3. Electoral Trusts - Polity

With the scrapping of the electoral bonds scheme, companies have again turned to electoral trusts as a preferred source of political donations for companies in 2024-25.

Electoral Trust Scheme - Concept and Evolution

The Electoral Trust Scheme was notified by the Government of India in 2013 to provide a transparent and regulated channel for political funding. Electoral trusts are non-profit entities created exclusively to receive contributions and distribute them to political parties. The scheme gained renewed importance in 2024–25 after the Supreme Court struck down the Electoral Bonds Scheme, making electoral trusts the preferred corporate donation route.

Regulatory Framework

The scheme is regulated by the Central Board of Direct Taxes under the Electoral Trust Scheme, 2013.

Oversight involves -

1. Income Tax authorities (financial compliance)
2. Election Commission of India (political transparency)

Eligibility Criteria

Formation of Electoral Trust - Any company registered under the Companies Act can form an electoral trust. Trust must be established solely for political funding purposes.

Eligible Donors

1. Indian citizens
2. Companies registered in India
3. Firms
4. Hindu Undivided Families (HUFs)
5. Associations of persons residing in India

Number and Concentration of Electoral Trusts

2023–24 - Only 5 trusts reported contributions

2024–25 - Number increased to 9 trusts

High concentration of funding -Three trusts accounted for 98% of total contributions -

1. Prudent Electoral Trust
2. Progressive Electoral Trust
3. New Democratic Electoral Trust

Implication - Political funding is highly concentrated, raising concerns of corporate influence despite transparency.

Functioning of Electoral Trusts

Renewal Requirement - Trusts must apply for renewal every three financial years. Failure to renew leads to loss of recognition and tax benefits.

Eligible Beneficiaries - Donations can be made only to political parties registered under Section 29A of the Representation of the People Act, 1951.

Mandatory Disbursement Rule - At least 95% of total annual contributions must be donated to political parties. Maximum 5% permitted for administrative expenses.

Disclosure of Donor Identity - PAN mandatory for resident Indian contributors. Passport number mandatory for Non-Resident Indians (NRIs). Ensures traceability of funds.

Mode of Contribution - Donations permitted only via -

1. Cheques
2. Bank drafts
3. Electronic transfers

Cash donations are prohibited.

Transparency Provisions

Full disclosure of

1. Donors
2. Amounts contributed
3. Recipient political parties

Annual reporting to

1. CBDT
2. Election Commission of India

Use of Funds

Trusts cannot use funds

1. For personal benefit of trustees
2. For commercial or unrelated purposes

Funds restricted strictly to

1. Political donations
2. Permitted administrative expenses

Accounting and Audit

1. Mandatory audited accounts
2. Detailed financial statements must be submitted annually
3. Enhances institutional accountability

Electoral Bonds Scheme - Key Features

Introduction and Purpose - Notified in 2018 by the Government of India. Designed to

1. Curb cash donations
2. Encourage formal banking channels
3. Protect donor anonymity

Nature of Electoral Bonds - A bearer instrument / promissory note.

1. Purchased from select branches of State Bank of India
2. Eligible purchasers
    1. Indian citizens
    2. Companies incorporated in India

Donation Process

1. Donor purchases bond → hands it to political party
2. Party redeems bond via its bank account

Core Features of Electoral Bonds

Anonymity - Bonds did not carry donor identity. Political parties were not required to disclose donors. Only SBI and the government could potentially trace donors

Tax Benefits - Donors received income tax deduction. Political parties enjoyed tax exemption, subject to filing returns

Supreme Court Judgment on Electoral Bonds

In 2024, the Supreme Court of India struck down the Electoral Bonds Scheme. Held to be -

1. Violative of Article 19(1)(a) – Right to Information
2. Inconsistent with free and fair elections, a basic feature of the Constitution

Court's Reasoning

1. Voters have a right to know who funds political parties
2. Anonymous corporate funding distorts electoral equality
3. Enables quid pro quo and policy capture

Electoral Trusts vs Electoral Bonds - Comparative Overview

Aspect	Electoral Trusts	Electoral Bonds
Transparency	High	Low
Donor Disclosure	Mandatory	Anonymous
Regulator	CBDT & ECI	Government & SBI
Cash Donations	Prohibited	Prohibited

SC Verdict	Constitutionally valid	Struck down
Corporate Influence	Regulated	Opaque

Significance of Electoral Trusts Post-2024

1. Emerged as the primary legal channel for large political donations
2. Aligns with
    1. Electoral transparency
    2. Democratic accountability
    3. Judicial interpretation of voter rights

Strengthens India's commitment to clean electoral finance.

Critical Issues and Concerns

1. High concentration of donations in a few trusts
2. Possibility of
    1. Corporate lobbying
    2. Indirect influence on policy-making
3. Smaller parties may face funding disadvantages
4. Need for
    1. Spending caps
    2. Stronger disclosure norms for political parties

Source - https -//indianexpress.com/article/explained/explained-politics/what-are-electoral-trusts-and-how-are-they-funded-explained-10433139/