

# Transparency and Accountability in Political Funding

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## Abstract

*While political funding is a necessary component for political parties to play their role in the democratic process, transparency and openness in financing of political parties is the cornerstone of a well-functioning democracy. Absence of disclosure of sources of party funds facilitates corruption and gives rise to quid pro quo between big donors and politicians. Countries where parties or political leadership are overly reliant on funding from a chosen few donors, policy decisions are co-opted. The equitable playing field gets eroded when one party has indomitable access to excess campaign finance.*

*In case of India, recent political finance ‘reforms’ have done little to make parties accountable for the money they receive and have instead legitimized opacity. In the name of ‘transparency’, India is headed into the opposite direction. This paper provides an overview of the political finance regime in India, the rules regulating it, prevailing challenges and the impact of an ineffective regulatory framework. Towards the end, the paper suggests some possible measures to enhance transparency and accountability in political financing and to restore the health of India’s electoral politics.*

**Keywords:** *Transparency, Accountability, Political Finance, Reforms*

## Introduction

The role and importance of political parties have long been established while framing regulations in political party financing is a recent development. The need for such regulations is felt due to the changing conditions in which parties exercised their activities over the recent decades. Parties in contemporary democracies need substantial funding to carry out their core activities which should be seen as necessary and unavoidable costs of democracy.

Inherently, political funding is not problematic given that vibrant election campaigns can engage citizens and initiate democratic dialogue between parties and voters.<sup>1</sup> It strengthens political parties and candidates, and provide chances to compete on more equal terms. However, money can become a tool for some to unduly influence the political process, unequal access to funding can hurt the level-playing field, un-regulated political funding can result in influx of black money, co-optation of politics by business interests and wide-spread vote buying. This distorting effect of money on the democratic process demands regulation by law. The earliest examples of legislations regulating the operation of political parties or their funding go back to the 1940s, varying from country to country depending on the legal framework and socio-cultural context.

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<sup>1</sup> Elin Falguera, Samuel Jones and Magnus Ohman, ‘Funding of Political Parties and Election Campaigns: A Handbook on Political Finance’, Institute for Democracy and Electoral Assistance, April 1, 2014

## Political finance regime in India

The evolution of India's political finance regime has been gradual and is divided into three phases.<sup>2</sup> Each phase outlines the progression of reforms in the political finance regime of the country.

1. The first phase beginning from 1947 to 1990 saw a shift from traditional means of financing (membership dues primarily) to corporate contributions, with private companies giving money to parties in exchange of regulatory favours. The institutionalisation of this practice raised concerns about the nexus between black money and political funding for the first time in 1960s. Santhanam Committee report on Prevention of Corruption (1964) and the Wanchoo Direct Taxes Inquiry Committee (1971) shed light on problem of black money seeping into the political system. In 1969, Indira Gandhi banned corporate donations to parties, the vacuum so created drove the funding of political campaigns underground and further facilitated the entry of black money.

The beginning of first steps towards a regulatory mechanism was initiated with the *Kanwar Lal Gupta v. Amar Nath case* wherein Supreme Court of India ruled that party spending on behalf of a candidate should be included in calculating that candidate's election expenses in order to determine whether the election expenditure limit had been violated. But this was nullified by amendments introduced by Parliament to Representation of the People Act (RPA), 1951 in 1975. Subsequently in 1979, a key development was the exemption of parties from income and wealth taxes on the condition that they file annual tax returns, followed by introduction of a limit of 5% on corporate donations to parties under Companies Act in 1985 (later increased to 7.5% in 2013).

2. In the second phase covering the period between 1990 and 2003, several electoral reforms were initiated including recommendations by Dinesh Goswami Committee such as state funding in the form of limited support in-kind (vehicle fuel, rental charges for microphones, the issuance of voter identity slips, electoral rolls) in 1990, in addition to suggesting a ban on corporate donations to political parties. Confederation of Indian Industry (CII) set up a Task Force in 1993. It suggested that corporate contributions be made tax-deductible and that shareholder confirmation of board decisions about political contributions be required. It also recommended state funding of elections. The most notable development during this time resulted from the 1996 Common Cause judgment - Supreme Court issued notices to political parties to file returns by February 20, 1996. After this judgment, election expenditures incurred by a political party would not be included with that of a candidate for the purpose of determining compliance with the expenditure ceiling, only if the party had submitted its audited accounts. This forced parties to declare their annual income bringing in some degree of transparency.

In 1998, government provided a partial state subsidy in the form of allocation of free time for national and state parties on the state-owned television and radio networks.

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<sup>2</sup> Devesh Kapur and Milan Vaishnav, *Costs of Democracy: Political Finance in India*, (New Delhi: Oxford University Press, 2018)

This was in keeping with the recommendations of Indrajit Gupta Committee on partial state funding, mainly in-kind such as sufficient free air time to recognized parties during elections; supply of specified quantities of petrol, diesel, paper, loudspeakers, telephone facilities etc. only upon submission of audited accounts and income tax returns. A significant development during this phase was the judgement delivered by the Supreme Court in 2002 and subsequently in 2003, in response to a PIL filed by Association for Democratic Reforms (ADR) in 1999, making it mandatory for all candidates contesting elections to disclose criminal, financial and educational background prior to the polls by filing an affidavit with the Election Commission of India (ECI).

3. The period ranging from 2003 to 2017 constitutes the third phase in the evolution of India's political finance system, characterised by greater efforts towards transparency. Election and Other Related Laws (Amendment) Act, passed in 2003, made company and individual contributions to a political party 100% tax-deductible, incentivizing companies/individual donors to donate openly by cheque. Disclosure of details of all donations above Rs 20,000 (\$290) to the ECI on annual basis became mandatory. In 2008, Central Information Commission (CIC) of India in response to ADR's appeal ruled that income tax returns of parties be made publicly available, forcing parties to publish their income and expenditures dating back to 2004-05. According to a 2013 ruling, CIC declared, in response to ADR's submission, that political parties are "public authorities" and come within the ambit of Right to Information Act. CIC asked parties to make available details of voluntary financial contributions received by them. However, parties refused to comply with this order. Thereafter in 2014, *Transparency Guidelines* were issued by the ECI under which parties had to identify all donors and amounts. However, these guidelines do not yet have statutory backing.

Most recently, in 2017, the ruling government took several initiatives in the name of political finance "reforms" which increased flow of funds to parties by digital/cheque payments but did little to increase transparency or disclosure of donor identities. These include introduction of the anonymous Electoral Bonds<sup>3</sup>, removal of limits on corporate donations to parties and the requirement to declare political contributions on their profit and loss statements, and the amendments to Foreign Contribution Regulation Act (FCRA), 2010 that will facilitate indirect foreign funding. Political contributions above Rs 2,000 (\$29) in cash from single person were also prohibited.

It must be noted that some of the common sources of funding of candidates in India include their political party, personal resources, donations from friends and family, and contributions from representatives of the private sector. While, in case of parties, funding comes from individuals and organizations. There is no state funding of parties yet.

### **Need for transparency in political finance**

To guarantee independence of parties from undue influence of big donors, ensure that they compete on equal footing, and that they practice transparency in political financing, regulating

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<sup>3</sup> It is a financial instrument (similar to a promissory note) for making donations to political parties. These are issued by Scheduled Commercial banks upon authorization from the Central Government to intending donors, but only against cheque and digital payments (it cannot be purchased by paying cash). These bonds shall be redeemable in the designated account of a registered political party within the prescribed time limit from issuance of bond

party funding is a necessary step. Any policy in this regard should attempt to achieve a balance between encouraging moderate contributions and limiting unduly large contributions.

[UN Human Rights Committee in General Comment No. 25](#) (The right to participate in public affairs, voting rights, and the right to equal access to public service) adopted in 1996 as part of international standards for elections: “*Reasonable limitations on campaign expenditure may be justified where this is necessary to ensure that the free choice of voters is not undermined or the democratic process distorted by the disproportionate expenditure on behalf of any candidate or party. The results of genuine elections should be respected and implemented.*” Transparency and accountability in political financing is integral to such a framework.

According to the [255<sup>th</sup> Law Commission of India Report](#) titled *Electoral Reforms*, the need for electoral finance reforms is derived from the following concerns:

1. Financial superiority results in electoral advantage or “winnability” factor and so richer candidates and parties have better chances of winning elections, as also articulated in *Kanwar Lal Gupta v. Amar Nath Chawla case*.
2. Individual or political party with poor financial strength are prevented from contesting elections on an equal footing.
3. Openness in political finance reporting reduces the prevalence of black money, bribery and crony capitalism in electoral politics.
4. Elected officials face dangerous financial pressures as a result of quid pro quo that transpires between big donors and parties/candidates, making it essential to reduce the space for policy capture.
5. Huge contributions though legal, can result in “institutional corruption” which may compromise the political morality norms of a republican democracy. Candidates/parties become less accountable to voters if they are too closely tied to financiers or even alter their views and convictions in a way that attracts most funding.

Additionally, it is seen that transparency and accountability in political funding promote electoral participation of women and other marginalised groups given their unequal access to funds; incentivize compliance with political finance regulations, enforcement and oversight; access to information helps voters to make an informed choice and maintain their trust in politics. Most importantly, adequate access to funding sans obligations is crucial for overall well-being of an electoral and democratic system.

### **Current legal framework guiding political finance**

All countries around the world follow some form of regulation of the role of money in politics. Most common regulations include a ban/limit on donations from certain sources, limits on expenditure and provisions for state/public funding, varying from country to country.

#### ***Case of India<sup>4</sup>***

1. Limits on contributions to parties are regulated by RPA 1951, Companies Act 2013 and the FCRA 2010. There are no limits on individual contributions. However, political parties cannot receive donations above Rs 2,000 (\$29) in cash from one person.

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<sup>4</sup> Report no. 255, Electoral Reforms, Law Commission of India, March 2015.  
<http://lawcommissionofindia.nic.in/reports/Report255.pdf>

2. There is no limit on corporate donations to political parties now (earlier limit of 7.5% was removed after amendment introduced to Section 182 of Companies Act 2013 in 2017).
3. Companies/individuals can also donate via Electoral Trusts<sup>5</sup> (introduced in 1996), regulated by the Electoral Trusts Scheme, 2013. 95% of contributions received by an electoral trust, in any financial year, shall be distributed to political parties.
4. Electoral Bonds Scheme (notified in January 2018) – anyone, including corporates can donate to parties anonymously through these bonds by purchasing them from designated State Bank of India branches. These are available in the denominations from Rs 1,000 (\$14) to Rs 1 crore (10 million).
5. There is ban on foreign contribution to candidate or political party. However, after amendment to FCRA 2010, modifying the definition of the term “foreign source”, a candidate/party will be able to accept donations from foreign companies registered in India.
6. Partial state funding: In-kind subsidy in form of free air time on state owned electronic media (since 1996) is permissible based on party’s performance, free supply of copies of electoral rolls and identity slips of electors.
7. Disclosure of funds: Section 29C of RPA, 1951 requires financial reporting of all contributions above Rs 20,000 (\$290) received by a party to the ECI in each financial year. Parties also need to submit annual audited accounts based on the guidance note issued by Institute of Chartered Accountants of India to the ECI by 31<sup>st</sup> October each year.  
Electoral Trusts are required to file annual report of contributions with details of the name and addresses of donors before due date of filing income tax returns. While, there is no requirement for corporates to declare political donations in their profit and loss account after amendment brought to Companies Act 2013 in 2017.
8. Under the Section 77 of RPA, 1951 and Conduct of Election Rules, 1961, there are limits on election expenditure only for candidates, varying in case of parliamentary constituencies up to Rs 70 lakhs (\$101,731) and assembly constituencies up to Rs 28 lakhs (\$40,686). Such a limit is absent in case of political party expenditure during elections.
9. Disclosure of Expenditure: Contesting candidates are required to submit election expenses account within 30 days of declaration of election results. Parties submit

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<sup>5</sup> Electoral Trust is a non-profit company established for orderly receipt of the voluntary contributions from any person (or company) for distributing the same to the respective political parties. Electoral trust may receive voluntary contributions from – an individual who is a citizen of India, a company which is registered in India and a firm or Hindu undivided family or an association of persons or a body of individuals, residents in India

accounts of election expense within 75 days in case of assembly elections and 90 days of Lok Sabha elections.

10. Section 75A of RPA, 1951 requires elected candidate in a parliamentary constituency to furnish details of assets and liabilities to Lok Sabha (lower house) speaker/Rajya Sabha (upper house) chairperson within 90 days of taking oath.
11. Penalties under provisions of RPA, Companies Act and IT Act: Disqualification of candidate up to 3 years if convicted of corrupt practices or fail to submit election expenses. Non-compliance by parties result in loss of tax relief (under Section 13A of IT Act).
12. On a petition of Lok Prahari regarding disproportionate asset increase of the MPs & MLAs, Supreme Court in February 2018 made it mandatory for candidates to declare sources of income of spouse & dependents in Form 26 of affidavits.

### **Political finance regime in India – issues and challenges**

1. There is no restriction on the amount that corporate entities may contribute to political parties nor any requirement to share the details of their political contributions in their profit and loss accounts.
2. According to ADR analysis, more than 50 per cent of the funds cannot be traced and are from ‘unknown sources’.<sup>6</sup> For FY 2017-18, total income of six national parties (less CPM) is Rs 1293.05 cr (12.93 billion). Income from known sources (donations above Rs 20,000, whose donor details are available through contributions report as submitted by national parties to the ECI) – is Rs 467.13 cr or Rs 4.67 billion (36% of total income), income from other known sources (income include sale of moveable & immoveable assets, old newspapers, membership fees, bank interest, sale of publications etc. whose details would be available in the books of accounts maintained by parties) – Rs 136.48 cr or Rs 1.36 billion (11% of total income) and income from unknown sources (are income declared in the IT returns but without giving source of income for donations below Rs. 20,000) – Rs 689.44 cr or Rs 6.89 billion (53%).
3. ADR analysis<sup>7</sup> revealed that corporates donated 93% or Rs 915.596 crores (9.16 billion) to BJP in FY 2016-17 and 2017-18 while INC received Rs 55.36 crores (553.6 million) indicating that a single (ruling) party has maximum access to such funds.
4. Six Electoral Trusts had donated a total amount of Rs 105 crores<sup>8</sup> (1.05 billion) to the National Parties between FY 2004-05 and 2011-12, before the transparency rules governing contributions to Electoral Trusts were formulated by the Central Government. As the rules are not retrospective in nature, these six Electoral Trusts are

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<sup>6</sup> ADR Report – Analysis of sources of funding of national parties of India, FY 2017-18,

<https://adrindia.org/content/analysis-sources-funding-national-parties-india-fy-2017-18-0>

<sup>7</sup> ADR Report – Analysis of donations from corporates & business houses to National Parties, FY 2016-17 & 2017-18,

<https://adrindia.org/content/analysis-donations-corporates-business-houses-national-parties-fy-2016-17-2017-18>

<sup>8</sup> ADR Report – Analysis of contribution report of Electoral Trusts, FY 2013-14,

<https://adrindia.org/research-and-report/political-party-watch/combined-reports/2015/analysis-contributions-declared>

not required to follow the transparency rules and declare their donor details. Thus, details of donors to these Electoral Trusts remain unknown.

5. At present, in accordance with the prescribed format of Statement of Election Expenditure, political parties provide the break-up of the expenses incurred during elections. However, they are not required to provide a similar break-up of the funds received. As a result, there is no information available in the public domain on the sources of funds collected by political parties at the time of elections.

ADR analysis<sup>9</sup> shows that total funds collected by National Parties during Lok Sabha elections 2004, 2009 & 2014 amounted to Rs 223.8 crores (2.23 billion), Rs 854.89 crores (8.54 billion) and Rs 1,158.59 crores (11.6 billion) respectively, whose details were not available at the time of filing of election expenditure statements by parties.

### *Legal Lacunae*<sup>10</sup>

1. Rs 20,000 (\$290) disclosure limit can be easily evaded by writing multiple cheques below Rs 20,000 (\$290) each or giving money in cash.
2. As mentioned earlier, requirement for companies to disclose the details of beneficiary political parties in their profit and loss statement has been done away with after amendments to Section 182 of Companies Act. Additionally, parties do not need to reveal the names of individuals or organizations giving less than Rs 20,000 nor those who donated via Electoral Bonds. These non-disclosure provisions have legalized anonymous donations (from shell companies, foreign or government companies).
3. Section 77 of RPA, 1951 only regulates “individual” candidates’ and not parties’ expenditures. In absence of ceiling on party expenditure, the overall spending can be higher than the individual limits, as these limits do not directly apply to spending by political parties or that by other actors on behalf of a candidate. This implies that candidates could feasibly benefit from substantial illicit spending on the part of other actors. Moreover, the scope of this section is narrow given the limit on expenditure is only effective from date of nomination of candidature to date of declaration of poll results.
4. Travel expenditure of party leaders to and from constituencies as star campaigners fall under exempted category. Ingenious accounting can allow parties to attribute huge expenditure to their leaders and avail the exception.
5. It is observed that information pertaining to sources of funds from individuals, corporations or other details like the address of the donor, along with his/her PAN details, mode of payment etc. are not always furnished correctly by parties. Many times parties also default in submission of their annual audit/contributions reports before due

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<sup>9</sup> ADR Report – Analysis of funds collected and expenditure incurred by National Political Parties – 2004, 2009 & 2014, <https://adrindia.org/research-and-report/political-party-watch/combined-reports/2015/analysis-funds-collected-and>

<sup>10</sup> Report no. 255, Electoral Reforms, Law Commission of India, March 2015, <http://lawcommissionofindia.nic.in/reports/Report255.pdf>

date. As of now, there is no categorical schedule of penalties for incomplete/non-disclosure of such information in their reports or if parties fail to file returns in time.

6. There is lack of frequent and complete scrutiny of financial disclosures of parties by tax authorities.
7. ECI's transparency guidelines have no statutory authority and there is no legal consequence for non-compliance. The only penalty for non-compliance by parties is losing tax relief which is not a significant deterrent. It must be noted that so far none of the parties have been penalised and denied tax relief as a result of non-compliance.

## Impact

Absence of a robust system of inner-party democracy and financial reporting within parties reinforces corrupt fund-raising and the lack of financial accountability. Within India, parties follow a top-down approach and operate as dynasties. In this context, a weak political financing regime can have adverse impact on the overall electoral politics of the country. This can be substantiated as following:

1. Ever-increasing costs of election campaigns result in circumvention of expenditure limits, demand for black money and drive campaign expenses underground. According to a recently conducted study by the Centre for Media Studies, a total of Rs 60,000 crores (600 billion) was spent in the General Elections 2019. This is twice the amount estimated for the 2014 Lok Sabha elections and a near six-fold jump from 1998. The study reveals that there are at least 75-85 seats where individual candidates spent more than Rs 40 crores (400 million), over 50 times the expenditure limit of Rs 70 lakh (7 million).
2. Parties' preference for candidates who can finance their own elections given the magnitude of resources required for campaigning. The wealthiest 20 per cent of the total candidates that contested elections in the 2014 Lok Sabha elections were more than twenty times more likely to win an election than the poorest 20 per cent.<sup>11</sup>
3. Given the elimination of cap on corporate funding, dropping the requirement for private business to disclose political giving on their financial statements and introduction of anonymity of donors through Electoral Bonds, corporates can now legally give unlimited sums to parties without having to disclose a single rupee.  
As of July 2019<sup>12</sup>, a total of 11,782 Electoral Bonds worth Rs 5896.7 crores (58.97 billion) have been purchased; 91.26% of these were purchased in the denomination of Rs 1 crore (10 million) reinforcing the belief that these are primarily purchased by

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<sup>11</sup> Power to the rich: India needs to talk about money in politics, *Hindustan Times*, July 23, 2018, <https://www.hindustantimes.com/india-news/power-to-the-rich-india-needs-to-talk-about-money-in-politics/story-fIX0iZ32V7bzkMIZIP6xIK.html>

<sup>12</sup> Both the BJP & Congress submit details of Electoral Bond donors after Supreme Court's due date, *Factly*, August 14, 2019, <https://factly.in/both-the-bjp-congress-submit-details-of-electoral-bond-donors-after-the-supreme-court-due-date%ef%bb%bf/>



corporates. For FY 2017-18, share of income from Electoral bonds to all parties amounted to Rs 222 cr (2.22 billion). Of this, 2.1 billion rupees went to BJP.

4. There are rising claims that current political finance regime is highly conducive for private firms to serve as one important source of black or undocumented money in elections. Moreover, where firms are highly regulated by the state, politicians can exchange policy and regulatory discretion for monetary transfers from firms that can finance election expenditures.

In the past, we have seen the case of Vedanta's Sterlite copper unit in Tuticorin<sup>13</sup> - United Progressive Alliance (UPA) government or the current National Democratic Alliance government (or both) interpreted environmental regulations in a manner that allowed Vedanta to operate and expand the copper plant without holding public consultations. Between 2006 and 2009, CAG found that ex-Chief Minister Y.S. Reddy (YSR) gave away nearly 90,000 acres of land to private entities resulting in an estimated loss of one trillion rupees to the state.<sup>14</sup> The beneficiary firms alleged to have invested in YSR's son's business.

5. For FY 2017-18, contributions received by political parties through Electoral Trusts amounted to Rs 193.7 crores (1.94 billion)<sup>15</sup> while Rs 222 cr (2.2 billion) was received via Electoral Bonds as declared by political parties in their audited accounts. This indicates that the latter may surpass the former as a medium of transfer of donations to parties in the coming years, given the benefit of anonymity of the donor.

## Conclusion and Recommendations

No regulatory framework guarantees effective enforcement of political finance regulations given that in a democracy, laws controlling political finance are passed by politicians themselves. The willingness and capacity of parties and other stakeholders to moderate use of money and follow the law both in letter and spirit is most essential. The manner in which a political party manages its access to and use of funds defines the foundation for the political finance regime of a democratic country.

In addition to political will, strong institutional oversight is crucial. Organizations responsible for enforcement of political finance regulations must be independent, capable with inclusive and transparent leadership appointments and secured tenure. These characteristics are integral for better implementation and effective enforcement.

### *General Recommendations*

1. Donation limits must ensure that no single donor may have undue influence on a candidate/political party and on the political process as a whole.
2. The following types of donations should either be banned or capped:

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<sup>13</sup> Lessons from Tuticorin: India needs to move away from crony capitalism, *Business Standard*, June 6, 2018, [https://www.business-standard.com/article/current-affairs/lessons-from-tuticorin-india-needs-to-move-away-from-crony-capitalism-118060600262\\_1.html](https://www.business-standard.com/article/current-affairs/lessons-from-tuticorin-india-needs-to-move-away-from-crony-capitalism-118060600262_1.html)

<sup>14</sup> Devesh Kapur and Milan Vaishnav, *Costs of Democracy: Political Finance in India*, (New Delhi: Oxford University Press, 2018), p.80-83.

<sup>15</sup> ADR Report – Analysis of contribution reports of Electoral Trusts, FY 2017-18, <https://adrindia.org/content/analysis-contribution-reports-electoral-trusts-fy-2017-18>

- a. Donations from foreign donors to prevent foreign influence
  - b. Corporations donations to ensure independence from special interests
  - c. Public/semi-public entities to avoid use of public funds for political purpose
  - d. Anonymous sources to ensure transparency and greater chance to monitor compliance
3. Spending limits must be introduced to reduce undue advantage to candidates with financial superiority.

#### *India specific*

Financial reporting requirements are in keeping with the spirit of the UN Convention against Corruption. They help achieve transparency, allow voters to make informed decisions and allow for effective oversight of compliance. Several recommendations have been made by the Law Commission of India in its 255<sup>th</sup> Report on *Electoral Reforms* as well as by ADR from time to time, which are yet to be implemented. Some of these are as follows:

1. The Law Commission report states that disclosure is at the heart of public supervision of political finance and requires strict implementation. In this regard, ECI transparency guidelines need to be given statutory backing.
2. Parties to disclose names, addresses and PAN details of donors and donation amount even for contributions less than Rs 20,000 (\$290) if such contributions exceed Rs 20 crores (200 million) or 20% of party's total contribution whichever is less.
3. Abolish cash donations altogether. Arbitrary limit of Rs 20,000 (\$290) or Rs 2,000 (\$29) allow parties to game the system and result in reporting amounts just below the threshold.
4. Law Commission recommends penalty for non-compliance by the political parties with the provision of declaration of contribution received by parties under RPA. Parties should be fined Rs 25,000 (\$362) for each day of non-compliance, de-recognition in extreme cases while penalty for filing false information should be up to a maximum of fifty-lakh rupees (5 million).
5. The ECI should be given the power to de-recognize political parties and/or impose strict penalties upon the parties in case of non-compliance.
6. Law Commission of India in its report also proposes that Electoral Trust(s) that fail to submit annual report of contributions in the prescribed format shall not be entitled to tax relief for such financial year and shall be liable to fine of Rs 25000 (\$362) for each day of non-compliance. Continuation of non-compliance beyond 90 days shall result in banning the trust from receiving donations in future. Penalty for political parties for accepting contributions from an impermissible donor - a fine of five times the amount of such contribution accepted.

7. For political parties to be truly accountable and transparent in their functioning, it is vital that they comply by the CIC's 2013 order declaring them public authorities under the Right to Information Act, 2005.
  8. As political parties receive hundreds of crores worth of funding during elections, non-disclosure of sources of these funds at that time makes it impossible to ensure that parties are not receiving foreign funding or that there is no potential for conflict of interest/corporate influence on policies initiated, after the winning party comes to power. Thus, it becomes crucial that the sources of funds (above Rs 20,000) received by parties during the election period are reported as part of their election expenditure statement.
  9. As of now political parties are not regulated by any law; a comprehensive bill regulating political parties, dealing with party constitution, organization, internal elections, candidate selection etc. is the need of the hour.
  10. Scrutiny of financial documents submitted by the political parties should be conducted annually by a body approved by Comptroller and Auditor General of India and ECI so as to enhance transparency and accountability of political parties with respect to their funding.
  11. 'Electoral Trusts Companies' scheme 2013 should be amended to have a retrospective effect in order to have the donor details, income and expenditure details of those Electoral Trusts which were formed before January, 2013.
  12. As proposed in the Law Commission report, given the high cost of elections and improbability of being able to replace the actual demand for money, absolute state funding may not be feasible at present. The existing system of giving indirect in-kind subsidies should continue. Any reform in state funding should be preceded by reforms such as decriminalisation of politics, introduction of inner-party democracy, electoral finance reform, transparency and accountability in political funding etc. so as to reduce incentive to raise money and abuse power.
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