

**CHAPTER 13****Administrative &  
Programme Expenses**

*“Economy is in itself a great source of revenue”*

*Seneca*

**13.01** One of the most important thing in a charitable organisation is to understand the interface between administrative and programme expenditures. All charitable organisations are subjected to the challenge of keeping the administrative cost to the minimum. Very high administrative cost decreases the amount available for programme purposes and very low administrative cost may effect the quality of the programme.

**13.02** In normal sense of accounting, we pay lot of attention in distinguishing between capital expenditure and revenue expenditure. But, in a case of charitable organisation, this distinction is not very important, as capital expenditure for project purposes are also allowed as expenditure from current year’s income. Therefore, in the case of a charitable organisation the distinction between administrative expenditure and programme expenditure is more important. It is difficult to have a specific yardstick for the amount of administrative expenditure to be incurred. But it is necessary that the administrative expenditure are reasonable in order to ensure that the financial

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statement are showing a true and fair view of the project expenditure.

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**13.03** The issue of administrative expenses becomes very important under the Income Tax laws as charitable organisation enjoy exemptions on their total income. This exemption is available subject to the application of atleast 85% of the gross total income. Now for the purposes of determining the gross income, it is being debated that whether the administrative expenses should be deducted or not. For example, a organisation has the following income and expenses :

|   |                 |
|---|-----------------|
| Gross income                                    | Rs. 1,00,000.00 |
| Admn. exp. towards establishment & fund raising | Rs. 10,000.00   |
| Overall administrative expenses                 | Rs. 10,000.00   |
| Programme expenditure                           | Rs. 66,000.00   |

**13.04** In the above illustration, whether the total income for the purposes of determining 85% application should be 1,00,000.00 or 90,000.00, as the tax implications would differ with each treatment. The illustration has been solved as under :

**13.05 Illustration -1 :** The Income Tax department is of the view that administrative expenses towards establishment expenses should be deducted from the gross income which is to the disadvantage of the assessee, as can be seen in the case I of the above illustration. But, various High Courts have held this in favour of the assessee. No clear-cut guidelines are available with regard to the treatment of various

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|  | I               | II              |
|--|-----------------|-----------------|
| <b>Gross Income</b>  | <b>1,00,000</b> | <b>1,00,000</b> |
| <b>Less :</b> Administrative Exp. towards establishment & fund raising | 10,000          | –               |
| <b>Total Income</b>  | <b>90,000</b>   | <b>1,00,000</b> |
| <b>Less :</b> Overall Administrative Expenses                          | 10,000          | 10,000          |
| <b>Less :</b> Admn. Exp. towards est. & fund raising                   | –               | 10,000          |
|  | <b>80,000</b>   | <b>80,000</b>   |
| <b>Less :</b> Programme Exp.   | 66,000          | 66,000          |
| <b>Excess of income over expenditure</b>                               | <b>14,000</b>   | <b>14,000</b>   |
| 15% of total income which is permitted to accumulate                   | 13,500          | 15,000          |
| Amount subject to tax  | 500             | Nil             |

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expenses of administrative nature. Therefore, it is important that the auditor uses his/her professional expertise to ensure that proper treatment has been made. The various aspects of the Income Tax laws, in this regard are given in the succeeding paras.

**13.06** Administrative and establishment expenses have always remained an issue for judicial and legislative debate. The prime issue in this regard is whether the income available for charitable or religious purposes should be considered after deducting administrative and establishment expenses or should they be considered as an application for charitable or religious purposes. The view of the department seems to be towards deducting administrative and establishment expenses from the total income and the income available for an application should be thus determined. Establishment or administrative expenses are considered as a charge to the income of the organisation and therefore, only the net income after such expenses is available for charitable purposes.

**13.12** Regarding administrative and establishment

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expenditure the following points are worthwhile to note :

- i) The income should be computed on the basis of normally accepted commercial principles. Therefore, it implies that establishment expenses should be deducted in order to determine the net income available for application.
- ii) But various Courts have held that administrative and establishment expenditures cannot be considered as totally bereft of charitable or religious purposes, therefore, it could be claimed as an application for charitable or religious purposes without deducting it from the gross income.
- iii) Certain elements of expenditures which could be directly attributed to the earning of income of a charitable organisation. Such expenditures should be deducted from the gross income.

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