

Standards & NORMS

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ANALYSIS OF FCR RULES 2010

**LAND IS A SPECULATIVE
INVESTMENT**

**ALL VEHICLE EXPENSES
ARE ADMINISTRATIVE**

**PUBLIC DISCLOSURE
FOR 1 CRORE OR
MORE FC RECEIPT**

**SUSPENSION - 75% FC
CANNOT BE UTILISED**

**BANKS TO PROVIDE
SEPARATE REPORT**

**TRANSFER TO NON FC
ORGANISATION
POSSIBLE WITH
APPROVAL**

**TRANSFER TO REGISTERED FC ORGANISATION
NOT POSSIBLE WITHOUT APPROVAL**

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ANALYSIS OF FOREIGN CONTRIBUTION (REGULATION) RULES 2010

CONTENTS

DECLARATION OF AN ORGANISATION TO BE OF A POLITICAL NATURE	01
SPECULATIVE ACTIVITIES	03
ADMINISTRATIVE EXPENDITURE	04
CONTRIBUTIONS RECEIVED FROM RELATIVES	06
APPLICATION FOR OBTAINING 'REGISTRATION' OR 'PRIOR PERMISSION'	06
VALIDITY OF THE REGISTRATION CERTIFICATE	06
DISCLOSURE OF INFORMATION IF RECEIPTS EXCEED 1 CRORE RUPEES	07
UTILISATION DURING THE PERIOD OF SUSPENSION	07
CUSTODY OF FUNDS AND ASSETS IN THE EVENT OF CANCELLATION	07
REPORTING BY BANKS	08
FILING OF RETURN & METHOD OF ACCOUNTING	08
TRANSFERING FC FUNDS TO EVEN REGISTERED ORGANISATIONS THROUGH PRIOR APPROVAL	09
TRANSFERING FC FUNDS TO UNREGISTERED ORGANISATIONS	10
SUMMARY OF RECOMMENDATION	10

DECLARATION OF AN ORGANISATION TO BE OF A POLITICAL NATURE

1.01 The proposed Rule 3 provides the guidelines for declaring an organisation to be of political nature. The various grounds for judging an organisation to be of political

nature are provided in the Rule enclosed herewith, however there are few clauses which are ambiguous and may create unwarranted problems to the NGOs.

1.02 The Rule 3(iii) provides that an organisation can be declared of political nature if it has objectives of political

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nature OR comments upon or participates in political activity. It may be noted that the word OR is used between political objectives and comments. In other words, even commenting on a political activity may render an organisation to be of political nature. This is a very serious and unconstitutional provision which directly infringes the constitutional right to speech and have independent opinion. Therefore, providing such unfettered powers to the FCRA department is totally unwarranted and this rule needs to be reconsidered.

1.03 Rule 3(v) is again a very absurd provision, it provides that any NGO may be deemed to be of political nature if its objects or activity are towards larger socio-economic or political interests of the organisation. The text of Rule 3(v) is as under :

“(v) Organisation of farmers, workers, students, youth etc. based on caste, community, religion, language or otherwise, which are not directly aligned to any political party, but whose objectives as stated in the Memorandum of Association or activities, gathered through other material evidence, include steps towards advancement of larger socio-economic OR political interests of such groups.”

It may be noted that the word ‘or’ is used between ‘socio-economic or political interests’. **In other words, even having socio-economic goal may render an organisation to be a political nature. This clause is absolutely uncalled for and needs to be redrafted.**

1.04 Rule 3(vi) is provides that actions like ‘bandh’ or ‘hartal’ etc. shall be considered as political action. The text of Rule 3(vi) is as under :

“(vi) Any organisation by whatever name called, which habitually engages itself in or employs common methods of political action like

Even socio-economic goal may render an organisation to be a political nature. This clause is absolutely uncalled for and needs to be redrafted.

‘bandh’ or ‘hartal’ or ‘rasta roko’, ‘jail bhara’ etc in support of public causes.”

1.05 In clause (vi) above some of the common methods like ‘bandh’ or ‘hartal’ or ‘rasta roko’ may be considered as activity of political nature. However, it is important to clarify that peaceful and non violent manner of public protest should not be included. Some examples of peaceful and non violent social action could include ‘rally’, ‘public meetings’ and other methods of awareness building. Therefore, an additional proviso should be added to rule 3(vi) clarifying that it would not apply to peaceful and non violent manner of public protest and social action including ‘rally’, ‘public meetings’ and other methods of awareness building.

1.06 RECOMMENDATION : *The Rule 3(iii) should be redrafted and the provision which prohibits even commenting on a political activity should be deleted.*

1.07 *The Rule 3(v) should be redrafted, as advancement of ‘larger socio-economic interest’ cannot be considered as a political activity. This rule has the potential create hardship and suppress constitutionally valid and non violent ways of social work. Many NGOs work on the economic development of poor and deprived communities and such clause may adversely affect such work. Therefore,*

the phrase “larger socio-economic” should be deleted.

1.08 The Rule 3(vi) should provide an additional proviso clarifying that it would not apply to peaceful and non violent manner of public protest and social action including ‘rally’, ‘public meetings’ and other methods of awareness building.

SPECULATIVE ACTIVITIES

2.01 Rule 4 specifies the circumstances under which an investment could be treated as speculative in nature.

2.02 Rule 4(1)(a) prohibits investment in shares & stocks even through mutual fund. This provision is in conflict with section 11(5) of the Income Tax Act which provides investment in certain stock linked mutual funds.

2.03 Rule 4(1)(b) prohibits investment in land if it is not directly linked to the declared aims and objectives of organisation. This provision again is harsh and ambiguous, because it will be very difficult to make distinction between investment in land in relation to the objectives and otherwise. Infact, NGOs cannot invest anything beyond the objectives. All investments have to be towards fulfillment of the long term objectives. Further it is ironical that this provision has been kept under the head “Speculative Activities” as historically investment in gold or land has never been considered as speculative or prone to high risk.

2.04 The Income Tax Law in any case does not allow accumulation of income. Under the current law 85% of the income have to be applied for charitable purposes. The proposed Direct Tax Code (DTC) provides that 100% of the income needs to be

Land does not fit into the criteria of speculative investment. Further, linking or delinking land with the objectives of the trust may not be practically possible and will create needless disputes and controversies.

applied for charitable purposes. In such circumstances, the possibility of making investments from current year income has been already curtailed. However, the corpus fund or corpus donation can be invested under various options available section 11(5) of the Income Tax Act. The FCRA department should understand that such irrational rules may create hardship to genuine NGOs even in investing their corpus funds into land and building.

2.05 RECOMMENDATION : *The Rule 4 should distinguish between an corpus or long term investment and investment made out of current years income.*

2.06 *The Rule 4 should be in consonance with the section 11(5) of the Income Tax Act. The conflict between these two statutes will create undue hardship to the NGOs.*

2.07 *The Rule 4(1)(b) which prohibits investment in land, treating it as speculative in nature, should be deleted. Linking purchase of land with speculative activity may not serve the purpose of this section, because speculative investments are generally short term with possibility of high fluctuation. Land does not fit into the criteria of speculative investment. Further, linking or delinking land with the objectives of the trust may not be practically possible and will create needless disputes and controversies.*

ADMINISTRATIVE EXPENDITURE

3.01 Rule 5 defines “Administrative Expenditure”. It may be noted that section 8 of the Foreign Contribution (Regulation) Act 2010, (FCRA 2010) provides that the administrative expenditure shall not exceed 50% of the total utilisation.

3.02 The definition of Administrative Expenditure briefly is as under :

- Remuneration and other expenditure to Board Members and Trustees
- Remuneration and other expenditure to persons managing activity.
- Expenses at the office of the NGO
- Cost of accounting and administration
- Expenses towards running and maintenance of vehicle
- Cost of writing and filing reports
- Legal and professional charges
- Rent and repairs to premises

3.03 The Rule further provides that the following salaries shall not be considered as administrative in nature :

- Salaries of personnel engaged in training or for collection or analysis of field data of an association primarily engaged in research or training (1st proviso)
- Expenses related to activities for example salaries to doctors of hospital, salaries to teachers of school etc. (2nd proviso)

3.04 This Rule regarding administrative expenditure is highly ambiguous and shall result in lot of controversy and undue hardship. The major contentious issues are as under :

- Rule 5(ii) provides that any kind of remuneration cost of travel of persons engaged in management

Rule 5(ii) provides that any kind of remuneration cost of travel of persons engaged in management of activities shall be considered as administrative in nature.

of activities shall be considered as administrative in nature. This Rule is irrational and in contradiction to the second proviso which provides that expenses related to activities shall not be treated as administrative expenditure.

- Rule 5(iii) provides that expenditures related with the office of the NGOs shall be treated as administrative in nature. This Rule is irrational and in contradiction to the first proviso which provides that expenses related to training and research shall not be treated as administrative expenditure.
- Rule 5(v) provides expenses towards running and maintenance of vehicles shall be treated as administrative in nature. This Rule again is irrational as for most of the programme activity, expenditure towards running and maintenance of vehicles will be incurred. Further, this rule is totally unwarranted in the light of Rule 5(i) which excludes travel expenditure of the board and executive members.
- Rule 5(viii) provides that rent and repair of premises shall be considered as administrative

expenditure. This rule again is irrational because all programme persons and activities also require premises and the expenditure related with it.

- The first proviso to Rule 5 provides that expenditure related with persons engaged in data collection, research or training shall not be treated as administrative expenses. In other words, as per this proviso the expenditure pertaining to all other programme staff shall be treated as administrative expenditure unless otherwise excluded under this rule.
- The second proviso to Rule 5 provides some relief from the provisions of the first proviso. It states that all expenses incurred directly in furtherance of the objectives of the organisation shall be excluded. In this context it may be noted that an NGO legally cannot spend a single rupee which is not towards the furtherance of the objectives. Therefore, this proviso in some sense nullifies the earlier provisions of the rule.

3.05 RECOMMENDATION : *Rule 5(ii) should be deleted as it is in contradiction to the second proviso which provides that expenses related to charitable activities shall not be treated as administrative expenditure. Moreover, persons engaged in management of activities should be considered as programme staff and therefore, there is no need for this clause in the rule. It may further be noted that rule 5(iv), (vi) & (vii) cover all the expenditure of administrative, accounting, legal etc. in nature.*

3.06 *Rule 5(iii) which provides that expenditures related with the office of the NGOs shall be treated as administrative in nature should be deleted. This Rule is*

Rule 5(v) which provides expenses towards running and maintenance of vehicles shall be treated as administrative in nature should be deleted.

irrational and in contradiction to the first proviso which provides that expenses related to training and research shall not be treated as administrative expenditure. The FCRA department should appreciate that training and research activity generally would happen within the office infrastructure of the NGOs and therefore, such conflicting provisions should be deleted.

3.07 *Rule 5(v) which provides expenses towards running and maintenance of vehicles shall be treated as administrative in nature should be deleted. This Rule is irrational as for most of the programme activity expenditure towards running and maintenance of vehicles will be incurred. Further this rule is totally unwarranted in the light of Rule 5(i) which excludes all expenditures including travel of the board and executive members.*

3.08 *Rule 5(viii) provides that rent and repair of premises shall be considered as administrative expenditure. This rule is irrational because all programme persons and activities also require premises and the expenditure related with it. Now a days the work of NGOs mostly involve research and advocacy related issues where the major component of expenditure is on programme personnel working from various locations.*

3.09 *The first proviso to Rule 5 provides that expenditure related with persons engaged in data collection, research or*

training shall not be treated as administrative expenses should be redrafted and the expenditure pertaining to all other programme staff should be covered under this rule.

CONTRIBUTIONS RECEIVED FROM RELATIVES

4.01 Rule 6 provides that foreign contribution, received from relatives, in excess of ₹1,00,000/- in one financial year should be intimated to the Central Government in Form FC-1 within 30days of such receipt. In this regard it should be noted that Section 4(e) of the FCRA 2010 clearly exempts contributions received from relatives for all category of persons. Therefore, this rule is in contravention of the Act and legally unsustainable.

4.02 RECOMMENDATION : *Rule 6 regarding intimation of receiving foreign contribution from relatives should be deleted because it is in direct contravention with section 4(e) of the FCRA 2010. The rules cannot go beyond what has been mandated in the Act.*

APPLICATION FOR OBTAINING 'REGISTRATION' OR 'PRIOR PERMISSION'

5.01 Rule 9 now clarifies that all application for registration or prior permission have to be made both *electronically online* and hard copies also have to be sent within 30days of online submission.

5.02 Rule 9 also clarifies that organisations can open multiple bank accounts for utilisation purposes. However, an intimation in plain paper have to be furnished to the FCRA department within

It may also be noted that all organisations registered on the date of the enactment of FCRA 2010 will remain valid for the next 5 years.

15days of opening of such bank account. It may be noted that separate intimation for each bank account has to be sent. Providing a list of bank account with FC return will not suffice.

5.03 Rule 9(3) provides that a second application for prior permission should not be accepted within three months of submitting the application. This provision should not apply if the organisation is applying for prior permission for another fresh project.

5.04 RECOMMENDATION : *The Rule 9(3) should be suitably amended to allow second application for prior permission for a separate project. The time gap of 3 month between 2 prior permission applications should apply only if the application is made for the same project.*

VALIDITY OF THE REGISTRATION CERTIFICATE

6.01 Rule 10 & 11 lay down the provisions regarding the validity and renewal of the registration certificate. It may be noted that section 11 of FCRA 2010 has restricted the validity of FCRA registration to a period of 5 years from the date of its issue. It may also be noted that all organisations registered on the date of the enactment of FCRA 2010 will remain valid for the next

5 years. In other words, the 5 year clause will not apply immediately and will become effective after 5 years.

6.02 Rule 11 provides that all organisations shall apply for renewal in Form FC-5 six months before the date of expiry of the certificate.

6.03 Rule 11(7) provides that if a person fails to apply for renewal six months prior to the date of expiry, then the FC registration will be deemed to have lapsed. The organisation will have to apply for a fresh registration. However, if the organisation provides sufficient reasons for not submitting renewal request, the application can be accepted within four months from the date of expiry of the original registration certificate.

DISCLOSURE OF INFORMATION IF RECEIPTS EXCEED 1 CRORE RUPEES

7.01 Rule 12 provides that if the contribution received during the year exceed ₹ 1 crore, then the organisation has to keep in the public domain all data of receipts and utilisation during the year and also in the subsequent year. The rule also states that the Central Government will also upload such summary data through its website.

7.02 The manner of disclosure or meaning of 'public domain' has not been explained. It seems that all such organisations are required to have their own website where such data should be uploaded.

UTILISATION DURING THE PERIOD OF SUSPENSION

8.01 Rule 13 provides that the limit and procedure for utilising the unutilised

Rule 12 provides that if the contribution received during the year exceed ₹1 crore, then the organisation has to keep in the public domain all data of receipts and utilisation

portion of foreign contribution during suspension period. It may be noted that section 13 provides the power to suspend (pending cancellation) the registration certificate for a period not exceeding six months.

8.02 Rule 13 has restricted the amount permissible during the suspension period. It provides that only 25% of the unutilised foreign contribution can be utilised with prior approval. The remaining 75% can be utilised only after the revocation of suspension.

CUSTODY OF FUNDS AND ASSETS IN THE EVENT OF CANCELLATION

9.01 Rule 14 provides the procedures regarding the custody of foreign funds and assets in the event of cancellation.

9.02 In case of the available bank balances the respective banking authority will become the custodian till the Central Government issues further directions.

9.03 If funds have been transferred to another NGO after cancellation, then the funds in the bank account of such NGO will also go to the custody of the banking authority.

9.04 All other assets of the organisation whose certificate has been cancelled or has become defunct shall go to the interim custody of the District Magistrate or any other authority which the Central Government may direct. This provision is extremely irrational and unfair, because the direction for repossession of asset should only be issued when all appellate remedies are exhausted. This provision will needlessly create legal litigations with NGOs going for writ applications before various High Courts.

9.05 RECOMMENDATION : *Rule 14 requires immediate reconsideration. The provision of taking custody of assets as an interim measure needs to be deleted. The assets should be repossessed only after all appellate remedies are exhausted. Further, there is a possibility that the certificate may stand cancelled due to small procedural lapses also, (for instance an organisation may make delay for justifiable reasons in applying for renewal of registration). Therefore, it is important that it is also clarified that the punitive provisions shall apply only if the registration certificate is specifically cancelled under section 14 of the FCRA 2010, after providing a reasonable opportunity.*

REPORTING BY BANKS

10.01 Rule 15 provides that the bank should report to the FCRA department within 30 days under two circumstances (i) if any foreign contribution is received without registration or prior permission, (ii) if foreign contribution in excess of rupees 1 crore during a period of 30 days, this rule will apply to all FC funds received through valid registration or prior permission.

10.02 RECOMMENDATION : *The Rule 15(3) provides that the bank should report*

For the first time FC rules are asking for submission of income and expenditure account

within 30 days if 1 crore or more is received in one or more transaction within a block of 30 days. This rule should be redrafted and be made applicable for transaction pertaining to 1 calendar month instead of any 30 days.

FILING OF RETURN & METHOD OF ACCOUNTING

11.01 Rule 16 provides that the annual return accompanied by Income and Expenditure statement, Receipt and Payment Account and Balance Sheet shall be submitted by 31st of December. The law regarding filing of returns remains, more or less unchanged. However, the notable changes are as under :

- The return shall be filed in Form FC-6 and not FC-3
- For the first time FC rules are asking for submission of income and expenditure account
- A copy of bank statement certified by the bank has to be submitted
- A nil return is required to be filed if there is no activity

11.02 The FCRA 2010 and the Rules thereof do not specify any method of accounting. Section 19 of the FCRA 2010 just provide

that accounts with regard to FC receipt and utilisation should be maintained. In the past, it was assumed that FCRA required cash basis of reporting (if not accounting). However, with the new requirement of filing income and expenditure account raises the question whether accrual basis of accounting is also permissible. On a plain reading of section 19 of FCRA 2010, Rule 16 and Form FC-6, it seems that the requirement is to report FC funds received and utilised during the year. In other words, the receipt of funds shall be on cash basis only but there is no direction regarding utilisation on payment basis only. FCRA 2010 does not seem to be prescribing any fixed method of accounting. Any method of accounting may be followed by the organisation but the receipt of FC funds should be reported on cash basis only.

TRANSFERRING FC FUNDS TO EVEN REGISTERED ORGANISATIONS THROUGH PRIOR APPROVAL

12.01 Rule 23 provides that an organisation should apply on Form FC-10 for transfer of FC funds to registered organisations. This is a radical shift and will affect the work of many charitable organisations. If this rule comes to force then the work of most of the apex level and network organisations will be jeopardised as they will not be allowed to transfer funds to other FC registered organisation without prior approval. Currently transfer of FC funds to another FC registered organisation is permissible without prior approval. Infact, Section 7 of FCRA 2010 clearly provides that transfer to another FC registered organisation is permissible. The text of Section 7 is as under :

7. No person who –

(a) is registered and granted a certificate or has obtained prior permission under this Act; and

In other words, the receipt of funds shall be on cash basis only but there is no direction regarding utilisation on payment basis only. FCRA 2010 does not seem to be prescribing any fixed method of accounting.

(b) receives any foreign contribution, shall transfer such foreign contribution to any other person unless such other person is also registered and had been granted the certificate or obtained the prior permission under this Act:

Provided that such person may transfer, with the prior approval of the Central Government, a part of such foreign contribution to any other person who has not been granted a certificate or obtained permission under this Act in accordance with the rules made by the Central Government.

12.02 The above section clearly provides that transfer of funds is possible, without prior approval, if the subsequent receiver has been granted the certificate of registration or obtained the prior permission under this Act. Therefore, Rule 23 is totally unwarranted and legally unsustainable. It is a well established law that Rules cannot be framed beyond the mandate provided in the Act, neither can a rule have an overriding effect over the provisions of the Act.

12.03 RECOMMENDATION : *The Rule 23(1) & (2) should be deleted as they are in direct contravention of the Section 7 of FCRA 2010 which allows transfer of funds, without approval, if the subsequent receiver has been granted the certificate or obtained the prior permission under this Act.*

TRANSFERRING FC FUNDS TO UNREGISTERED ORGANISATIONS

13.01 Rule 23(4) provides that an organisation may apply in Form FC-10 for transfer of FC funds to unregistered organisations. Such transfer could be made to multiple recipients through one prior approval. However, the total amount of transfer to unregistered organisation shall not exceed 10% of the total foreign contribution received.

13.02 In this context it is important to note that it is extremely difficult for village level CBOs and SHGs to have FCRA registration and therefore, this provision is a very welcome change. However, FCRA department should consider providing general approval for small amounts to village level organisation. Such move will help the money go to the grass root level and will enhance the effectiveness of development programmes.

13.03 RECOMMENDATION : *The Rule 23(4) should be redrafted and a general permission should be provided for transfer of fund to a small village level organisation upto certain limit, say, 1 lakh rupees per year. As it is practically not possible to get prior approval for small legitimate transfers. Absence of any such provision would obstruct flow of funds to the grassroots level.*

SUMMARY OF RECOMMENDATION

14.01 *The Rule 3(iii) should be redrafted and the provision which prohibits even commenting on a political activity should be deleted.*

14.02 *The Rule 3(v) should be redrafted, as advancement of 'larger socio-economic*

However, FCRA department should consider providing general approval for small amounts to village level organisation. Such move will help the money go to the grass root level

interest' cannot be consider as a political activity. This rule has the potential create hardship and suppress constitutionally valid and non violent ways of social work. Many NGOs work on the economic development of poor and deprived communities and such clause may adversely affect such work. Therefore, the phrase "larger socio-economic" should be deleted.

14.03 *The Rule 3(vi) should provide an additional proviso clarifying that it would not apply to peaceful and non violent manner of public protest and social action including 'rally', 'public meetings' and other methods of awareness building.*

14.04 *The Rule 4 should distinguish between an corpus or long term investment and investment made out of current years income.*

14.05 *The Rule 4 should be in consonance with the section 11(5) of the Income Tax Act. The conflict between these two statute will create undue hardship to the NGOs.*

14.06 *The Rule 4(1)(b) which prohibits investment in land, treating it as speculative in nature, should be deleted. Linking purchase of land with speculative activity may not serve the purpose of this section, because speculative investments are generally short term with possibility of high fluctuation. Land does not fit into*

the criteria of speculative investment. Further, linking or delinking land with the objectives of the trust may not be practically possible and will create needless disputes and controversies.

14.07 Rule 5(ii) should be deleted as it is in contradiction to the second proviso which provides that expenses related to activities shall not be treated as administrative expenditure. Moreover, persons engaged in management of activities should be considered as programme staff and therefore, there is no need for this clause in the rule. It may further be noted that rule 5(iv), (vi) & (vii) cover all the expenditure of administrative, accounting, legal etc. in nature.

14.08 Rule 5(iii) which provides that expenditures related with the office of the NGOs shall be treated as administrative in nature should be deleted. This Rule is irrational and in contradiction to the first proviso which provides that expenses related to training and research shall not be treated as administrative expenditure. The FCRA department should appreciate that training and research activity generally would happen within the office infrastructure of the NGOs and therefore, such conflicting provisions should be deleted.

14.09 Rule 5(v) which provides expenses towards running and maintenance of vehicles shall be treated as administrative in nature should be deleted. This Rule is irrational as for most of the programme activity expenditure towards running and maintenance of vehicles will be incurred. Further this rule is totally unwarranted in the light of Rule 5(i) which excludes all expenditures including travel of the board and executive members.

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persons and activities also require premises and the expenditure related with it. Now a days the work of NGOs mostly involve research and advocacy related issues where the major component of expenditure is on programme personnel working from various locations.

14.11 The first proviso to Rule 5 provides that expenditure related with persons engaged in data collection, research or training shall not be treated as administrative expenses **should be redrafted and the expenditure pertaining to all other programme staff should be covered under this rule.**

14.12 Rule 6 regarding intimation of receiving foreign contribution from relatives should be deleted because it is in direct contravention with section 4(e) of the FCRA 2010. The rules cannot go beyond what has been mandated in the Act.

14.13 The Rule 9(3) should be suitably amended to allow second application for prior permission for a separate project. The time gap of 3 month between 2 prior permission applications should apply only if the application is made for the same project.

14.14 Rule 14 requires immediate reconsideration. The provision of taking custody of assets as an interim measure needs to be deleted. The assets should be

repossessed only after all appellate remedies are exhausted. Further, there is a possibility that the certificate may stand cancelled due to small procedural lapses also, (for instance an organisation may make delay for justifiable reasons in applying for renewal of registration). Therefore, it is important that it is also clarified that the punitive provisions shall apply only if the registration certificate is specifically cancelled under section 14 of the FCRA 2010, after providing a reasonable opportunity.

14.15 The Rule 15(3) provides that the bank should report within 30 days if 1 crore or more is received in one or more transaction within a block of 30 days. This rule should be redrafted and be made applicable for transaction pertaining to 1 calendar month instead of any 30 days.

14.16 The Rule 23(1) & (2) should be deleted as they are in direct contravention of the Section 7 of FCRA 2010 which allows transfer of funds, without approval, if the subsequent receiver has been granted the

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certificate or obtained the prior permission under this Act.

14.17 The Rule 23(4) should be redrafted and a general permission should be provided for transfer of fund to a small village level organisation upto certain limit, say, 1 lakh rupees per year. As it is practically not possible to get prior approval for small legitimate transfers. Absence of any such provision would obstruct flow of funds to the grassroot level.

Reference Book : **Taxation of Trust and NGOs with FCRA and FEMA, 5th Edition 2010** by Manoj Fogla, published by TAXMANN Publications, New Delhi

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