Under the Income Tax Act, 1961, the charitable taxation framework recognised not only property held under trust but also property held under a 'legal obligation' wholly for charitable or religious purposes. As a result, religious endowments, temples, waqf, gurudwaras, etc and other customary charitable institutions that were not constituted as formal trusts or registered legal entities were brought within the ambit of charitable taxation as long as the property was held under an enforceable charitable or legal obligations.

The Income Tax Act, 2025 departs from this statutory and judicial position by omitting any reference to legal obligation and by restructuring charitable taxation around the registration of non-profit organizations constituted or registered in specified juridical forms.

This could create potential exclusionary gap for:

- Religious or charitable endowments based on customary law;
- Wakf and similar institutions under Personal law;
- Institutions holding property under court or statutory schemes;
- Long-standing charities without a formal trust instruments.

DO YOU KNOW?

The Income Tax Act, 2025 no longer recognises "Legal Obligations" under the charitable taxation framework.