

Under Section 346 of the Income Tax Act, 2025, a registered NPO working for the “advancement of any other object of general public utility” (GPU) category can carry out commercial activities only if all the following conditions are satisfied:

- The activity is directly related to its charitable purpose.
- Income from the activity is not more than 20% of the NPO’s total receipts in that year.
- Separate books of accounts are maintained for the activity.

If any of these conditions are not followed (for example, the 20% limit is crossed or separate accounts are not kept), it was earlier treated as a “specified violation” u/s 351, which could lead to cancellation of registration and tax on accreted income (exit tax). At the same time, it was also treated as an “other violation” u/s 353, affecting the tax exemption for that year.

However, the Finance Bill, 2026 proposes an important change. Such breaches will no longer lead to cancellation of registration. Instead, they will be treated as an “other violation”. The consequence will only be denial or restriction of tax exemption for that particular year, without affecting the registration of the NPO. This amendment restores the position under the Income-tax Act, 1961, where such violations resulted only in a year-specific denial of exemption.

Hence, if an NPO in the GPU category crosses the commercial activity limit, it may lose tax exemption for that year, but its registration will not be cancelled.

DO YOU KNOW?



The Finance Bill, 2026 proposes to remove commercial activities by NPOs under the GPU category from the scope of “specified violation” that could lead to cancellation of registration.

