

Electoral Trusts

Why in News?

Supreme Court struck down electoral bonds last year, shifting political funding to electoral trusts.

- It is a Trust set up by companies with the sole objective to ***distribute the contributions*** received by it from other Companies and individuals to the political parties.
- **Qualification** - Under '***The Electoral Trusts Scheme, 2013***', any company registered under Section 25 of the Companies Act, 1956, can form an electoral trust.
- **Governed by** - The Companies Act, 1956, and the Income Tax Act, 1961.
- **Eligibility to donate** - Under Section 17CA of the Income-tax Act, 1961
 - Any citizen of India,
 - A company registered in India, or
 - A firm or Hindu Undivided Family or
 - Association of persons living in India, can donate to an electoral trust.
- It shall not accept contributions from
 - An individual who is not a citizen of India
 - A foreign entity whether incorporated or not
 - Other Electoral Trusts (approved under the Electoral Trusts Scheme)
 - Contributors without PAN
 - NRIs without a passport number
- **Renewal** - The electoral trusts have to apply for renewal ***every 3 financial years***.
- **Distribution of funds** - For administrative expenses, the Electoral Trusts are permitted to set aside a maximum of 5% of the total funds.
- They must donate ***95%*** of contributions received in a financial year to political parties registered under the Representation of the People Act, 1951.
- The contributors' PAN (in case of a resident) or passport number (in case of an NRI) is required at the time of making contributions.
- **Transparency** - Trusts are required to maintain detailed accounts of donors, including PAN details, donation amounts and payment modes.
- Unlike electoral bonds, these contributions are ***partially transparent*** as donor and recipient identities must be disclosed, albeit separately.
- **Reporting** - These records are audited annually, with reports submitted to the commissioner of income tax and the Election Commission (EC).

Among the 18 registered electoral trusts, the Prudent Electoral Trust (PET) stands out as the largest and most influential.

Reference

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