



Decoding Electoral Bonds: Union Budget 2017

April 27, 2017 | Ananya Prem Nath (Manager - Research & Training, MEDC)

Introduction

Electoral bonds will be issued by a notified bank for specified denominations. If you are keen to donate to a political party, you can buy these bonds by making payments digitally or through cheque. You are then free to gift the bond to a registered political party. The bonds will likely be bearer bonds and the identity of the donor will not be known to the receiver.

The party can convert these bonds back into money via their bank accounts. The bank account used must be the one notified to the Election Commission and the bonds may have to be redeemed within a prescribed time period.

Mainly, Electoral bond is more like a bail-bond than a Government or corporate bond. Electoral bonds are essentially like bearer cheques. The issuing bank will remain the custodian of the donor's funds until the political party redeems the bond. So, only the RBI will most likely be allowed to issue these bonds, to be sold through notified banks.

Importance of Electoral Bond

Today, major political parties use the lax regime on donations to accept cash donations from anonymous sources. Nearly 70 % party funding over an 11-year period came from unknown sources, according to the Association for Democratic Reforms (ADR).

Currently, political parties are required to report any donation of over 20,000 to the IT department. But there has been a trend of more donations flowing by way of hard cash in the smaller amounts. To fix this, the Budget has reduced the disclosure limit to 2,000 and insists that any amount over this must be paid through cheque or the digital mode. The idea is that electoral bonds will prompt donors to take the banking route to donate, with their identity captured by the issuing authority.

There are three major players of electoral bond First player is the donor who wants to donate funds to a political party. It can be a person, an organisation or even a company. Second player is a national or regional political party in the country and the third player is the Reserve Bank of India.

New Way of Political Funding

In order to structure the political funding better and to bring transparency, the government made several provisions in the Union Budget of this fiscal year.

An unprecedented announcement was made introducing 'Electoral Bonds,' for which the government is gearing up to amend the rules of the Reserve Bank of India.

Under the Union Budget 2017, the government capped the political party funding per person to a maximum of Rs 2,000.

Any funding amount more than Rs 2,000 is required to be made through cheques or digital payments, where all political parties are also required to file income tax returns for the same.

“Demonetization seeks to create a new ‘normal’ wherein the GDP would be bigger, cleaner and real. This exercise is part of our government’s resolve to eliminate corruption, black money, counterfeit currency and terror funding,” Jaitley said.

“We are aware we need to do more for our people. Continuing with the task of fulfilling people’s expectations, our agenda for the next year is: ‘Transform, Energise and Clean India,’ that is, TEC India,” Jaitley said, adding that the objective is to clean the country of “the evils of corruption, black money and non-transparent political funding”.

I think, in its effort to bring down the ever escalating corruption, India will be the first country in the world to introduce the concept of an electoral bond. Introduction of these bonds specifically aims at killing the black money which mostly funds a political party in India. So, if you are keen to support a political party, there are chances that you will have to choose between remaining anonymous and saving on taxes. Also, in the electoral bond route, while the party may not know the identity of the donor, the bank will.

Be Prepared!

Source: Economics Times