Analytical Speaking

Infrastructure Bonds – now being eligible security for investment by Charitable/Religious Trusts

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Existing deduction to Individuals and HUF for investment in Infrastructure bonds:

For attracting investment in Infrastructure sector and in tune with the thrust of promoting investment in the infrastructure sector, a new section 80CCF was inserted in the Income Tax Act to provide that subscription during the financial year 2010-11 made to long-term infrastructure bonds (as may be notified by the Central Government), to the extent of Rs. 20,000, shall be allowed as deduction in computing the income of an individual or a Hindu undivided family. This deduction will be over and above the existing overall limit of tax deduction on savings of upto Rs.1 lakh under section 80C, 80CCC and 80CCD of the Act. The exemption was further extended to Assessment Year (AY) 2012-13 by Finance Act, 2011. However, since there is no clause for extension in Finance Act, 2012, so this deduction is not available for financial year 2012-13. Not sure, why the lawmakers have ignored this, given the fact that the Finance Minister has proposed to raise Rs 60,000 Crores in 2012-13 for financing infrastructure projects.

Present amendment in Rule 17C of Income Tax Rules –

The Income Tax Department came out with a notification dated September 20, 2012[1] in which it extended the exemption facility to charitable or religious trusts or institutions for investment in Infra Bonds. Section 11 (5) lays down the mode or form of investments or deposits, the investment in which will enable the charitable/religious trusts to get the benefit of exemptions allowed to them u/s 11 of the Income Tax Act. The list u/s 11(5) is an inclusive list and clause (xii) of this section covers "any other form or mode of investment or deposit as may be prescribed." Rule 17C of the Income Tax Rules prescribes such form or mode of investment or deposit.

Rule 17C contains a list of 7 such items including units of Mutual Funds, equity shares of depository etc. Vide the present CBDT notification, the following clause is inserted, namely -

"(viii) investment in debt instruments issued by any infrastructure Finance Company registered with the Reserve Bank of India."

So, by virtue of this, Infrastructure bonds are now added to the list of eligible securities for the purpose of section 11(5) of the Income Tax Act.

[1] http://law.incometaxindia.gov.in/DIT/File_opener.aspx?page=NOTF&schT=&csId=4465c3ae-1a10-4fdd-b367-31a8b1d0720f&NtN=&yr=ALL&sec=&sch=&title=Taxmann%20-%20Direct%20Tax%20Laws

Our comments:

It is good that the benefit of investment in Infra Bonds is being extended to charitable/religious trusts. However, a clarification from CBDT is expected as to why the benefit u/s 80CCF is not extended to the current financial year for Individuals and HUF.