

Presentation at SRRF Legal Compliance Workshop

FCRA and Latest Developments

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Latest FCRA Developments

- ❑ FCRA Dept has become NO ENTRY zone
- ❑ Only window available is FCRA online website.
- ❑ Intention seems to be to improve their internal processes
- ❑ To ensure all file returns, Dept wants to know if any movement of funds in FCRA designated & utilisation accounts
- ❑ Immediate reqts: Ensure your designated / utilisation bank accounts particulars are updated on website – FC6. Check if your name appears in the latest list appearing in the Dept. [why ?]
- ❑ Posting of qtly details & annual FC accounts on your official website or FCRA website.
- ❑ Now renewals also being done after IB inspections.

Latest FCRA amendments

Main focus is on simplifying procedural aspects:

- ❑ All dialogue with FCRA Dept to be done electronically – Prior Permission/ Registration / Renewals (FC3)/ Annual Returns (FC4)/ Other returns (FC1:relative, candidate for election, etc; FC5: Unregistered NGOs;)
- ❑ Major benefit : Several issues where the Sector got hampered because of uncertainty of processes or due to delays. Changes in more than 50% Board, Address (if within State), Objects, bank accounts, even change of name allowed through intimation only.
- ❑ Additional Disclosure: Quarterly donor-wise details of funds rec'd, yearly audited FCRA accounts.
- ❑ Changes in definition of foreign source for Indian registered companies with more than 50% shareholding made through Finance Act 2016, by amending S. 2(1)(j)(vi).

Background

- ❑ FCRA 2010 is a national security legislation to regulate acceptance and utilization of **Foreign Contribution (FC)**
- ❑ It became effective on 1st May 2011 by repealing FCRA 1976.
- ❑ Basic premise of FCRA is based on three facets:
 - Prohibits certain critical persons from receiving FC (S.3).
 - Permission granted to receive only after thorough inspection (S.11, S.12).
 - Monitoring of activities of utilization of Foreign Contribution (S.18).

Applicability:

- ❑ Whole of India incl. J&K
- ❑ Even applicable to associated branches or subsidiaries of Indian companies located outside India.
- ❑ All citizens of India.

Exception:

- Transactions between GoI and foreign Govts.

NGOs & FCRA

How NGOs can receive FC

- ❑ Registration
- ❑ Prior Permission
- ❑ Rule 24 (1) – Non-registered NGOs

Compliance to be done by NGOs receiving FC

- ❑ Maintain an exclusive Bank account for receiving and Utilisation of Foreign Contribution
- ❑ Exceptions: Utilisation Bank accounts allowed with restrictions
- ❑ File annual return (FC4) by 31st Dec along with FCRA A/cs & certified Bank statements, and a CA certificate (Both online ~~as well as Hard copy~~)
- ❑ Never mix Non-FCRA and FCRA funds
- ❑ Maintain separate Books of accounts for FCRA

Other Important Aspects of FCRA

- ❑ Renewal of FCRA Registration every 5 years
- ❑ Ensure not more than 50% spent on administrative purpose (see Rule 5 for definition of administrative purpose)
- ❑ FC funds cannot be used for speculative purposes (see Rule 4 for definition of speculative purpose)
- ❑ Keep record of all donors
- ❑ Foreign currency donations rec'd in Hundis of temples, gurudwaras, etc. to be treated as FC
- ❑ Corpus donations in FC allowed but must be supported by written instructions
- ❑ All assets procured from FC must be in the name of Association and not individuals
- ❑ Preserve all FCRA records for 6 years

Definitions : **Foreign Contribution** (S.2 (h))

- ❑ Any donation, delivery or transfer by any foreign source of
 - any currency (foreign or Indian)
 - any article (above Rs 25,000 of value) for personal use
 - any security including foreign security (Securities Contracts (Regulation) Act 1956)
- ❑ Interest on FC deposited
- ❑ Any other income derived from assets created from FC including – proceeds from sale of FC assets
- ❑ Even indirect transfers treated as FC (example: A (Foreign Source) gives to B (Indian). If B gives to another Indian C, then it will be treated as FC in the hands of C.
- ❑ Infusion of capital in a S.8 company
- ❑ Even unsecured loans / subsidised loans

Cont'd..... Foreign Contribution (S.2 (h))

Exceptions

- Fees (including delegation / conference fee) rec'd by any person including an Educational Inst (fee from foreign students).
- In the normal course of business, trade or commerce
- An article gifted costing less than Rs 25,000

Definitions : **Foreign Source** (S.2 (j))

- No definition of foreign source given but a list of category of persons given to identify what could be a foreign source:
 - Foreign Govts or its agencies (Foreign embassies in India, USAID, DFID, etc.)
 - International Agencies like Care Intl, Plan Intl, but does not include any agencies notified by GoI (109 agencies notified by Govt include UN, World Bank & affiliated agencies, last addition :Global Development Network)
 - A Company incorporated in a foreign country, including an MNCs
 - Foreign Trust or foundation
 - Society, club, trade union or other association registered in a foreign country
 - Foreign citizens
 - A company incorporated under Companies Act 2013 but more than 50% of its share capital held by foreign sources as defined above.

Persons prohibited to receive FC/FH (S.3)

S. 3 identifies persons who are prohibited from receiving FC & Foreign Hospitality

- ❑ Candidates for elections
- ❑ Member of any legislature
- ❑ Political party of office bearers thereof
- ❑ Organisation of a political nature (S. 5(1);R. 3)
- ❑ Judges, Govt servants including that for PSUs
- ❑ Associated with registered Newspaper (Correspondent, columnist, cartoonist, editor, owner, printer or publisher)
- ❑ Associated with production or broadcast of audio news or audio-visual news or even through any electronic mode.
- ❑ All type of persons as mentioned under Newspaper also covered for entities providing audio/visual news, etc.

Exceptions (S.4)..... Persons prohibited

Persons prohibited from accepting FC can do so under following circumstances:

- ❑ Salary, etc.
- ❑ Payment in ordinary course of business.
- ❑ Scholarship, stipend or any payment of like nature.
- ❑ Gift from a relative is exempt from FCRA restrictions (however above Rs 1 lakh in a FY, FCRA Dept has to be intimated in Form FC-1).
- ❑ As an agent of FS, if it is relating to a transaction with Central / State Govt.
- ❑ Any gift rec'd by a member as part of Indian Delegation, provided such gift is in accordance with rules made by GoI.

Changes in Registration / Prior Permission process (FC3)

- ❑ Common Form for Registration / prior permission / renewal – FC3.
- ❑ Option to attach manually signed application (scanned) or Digital Signatures (through DSC tokens).
- ❑ Limit for applying for fresh applications after 6 months removed.
- ❑ Details of foreign citizens now specifically asked. In case of Indian origin foreign citizens PIO/OIC card details asked for.
- ❑ Details of positions in other key functionary associations asked for.
- ❑ Form requires Adhar No. for key functionaries.
- ❑ Earlier form reqd info like connection with newspapers, organisations of political nature, etc. now not being asked for.
- ❑ Payment of fee Rs 2000/1000 can be made online, though earlier option of DD still retained.

Annual Return (FC3)

- ❑ Now online filing compulsory – earlier it was more of a practice. Earlier return FC6
- ❑ Prior Permission Annual Returns were till now being filed as hard copy. Not sure how this will now done online.
- ❑ All documents to be filed would be online as scanned document.
- ❑ Signatures on the Return scanned
- ❑ Last date still remains 31 Dec.
- ❑ Subsequent Recipient now being described as 'transfer from a local source'.
- ❑ Sale of proceeds from assets to be taken in FCRA funds only.
- ❑ Donor details to be given for all donors giving more than Rs 20,000/-
- ❑ Earlier categorization under 58 categories not reqd. Instead : (1) Total Utilization for Projects as per aims & objectives, (2) Admin Exps. (rule 5), (3) Total Invested in Deposits, (4) Fresh fixed assets.
- ❑ Statement to confirm Exp. does not prejudicially impact country's interests.
- ❑ Number of foreigners' working in Honorary / salaried capacities
- ❑ Details of all designated / Utilisation accounts to be given.
- ❑ CA certificate not reqd if no receipt or expenditure. But two new additions (1) Interest and Other Income to be specified, (2) Certify utilisation for the purposes it was registered for.

Changes*cont'd*

- ❑ New Rule 17A
- ❑ Requires electronic intimation within 15 days for changes in
 - Name
 - address (if within State),
 - objects,
 - Bank/Branch/Designated FC A/c
 - Key members of the association, where it goes above 50%.
- ❑ Earlier this was a major irritant
- ❑ Other Returns (FC1) for (1) gift from relative, (2) FC rec'd by candidate for election (3) receipt of securities (4) donation in kind.

Penalties by Dept.

Delayed-filing of annual return

Non-furnishing of the Return up to 90 days after 31 December	2% of FC received in the financial year or Rs.10,000, whichever is lower
Non-furnishing of the Return after 90 days and up to 180 days after 31 December	3% of FC received in the financial year or Rs.50,000, whichever is lower
Non-furnishing of the Return after 180 days and up to one year after 31 December	4% of FC received in the financial year or Rs.2 lakh, whichever is lower
Non-furnishing of the Return after one year and up to two years after 31 December every year	5% of FC received in the financial year or Rs.5 lakh, whichever is lower
Non-furnishing of the Return after one year and up to three years after 31 December every year	10% of FC received in the financial year or Rs.10 lakh, whichever is lower

Cont'dPenalties

Unauthorised receipt of FC - Compounding allowed on following lines if no misappropriation:

Acceptance of cheque or draft towards FC without registration/ PP even though it has not been deposited in a bank	Rs.10,000/- or 2% of the FC, whichever is higher
Acceptance of cheque or draft towards FC without registration/ PP and depositing in a bank without utilisation	Rs.25,000/- or 3% of the FC, whichever is higher
Utilization of FC but not diverted for purpose other than for which it was rec'd and records of receipt and utilization properly kept.	Rs.1,00,000/- or 5% of the FC, whichever is higher
Acceptance of FC in kind without registration or PP but no adverse inquiry	Rs.10,000/- or 2% of FC, whichever is higher

Cont'dPenalties

Severe penalties can be imposed including cancellation of FCRA registration, confiscation of funds/assets and even imprisonment upto 5 years.

- ❑ Inspection of Accounts or records can be undertaken by GoI (S. 23)
- ❑ Seizure of Accounts / records (S. 24)
- ❑ Seizure of FC / articles / security (S. 25)
- ❑ Disposal of properties by Govt (S.22 / S. 26)
- ❑ Appeal under S. 31
- ❑ S. 33 – S. 35 : provides for imprisonment for making false statements, helping organisations receiving FC, etc.

Questions ?
