Money you give as charity is taxable for Covid victims

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Donations received from specific charitable organizations are not taxable

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The ongoing covid-19 pandemic has seen its fair share of tragedies unfolding—families starving due to lack of employment, migrant labourers struggling to reach their hometowns, poor families saddled with huge medical bills and so on. Various charitable organizations have sought to alleviate the woes of such affected persons, who have not been able to avail of government aid or support, but even such organizations have had their own limitations of not being able to reach out to all the suffering persons.

Under such circumstances, many good Samaritans stepped in to assist such affected persons. Some of them have acted in their individual capacities, while others have formed groups of similar-minded individuals to pool together their financial and manpower resources to carry out the assistance.

Their assistance has taken various forms—organizing and paying for transport to take migrant labourers to their hometowns, paying travel costs to migrant labourers, providing accommodation to migrant labourers, providing cooked meals and water or food provisions to migrant labourers or to the starving families or providing funds for such food, meeting the cost of hospital expenses of indigent patients, providing aid to families impacted by the death of their sole breadwinners and so on.

What many such citizens may not have realized is that there could be a tax impact of doing such charity, the brunt of which is unfortunately borne by the recipients of the charity. The tax laws provide that any amount received without consideration by a person is taxable, if it is in excess of ₹50,000 per year.

There is an exception though—if it is received from a charitable or religious organization registered with the tax authorities as such, then the amount received would not be taxable, even if the amount exceeds ₹50,000.

It is important to understand that this applies only to receipt by an individual. If the amount is not received by the individual, but he receives the benefit of the supplies or services arranged for by another person, such benefit is not taxable, unless it is a benefit provided by his employer or former employer. Therefore, provision of transportation or accommodation, provision of meals, water or food supplies or provision of medicines would not be taxable.

However, instead of providing such facilities, services or supplies, if the affected individual receives an amount from another person to fund such expenses or in reimbursement of such expenses, it would be taxable if the gross amount received during the year, from one or more persons by that individual exceeds ₹50,000.

Take a situation where you are approached by an impacted needy person who has run up large hospital bills of about ₹7 lakh for the treatment of himself and his family, which he is unable to meet. If you were to assist him by paying the hospital bills directly to the hospital, there would be no tax impact. However, if you transfer ₹7 lakh to his bank account, though the nature of assistance is the same, he would end up paying income tax on the amount received from you, at his slab rate of tax. This would, therefore, reduce the financial impact of such assistance.

Similarly, if you were to foot the educational expenses of your driver's children by directly paying the fees to the educational institution, there would be no tax impact, but if you were to finance these expenses by paying the amount of fees to him, he may end up paying a tax on such amount received. On the other hand, if you route your charity money through a registered charitable organization, there will be no tax impact on the recipient of the aid from the charity, whether the aid is received directly by the person or whether it is paid to the service or supply provider. The tax laws, therefore, discourage charity by private individuals, while encouraging such charity by registered charities.

However, not every philanthropist would like to set up a registered charitable organization. Running a charitable organization in India is a daunting task which would put off most except the very brave—it involves too much paperwork, with minor defaults attracting huge disproportionate penalties, and constant scrutiny of questioning authorities, who doubt the bona fides of every charitable organization.

Given the huge amount of tragedies unfolding everyday and the continuing pandemic, the government should encourage even individual charity by excluding payments made to covid-19-affected persons (directly or indirectly affected) from the ambit of this taxing provision.

Alternatively, for the duration of this pandemic, the government should consider raising the limit of ₹50,000 to ₹10 lakh. This will ensure that the affected individuals get the full benefit of the aid that they have been provided, and do not have to suffer the additional burden of tax on such aid.

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