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In Depth - Political Funding

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Across the world, political parties need access to money in order to reach out to the electorate, explain their policies and receive inputs from people. And in order to do the same, parties resort to political party funding. One of the primary sources of this funding is voluntary contributions made by individuals. Besides this, corporates pay hefty donations to parties in different forms. Foreign aid is another source.

What is Political Funding?

- Political Funding implies the methods that political parties use to raise funds to finance their campaign and routine activities.
- A political party needs money to pitch itself, its objectives, its intended actions to get votes for itself.

Statutory Provisions

- **Section 29B** of the **Representation of the People Act (RPA)** entitles parties to accept voluntary contributions by any person or company, except a Government Company.
- **Section 29C** of the RPA mandates political parties to declare donations that exceed 20,000 rupees. Such a declaration is made by making a report and submitting the same to the EC. Failure to do so on time disentitles a party from tax relief under the Income Tax Act, 1961.

Methods that Indian Political Parties use to raise the funds

- **Individual Persons:** Section 29B of RPA allows political parties to receive donations from individual persons.
- **State/Public Funding:** Here, the government provides funds to parties for election related purposes. State Funding is of two types:
 - **Direct Funding:** The government provides funds directly to the political parties. **Direct funding by tax is prohibited in India.**
 - **Indirect Funding:** It includes other methods except direct funding, like free access to media, free access to public places for rallies, free or subsidized transport facilities. **It is allowed in India in a regulated manner.**
- **Corporate Funding:** In India, donations by corporate bodies are governed under the **Companies Act, 2013**. Section 182 of the Act provides that:
 - A company needs to be at least three years old to be able to donate to a political party.
 - Companies can donate up to 7.5% of average net profits made during three simultaneous preceding financial years.
 - Such contributions must be disclosed in the company's profit and loss account.
 - Approval of the Board of Directors needs to be obtained for the contribution.
 - If a company violates said provisions, it may have to pay a fine up to 5 times the amount contributed and every officer of the company who is in default shall be punishable with imprisonment for a term which may extend to six months.

Note: The government has removed the cap of 7.5% (seven point five percent) on corporate contributions to the political parties with the **Finance Act, 2017**. The same Act also removed the obligation to report such contributions in the company's profit and loss account.

Electoral Trusts: A non-profit company created in India for orderly receipt of voluntary contributions from any person like an individual or a domestic company.

- According to the Election Commission Guidelines, all electoral trusts formed after January 2013 are required to declare details of the money received and disbursed.
- The Central Government rules mandate these firms to donate 95% of their total income to registered political parties in a financial year.

Issues with Political Funding

- One of the biggest disadvantages of the corporate funding is the use of fake companies to route black money.
- Influence of people and companies over political parties to which they provide funds.
- There are various gaps in Indian rules, the benefit of which political parties take to avoid any kind of reporting.
- Hidden sources of funding lead to more spending of funds in election campaigns, thus impacting the economy of the country.

Recent Steps Taken

- In March, 2018, the government passed a key amendment to the **Foreign Contribution Regulation Act, 2010** allowing foreign companies to fund political parties in India.
- **Introduction of Electoral Bonds:** The government notified the Electoral Bond Scheme on 2nd January, 2018 to establish and cleanse the system of political funding in the country.
 - An electoral bond is a bearer instrument like a Promissory Note. It can be purchased by any citizen of India or a body incorporated in India to donate to the political party of their choice. Donor's name is not there on the bond.
 - These bonds can be used for making donations to the political parties registered under **Section 29A of the Representation of the People Act, 1951** and which have secured not less than one per cent of the votes polled in the last general election to the House of the People or a Legislative Assembly.

Way Forward

- A party's expenditure limit should be 50% or less of the combined maximum spend prescribed for all of its candidates.
- Individual spending needs to be capped based on whether a candidate has stood for an assembly or a general election.
- Anonymous donations should be limited to 20% of a party's total collections