Module 1 · Part 3 · Charitable trust, Mutual association

P15 · topics 1.3, 1.4

SM pp. 78–102. **Q2(a) trust total income** in D25 and J26 (expected ~6 marks); trust MCQs in J25 and J26. Mutual association (1.4) has never been asked: read the headings.

Paper	What was asked	Marks
Jun'25	MCQ: fee / penalty for a trust's late return	2
Dec'25	Q2(a) **trust with a hospital + nursing college**: total income; receipts realised at the year end → **deferment** of application	7
Jun'26	Q2(a) **trust with a hospital + engineering college**: voluntary contributions, dividend, agricultural income, corpus and non-corpus donations to other trusts, a building bought · MCQ (iii) **anonymous donation** taxable @30%	7 + 2
ICMAI	MQP Q2(a) **115TD accreted income** (merger with an ineligible entity) — unused · MQP MCQ (iii) anonymous donation · PTP Q2(a) **accumulation u/s 11(2)** · PTP MCQ (iii) 85% application	–

HOW IT IS EXAMINED · DEC'26 PREDICTION

- **Q2(a) 7 marks, likely**: trust total income — 85% application, 15% free accumulation, voluntary vs corpus contributions, donations to other trusts, capital spending as application, deferment / accumulation u/s 11(2), anonymous donations.
- Variant: **115TD** tax on accreted income (MQP Q2(a)).
- MCQ: anonymous donation limit; 85%; registration period; s.13(3) persons.

MAP OF THIS PART

1. Conditions for exemption, charitable purpose ★★
2. Income and application: 85% / 15%, corpus, donations ★★★
3. Anonymous donations s.115BBC ★★★
4. Deferment, accumulation u/s 11(2), withdrawal ★★★
5. Problems box Q2(a) (PTP Q2(a) worked) ★★★
6. Registration 12A / 12AB, cancellation, s.13 ★★
7. 115BBI, 115TD accreted income, 12AC ★★
8. Mutual association, s.44A, insurance ★
9. Revision sheet · Module 1 mind map

A Conditions for exemption u/s 11 · charitable purpose

- Property held under a **trust or other legal obligation** (a mere trust with no property is not enough); wholly charitable / religious and lawful purpose; **registered**; accounts audited where income before ss. 11–12 exceeds the exemption limit (report one month before the due date); income applied; return u/s 139(4A) by the due date. [SM 78–79]
- ss. 40(a)(ia), 40A(3) and 40A(3A) apply when computing a trust's income. [SM 78]
- Trust created on or after **1/4/1962**: not for a particular religious community or caste; no benefit to the settlor / specified persons. [SM 79]

- **Charitable purpose** s.2(15): relief of the poor, education, **yoga**, medical relief, environment, monuments, and **general public utility** — the last is not charitable if it carries on trade / business for a fee unless done while carrying out the object **and** those receipts do not exceed **20%** of total receipts. [SM 79]
- Sports promotion is charitable; benefit of SC / ST / backward classes is fine; a **private religious trust** gets no exemption. [SM 80]
- Repair of a notified temple / mosque / church: voluntary contribution may be treated as corpus (applied for that purpose, kept separate, invested u/s 11(5)). [SM 80]

B Income and its application (the 85% rule)

INCOME receipts + **voluntary contributions** (non-corpus) — accounting income, not tax income; corpus donations out [SM 82] → **– 15%** free accumulation (no conditions) [SM 82] → **– APPLIED** revenue + **capital** spent for the objects in India, when actually paid [SM 81, SM 83] → **– DEFERRED / 11(2)** deferment or accumulation (Form 10) [SM 84–86] → **= TAXABLE** shortfall; excess accumulation is specified income @ **30%** u/s 115BBI [SM 92]

- **Donation to another registered trust**: with a direction to form its **corpus** → **not** application; without it → application only to **85%** of the amount. [SM 81]

- Application counts in the year **actually paid**; once claimed, never again; no carry-forward of excess application; no depreciation on an asset already claimed as application. [SM 81, SM 83]

- **Voluntary contributions** (non-corpus) are income u/s 12(1); corpus contributions are not income if invested in s.11(5) modes kept for the corpus. Spending out of corpus or a loan is not application until put back / repaid within **5 years**. [SM 82–83]
- s.12(2): the value of a **medical or educational service** provided by a trust running a hospital or college is **deemed income** of the year it is provided (as the SM prints it). [SM 82–83]
- Business income exempt only if incidental to the objects, separate books kept, and the object is relief of the poor, education or medical relief (s.11(4A)). [SM 83]
- Loan to a poor person for education or treatment = application; repayment = income. [SM 83]
- A registered trust gets no s.10 exemption except 10(1), 10(23C), 10(46). [SM 81]
- **SM example**: income ₹3,00,000 − 15% (₹45,000) − applied ₹1,80,000 → taxable **₹75,000**. **Illustration 26 case 3**: 17,00,000 − 2,55,000 − 2,00,000 = **₹12,45,000**. [SM 82, SM 84]
- **Capital gain** on trust property: exempt to the extent the net consideration is reinvested in a new asset (part reinvested: amount used − cost). [SM 87]

ANONYMOUS DONATIONS · s.115BBC (J26 MCQ)

- Trust / institution receiving a donation without a record of the donor's name and address: amount above the **higher of 5% of total donations or ₹1,00,000** is taxed @ **30%**; not exempt u/s 11. [SM 81]
- Not applicable to wholly religious trusts; religious-cum-charitable trusts only for donations meant for their college / hospital. [SM 82]
- J26 MCQ: total ₹15 lakh, anonymous ₹2,50,000 → exempt ₹1,00,000 (5% = ₹75,000 is lower) → **₹1,50,000** @30%.
- ⚠ MQP MCQ (iii): total ₹26 lakh, anonymous ₹4,00,000 — ICMAI's key says ₹1,00,000 exempt; by the SM rule 5% = ₹1,30,000 is higher, so ₹2,70,000 is taxed. Write the SM rule with the working.

DEFERMENT (Explanation to s.11(1)) · D25 Q2(a)

- Application below 85% because income was **not received** (or any other reason): opt by Form at least **2 months** before the due date u/s 139(1). [SM 84]
- Not received → apply in the year of receipt and the next year; other reason → apply in the next year; else taxed in the year after. [SM 84]
- **Illustration 27**: ₹70 lacs − 10.5 − 15 = ₹44.5 lacs; deferment ₹32 lacs → taxable **₹12.5 lacs** (₹45 lacs asked → capped, Nil); unapplied later: ₹9 / ₹19.5 lacs taxed in A.Y. 2029-30. [SM 85]

ACCUMULATION u/s 11(2)

- For a specific purpose for up to **5 years** (court-stay time excluded); **Form 10** at least **2 months** before the due date; return by the due date; money invested in s.11(5) modes (Govt savings, post office, banks, UTI, Govt securities, PSU, IDBI, immovable property …). [SM 85–86]
- s.11(3A): AO may allow another charitable purpose if the original cannot be done. [SM 87]

WITHDRAWAL u/s 11(3) — TAXED IN THE YEAR WHEN …

- applied for another purpose · ceases to be accumulated · ceases to be invested in s.11(5) modes · not used within the period (year it expires) · paid to another registered trust / 10(23C) fund. [SM 87]
- On dissolution, the AO may allow it to be paid to another registered trust. [SM 87]

PROBLEMS BOX · Q2(a) TOTAL INCOME OF A CHARITABLE TRUST · 7 MARKS

1 · WHEN IT COMES

- D25 Q2(a) (Sitaram Trust: hospital + nursing college; uncollected fees, building, corpus donations, loan repaid, NR payment without TDS, deferment) · J26 Q2(a) (Happy Foundations) · PTP Q2(a) · MQP Q2(a) (115TD).

2 · STEPS AND ITEM TREATMENT

Item	Treatment
Gross receipts (cash system: only what was realised)	income
Voluntary contributions (non-corpus)	income u/s 12
Corpus donations received	not income
Agricultural income · dividend	10(1) still exempt for a registered trust · dividend is income (state "net / gross")
Running expenses of hospital / college	application (40(a)(ia): 30% of a payment without TDS is not application)
Building / land bought for the objects	application when paid (stamp-duty value irrelevant)
Corpus donation to another trust	not application
Non-corpus donation to another trust	85% is application
Repayment of a loan used earlier for the objects	application in the year repaid

Then: income − 15% − application = shortfall → deferment / 11(2) → taxable; tax on excess at 30% (115BBI).

3 · WORKED PATTERN · PTP Q2(a) (ICMAI ANSWER, RE-WORKED BY SCRIPT)

Gross receipts from students	60,00,000
Voluntary contributions	10,00,000
Gross income	**70,00,000**
− 15% unconditional accumulation	10,50,000
Available for application	59,50,000
− applied (revenue + capital)	35,00,000
Shortfall	24,50,000
− accumulated u/s 11(2) for an auditorium (Form 10, 5 years, s.11(5) modes)	20,00,000
Taxable income	**4,50,000**

4 · PRACTISE THESE

J26 Q2(a) · D25 Q2(a) · PTP Q2(a) · MQP Q2(a) (115TD) · SM Illustrations 26, 27 (SM 84–85) · SM M1 short essay 2 (registration) · MCQ bank Q60, Q99 · **ICMAI Practice Workbook: no problem on this topic**.

5 · TRAPS

- 85% is of **income** (accounting), before deducting the application.
- Corpus received is out; corpus **given** is not application.
- Deferment needs the option 2 months before the due date — say so in D25-type "suggest" parts.

C Registration (12A / 12AB) · cancellation · s.13 forfeiture

- **Apply**: registered trust whose period is ending — at least **6 months** before expiry; provisional — 6 months before expiry or within 6 months of starting activities (earlier); objects modified — within **30 days**; new trust not yet active — at least **1 month** before the year; delay condonable. [SM 88]
- Applications for 10(23C) approval filed on or after **01-10-2024** are not considered: move to 12A. [SM 88]
- **Order**: within **6 months** from the end of the quarter → registered for **5 years** (**10 years** if income before ss. 11–12 ≤ **₹5 crore** in each of the two preceding years); new trusts: provisional for **3 years**, order within **1 month**. [SM 89] [Supp J26 p.9–10]
- **Cancellation** for specified violations (income applied outside the objects, non-incidental business, private religious use, community / caste, non-genuine activity, other-law breach, false information) after hearing; order within **6 months** from the end of the quarter of the first
- **s.13 — no exemption for**: private religious income; community / caste trusts; funds outside s.11(5) modes (PSU shares are fine); income used for **interested persons**. [SM 90]
- **Interested persons**: author / founder; a contributor of more than **₹1 lakh** in the year or **₹10 lakh** in aggregate; trustee / manager; relatives of author or trustee (not of a contributor — Jun'26 supp); concerns in which they have a substantial interest. [SM 90–91] [Supp J26 p.10]
- **Deemed benefit**: loans without adequate security / interest, property or services without adequate payment, excess salary, buying above / selling below value, diversion. [SM 91]
- **s.13(10)/(11)**: business not exempt, no books, no audit, late return → tax on income less revenue expenditure in India (not from corpus or loans, no donations, no double depreciation). [SM 91]

notice. Jun'26 supp: an **incomplete application** is no longer a specified violation. [SM 89–90] [Supp J26 p.9]

D 115BBI specified income · 115TD accreted income · 12AC merger

- **s.115BBI**: **30%** on specified income (excess accumulation over 15%, 11(3) defaults, funds in wrong modes, benefit to specified persons, income applied outside India); no expenses or set-off; other income at slab rates. [SM 92]
- **s.115TD** (exit tax): trust **converts** into a non-eligible form (incl. cancellation, modified objects without fresh registration, failing to apply in time), **merges** with a non-similar / unregistered entity, or fails to transfer assets within **12 months** of dissolution → **accreted income** taxed at **MMR**, in addition to normal tax. [SM 92–93]
- **Accreted income** = FMV of total assets − total liabilities (ignore assets from agricultural income and assets bought before registration without exemption). Tax due within **14 days**; interest **1%** a month u/s 115TE; final tax, no credit. [SM 92–94]
- **s.12AC**: merger with a registered trust with similar objects → no 115TD. [SM 94]

WORKED PATTERN · MQP Q2(a) 115TD (ICMAI ANSWER, ₹ LAKH)

Land: higher of open-market 27 and stamp duty 25	27.00
Listed shares: 1,00,000 × ₹90 (average of low 85 / high 95)	90.00
Preference shares at open-market value	50.00
Total assets	**167.00**
– outside liabilities 100 + pending bills 5 (not corpus, not tax provision)	105.00
Accreted income	**62.00**
Tax 30% 18.60 + SC 10% → 20.46 + cess 0.82	21.28

ICMAI applies MMR as 34.944% (30% + 10% SC + 4% cess). Book values are irrelevant.

E Mutual association (1.4) · s.44A · insurance (never asked — read once)

- SM WORDS **No one can trade with himself.** Mutuality: all contributors share the surplus and vice versa (future reduction or on dissolution is enough); company form makes no difference; only **mutual** surplus is exempt. [SM 95]
- Taxed despite mutuality: mutual **insurance** (s.44); trade / professional association's fees for **specific services** (28(iii)); entrance fees are not specific service (**Calcutta Stock Exchange**, SC); co-operative banks partly. Social clubs: mutuality (**Bankipur Club**, SC). [SM 95, SM 97]
- **s.10(23A)**: approved professional institutions exempt, except house property, specific services, interest and dividends. [SM 97]
- **s.44A**: trade association's deficiency (subscriptions below expenditure) is deductible from its other income, up to **½** of total income before this deduction; no carry-forward. **Illustration 28**: 60,000 − 85,000 → deficiency 25,000 (limit 37,500) → total income **₹50,000**. [SM 96–97]
- **Life insurance** profits: **12.5%** u/s 115B; outside MAT. Non-life reserve for unexpired risks (Rule 6E): **50%** of net premium (fire / misc.), **100%** marine and fire / engineering with terrorism cover. [SM 97–98]

Revision sheet · M1 Part 3 (glance page)

Item	Rule / number	Item	Rule / number
Application	85% of income; 15% free accumulation	Donation to other trust	corpus: not application; non-corpus: 85%
Anonymous (115BBC)	above higher of 5% of total donations or ₹1,00,000 → 30%	Specified income (115BBI)	30%, no deductions
Deferment	option 2 months before due date; year of receipt + next year	Accumulation 11(2)	Form 10; 5 years; s.11(5) modes
Corpus / loan spending	application when put back / repaid within 5 years	Charitable purpose	GPU business receipts ≤ 20% of total receipts
Registration	5 years (10 if income ≤ ₹5 crore in each of 2 years); provisional 3 years	Apply	6 months before expiry; modified objects 30 days; new 1 month before
Orders	registration 6 months from quarter end; provisional 1 month; cancellation 6 months	Interested persons	author, contributor > ₹1 lakh (year) / ₹10 lakh (total), trustee, relatives (not contributor's)
115TD	accreted income = FMV assets − liabilities; MMR; 14 days; 1% a month	Dissolution	assets to another trust within 12 months
s.44A	deficiency up to ½ of total income	115B	life insurance profits 12.5%

MEMORY HOOKS

- **"85 spent, 15 rests"**; **"Corpus in = not income, corpus out = not application"**.
- Anonymous: **"5% or a lakh, whichever is MORE, is free"**.
- Registration: **"6-30-1"** — 6 months before expiry, 30 days after changing objects, 1 month before starting.

Module 1 mind map · Assessment of various entities

Individual (Q3(a))

- Format: heads → GTI → VI-A → slab + special rates → 87A → SC → cess
- Default 0–30% per ₹4 lakh; 87A ₹60,000 to ₹12 lakh
- Old: 2.5 / 3 / 5 lakh; 87A ₹12,500
- Advise the lower regime

Company (Q3(b))

- 25% (P.Y. 2023-24 ≤ ₹400 crore) / 30%; foreign 35%
- 115BAA 22% · 115BAB 15% · SC 10%; no MAT
- Lose additional depreciation, 10AA, VI-A except 80JJAA / 80M
- s.79 51%; start-up; s.79A

Non-resident (Q4(b))

- 182 / 60 + 365; 120 days if > ₹15 lakh; POEM
- 44B 7.5 · 44BB 10 · 44BBA 5 · 44BBB 10 · 44BBC 20 · 44BBD 25 · 44C 5%
- 115A 20% · 115BBA 20% · 112(1)(c) 12.5%
- XII-A: 20% / 12.5%; 115F 6 months; no costs
- TDS 194E, 194LC, 195, 196A–196D

MODULE 1
~41 marks expected
Q2, Q3, Q4(b), Q8(a)

MAT (Q8(a))

- 15% of book profit; Form 29B
- + tax, reserves, provisions, dividend, deferred tax, depreciation
- − depreciation (no revaluation), lower of loss / unabsorbed (books)
- Credit 15 AYs

Firm / LLP (Q2(b)) ⚠ Inter

- 30% + SC 12% above ₹1 crore
- Interest 12%; 40(b): 90% of first ₹6 lakh, 60% rest
- 40(a)(ia) 30%; 43B(h) MSME
- Retiring partner: 9B / 45(4)

Trust (Q2(a)) · others

- 85% / 15%; corpus rules; 85% of non-corpus gifts
- 115BBC: 5% or ₹1 lakh; 115BBI 30%
- 11(2) 5 years; deferment
- 115TD accreted income at MMR
- Pass-through: 115TCA, 115UA, 115UB; mutuality, 44A