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RUPPs and Political Funding: Transparency Gaps, Tax Exemptions and Electoral Reform in India

Published On: 14-09-2026

Recent Developments:

- A recent media investigation has reported that **six Registered Unrecognised Political Parties (RUPPs) based in Gujarat received around ?1,700 crore in donations during 2023–24**, exceeding the combined donations reported by five nationally recognised parties, excluding the BJP, during the same period. The reported pattern has renewed concerns about **opaque political funding, inactive political parties and possible misuse of tax benefits**.
- The issue is significant because registration as a political party under **Section 29A of the Representation of the People Act, 1951** can provide access to important statutory and tax-related benefits even when a party has little electoral presence.
- The Supreme Court's **2024 Electoral Bonds judgment** has further strengthened the constitutional importance of transparency in political funding by recognising voters' right to information about political contributions and striking down the Electoral Bonds Scheme.
- The contemporary debate therefore extends beyond electoral bonds to the broader architecture of **party registration, political donations, corporate funding, tax deductions, auditing and expenditure regulation**.

Understanding Registered Unrecognised Political Parties:

Meaning and Legal Status:

- Under **Section 29A of the Representation of the People Act, 1951**, an association of citizens can apply to the Election Commission of India for registration as a political party, subject to the statutory conditions.
- A **Registered Unrecognised Political Party** is a registered political party that has not secured the electoral performance required for recognition as a **State Party or National Party** under the Election Symbols (Reservation and Allotment) Order, 1968.
- Registration and recognition are therefore distinct concepts: registration creates a legal political-party status, whereas recognition depends on prescribed electoral performance.

Why Registration Matters:

- Registration provides access to several institutional benefits, including participation in the electoral process, eligibility for common-symbol facilities under applicable rules and access to the political-party tax framework, subject to statutory compliance.
- The distinction creates a policy challenge because **registration alone does not necessarily demonstrate substantial electoral support**, while some registered parties may continue to receive significant financial contributions.

Legal Framework Governing Political Funding:

Constitutional Framework:

- **Article 324** vests the superintendence, direction and control of elections in the Election Commission of India, providing the constitutional foundation for electoral regulation.
- **Article 19(1)(a)** protects freedom of speech and expression, and the Supreme Court has linked voters' ability to make informed electoral choices with access to relevant information concerning political funding.
- In **Association for Democratic Reforms v. Union of India (2024)**, the Supreme Court held that anonymous political funding under the Electoral Bonds Scheme violated voters' right to information and struck down the scheme. The Court also invalidated the statutory changes that enabled unlimited corporate political contributions and anonymous corporate disclosure.

Representation of the People Act, 1951:

- **Section 29A** provides the legal framework for registration of political parties with the Election Commission of India.
- **Section 29B** permits registered political parties to accept voluntary contributions from individuals and companies other than government companies, subject to statutory restrictions.
- **Section 29C** requires registered political parties to prepare and submit reports containing prescribed details of contributions above the statutory threshold, thereby creating an important disclosure mechanism.
- Political parties are also required to comply with prescribed accounting and reporting requirements to retain access to statutory benefits.

Income-Tax Framework:

- **Section 13A of the Income-tax Act, 1961** provides tax exemption to political parties on specified income, subject to conditions relating to accounts, records, contribution reporting and audit.
- The exemption is therefore **conditional rather than automatic**; non-compliance with prescribed requirements can affect eligibility for the tax benefit.
- **Section 80GGB** permits an Indian company to claim a deduction for eligible contributions to a political party or electoral trust, while **Section 80GGC** provides a corresponding deduction for eligible contributions made by persons other than companies. Contributions made in cash are not eligible for these deductions.

Corporate Political Contributions:

- **Section 182 of the Companies Act, 2013** regulates political contributions by companies and requires prescribed corporate authorisation and disclosure.
- The Supreme Court's 2024 judgment struck down the 2017 amendments that had removed the earlier cap on corporate political contributions and permitted anonymous corporate contributions through the Electoral Bonds framework. The earlier statutory restriction has consequently regained importance.

Foreign Contributions:

- The **Foreign Contribution (Regulation) Act, 2010** restricts political parties and specified political actors from receiving foreign contributions, reflecting concerns relating to national sovereignty, electoral integrity and foreign influence.
- Changes in the treatment of companies with foreign ownership have generated continuing debate about the boundary between legitimate corporate participation and indirect foreign influence in domestic political financing.

Major Concerns Regarding Political Funding:

Proliferation of Inactive and Non-Serious Parties:

- India has a very large number of registered but unrecognised political parties, creating concerns that some may have limited electoral activity while continuing to remain within the formal political-party framework.

- Such entities are sometimes described as **“letter-pad parties”** when they have little meaningful political activity, electoral participation or organisational presence.
- The central concern is not the existence of small political parties itself, because political pluralism is constitutionally valuable, but whether **inactive entities can be exploited for financial or tax-related purposes**.

Possible Misuse of Tax Benefits:

- Political-party tax provisions are intended to facilitate legitimate democratic activity, but weak compliance can create opportunities for **accommodation entries, artificial donations, circular transactions and misuse of deductions**.
- Where large donations flow to parties with negligible electoral activity, regulators need to distinguish between genuine political contributions and transactions designed primarily for financial or tax advantages.
- The appropriate response should therefore combine **financial scrutiny with due process**, rather than treating every small or unsuccessful political party as illegitimate.

Regulatory Limits of the Election Commission:

- The Election Commission has substantial authority over **registration, electoral symbols and election administration**, but its statutory power to deregister political parties is limited.
- In **Indian National Congress v. Institute of Social Welfare (2002)**, the Supreme Court held that the Election Commission does not possess a general power of deregistration under Section 29A merely because a political party is inactive or fails to contest elections.
- Exceptional circumstances can permit stronger action, such as registration obtained through fraud or circumstances involving the party’s constitutional commitments or unlawful status, but Parliament has not provided the ECI with a broad statutory deregistration power for ordinary inactivity.
- This creates a regulatory gap between **registration and continuing accountability**, particularly for parties that remain registered for long periods without meaningful electoral activity.

<u>**Political Party Expenditure and Candidate Expenditure:**</u>

Asymmetry in Spending Regulation:

- Indian election law imposes expenditure ceilings on individual candidates, but there is **no equivalent statutory ceiling on the total expenditure of political parties**.
- For Lok Sabha elections, the candidate expenditure ceiling is generally **?95 lakh**, while it is **?75 lakh in specified smaller States and Union Territories**; the corresponding State Assembly limits are generally ?40 lakh and ?28 lakh respectively, subject to the applicable jurisdiction.
- The absence of a statutory party expenditure ceiling allows political parties to deploy centralised resources at the constituency level even though individual candidates remain subject to expenditure limits.
- This creates an important regulatory asymmetry: **candidate expenditure is capped, while party expenditure remains substantially unrestricted by a statutory ceiling**.

Challenges with Existing Limits:

- Rising campaign costs, larger electorates, extensive digital campaigning, professional campaign management and social-media outreach have increased the cost of elections.
- Unrealistic expenditure limits can encourage **under-reporting, indirect expenditure and informal campaign financing**, weakening the effectiveness of the formal regulatory framework.
- Reform should therefore focus not only on increasing expenditure ceilings but also on **transparent accounting and effective monitoring of actual campaign expenditure**.

<u>**Corporate Influence and Electoral Finance:**</u>

Corporate-Political Nexus:

- Corporate contributions can provide legitimate resources for political participation, but excessive concentration of funding can create risks of **policy capture, crony capitalism and quid pro quo relationships**.
- The Electoral Bonds judgment demonstrated the constitutional problem created when donors and beneficiaries can remain concealed from voters while the scale of political contributions remains substantial.
- Transparency should therefore extend beyond the formal identity of donors to include **beneficial ownership, contribution concentration, timing of donations and potential conflicts of interest**.

Electoral Trusts:

- Electoral trusts provide a formal channel for political contributions, but transparency depends upon effective disclosure, audit and regulatory verification.
- Strengthening disclosure standards for electoral trusts can reduce the possibility of political funding becoming opaque through intermediary structures.

Institutional and Auditing Deficits:

Need for Stronger Financial Oversight:

- Political-party accounts require credible and timely auditing because financial disclosure is meaningful only when submitted information can be independently verified.
- The Election Commission has historically depended on external institutional mechanisms for several aspects of financial verification, creating concerns about **capacity, coordination and enforcement delays**.
- A stronger framework should combine the capabilities of the **Election Commission, Income Tax Department, financial-intelligence institutions and other competent authorities**, while maintaining clear statutory safeguards against arbitrary action.

Digital Financial Monitoring:

- The increasing digitisation of banking and tax records creates opportunities for identifying **unusual donation patterns, common donor networks, circular transactions and discrepancies between declared income and political contributions**.
- Risk-based data analytics can allow regulators to focus investigative resources on high-risk transactions rather than imposing excessive compliance burdens on all political parties.

What Reforms Are Needed?

Empowering the Election Commission:

- Parliament should consider giving the **Election Commission clearer statutory powers** to act against persistently inactive parties and parties that repeatedly fail to comply with mandatory financial-disclosure requirements, while providing notice, hearing and appeal mechanisms.
- Any deregistration framework should distinguish between **political inactivity, financial non-compliance and criminal misconduct** so that regulatory action remains proportionate.

Introducing Party Expenditure Limits:

- A statutory framework for regulating political-party expenditure could improve the level playing field and reduce the ability of parties with disproportionate financial resources to dominate electoral campaigns.
- Such a ceiling should be accompanied by **transparent accounting standards, independent auditing and real-time or periodic disclosure mechanisms**.

Strengthening Audits:

- Political-party accounts should be subjected to robust independent audits by appropriately qualified auditors, with stronger consequences for persistent non-compliance.
- Audit reports should be accessible in a **standardised and searchable public format**, enabling citizens, researchers and regulators to compare party finances.

Regulating Corporate Funding:

- Corporate contributions should remain subject to **transparent disclosure, board-level accountability and the statutory limits applicable after the Supreme Court's 2024 judgment**.
- Greater scrutiny is particularly necessary where contributions are disproportionately large relative to the donor company's economic activity or where donations coincide with major regulatory decisions.

Rationalising Tax Benefits:

- Tax exemptions and deductions should be linked to **meaningful compliance with financial disclosure and audit requirements**.
- Policymakers could examine whether continuing access to certain tax benefits should depend upon demonstrable compliance and minimum standards of political activity, while avoiding rules that unfairly disadvantage genuinely emerging political movements.

Partial State Funding:

- **Partial state funding of elections** can reduce excessive dependence on private donors, particularly if provided through in-kind facilities such as broadcasting time, campaign infrastructure or regulated public communication.
- The **Indrajit Gupta Committee** supported the principle of state funding in a limited form, particularly for recognised political parties and candidates meeting prescribed conditions.
- State funding should, however, be accompanied by stringent disclosure and expenditure rules so that public financing does not simply add another source of funds without reducing opacity.

Way Forward:

Creating a Transparent Political-Funding Architecture:

- India needs a comprehensive framework integrating **party registration, donation disclosure, expenditure regulation, tax compliance, corporate funding and independent auditing** rather than treating each issue separately.
- Political parties should disclose donations and expenditure in machine-readable formats so that citizens and regulators can conduct meaningful comparative analysis.

Balancing Transparency with Political Pluralism:

- Regulation must not become a mechanism for suppressing smaller or emerging political parties because **political competition and pluralism are essential components of representative democracy**.
- The objective should be to regulate financial conduct, not political ideology, electoral popularity or organisational size.

Strengthening Federal and Institutional Coordination:

- Political funding increasingly involves banking systems, corporate entities, digital payments and tax records, requiring effective coordination among **ECI, Income Tax authorities, financial-intelligence institutions and other statutory regulators**.

- A secure data-sharing architecture with defined legal safeguards can improve detection of suspicious transactions while protecting legitimate political activity.

Conclusion:

- Transparent political funding is essential for maintaining **electoral integrity, political equality and public trust** in a constitutional democracy.
- The concerns surrounding RUPPs demonstrate that the challenge extends beyond electoral bonds to the broader relationship between **party registration, tax exemptions, financial disclosure and electoral accountability**.
- India therefore requires a balanced framework that protects political pluralism while preventing the misuse of political-party status for opaque financial transactions.
- Empowering the ECI within clearly defined statutory limits, strengthening audits, regulating corporate contributions, improving expenditure transparency, rationalising tax benefits and considering carefully designed partial state funding can together create a more **transparent, equitable and accountable political-finance system**.

Value Addition for UPSC:

Key Constitutional and Legal Concepts:

- **Article 19(1)(a):** Provides the constitutional foundation for freedom of speech and expression and has been interpreted by the Supreme Court in the context of voters' right to information.
- **Article 324:** Establishes the constitutional mandate of the Election Commission for the superintendence, direction and control of elections.
- **Section 29A, RPA 1951:** Provides for registration of political parties.
- **Section 29C, RPA 1951:** Provides for disclosure of specified political contributions.
- **Section 13A, Income-tax Act:** Provides conditional tax exemption to political parties subject to statutory requirements.
- **Sections 80GGB and 80GGC, Income-tax Act:** Provide deductions for eligible political contributions by companies and other eligible persons respectively.

Important Supreme Court Judgment:

- **Association for Democratic Reforms v. Union of India, 2024:** The Supreme Court struck down the Electoral Bonds Scheme and held that anonymous political funding violated voters' right to information; it also invalidated the changes that enabled unlimited corporate political contributions.

Committee Recommendations:

- **Law Commission, 255th Report:** Recommended reforms concerning political parties, electoral finance and expenditure regulation.
- **Indrajit Gupta Committee, 1998:** Supported the principle of limited state funding of elections, subject to appropriate conditions.
- **Dinesh Goswami Committee, 1990:** Examined electoral reforms, including issues relating to political funding and corporate influence.

Mains-Ready Insight:

- **Political finance is not merely an issue of accounting; it is an issue of political equality.** When financial resources become excessively concentrated or opaque, the formal equality of votes can coexist with unequal influence over political decision-making.