and told " You foolish fellow ! Don't estimate value of the coin by its size ! Actually the other coin you leave is of higher value though it is smaller in size."

This man, who was believed to be mentally retarded replied, " Gentleman, I know this very well. But don't you see that the day I pick the coin of Rs. 5 that these boys will stop offering me coins anymore and will not I lose the Re. 1 income thereafter ? "

The stunned villager did not have anything more to say.

Who is wiser ???

CK

Queries.com

Question : Can an NGO run business activities without losing income tax exemptions?

Ans : There is a certain amount of confusion with regard to business and profit oriented activities of a voluntary organisation. Business activities may be undertaken as long as they are incidental to the main objects of the organisation, provided the profit generated are not otherwise distributed.

Section 2(15) of the Income Tax Act defines the term charitable purpose as under : The expression "Charitable Purpose" includes the following :

- Relief of the poor
- Education
- Medical Relief
- The advancement of any other object of general public utility.

It may be noted that this definition was amended in 1984 and the word "Not involving the carrying on of any activity for profit" was deleted. This was a clearcut indication of allowing profit oriented activities as a part of Charitable Purpose.

Similarly Section 11(4a) was inserted to categorically allow profit oriented business activity as long as they were incidental to the attainment of the objectives.

CONDITIONS TO BE FULFILLED

It should be noted that business activities which are incidental and necessary for attainment of the objectives of the organisation are only allowed. Any profit making activity under the garb of a charitable purpose may attract provisions of Income Tax. The profits generated should not be distributed amongst the members in any form and the profits must necessarily be used for charitable purposes, otherwise the exemption will be lost. Separate books of account are required to be maintained specifically for the business activity carried on by the organisation. Business activity should also be incidental to the attainment of the objectives of the organisation. For example, an organisation engaged in promotion of handicrafts or vocational training may also run a show room for the sale of the products. Existence of profit need not necessarily be deemed as business activity. A voluntary organisation can have activities which generate profit without engaging in business. For instance income from letting our Hall, Dharmasala's and other infrastructure are not considered as business activity.

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