



Electoral Trusts Scheme, 2013

For Prelims: [Electoral Trusts Scheme](#), [Electoral Bonds](#), Political Parties, [Representation of the People Act 1951](#)

For Mains: Effects of Electoral Bonds on the election process, Issues Arising Out of Design & Implementation of Policies

Source: [IE](#)

Why in News?

Recently, [Supreme Court](#) has reserved its judgment on the challenge to the central government's Electoral Bonds Scheme.

- Before the introduction of the [Electoral Bonds \(EB\) Scheme](#) in 2018, another scheme for Electoral funding called [Electoral Trusts \(ET\) Scheme](#), was introduced in 2013.

What is Electoral Trusts Scheme?

- **About:**
 - Electoral Trusts Scheme, 2013 was notified by the [Central Board of Direct Taxes \(CBDT\)](#).
 - An Electoral Trust is a Trust set up by companies with the **sole objective to distribute the contributions received** by it from other Companies and individuals **to the political parties**.
 - Only the **companies registered under Section 25 of the Companies Act, 1956** are eligible to make an application for approval as an Electoral Trust. The electoral trusts have to **apply for renewal every three financial years**.
 - The scheme lays down a procedure for grant of approval to an electoral trust which will receive voluntary contributions and distribute the same to the political parties.
 - The provisions related to the electoral trust are under **Income-tax Act, 1961** and **Income tax rules-1962**.
- **Contributions to Electoral Trusts:**
 - They may receive contributions from:
 - An individual who is a citizen of India
 - A company registered in India
 - A firm or Hindu undivided family or an Association of persons or a body of individuals, resident in India.
 - They shall not accept contributions from:
 - An individual who is not a citizen of India or from any foreign entity whether incorporated or not;
 - Any other electoral trust registered under the scheme.
- **Mechanism for Distribution of Funds:**
 - For administrative expenses, the Electoral Trusts are permitted to set aside a maximum of

5% of the total funds collected during a financial year.

- The remaining 95% of total income of the Trusts is required to be distributed to eligible political parties.
 - Parties registered under the [Representation of the People Act, 1951](#) are eligible to receive the contributions.
- Electoral trust are required to keep and **maintain books of account including details of receipts, distribution and list of donors and receivers.**
- **Audit of Accounts of Electoral Trusts:**
 - Every electoral trust is required to get its accounts audited by an accountant and furnish the **audit report to the Commissioner of Income-tax** or the Director of Income-tax.

What are Electoral Bonds?

- **Electoral Bond** is a financial instrument for making donations to political parties.
- The bonds are issued in **multiples of Rs. 1,000, Rs. 10,000, Rs. 1 lakh, Rs. 10 lakh and Rs. 1 crore** without any maximum limit.
- **State Bank of India is authorised** to issue and encash these bonds, which are valid for fifteen days from the date of issuance.
- These bonds are redeemable in the designated account of a registered political party.
- The bonds are **available for purchase** by any person (who is a citizen of India or incorporated or established in India) **for a period of ten days each in the months of January, April, July and October** as may be specified by the Central Government.
- A person being an individual can buy bonds, either singly or jointly with other individuals.
- **Donor's name is not mentioned** on the bond.

How is Electoral Trust Scheme different from Electoral Bonds Scheme?

- **Transparency and Accountability:**
 - The functioning of **ETs is marked by transparency.** Contributors and beneficiaries are disclosed.
 - Electoral Trusts adhere to a robust reporting system, submitting detailed annual **contribution reports to the Election Commission of India (ECI).** This ensures a comprehensive record of donations and their allocation.
 - On the other hand, the **EB Scheme** introduces a significant **lack of transparency.**
 - The **anonymity of donors** creates an opaque environment in the funding process, making it challenging to trace the origins of contributions.
- **Funding Trends (2013-14 to 2021-22):**
 - Data from nine financial years (2013-14 to 2021-22) show that political funding through the two government schemes shot up after the introduction of EBs, with the **bulk of donations coming through the EB scheme.**
 - Between 2017-18 and 2021-22, political parties got a total Rs 1,631 crore through ETs, while Rs 9,208 crore was donated through EBs.
- **Political Party Receipts:**
 - As per a [report by the Association for Democratic Reforms \(ADR\)](#), a **single political party has secured 72% of the total donations** facilitated by ETs in the year 2021-22 and **57% of the funding through EBs** from 2013-14 to 2021-22.
 - The report also found that more than **55% of the funding** for political parties came through EBs.

Legal Insights: [Electoral Bonds Case](#)

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