Electoral Trusts – A Mechanism for Political Funding

Mains: *GS-II – Polity & Governance | Elections*

Why in News?

During 2024–25, nine electoral trusts collectively contributed Rs.3,811 crore to political parties, nearly three times higher than in 2023–24, following the abolition of electoral bond scheme by the SC.

What are Electoral Trusts?

- **Electoral Trusts** – These are *non-profit companies* Introduced in 2013 and set up under *Section 8 of the Companies Act, 2013.*
- **Purpose –** They provide a transparent channel for political funding, ensuring that donations are routed legally and disclosed to the Election Commission of India (ECI).
- **Governed by –** Electoral Trusts Scheme, 2013, The Companies Act, 1956, and the Income Tax Act, 1961.
- **Monitored by –** Central Board of Direct Taxes (CBDT) and the Election Commission of India (ECI).
- **Qualification –** Any company registered under Section 8 of the Companies Act, 2013 can form an electoral trust.
- **Eligibility to donate –** Under Section 17CA of the Income-tax Act, 1961
  - Any citizen of India,
  - A company registered in India, or
  - A firm or Hindu Undivided Family or
  - Association of persons living in India, can donate to an electoral trust.
- **Ineligible donors –** It shall not accept contributions from -
  - An individual who is not a citizen of India
  - A foreign entity whether incorporated or not
  - Other Electoral Trusts (approved under the Electoral Trusts Scheme)
  - Contributors without PAN
  - NRIs without a passport number.

Trends in Electoral Trust Contributions
• The number of registered electoral trusts grew from 3 in 2013 to 17 in 2021–22. Despite this, only a few trusts contribute regularly. • In 2023–24, just 5 trusts made donations, while in 2024–25 the number increased to 9. • Among these, **Prudent, Progressive, and New Democratic Electoral Trusts** together accounted for ***98%*** of the total contributions in 2024–25.

What are the other sources of funding for political parties in India?

- **Cash Donations –** Limited to Rs.2,000 (down from Rs.20,000), requiring digital/cheque payments above this.
- **Known Sources –** Membership fees, sale of publications, bank interest, asset sales.
- **Unknown Sources –** A significant portion (around 66% in 2021-22 for national parties) remains untraceable, raising transparency issues.
- **Electoral Bonds (Scrapped) –** A controversial instrument for anonymous donations, largely from corporates, often linked to government contractors.

> ***Association for Democratic Reforms (ADR) vs. Union of India, 2024*** *- the SC has unanimously struck down the Electoral Bond Scheme, declaring it unconstitutional, it violates right to information under Article 19(1)(a).*

To know about Electoral Bond, click here

What are the functioning mechanism of the electoral trusts?

- **Renewal –** Electoral trusts must apply for renewal every 3 financial years.
- **Mandatory Donation Requirement** – They must donate *95% of contributions* received in a financial year to political parties registered under the *Representation of the People Act, 1951.*
- **Contributor Identification –** The contributors' PAN (in case of a resident) or passport number (in case of an NRI) is required at the time of making contributions.
- **Transparency in Funding –** The electoral trusts route ensures disclosure of both contributors and beneficiaries, making the process more transparent.
- **Modes of Payment –** Trusts can receive contributions, that are made via cheques, bank drafts, or electronic transfers. Donors are required to disclose their Permanent Account Number (PAN).
- **Utilization of Funds –** At least 95% of collected funds must be disbursed to registered political parties, with the remaining 5% administrative expenses.
- **Restrictions on Use** – Trusts cannot use donations for the benefit of their members.
- **Accountability & Reporting –** Trusts must maintain audited accounts, disclosing donors, recipients, and disbursements to the Central Board of Direct Taxes (CBDT) and the Election Commission of India (ECI).

What is the difference between electoral bonds and electoral trusts?

Feature	Electoral Bonds	Electoral Trusts
Introduction	Introduced in 2017	Introduced in 2013
Legal Basis	Finance Act, 2017	Companies Act, 2013 (Section 8)
Nature	Financial instruments issued by SBI	Non-profit companies act as intermediaries
Donor Identity	Anonymous donors, secrecy	Donor details disclosed to ECI
Beneficiaries	Registered political parties	Registered political parties

Payment Mode	Purchased via SBI in denominations (Rs.1,000 to Rs.1 crore)	Cheques, drafts, electronic transfers
Current Status	Struck down by SC (Feb 2024)	Primary channel for donations.

What are the benefits of electoral trusts?

- **Transparency –** Trusts must file annual reports with the ECI and CBDT, showing donors and recipient parties.
- **Tax Benefits –** Donations to registered trusts get 100% tax deduction for individuals and companies.
- **Accountability –** Trusts must keep audited accounts and submit regular reports on funds.
- **No Foreign Funding –** Contributions from foreign entities, government departments, or non-citizens are prohibited.
- **Corporate Framework –** Trusts give companies a legal, structured way to donate in line with governance norms.

What are the concerns associated with electoral trusts?

- **Transparency Issues –** Although trusts are supposed to disclose donor and recipient details, the reports are filed with the CBDT and ECI, but not easily available to citizens.
- **Corporate Dominance –** A few big corporate trusts dominate funding, mostly favoring ruling parties.
- **Concentration of Funding –** Only a handful of trusts are active, with three accounting for almost all donations.
- **Nexus between Corporates & Parties –** Trusts act as intermediaries for corporates and parties, making parties dependent on corporate money and weakening fair competition.
- **Lack of Public Accountability –** Citizens face difficulty in verifying the sources of party funding, creating a significant democratic deficit.

What steps should be taken next?

- **Transparency –** Trusts should disclose their rules and allocation criteria to ensure transparency.
- **Cap on Corporate Donations –** Corporate donations must be capped to prevent concentration of political power, following models like Germany.
- **Expand Public Funding –** Public funding should be expanded to reduce dependence on corporate money and ensure fair competition.
- **Regulatory Oversight –** Oversight must be active and strict, challenging practices that entrench corporate dominance.

References

1. Indian Express | Corporate trust donations to parties tripled
2. Indian Express | Electoral Trust

3. ADR | Rise of the Electoral Trusts scheme contributions

