Corporate funding

Click here to read about Electoral Reforms.

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Why in news?

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Parliament recently approved the government's proposal to relax conditions for contributions made by corporate entities.

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What is the current move?

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- Till now, corporate entities **could contribute only 7.5% of average net profit** in the past three financial years.
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- The ceiling has now been dropped, paving the way for a firm to deploy unlimited capital irrespective of its own financial and operational health.
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- It was proposed as part of the **amendments to the Finance Bill, 2017,** by the government.
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- Provisions of the Companies Act will be amended as part of the Finance Bill.
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- Also provision in the Companies Act to disclose the names of beneficiary political parties in companies' profit and loss statements is proposed to be removed.
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- But, the amount of donation still needs to be disclosed.
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What is its significance?

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- The move is aimed to curb unaccounted money flowing into the political system.
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- It will enable companies to make donations without any limitations, like it is in case of developed countries.
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- The expenditure incurred, directly or indirectly, by a company in publication, a souvenir, journal, or a pamphlet on behalf of a political party would be construed as a contribution.
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- Violating the provisions attracts a fine of less than five times the amount contributed.
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- And every officer in default is liable to up to six months' imprisonment and a fine of five times of the amount contributed.
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- But doing away with the limit makes **firms susceptible to funding 'requests'** from local, regional or national political formations while taking away excuses — such as it being a loss-making unit, or breaching the funding cap.
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- This would also **open up new opportunities in crony capitalism.** Pressure could be exerted on a company awaiting government clearances, or a loan restructuring from public or cooperative sector financiers.
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- Even a **publicly listed company can set up subsidiaries just to fund parties.** This removes any pretence of transparency in the process as the donor will not have to disclose who he paid; the recipient has no such obligation either.
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What are the budget proposals?

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- Union Finance Minister had in the Budget, announced a 90 per cent cut in the limit for cash donations to Rs 2,000 from Rs 20,000 earlier.
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- Political parties would now have to disclose the identity of the donor in case of any donation above Rs 2,000 in cash.
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- The parties were so far allowed to receive anonymous donations up to Rs

20,000.
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- The move was in response to the Election Commission asking the government to bring down this limit of anonymous donation.
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- Through the Finance Bill, the government also announced the concept of electoral bonds, where a donor could purchase bonds from authorised banks against cheque and digital payments only.
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- These will be redeemable only in the designated account of a registered political party.
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Source: Business Standard & The Hindu

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