



Surge in Tax Concessions on Political Donations

For Prelims: [Tax concessions](#), [Income Tax Act, 1961](#), [Political party](#), [Companies Act, 2013](#), [Electoral Bond Scheme](#)

For Mains: Impacts of Tax concessions for political donations in India, Regulating political donations

Source: [IE](#)

Why in News?

The latest financial data reveals a significant **increase in tax concessions provided for donations to political parties**, with the government granting nearly Rs 4,000 crore in fiscal year 2022-23.

- This rise highlights the growing trend of electoral funding through tax deductions and surge in tax concessions reflects broader shifts in political finance and its implications for fiscal policy.

What are the Tax Concessions on Political Donations?

- **About:** A tax concession is a **reduction in the amount of tax** that a particular group or organisation has to pay, or a change in the tax system that benefits them.
 - In India, tax concessions on political donations are provided under the Income Tax Act, 1961.
 - **Section 80GGB, of Income Tax Act, 1961** allows Indian companies to claim deductions for contributions made to political parties or electoral trusts. However, donations made in cash are not eligible for deductions.
 - **Section 80GGC, of Income Tax Act, 1961** applies to **individuals, firms, and other non-corporate entities**. Similar to Section 80GGB, it allows deductions for contributions to political parties or electoral trusts, excluding cash donations.
 - Deductions apply to donations made via cheques, account transfers, or electoral bonds.
 - The **Income Tax Act** defines a **political party** as one registered under **Section 29A of the Representation of the People Act, 1951**.
- **Total Tax Concessions:** In FY 2022-23, the total tax concessions for donations to political parties amounted to approximately Rs 3,967.54 crore.
 - In 2021-22, the tax concessions were Rs 3,516.47 crore, indicating a 13% increase from the previous fiscal year.
- **Revenue Impact of These Deductions:** **Since 2014-15, the total revenue impact of tax concessions on political donations has reached approximately Rs 12,270.19 crore.**
 - In 2022-23, Rs 2,003.43 crore of the tax concessions came from donations by corporate taxpayers under Section 80GGB.
 - Deductions claimed by individuals under Section 80GGC amounted to Rs 1,862.38 crore.

What are the Implications of Surge in Tax Concessions?

- **Rising Electoral Funding:** The increasing tax concessions for political donations highlight a growing trend in electoral financing, suggesting that political parties are relying more heavily on contributions from corporations and individuals.
 - This could potentially alter the [balance of power](#) and influence in political decision-making.
- **Need for Transparency:** With the surge in political donations, there is a pressing need for greater transparency in political financing to ensure accountability and prevent undue influence on the political process.
 - The sharp increase in concessions raises questions about the impact on public finances and the need for potential reforms in political funding policies.
- **Revenue Loss:** Increased tax concessions can lead to a significant reduction in government revenue. This can affect the government's ability to **fund public services and infrastructure projects**.
- **Market Distortions:** Excessive concessions might create market distortions, favouring certain sectors or companies over others, which can lead to inefficiencies.
- **Sustainable Growth:** While tax concessions can boost short-term growth, they need to be balanced with long-term fiscal sustainability. **Over-reliance on concessions can undermine the tax base and [fiscal health](#).**

What are the Regulations on Political Donations in India?

- **Representation of People Act, 1951:** Section 29B in RPA, 1951 allows political parties to accept voluntary contributions from any person or company, except government companies and foreign sources.
- **Companies Act, 2013:** Section 182 of the [Companies Act, 2013](#) allows Indian companies to contribute any amount to a political party, with conditions such as authorisation by the Board, non-cash payment, and disclosure in the company's profit and loss (P&L) account.
- **Income Tax Act, 1961:** Indian companies and individuals are eligible for tax deductions on donations made to political parties or electoral trusts under Section 80GGB and 80GGC.
- **Foreign Contributions (Regulations) Act, 2010 (FCRA):** The Representation of People Act, 1951 and the [FCRA](#) bar political parties from accepting donations from a 'foreign source', but Indian companies with foreign investment up to the permitted limits are no longer treated as a 'foreign source' and can now make political contributions under the Companies Act, 2013.
- **Electoral Bonds Scheme:** Introduced in 2018, electoral bonds allow donors to contribute to political parties anonymously. The bonds are purchased via authorised banks and are valid for 15 days.
 - In February 2024, the [Supreme Court of India unanimously struck down the Electoral Bond Scheme](#) and associated amendments as unconstitutional, ruling that the scheme [violated the right to information](#).

Way Forward

- **Reviewing Tax Concessions:** Revisiting the framework for tax concessions on political donations can help ensure they align with broader fiscal policies and do not unduly impact government revenues.
 - **Setting reasonable limits on deductions** and exploring alternative mechanisms for political funding could enhance the sustainability of the financing system.
- **Public Financing:** It refers to government financial support for political parties and candidates to facilitate their participation in the electoral process, reducing reliance on private donations and the potential influence of vested interests.
 - Many countries provide public funding for political parties based on various **criteria, such as past election performance**, membership fees, and private donations. Some places, like **Seattle**, have experimented with "**democracy vouchers**" where eligible voters receive vouchers to donate to their chosen candidates.
- **Enhanced Transparency:** Mandating comprehensive disclosure of all political donations,

including those made through electoral bonds. And establish an independent commission with strong oversight over political finance.

Drishti Mains Question:

Q. Discuss the trends in tax concessions for political donations in India. How do these trends impact the political finance landscape and fiscal policy?

UPSC Civil Services Examination, Previous Year Questions (PYQs)

Prelims

Q. Which one of the following effects of creation of black money in India has been the main cause of worry to the Government of India? (2021)

- (a) Diversion of resources to the purchase of real estate and investment in luxury housing.
- (b) Investment in unproductive activities and purchase of precious stones, jewellery, gold, etc.
- (c) Large donations to political parties and growth of regionalism.
- (d) Loss of revenue to the State Exchequer due to tax evasion.

Ans: (d)

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