

Society must accumulate income as per section 11 of the income tax act: Punjab and Haryana HC

The High Court of Punjab and Haryana has come to a critical verdict regarding the accumulation of account done by the specific society. The honorable courts have mentioned that if the threshold of the amount accumulation surpassed 15% figure, then it should utilize for a particular purpose rather than future aim or objects.

Significantly, this verdict has rolled out in the context of **Maharaja Ranjit Singh War Museum Society, Ludhiana**, which is accredited by the Government of Punjab.

The moto of the society is to build a sense of nationality and patriotism among the citizens, to protect the war history of Punjab. For the assessment year 2014-15, society gathered a certain sum of money. It then transferred to Punjab State War Heroes Memorial & Museum Society, Amritsar (PSWHMMS), which is not working as per the provision of the Government of Punjab.

When the society comes under the radar of the tax authority, the amount then transferred to the Punjab State War Heroes Memorial & Museum Society. The society was claiming this transfer as a part of their income.

During the assessment of this scenario, the assessing officer comes to an interesting finding regarding this monetary transfer. During the scrutiny process, the accessing officer concludes that this transfer is a clear-cut violation of section 11(2) and 11(3)(d) of the Income Tax Act.

In the second appeal, the Tribunal supported the observation, and therefore, the assessee-society addressed the High Court for judicial assistance.

Furthermore, the division bench of the high court rejected the charges of the assessee based on the following facts:

As per section 11, 85% of the income can only utilize for a charitable or religious purpose, and the accumulation threshold cannot surpass the 15% figure.

However, subsection (2) provides a bit of relief in this aspect. The subsection supports the accumulation out of 85%, but it is only allowed for future projects that seek more significant monetary help.

The court supported the lower authorities' order and observed that the accumulated amount could be considered as an income of the assessee because the accumulation has to be for a specific purpose and not for the aims and objects of the trust.

Provision under the Income Tax Act, section 11 regarding the accumulation of the income by the society

Any income obtained from the property contained under religious purposes or trust for charitable shall not deem as a part of the total income as per the provisions under section 60 to 63 for clubbing of income.

As per section 11 of income tax, the following income cannot be deemed as a part of the total income of the trust.

- Any income generated from the property contained under the religious purposes or trust for charitable provided such income project to benefit charitable or religious purposes in India. On the contrary, if such income failed to serve this purpose, then such income shall not form part of the total income. The threshold of 15% is allowed to be accumulated on the total income generated from such property.
- Any income procured from property owned partially under a trust (before the existence of the Income-tax Act) provided such income yields profitability to

charitable or religious purposes. On the flip side, if such income fails to satisfy this provision, then such income cannot be considered as a part of total income, and 15% of the total income is allowed for the accumulation.