

## Proposed Amendments in Section 100C Income Tax Ordinance, 2001

### Taxation of Non-Profit Organisations (NPOs)

There are two important changes proposed in Section 100C of Income Tax Ordinance, 2001 through finance bill introduced on 26th May, 2017.

- i. Addition of a new condition to avail 100% Tax Credit
- ii. Insertion of two new subsections 1A & 1B thereby proposing to tax surplus funds of NPOs @ 10%

### 1. Addition of clause 'd' in sub-section 1 of section 100 C

In accordance with sub-section 1 of section 100 C of Income Tax Ordinance, 2001, income of Non Profit Organizations (NPOs), trusts or welfare institutions is allowed a tax credit equal to 100% of the tax payable. In order to avail 100% tax credit, following three conditions are required to be complied with;

- (a) return has been filed;
- (b) tax required to be deducted or collected has been deducted or collected and paid; and
- (c) withholding tax statements for the immediately preceding tax year have been filed.

Vide Finance Bill 2017, it is proposed to insert a new clause (d) in subsection 1 of Section 100 C.

Proposed clause 'd' reads as followed;

*"Administrative and management expenditure does not exceed 15% of the total receipts"*

Administrative & Management expenditure has not been defined in section 2 of Income Tax Ordinance, 2001. Absence of a clear definition may lead to varying interpretations.

### 2. Insertion of new sub-sections 1A & 1B in Section 100C

New subsections 1A and 1B are also proposed to be added after sub-section 1 of Section 100C. New subsections read as followed:

*(1A) Notwithstanding anything contained in sub-section (1), surplus funds of non-profit organization shall be taxed at a rate of ten percent (10%).*

*(1B) For the purpose of sub-section (1A), surplus funds mean funds or monies:*

- (i) not spent on charitable and welfare activities during the tax year;*
- (ii) received during the tax year as donations, voluntary contributions, subscriptions and other incomes;*
- (iii) or more than twenty five percent of the total receipts of the non-profit organization received during the tax year*



(iv) are not part of restricted funds

Explanation: For the purpose of this sub- section, “restricted funds” mean any fund received by the organization but could not be spent and treated as revenue during the year due to any obligation placed by the donor.”

