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RSM India Newsflash: Mumbai ITAT - Premium Healthcare Services do not undermine the Charitable Status of a Hospital Trust

Newsflash

Mumbai ITAT: Premium Healthcare Services or Surplus Generation do not undermine the Charitable Status of a Hospital Trust

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1.0 Background

1.1 India's Tax framework has historically encouraged philanthropic and charitable activities by granting tax exemptions to institutions established for public welfare purposes. In accordance with the Income-tax Act, 1961 ("ITA 1961") / Income Tax Act, 2025 ("ITA 2025"), income derived by Trusts and Institutions established for charitable or religious purposes may qualify for exemption under section 11 of ITA 1961 (corresponding to Section 332 and 334 of ITA 2025) and section 12 of the ITA 1961 (corresponding to section 335 and 337 of ITA 2025), subject to fulfilment of prescribed conditions.

1.2 For availing such exemption, a Trust or Institution is required to obtain registration under section 12AB of ITA 1961 (corresponding to section 332 and 351 of ITA 2025). The registration regime serves as a gateway for claiming exemption and enables the tax authorities to verify whether the institution is genuinely pursuing charitable objectives in accordance with the provisions of the Act.

1.3 Over the years, charitable hospitals have played a significant role in supplementing India's healthcare ecosystem by providing medical services, undertaking research activities, creating healthcare infrastructure and extending support to economically weaker sections of society. At the same time, the increasing complexity of modern healthcare delivery has required hospitals to invest heavily in specialized medical equipment, advanced technology, skilled professionals and world-class infrastructure, resulting in significantly higher operational costs.

1.4 Accordingly, several charitable healthcare institutions have adopted sustainable operating models wherein revenue generated from patients who can afford treatment is utilized towards maintaining healthcare facilities, supporting medical services and furthering charitable objectives. This has resulted in judicial scrutiny on whether charging fees, offering premium healthcare facilities or generating surplus income can impact the charitable character of such institutions.

1.5 Recently, the Hon'ble Mumbai Bench of Income Tax Appellate Tribunal (hereinafter referred to as 'Hon'ble ITAT' or 'Tribunal') in the case of **Reliance Foundation Hospital Trust v. Commissioner of Income Tax (Exemptions) Mumbai**[1] **["herein referred to as Ld.**

[1] Reliance Foundation Hospital Trust and Research Centre v. Commissioner of Income Tax (Exemptions) Mumbai ITA No.3798/Mum/2026 & 3799/Mum/2026

CIT(E)"] has passed a ruling by quashing the Ld. CIT(E) order cancelling the registration under section 12AB of ITA 1961 (corresponding to section 332 and 351 of ITA 2025) and 80G of ITA 1961 (corresponding to section 133, 332 and 354 of ITA 2025) with retrospective effect from 23 September 2021 and extends the same for a further period of five years with effect from 1 April 2026.

2.0 Facts of the Case

2.1 Reliance Foundation Hospital Trust ("the Assessee" or "the Trust") is a public charitable trust duly registered under the Maharashtra Public Trusts Act, 1950, with a principal object of providing medical relief and allied charitable services. The trust runs and manages Sir H. N. Reliance Foundation Hospital and Research Centre, Mumbai, a multi-speciality and super-speciality hospital equipped with advanced research facilities and highly qualified doctors.

2.2 <u>Registration and Approval History of the Assessee under the Act is summarized in the table below:</u>

Particulars	Details
Original registration	The Assessee was originally granted registration under section 12A of the Act vide order dated 30th April 2014.
Approval under section 80G of the Act.	The Assessee was subsequently granted approval under section 80G of the Act vide order dated 10th July 2014.
<u>With the introduction of the revised registration framework under section 12AB of the Act by the Finance Act, 2020</u>	
Registration under section 12AB of the Act	Revised registration was granted to the Assessee vide order dated 28th May 2021.
Approval under section 80G of the Act	Subsequently, approval under section 80G of the Act was granted on 23rd September 2021.
Validity period	Both the registration under section 12AB and approval under section 80G were valid up to 31st March 2026.

2.3 As the validity period of the registration was approaching expiry, the Assessee filed applications in Form No. 10AB dated 30 September 2025 to the Ld. CIT(E) seeking renewal of registration under section 12AB and continuation of approval under section 80G of the Act.

2.4 During the course of renewal proceedings, the Ld. CIT(E) examined the activities and compliance aspects of the Assessee and, thereafter, passed the impugned order rejecting the applications filed by the Assessee for renewal of registration under section 12AB and continuation of approval under section 80G of the Act. Further, the Ld. CIT(E) cancelled the existing registration granted to the Assessee under section 12AB of the Act with

retrospective effect from 23 September 2021 and consequently withdrew the approval granted under section 80G of the Act.

2.5 Aggrieved by the impugned order passed by the Ld. CIT(E), the Assessee preferred an appeal before the Hon'ble Mumbai Bench of the ITAT, challenging the validity and findings of the said order.

3.0 Findings recorded by the Ld. CIT(E) in the Impugned Order

The Ld. CIT(E)'s impugned order was principally based on two grounds:

Particulars	Findings recorded by the Ld. CIT(E)
Commercial character of the trust's operations	• **Hospital Tariff Structure –** The Ld. CIT(E) noted that the hospital had **251 operational beds**, including ICU beds, categorized across various classes ranging from economy beds to premium suites. The Ld. CIT(E) observed that a significant portion of the hospital facilities comprised premium categories, with tariffs for certain categories of rooms going up to **Rs. 75,000 per day.** Based on the tariff structure, the Ld. CIT(E) computed the median bed tariff and compared it with the average household income in India. Relying on publicly available data, the Ld. CIT(E) observed that the cost of hospitalization in several cases was equivalent to or exceeded the monthly income of an average household. • **Average Treatment Cost –** Average treatment costs of Rs. 4.61–Rs. 6.20 lakhs per general patient versus Rs. 1.67–Rs. 2.13 lakhs for indigent patients were similarly benchmarked against household income statistics. • **Organizational Structure of Hospital –** The Ld. CIT(E) further relied upon the organizational structure of the hospital, including the extensive workforce comprising doctors, nurses, technicians and administrative personnel, significant employee-related expenditure, sophisticated healthcare infrastructure and substantial receipts generated from hospital operations, to support his view regarding the scale and nature of activities carried out by the Assessee. • **Average Revenue per bed per day** Average revenue per bed per day, ranging from Rs. 61,989 to Rs. 1,18,000, was cited as evidence of premium commercial healthcare

Particulars	Findings recorded by the Ld. CIT(E)
Non-compliance by the Assessee with the provisions of section 41AA of the Maharashtra Public Trusts Act, 1950 and the Indigent Patient Fund ("IPF") Scheme.	• The Ld. CIT(E) examined the compliance of the Assessee with the IPF Scheme approved by the Hon'ble Bombay High Court, which requires charitable hospitals to reserve 10% of operational beds for indigent patients and another 10% for economically weaker section ("EWS") patients and maintain an Indigent Patient Fund for assisting such patients. • Based on the details furnished by the Assessee, the Ld. CIT(E) observed the following issues: (i) that the actual percentage of indigent and EWS patients treated by the hospital during Financial Year ("FY") 2022-23 to FY 2024-25 ranged between 2.78% and 7.35%, which was substantially lower than the 20% requirement contemplated under the scheme; and (ii) Shortfall of more than Rs. 11 crore in the utilization of IPF funds for FY 2024-25.

Based on the above observations, the Ld. CIT(E) concluded that the Assessee was functioning more as a premium private healthcare institution rather than a charitable hospital. Accordingly, the Ld. CIT(E) rejected the application filed by the Assessee for renewal of registration and cancelled the existing registration granted to the Assessee under section 12AB of the Act with retrospective effect.

4.0 Contentions of the Assessee before ITAT

Line of Contention	Assessee' s Arguments
Limited Jurisdiction of Ld. CIT(E) under Section 12AB of the Act vis-à-vis Findings recorded in the Impugned Order	• Scope of enquiry by the Ld. CIT(E) under section 12AB of the Act is limited to examining whether the objects of the institution are charitable in nature, whether the activities carried out are genuine and whether any statutorily prescribed circumstances exist which warrant denial or cancellation of registration. • The Ld. CIT(E) exceeded the aforesaid statutory limits by undertaking an examination of factors such as affordability of healthcare services, comparative income levels of Indian households, availability of premium hospital facilities and economic accessibility of tertiary care treatment. • The Assessee also contended that the impugned order effectively introduces additional conditions and tests for continuation of registration, which are not prescribed under the statutory framework enacted by the Legislature.

Line of Contention	Assessee' s Arguments
Medical Relief is Independent under section 2(15) of the Act	• The Ld. CIT(E) failed to appreciate the distinction maintained under section 2(15) of the Act between institutions engaged in "medical relief" and those falling under the residual category of "advancement of any other object of general public utility". • The Assessee relied upon various judicial precedents[2] recognizes distinct categories of charitable purposes and that the principles or considerations applicable to one category of charitable purpose cannot be automatically imported or applied to another category.
Charitable Status	• The Assessee submitted that the entire basis of the Ld. CIT(E)'s conclusion is founded on the premise that providing sophisticated healthcare facilities and charging substantial fees from paying patients would result in the loss of the charitable character of the institution. • The Assessee contended that such a proposition is contrary to the provisions of the Act as well as judicial precedents, as charging fees from patients cannot, by itself, be considered destructive of charitable status, provided the institution continues to pursue the object of medical relief and applies its income towards furtherance of charitable purposes.
Commerciality Test	The Assessee argued that the comparisons undertaken by the Ld. CIT(E), such as hospital tariff's structure, average treatment cost, etc. represent an entirely new test which is neither prescribed under the provision of the Act nor under the Maharashtra Public Trusts Act or the IPF Scheme. • With respect to premium accommodation, such facilities are a part of modern healthcare administration and are provided to cater to varying patient requirements and enable cross-subsidization by generating resources that support subsidized or free treatment for economically weaker sections. • Reliance placed by the Ld. CIT(E) on employee strength, salary expenditure and organizational structure was misplaced, as a tertiary care hospital necessarily requires qualified doctors, nurses, technicians and administrative systems to deliver quality medical services. Such factors demonstrate the scale and seriousness of healthcare activities rather than commercial intent.

[2]Hon'ble Supreme Court in CIT v. Surat Art Silk Cloth Manufacturers Association [(1980) 121 ITR 1 (SC)];
Aditanar Educational Institution v. Addl. CIT [(1997) 224 ITR 310 (SC)];
Queen's Educational Society v. CIT [(2015) 372 ITR 699 (SC)]; and
Ahmedabad Urban Development Authority v. ACIT [(2022) 449 ITR 1 (SC)]

Line of Contention	Assessee' s Arguments
Ld. CIT(E) incorrectly interpret the financial position of the Assessee	• The Ld. CIT(E) incorrectly interpreted the financial position of the hospital by treating transfers to designated funds, IPF funds and utilization of donations towards healthcare infrastructure as **commercial surplus**. Reliance was placed on judicial precedents to submit that generation of surplus, by itself, does not determine charitable character; the relevant test is the application and utilization of such surplus towards charitable purposes. • The financial records demonstrate that the hospital incurred operational deficits in various years and relied substantially on philanthropic support. Donations and other resources were utilized for the development of healthcare infrastructure, acquisition of medical equipment, research facilities and expansion of patient care services, and therefore cannot be equated with commercial profits.
Alleged non-compliance with Section 41AA of the Maharashtra Public Trusts Act, 1950 and IPF Scheme	• The requirement of reservation under the IPF Scheme does not mandate continuous occupancy of such beds or that 20% of total admissions must necessarily belong to these categories. It was contended that the Ld. CIT(E) incorrectly treated the actual treatment percentage of 2.78% to 7.35% as non-compliance by ignoring the distinction between the availability of reserved facilities and their actual utilization, which depends upon eligible patients seeking admission. • The Assessee complied with the reporting and monitoring requirements under the Maharashtra Public Trusts Act and the IPF Scheme, and the competent regulatory authorities have not recorded any violation of section 41AA or the IPF Scheme. Accordingly, the Assessee contended that the Ld. CIT(E) could not independently rely on the alleged shortfall to cancel registration under section 12AB of the Act. • The Assessee placed reliance on various judicial precedents[3] to contend that where a specialized statute creates a regulatory framework and vests supervisory powers in a designated authority, the Ld. CIT (E) cannot independently determine alleged violations under that statute and substitute its own conclusions for those of the competent authority.

[3] Sir Kikabhai Premchand Settlement Trust v. CIT(E) [ITA No. 2328 of 2018, dated November 25, 2025] [Bombay HC];
Milestone Real Estate Fund v. ACIT 172 ITD 370 (Mumbai Tribunal);
PCIT v. Milestone Real Estate Fund [ITA No. 3056 of 2019, dated January 19, 2026] [Bombay HC]; and Gestetner Duplicators Pvt. Ltd. v. CIT [1979] 117 ITR 1 (SC)

Line of Contention	Assessee' s Arguments
	• The Ld. CIT(E) was incorrect in examining isolated annual figures while completely ignoring the cumulative operation of the scheme, resulting in a shortfall of approximately Rs. 11.29 crores. • The Ld. CIT(E) effectively treated himself as the primary adjudicator under the Maharashtra Public Trusts Act and has undertaken an exercise which the statute never intended him to undertake. • No competent authority administering the Maharashtra Public Trusts Act has held that the Assessee is in breach of section 41AA or the IPF Scheme. • The Assessee referencing the speech of Hon'ble Finance Minister, which clearly specifies the concept of "specified violation" was introduced to provide an objective and structured framework for cancellation of registration and not to expand the powers of the Commissioner. • The Ld. CIT(E) is not required to examine non-compliance of each and every requirement of any other law, but only look into compliance of any other law for the time being in force, **as are material for the purposes of achieving its objects**.
Retrospective Cancellation of Registration	• The Ld. CIT(E) cancelled the registration retrospectively from 23 September 2021 based on facts and alleged deficiencies arising in subsequent years, without recording any finding that the registration was invalid or the activities were non-genuine at the time of grant. • The Ld. CIT(E) failed to record any finding that the activities of the Trust were not genuine at the time of grant of registration in September 2021, and therefore, no basis existed for retrospective cancellation. It was contended that the Ld. CIT(E) incorrectly evaluated the healthcare model based on personal perceptions rather than the statutory conditions prescribed for cancellation under section 12AB of the Act. • Retrospective cancellation was in violation of principles of natural justice, as the proceedings were initiated for renewal, and no specific notice proposing retrospective cancellation was issued.

5.0 Contentions of the Revenue/CIT(E) before ITAT

5.1 Exemption under sections 11, 12 and 80G of the Act is a statutory benefit available only to institutions genuinely engaged in charitable activities. It was contended that the Ld. CIT(E) was justified in examining the actual nature, scale, beneficiaries and economic structure of the hospital's activities rather than merely relying on the existence of medical services to determine continuation of registration.

5.2 Tariff structure, treatment costs and premium facilities demonstrate that the hospital primarily caters to affluent sections of society and operates as a premium healthcare institution. According to the Revenue, the comparison of tariffs and treatment costs with economic indicators was only an evidentiary analysis to assess the accessibility of services and establish that the institution was not substantially serving indigent or economically weaker sections as contemplated for charitable status.

5.3 Financial analysis undertaken by the Ld. CIT(E) should be viewed holistically and not based on isolated accounting entries or fund transfers. It was contended that the substantial receipts, financial resources and overall scale of operations reflected in the accounts demonstrate that the institution operates differently from a charitable hospital primarily focused on indigent and economically weaker sections.

5.4 The Ld. CIT(E) was empowered to consider material indicating non-compliance with another law relevant to the charitable objects, even in the absence of any separate finding by the regulatory authority. Accordingly, the Ld. CIT(E) was justified in independently examining compliance with section 41AA of the Maharashtra Public Trust Act and the IPF Scheme.

5.5 The Revenue submitted that the Ld. CIT(E) correctly examined the implementation of the IPF Scheme and identified a substantial shortfall in utilization of resources towards indigent and economically weaker section patients and rightly concluded that the institution functions as a premium healthcare provider catering to a limited segment, with inadequate treatment provided to indigent and weaker section patients and deficiencies in the implementation of the IPF Scheme.

6.0 Decision of the Hon'ble ITAT

The Hon'ble ITAT examined the dispute from four principal perspectives.

6.1 Scope of enquiry under section 12AB of the Act.

- **Section 2(15) of the Act**

  The Hon'ble ITAT referred to the definition of "charitable purpose" under section 2(15) of the Act and observed that the said definition is inclusive in nature. Accordingly, the expression expands the scope of the term beyond its ordinary meaning, as held by the [4]**Hon'ble Supreme Court in the case of CIT v. Taj Mahal Hotel**.

[4] [(1971)82 ITR 44 (SC)]

The view is supported[5] Section 2(15) of the Act specifically recognizes "medical relief" as an independent category of charitable purpose, distinct from the residuary category of "advancement of any other object of general public utility". Accordingly, no statutory requirement exists for a medical relief institution to satisfy any affordability test, prescribed tariff structure or limit its scale of operations.

- **Section 11 and 12 of the Act**

  Section 11 of the Act does not contemplate whether a charitable institution should generate income or not. Rather, the provision recognizes that income derived from property held under trust is a natural and legitimate part of charitable activities, provided such income is applied towards charitable purposes.

  The Tribunal further noted that the law regulates the application and utilization of income and not the quantum of income generated. Accordingly, there is no statutory requirement that a charitable institution should remain financially modest, operate on a small scale or avoid creating substantial infrastructure merely to retain its charitable character.

6.2 Whether premium facilities alter the charitable character of an institution engaged in medical relief?

- The key consideration is whether the dominant object remains charitable and whether the income generated is applied towards such charitable purposes.

- The Hon'ble ITAT held that factors such as bed tariffs, treatment costs, average revenue per bed and comparison with household income cannot be treated as determinative tests for evaluating charitable status under section 12AB of the Act, as the Act does not prescribe any affordability benchmark for healthcare services, as the role of the commissioner is not to formulate the healthcare policy.

- What is material is whether the institution exists for private profit or remains dedicated to charitable purposes. The impugned order records no finding of income being distributed to trustees, diverted for private benefit, or applied to non-charitable purposes.

- Advanced healthcare and charitable activities are not mutually exclusive, as modern medical relief inherently involves sophisticated treatments requiring significant investment in infrastructure, technology and expertise. A charitable institution does not lose its charitable character merely because it provides high-quality or advanced medical services, provided that its objectives remain charitable and resources are applied towards such purposes.

[5] CBDT Circular no. 1/2009 dated 27.3.2009;
Ahmedabad Urban Development Authority v. ACIT [(2022) 449 ITR 1 (SC); and
Dharmadeepti v. CIT 114 ITR 454;

- Medical relief under section 2(15) need not be confined to the poor, a trust engaged in medical activities qualifies as charitable and may claim exemption under section 11.

- The reasoning of Ld. CIT(E) rests on the expectation that the hospital should do more for weaker sections. However, jurisdiction of section 12AB does not permit withdrawal of registration for falling short of an ideal model of charity.

6.3 Whether the Ld. CIT(E) was empowered to independently determine alleged violations of section 41AA of the Maharashtra Public Trusts Act and the IPF Scheme in the absence of any finding by the competent authority?

- The Hon'ble ITAT held that -

  - Section 41AA and the IPF Scheme cannot override or rewrite Section 12AB of the Act.

  - Only the Charity Commissioner or a designated authority under the Maharashtra Public Trusts Act can confirm violations.

  - Section 12AB(4) requires a formal order, direction, or decree holding that non-compliance has occurred.

  - The statutory framework focus upon the availability of facilities and maintenance of prescribed infrastructure for indigent and weaker section patients. The approach of CIT(E) to check the compliance on the basis of actual percentages of patients treated is outside the statutory prescription.

  - There is a fundamental distinction between compliance with a regulatory obligation and the existence of a charitable purpose. Procedural lapses, accounting lapses or regulatory lapses does not automatically erase the charitable character of the institution itself.

  - Income Tax authorities cannot assume the mantle of regulators under other enactments when applying section 12AB.

6.4 Retrospective cancellation of registration

- The Hon'ble ITAT held that cancellation of retrospective registration requires an independent examination as it is a more serious premise, and such a consequence requires a far stronger legal and factual foundation than what would ordinarily be required in simple renewal proceedings.

- **There is no finding in the order of Ld. CIT(E) that -**

  - registration was obtained by means of fraud, misrepresentation, suppression of material facts or concealment of relevant information;

  - the objects of the trust disclosed at the time of grant of registration were false or fictitious; and

- hospital was not carrying on medical relief activities at the time of the grant of registration;

- Factors relied upon by the Ld. CIT(E) to treat the hospital as commercial was not a new development after the grant of registration, but was an inherent feature of the institution existing even before 23.09.2021.

- The hospital was already a tertiary care facility with specialized departments, advanced infrastructure, premium rooms, sophisticated equipment, and a structured healthcare model at the time registration was granted. Therefore, these same characteristics cannot now be used as a basis to deny or cancel registration. If such features indicated commercial activity, the registration should not have been granted initially.

6.5 Conclusion

In view of the foregoing discussion, the Court held that:

- the assessee continues to be an institution existing for the charitable purpose of medical relief;

- its activities are genuine and are in furtherance of its stated objects;

- the financial scale, tariff structure, premium facilities or generation of receipts do not, by themselves, establish commerciality or profit motive;

- no finding has been recorded of diversion of income, private enrichment or application of funds for noncharitable purposes;

- alleged non-compliance with section 41AA or the IPF Scheme could not have been independently adjudicated by the CIT(E) in the absence of any determination by the competent authority under the Maharashtra Public Trusts Act; in any case, the assessee has complied with provisions of section 41AA and IPF scheme and further both these provisions are not material for achieving the objects of the trust in terms of section 12AB; and that the retrospective cancellation of registration from 23-9-2021 is unsustainable.

Consequently, the impugned order rejecting renewal and cancelling registration under section 12AB is set aside. The registration earlier granted to the assessee under section 12AB shall stand restored and the application for renewal stands allowed. Since the rejection of approval under section 80G is only consequential to the order passed under section 12AB, the said consequential rejection also cannot survive and is accordingly set aside.

7.0 Key Takeaways

- Medical relief, education, yoga, preservation of the environment and similar activities are expressly recognized under section 2(15) of the Act as independent charitable purposes. Institutions such as hospitals, schools, and colleges engaged in these purposes are not subject to affordability tests, nor are they required to align their charges/fees with average household income or other private organizations.

- Such charitable institutions do not lose their status simply because they levy substantial fees or provide advanced facilities. Modern healthcare delivery/ education requires investment in technology, infrastructure, and skilled professionals. Offering high-quality services strengthens, rather than diminishes, their charitable character.

- Merely surplus income generated by such institutions cannot be equated with commercial profit. Its nature depends on application: if reinvested to further charitable objectives, it remains charitable in essence.

- The Commissioner's jurisdiction under section 12AB is limited to assessing whether objects are charitable, activities are genuine, and statutory grounds for cancellation exist. Extraneous tests like affordability comparisons, tariff benchmarks, or revenue-per-bed ratios are outside the scope of the Act.

- Section 12AB requires compliance checks with other laws only where such compliance is material to achieving charitable objects. It does not mandate scrutiny of every statutory requirement.

- Renewal rejection and cancellation of registration are distinct in nature and effect. Proceedings initiated as a renewal cannot automatically be converted into retrospective cancellation.

- The above decision of the ITAT should not be read to mean that every hospital trust will automatically qualify for exemption. The trust must still satisfy the statutory conditions under sections 2(15), 11, 12, 12AB and 80G, ensure genuine charitable activities, avoid private benefit or diversion of income, and comply with applicable regulatory requirements. The decision is an ITAT ruling and may still be subject to further appellate proceedings.

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