

Tax Hotline

November 08, 2001

BUDGET MAY OPT FOR FEWER DEPRECIATION RATES AND TIGHTEN TAX EXEMPTION NORMS FOR CHARITABLE INSTITUTES

The Budget 2002 is likely to rationalise depreciation rates as well as reduce and streamline tax exemptions given to trusts, charities and non-profit organizations (“NPOs”). The revenue department has set up two internal groups to study the provisions on depreciation and on tax exemptions for NPOs, respectively. The reports of the Groups are expected to be used as inputs for the next Budget.

The Group on depreciation will examine the justification for the accelerated and multiplicity of depreciation rates. Currently, the depreciation rates vary from 5 per cent to 100 per cent for different items and different sectors. It is perceived that depreciation has become a fiscal incentive tool since accelerated depreciation leads to deferral of tax.

The Group on Trusts will be looking at reducing the tax exemptions given to NPOs and tightening the rules for obtaining such exemptions. The Group will consider the report of the Partha Shome Committee, earlier set up for examining the taxation issues in relation to NPOs. This report had recommended restriction of tax exemptions only to donative NPOs, *i.e.* those in which 90 per cent of the receipts are through donations. It also suggested bar on distribution of the net earnings to controlling individuals.

Source : *The Economic Times*, November 6, 2001

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