Electoral Bonds

Why in news?

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Electoral Bonds have been proposed as a way of reforming election funding in the Union Budget 2017.

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What is an Electoral Bond?

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- Electoral bonds will be issued by a notified bank for specified denominations.
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- Those who want to donate to a political party, can buy these bonds by making payments digitally or through cheque.
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- Then they are free to gift the bond to any registered political party.
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- The bonds will likely be bearer bonds and the identity of the donor will not be known to the receiver.
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- The party can convert these bonds back into money via their bank accounts.
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- The bank account used must be the one notified to the Election Commission and the bonds may have to be redeemed within a prescribed time period.
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- Electoral bonds are essentially like bearer cheques.
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- The issuing bank will remain the custodian of the donor’s funds until the political party redeems the bond.
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Why is it important?

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- Most political parties use the negligent regime on donations to accept cash donations from anonymous sources.
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- Nearly 70% of the Rs.11,300 crore in party funding over the past 11-year period came from unknown sources.
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- Currently, political parties are required to report any donation of over Rs.20,000 to the IT department.
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- But there has been a trend of more donations flowing by way of hard cash in smaller amounts.
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- To fix this, the Budget has proposed to reduce the disclosure limit to Rs.2,000 and insists that any amount over this must be paid through cheque or the digital mode.
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- The idea is that electoral bonds will prompt donors to take the banking route to donate, with their identity captured by the issuing authority.
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What are the problems in electoral bond?

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- But there are loopholes to electoral bonds too.
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- While the identity of the donor is captured, it is not revealed to the party or public. So transparency is not enhanced for the voter.
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- Also income tax breaks may not be available for donations through electoral bonds.
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- This pushes the donor to choose between remaining anonymous and saving on taxes.
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- Also privacy of the donor is compromised as the bank will know their identity.
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Source: Business Line

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