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Beyond the Income-tax Act: Can Statutorily Mandated Revenue-Generating Activities Negate Educational Character under Section 10(23C)(iiiab)?

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Abstract

This paper examines whether a university or other educational institution claiming exemption under section 10(23C)(iiiab) of the Income-tax Act, 1961, loses its educational character by undertaking revenue-generating activities mandated, authorised or necessarily incidental to its constituting statute and regulatory framework. The issue is particularly relevant for agricultural, veterinary, medical and technical institutions, where teaching, research and extension functions inherently generate receipts through activities such as experimental farms, seed production, clinical facilities, testing laboratories and consultancy.

Drawing on the statutory framework, specialised university legislation, regulatory materials and judicial authorities culminating in New Noble Educational Society, the paper argues that receipts or surplus are evidentiary rather than determinative of educational character. It proposes a **Statutory Mandate-Functional Nexus Test** to evaluate whether a disputed activity remains educational by examining its statutory basis, functional nexus with teaching, research or extension, operational character and financial application. The paper also analyses the Government-financing requirement under Rule 2BBB and the corresponding provisions of the Income-tax Act, 2025. It concludes that statutorily mandated activities do not become commercial merely because they generate receipts, although failure to satisfy the financing threshold may independently defeat the exemption.

Keywords: Section 10(23C)(iiiab); educational institution; revenue-generating activities; New Noble Educational Society; agricultural education; Income-tax Act, 2025.

1. Background and statutory framework

1.1 Introduction

The tax treatment of specialised educational institutions continues to run into the same problem in practice. Consider a State Agricultural University established by a state legislature and given a combined mandate to teach, conduct applied research, and run extension programmes. To actually carry out that mandate, the university runs experimental farms, produces high-yield bio-fertilisers, operates veterinary clinics where students train hands-on, and sells seeds to local farmers at government-regulated rates. Naturally, these activities bring in significant money, and some years the university ends up with a surplus in these departments.

When assessment time comes, the tax authority isolates the receipts from seed sales and the veterinary clinics, calls them separate business ventures run for profit, and proposes to deny the institution's exemption under Section 10(23C)(iiiab) of the Income-tax Act, 1961 [1], the whole exemption, not just the disputed portion.

What this really reveals is a mismatch between how tax officials think and how specialised education actually works. Assessors tend to picture education as classroom teaching, so the moment an institution earns real money from the public, it looks like a commercial sideline to them. Universities see the matter differently: they argue that in fields like agriculture and medicine, you can't separate the practical demonstration, the applied research, and the community outreach from the teaching itself; it's all one process.

So, the real legal question is this: when a law creating an educational institution requires it to run revenue-generating activities explicitly or by necessary implication, should those activities be judged on how they look in isolation (i.e., as commerce), or on what they actually do for the institution's statutory, academic, and research purposes? Answering that means striking a careful balance: guarding against people misusing charitable exemptions on one hand, while still recognising that applied higher education is genuinely more complicated than a textbook classroom model on the other.

This paper adopts a doctrinal method, examining the statutory framework, judicial authorities and constituting legislation of specialised universities. The comparative discussion is illustrative and is used only to identify alternative approaches to related and unrelated revenue activities; it is not presented as an interpretive source for Indian law.

Three questions must be kept analytically separate. First, whether the institution's objects are exclusively educational. Secondly, whether the disputed activity, as actually conducted, is educational or genuinely incidental to education. Thirdly, whether the institution independently satisfies the Government-financing condition. Failure at the third stage may defeat the particular exemption without altering the institution's educational character. Existing authorities provide principles concerning educational purpose, surplus, incidental business and Government financing, but do not offer a structured method for evaluating revenue-generating activities mandated by specialised university statutes. This paper addresses that gap through the Statutory Mandate–Functional Nexus Test. The analysis focuses primarily on section 10(23C)(iiiab); references to other exemption routes are comparative or remedial.

The remainder of the paper proceeds as follows. Part 2 traces the legislative history of section 10(23C) and the significance of statutory mandates; Part 3 synthesises the case law from Loka Shikshana to New Noble; Part 4 proposes the Statutory Mandate–Functional Nexus Test; Part 5 examines the post-New Noble constraint and states the strongest case on each side; Part 6 applies the analysis activity-by-activity; Part 7 addresses the burden of proof; Part 8 draws comparative lessons from the UK and US; and Part 9 sets out a compliance checklist for institutions and their advisers.

1.2 Statutory framework

Section 10 carves out certain categories of income from the total-income computation altogether. Within clause (23C), Parliament has always treated educational institutions as a category of their own. As the statute currently reads, sub-clause (iiiab) covers any university or educational institution that exists solely for educational purposes, does not exist for purposes of profit, and is wholly or substantially financed by the Government. Sub-clause (iiiad) covers smaller institutions that fall below a prescribed receipts threshold, and sub-clause (vi) covers other educational institutions, which must get approval from the prescribed authority. The Finance (No. 2) Act, 2014 [4], added an explanation clarifying what "substantially financed" actually means, and Rule 2BBB later prescribed the threshold: more than 50% of total receipts.

First, section 10(23C)(iiiab), unlike sub-clause (vi), does not require prior approval from the prescribed authority. The exemption operates upon satisfaction of the statutory conditions, although the institution must establish its eligibility during assessment. But that doesn't mean the exemption proves itself. The assessee still has to establish the two substantive conditions courts keep coming back to: educational, non-profit character, and government financing.

The term "educational institution" isn't separately defined anywhere in section 10(23C). So, courts have leaned on the broader understanding of "education" from tax law, most notably the Supreme Court's formulation in Sole Trustee, Loka Shikshana Trust [5], which held that "education" under section 2(15) means systematic instruction, schooling, or training, not just any way of picking up knowledge. The Supreme Court subsequently reaffirmed this understanding in New Noble Educational Society, while also recognising education's broader constitutional and institutional weight as a charitable purpose.

That said, Indian courts have never limited "educational institution" to places where students physically sit in classrooms. A society that sets up and runs schools or colleges can itself count as an educational institution for tax purposes. An examination body may qualify too, if what it does is genuinely educational in nature. Even a state textbook corporation has been treated as part of a larger educational function. So the test is functional, what does the institution actually do? It isn't unlimited either: whatever the activity is, it still needs a real, direct connection to education.

The financing requirement has its own separate history. Before 2014-15, "substantially financed" was fought out case by case, with no fixed benchmark. The Finance (No. 2) Act, 2014 added an Explanation under section 10(23C)(iiiac) allowing the government to prescribe a specific percentage. CBDT Circular No. 1/2015 [6] explains why: the lack of a clear definition had led to inconsistent rulings and general uncertainty. The same circular notes that Notification No. 79/2014 introduced Rule 2BBB, setting the threshold at more than 50% of total receipts, effective from assessment year 2015-16 onward.

One last structural point matters here. Section 10(23C)(iiiab) uses the same phrase "existing solely for educational purposes and not for purposes of profit" that also appears in (iiiad) and (vi). That shared wording is precisely why the Supreme Court in New Noble Educational Society [2], even though the case was technically about approvals under section 10(23C)(vi), ended up discussing (iiiab), (iiiad), and (vi) together, laying out principles broad enough to apply across all three. Consequently, section 10(23C)(iiiab) cannot be interpreted independently of New Noble, although the Government-financing condition remains unique to that exemption route.

1.3 Transition to the Income-tax Act, 2025:

The Income-tax Act, 2025, came into force on 1 April 2026 and replaced the Income-tax Act, 1961, subject to the repeal-and-savings provisions contained in section 536. Consequently, disputes relating to previous years ending on or before 31 March 2026 continue to be governed by the 1961 Act, even where the assessment, reassessment or appellate proceedings take place after the commencement of the new legislation. Income arising from the tax year beginning on 1 April 2026 is governed by the 2025 Act.

The position may be summarised as follows:

Relevant period	Governing law	Relevant exemption provision
Previous years ending on or	Income-tax Act, 1961	Section 10(23C)(iiiab), read with Rule 2BBB

Relevant period	Governing law	Relevant exemption provision
before 31 March 2026		
Tax year 2026–27 and subsequent tax years	Income-tax Act, 2025	Section 11(3), read with Schedule VII, Table Sl. No. 17 and Rule 287 of the Income-tax Rules, 2026
Proceedings commenced after 1 April 2026 concerning an earlier year	Income-tax Act, 1961, by virtue of section 536	Section 10(23C)(iiiab) and the corresponding provisions of the repealed law

Under the 2025 Act, the exemption that used to sit in section 10(23C)(iiiab) has moved to section 11(3), read with Schedule VII, Sl. No. 17 [7]. The Schedule covers a university or educational institution that is wholly or substantially financed by the Government, on the condition that it exists solely for educational purposes and not for profit. Rule 287 continues the quantitative threshold prescribed under Rule 2BBB. An institution is regarded as substantially financed where the Government grant for the relevant tax year exceeds 50% of its total receipts, with donations being included in the computation of total receipts.

For the specific educational-character and Government-financing issues examined in this paper, the transition is principally a recodification rather than a substantive alteration. The two core requirements still stand apart from each other: the institution must be exclusively educational and non-profit in character, and separately, it must meet the prescribed Government-financing threshold. An institution can be entirely educational in what it does and still miss out on the exemption simply because its grants fall short of the required percentage. The reverse also holds: heavy Government financing does not shield an institution from scrutiny if some of its activities have taken on an independent commercial character.

Because the phrase "solely for educational purposes and not for purposes of profit" has been carried over unchanged, New Noble Educational Society and the earlier case law interpreting that exact phrase remain just as relevant. Rulings that dealt specifically with the approval process under section 10(23C)(vi) need to be applied carefully, since that procedural context has changed, but their underlying reasoning on educational objects, incidental activities, surplus, and commerciality still holds wherever the same language has been re-enacted.

So the core argument of this paper still stands under the 2025 Act. Activities that an institution is statutorily required to carry out, such as experimental cultivation, seed production, clinical training, research testing, and extension education, need to be assessed on their actual educational function: their scale, who benefits from them, how they're priced, and how integrated they are into the institution's mandate. Simply relocating the provision in the statute book doesn't turn receipts from an educational mandate into commercial income just because money changes hands. The real question is still the same one: is this an educational activity that happens to generate receipts, or is it an independent commercial activity being run by an educational institution?

2. Legislative history, CBDT materials, and the significance of statutory mandates

The legislative history matters because it shows Parliament was never trying to shut down all income generation by educational entities. What it was actually doing was building different routes to exemption depending on the type of institution and its risk profile. The 1998 overhaul [8] that replaced the old section 10(22) regime with the present clause (23C) split Government-funded institutions, small institutions, and approval-based institutions into separate sub-categories. The New Noble case [2] itself pointed to that same restructuring when explaining how section 10(23C) is organised.

The 2014 amendment addressed a narrower but equally important issue. CBDT Circular No. 1/2015 [6] explains that the absence of a definition of “substantially financed by the Government” had generated litigation and inconsistent judicial outcomes. Parliament therefore introduced a quantitative financing rule, subsequently prescribed through Rule 2BBB, under which Government grants must exceed 50% of total receipts for the relevant previous year. This is a financing requirement rather than a test of educational or charitable character. Consequently, for assessment years governed by the rule, a Government university may remain exclusively educational and non-profit in character but still fail section 10(23C)(iiiab) because the prescribed financing threshold is not satisfied.

This distinction is illustrated by Hidayatullah National Law University v. ACIT [9]. The Raipur Tribunal held that the university satisfied the first requirement of section 10(23C)(iiiab), namely that it existed solely for educational purposes and not for purposes of profit. However, it failed the independent Government-financing requirement because Government grants constituted only 47.85% of total receipts for AY 2016–17 and 9.77% for AY 2017–18, both falling below the threshold prescribed under Rule 2BBB. The denial of exemption was therefore unrelated to the university's educational character; it resulted entirely from failure to satisfy the statutory financing condition. This contrasts with the pre-2015 position, where tribunals and High Courts treated "substantial financing" as a broader factual inquiry rather than a rigid 50% threshold.

This is exactly why the question of whether statutorily mandated revenue-generating activities negate educational character needs to be kept separate from the 50% grant rule. A State university could lose section 10(23C)(iiiab) purely because its grants fell below 50%, even while its hostels, farmer-training programmes, consultancy cells, laboratories, and research-extension receipts remain entirely educational. In that kind of case, the problem isn't that the character of the institution has changed, it's that the institution no longer satisfies the conditions of that exemption provision. It might still have a path through section 10(23C)(vi), or through sections 11 and 12, each with its own separate conditions.

The role of statutory mandates becomes clearest once you move from general educational societies to universities created by legislation. Agricultural and specialised university statutes across India routinely build research, extension education, training for people who aren't even enrolled students, hostels, laboratories, research stations, museums, and various fees directly into the institution's legal functions. The Assam Agricultural University Act, The Maharashtra Agricultural Universities Act, The Karnataka Universities of Agricultural Sciences Act, The Dr Rajendra Prasad Central Agricultural University Act, and The Tamil Nadu Agricultural University Act [10] all follow this same pattern. Some go even further, explicitly providing for collaboration, advisory services, and special centres or labs.

These statutes matter because, after The New Noble case [2], an institution's objects clause can't include purposes unrelated to education. But when the statute itself defines the university's purpose as teaching, research, extension work, training field workers, running hostels and laboratories and museums, and charging prescribed fees, none of that counts as an "alien commercial object" it's simply part of the institution's educational makeup. This is especially true in agricultural education: ICAR's own materials still describe teaching, research, and extension as the three core functions of agricultural universities, and hands-on programmes like RAWE exist specifically to connect classroom theory with real agricultural practice [23]. That whole regulatory ecosystem backs up the argument that extension-related receipts are woven into the education itself, not some commercial add-on.

The same logic carries over outside agriculture, too. In medicine and technical education, practical training, internships, and the institutional systems that support them aren't optional extras; they're built into the educational model itself. Official medical education materials emphasise clinical teaching, skills training, and dedicated medical education units, and AICTE's own internship platform describes practical work as "learning by doing", a bridge between classroom education and real-world professional experience [24]. All of this reinforces a broader point: when the teaching method itself is experiential, the revenue it generates may simply be inseparable from the education.

3. Case law synthesis

The judicial history is best understood not as a straight line, but as a progression through three phases: a definitional phase (Loka Shikshana [5]), a dominant-purpose and surplus phase (Aditanar [12], American Hotel [13], Queen's [14]), and a post-New Noble case exclusivity phase. The table below synthesises the most relevant authorities for the present issue.

Case	**Context / issue**	**Holding / principle**	**Relevance to the present case**
Sole Trustee, Loka Shikshana Trust v. CIT (SC, 1975) [5]	trust published newspapers and literature. The issue was the meaning of "education" under tax law.	Exemption was denied. "Education" means systematic instruction, schooling or training, and does not include every method of spreading knowledge.	Provides the starting point for defining education and excludes activities involving only general public awareness.
Aditanar Educational Institution v. Addl. CIT (SC, 1997) [12]	A society operating schools and colleges earned a surplus after meeting its expenses.	The relevant annual inquiry is whether the institution exists solely for education and not for profit. Incidental surplus arising from genuine educational activity is not fatal.	Establishes that an educational society may qualify as an institution and may earn incidental surplus from its educational activities.
Oxford University Press v. CIT (SC, 2001) [15]	Oxford University Press earned income in India from publishing and selling books. The issue was whether its Indian activities were themselves educational.	Exemption was denied because the character of the Indian activity had to be independently examined. An activity lacking a sufficient educational nexus does not qualify merely because it is connected with	Supports the proposition that unrelated commercial activity may defeat exemption despite an institutional connection with education.

Case	**Context / issue**	**Holding / principle**	**Relevance to the present case**
		a renowned educational body.	
American Hotel & Lodging Association Educational Institute v. CBDT (SC, 2008) [13]	A hospitality educational institute sought approval under section 10(23C)(vi), despite earning surplus.	The Court distinguished the threshold requirement of educational existence from subsequent monitoring conditions and adopted a relatively flexible interpretation of "solely."	Historically important, but its interpretation of "solely" was subsequently overruled by New Noble.
Assam State Text Book Production & Publication Corporation Ltd. v. CIT (SC, 2009) [16]	A state corporation produced and sold textbooks as part of the public education system.	The Supreme Court allowed the appeals and remitted the matter to the Assessing Officer for de novo consideration. It held that the institution's historical background, Government control, funding structure and role in implementing the State's educational policy had to be properly examined. The decision supports the possibility that textbook production and distribution may form part of a wider educational function, but it did not itself finally allow the exemption.	Provides a strong analogy for receipt-generating activities that directly support or implement education.
Pinegrove International Charitable Trust v. Union of India (P&H HC, 2010) [17]	Approvals of educational institutions were withdrawn because they repeatedly generated substantial surpluses.	Surplus alone is not conclusive of a profit motive. Its utilisation, including capital expenditure for educational expansion, and the overall educational purpose must be examined.	Supports the argument that receipts or surplus do not automatically convert an educational institution into a commercial entity.
Vanita Vishram Trust v. CCIT (Bom HC, 2010) [18]	The trust had broadly worded objects but, in practice, operated only educational institutions	Wider object clauses and surplus did not justify denial where the trust's actual activities were exclusively	Useful as a pre-New Noble authority emphasising actual activities over broadly

Case	Context / issue	Holding / principle	Relevance to the present case
	and reinvested its surplus.	educational.	drafted objects, though its application must now be read cautiously.
Council for the Indian School Certificate Examinations v. DGIT(E) (Del HC, 2014) [19]	An examination body charged registration, affiliation and examination fees. The issue was whether it could qualify as an educational institution despite not providing conventional classroom teaching.	The assessee succeeded. Educational activity is not confined to direct classroom instruction; examination and certification functions may also form part of education.	Demonstrates that fee-based and non-classroom functions may retain an educational character where they are integral to the education system.
Queen's Educational Society v. CIT (SC, 2015) [14]	An educational society generated surplus and applied it again towards educational purposes.	Surplus ploughed back into education did not, by itself, establish a profit motive. The Court applied the dominant-purpose test.	Historically significant on surplus, but partly overruled by New Noble insofar as it interpreted "solely" through the dominant-purpose test.
Visvesvaraya Technological University v. ACIT (SC, 2016) [22]	A statutory technical university had accumulated a substantial surplus, while direct Government grants constituted less than 1% of its receipts. It argued that fees collected under statutory authority should also be treated as Government financing.	The Supreme Court held that the university satisfied the requirement of existing solely for educational purposes and not for profit, notwithstanding the substantial surplus and its accumulation for educational infrastructure. The exemption nevertheless failed because the university was not wholly or substantially financed by the Government. Statutorily authorised fee receipts could not be treated as Government grants.	Strongly separates educational character from the independent financing condition. It also confirms that statutory authority to collect fees does not convert those receipts into Government financing.
New Noble Educational Society v. CCIT (SC,	Approval was denied because the society had	"Solely" means exclusively, not predominantly. All	The controlling modern authority for

Case	Context / issue	Holding / principle	Relevance to the present case
2022) [2]	non-educational objects and had not complied with applicable state charity law. The Court examined "solely," incidental business and scrutiny of objects and accounts.	objects must relate to education. Business income is permissible only where the activity is incidental to education. Textbooks, student transport and student hostels may qualify, whereas use of premises or infrastructure for unrelated outside courses may not. The interpretation was made prospective.	determining whether receipt-generating activities preserve or negate the educational character of an institution.
Dr. Babasaheb Ambedkar Open University v. CIT(E) (ITAT Ahmedabad, 2024) [20]	Revision proceedings questioned whether the university was substantially financed for AY 2014–15 by applying Rule 2BBB.	The Tribunal quashed the revisionary order under section 263. It held that Rule 2BBB could not be applied to AY 2014–15 and that the Assessing Officer's treatment of interest earned on Government grants as part of Government financing constituted a permissible view based on the applicable law and facts.	Confirms that the statutory 50% financing threshold cannot govern pre-2015 assessment years.
Guru Nanak Dev University v. DCIT (ITAT Chandigarh, 2025) [21]	For a pre-2015 year, government grants were below 50%, raising the question of whether financing was nevertheless "substantial."	The assessee succeeded. Before Rule 2BBB, substantial financing was a factual inquiry and was not governed by a rigid 50% threshold.	Relevant to legacy assessment years under section 10(23C)(iiiab), where substantial financing must be determined from the overall facts.
Hidayatullah National Law University v. ACIT (ITAT Raipur, 2026) [9]	A statutory law university claimed exemption under section 10(23C)(iiiab), but Government grants constituted 47.85% (AY 2016–17) and 9.77% (AY 2017–18) of its total receipts.	The Tribunal held that although the university existed solely for educational purposes and not for profit, it failed the separate Government-financing requirement under Rule 2BBB because grants did not exceed 50% of total	Demonstrates that failure to satisfy the Government-financing requirement is legally distinct from losing the educational character of the institution; the exemption may fail solely because the

Case	Context / issue	Holding / principle	Relevance to the present case
		receipts in either year.	financing threshold is not met.

Several conclusions emerge from this body of authority. The authorities support a distinction between receipts generated through educational activity and receipts generated through an independent commercial operation, although the application of that distinction has varied with the statutory provision and factual context. A recurring error in assessments is to collapse those distinct inquiries into a single suspicion: “money came in, therefore the institution is commercial”. Several higher-court authorities have rejected an approach that treats the mere generation of receipts as conclusive of commercial character.

At the same time, the case law does not license an educational institution to do anything that earns revenue. Oxford University Press [15] and New Noble case [2] remain clear that activity without a sufficient educational nexus fails. The modern test is therefore stricter than the old pre-New Noble position, but it is still a nexus test, not an anti-revenue test.

4. The Statutory Mandate–Functional Nexus Test

To resolve the tension between the Revenue's strict interpretation of receipts and the institution's reliance on statutory duties, neither the memorandum nor the revenue ledger should be examined in isolation. A receipt answers the question "what was received," but it does not answer "why the activity was undertaken." To provide certainty for courts, assessing officers, and institutions post-New Noble, this paper proposes an original, structured evaluative framework: The Statutory Mandate–Functional Nexus Test.

This multi-stage test operationalises the strict standard of New Noble [2] while accommodating the complexities of specialised statutory education.

Stage 1: Institutional Status and Jurisdictional Threshold

- Is the claimant a legally established university or other educational institution actually functioning as such?
- Is the Government-financing requirement independently satisfied under Rule 2BBB (exceeding 50% of total receipts for the relevant previous year)?

Stage 2: Statutory and Regulatory Mandate Inquiry

- Is the disputed revenue-generating activity expressly required, necessarily implied, merely permitted, or wholly outside the governing statute (e.g., the State Agricultural Universities Act)? A statutory duty carries greater evidentiary weight than a mere discretionary power.
- What do sectoral regulators (e.g., ICAR, UGC, the National Medical Commission and other applicable sectoral regulators) recognise as an integral part of the educational and extension function?

Stage 3: Functional Educational Nexus (The Core Analysis)

- How does the activity directly connect with the prescribed curriculum, practical student training, applied research, field demonstration, or public extension?

- Is that connection contemporaneously documented (e.g., through student participation logs, research protocols, or faculty supervision records)?

Stage 4: Operational Character Assessment

- Who performs the activity? Is it integrated with faculty and students, or run by an autonomous commercial workforce?
- What is the scale of the operation? Is it proportionate to the educational, research, and extension requirements of the university, or does it resemble an industrial-scale commercial enterprise?
- How is the output priced? Does it reflect cost-recovery, state-subsidised distribution, or aggressive market-oriented profit maximisation?

Stage 5: Financial Character and Counterfactual Inquiry

- Does the activity generate persistent or disproportionate surpluses that, when considered with its scale, pricing and manner of operation, indicate an independent profit-oriented character?
- How are the receipts and any resulting surplus applied? Are they retained and used for teaching, research, extension, student welfare or institutional infrastructure, or do they result in private benefit, diversion of institutional resources or expansion unrelated to the educational mandate?
- Are activity-wise or segmental accounts maintained? Although section 10(23C)(iiiab) did not itself expressly reproduce the separate-books requirement applicable to incidental business under other exemption routes, separate accounting remains a significant evidentiary safeguard in establishing the educational character, scale and application of receipts from the disputed activity.
- Counterfactual inquiry: Would the institution undertake the underlying teaching, research or extension activity even if the resulting output generated no profit? Is the sale merely a method of disposing of, distributing or disseminating the output, or is revenue generation the organising purpose of the activity?

Where an activity is rooted in the institution’s statutory mandate, possesses a demonstrable functional nexus with teaching, research or extension, operates at a proportionate scale and lacks an independent profit-oriented character, it should ordinarily be regarded as consistent with the institution’s exclusively educational purpose. No single factor is conclusive, and the determination must ultimately rest on the institution’s objects and actual manner of operation.

4.1 Illustrative Application

The operation of the proposed test may be illustrated by applying it to the hypothetical introduced in section 1.1: a State Agricultural University that sells seeds at Government-regulated rates and operates a veterinary clinic open to the public.

Stage 1: The university is validly constituted under a State Agricultural Universities Act and is substantially financed by the State Government, satisfying the jurisdictional threshold, subject to the Rule 2BBB computation being separately verified for the relevant year.

Stage 2: The governing Act expressly mandates teaching, applied research, and extension education, and empowers the university to run experimental farms and produce seed. The activity is therefore statutorily required, not merely permitted, carrying the highest evidentiary weight under Stage 2. ICAR's own framework recognises seed multiplication and clinical veterinary training as integral to the teaching-research-extension model.

Stage 3: Seed production is directly tied to plant-breeding research and to the practical training of agriculture undergraduates who staff the experimental farm as part of their curriculum; the veterinary clinic is where final-year students complete mandatory clinical postings under faculty supervision. Both connections are capable of being documented through field diaries, faculty supervision logs, and curriculum mapping.

Stage 4: The farm and clinic are staffed by faculty and students, not an independent commercial workforce; their scale mirrors the university's own teaching and research requirements rather than a competing agribusiness; and seed and treatment charges are fixed at government-regulated rates, not market pricing.

Stage 5: Any surplus is modest, fluctuates with crop cycles rather than growing steadily, and is reapplied to the university's educational activities. On the counterfactual inquiry, the university would operate the farm and clinic substantially in the same manner even if no profit arose from the resulting output, because its teaching and research obligations exist independently of the market. The sale is merely the means by which the institution disposes of or distributes output that it was required to produce for demonstration, research and extension.

On these facts, the activities sit squarely within the educational, non-profit character the exemption protects. The analysis would tip the other way only if, for example, the university spun off the dairy operation into a separately branded commercial venture, priced output competitively against private dairies, staffed it entirely with hired labour, and let profits accumulate without being applied to educational purposes, the fact pattern sketched in Section 5.2.

4.2 Limitations of the Test

The test is not self-executing. "Proportionate scale" and "cost-recovery pricing" in Stage 4 require a comparator — a workably objective benchmark, for instance scale relative to enrolled-student numbers, or pricing relative to the state-notified minimum support price, still needs to be supplied by the assessing authority or by future rule-making, or the stage risks collapsing into the same case-by-case discretion the test is meant to discipline. Institutions could also, over time, structure genuinely commercial ventures to track the test's language, for example by inserting a token student-training component into an otherwise industrial-scale operation; Stage 4's inquiry into who performs the activity and Stage 5's counterfactual inquiry are designed to resist this, but assessing officers will need comparative data across institutions to apply them with confidence. The test is therefore best understood as a structured checklist that narrows and disciplines the inquiry New Noble already requires, not as a mechanical formula that removes judgment from individual cases.

5. The post-New Noble constraint

The Supreme Court's decision in New Noble Educational Society v. Chief Commissioner of Income Tax [2] marks the decisive break in the jurisprudence governing educational exemptions. The Court rejected the transplantation of the "predominant object" test into section 10(23C), holding that the word "solely" means exclusively and not primarily or predominantly. To that extent, the Court disapproved the reasoning in earlier authorities, including Queen's Educational Society [14] and American Hotel & Lodging Association Educational Institute [13] insofar as they permitted institutions to rely on an overriding educational purpose despite the existence of other objects. At the same time, the Court did not hold that every receipt-generating activity is prohibited. It preserved a limited space for activities genuinely incidental to education, such as textbooks, transport, hostels and allied student facilities. The post-New Noble case [2] inquiry is therefore not whether education remains the dominant object, but whether every object and disputed activity remains educational or genuinely incidental to education.

The doctrinal shift here is subtle but matters a lot. Post-New Noble case, you can no longer really argue "our dominant purpose is education, so nothing else matters." The stronger argument now is that the governing statute and constitutional documents show this particular activity is either internal to the institution's education, or at least closely tied to it, and that its actual operations stay within that educational field.

5.1 Does New Noble judgment apply Identically to Section 10(23C)(iiiab)?

Even though The New Noble [2] was decided specifically in the context of approval proceedings under Section 10(23C)(vi), its reasoning inevitably carries over to Section 10(23C)(iiiab). The phrase "existing solely for educational purposes and not for purposes of profit" is worded identically across sub-clauses (iiiab), (iiiad), and (vi). Under well-settled principles of interpretation, identical language within the same statutory scheme should mean the same thing unless the context clearly demands otherwise. So the Supreme Court's reading of "solely" as "exclusively" can't logically be confined to sub-clause (vi) while a looser standard applies under (iiiab).

Nevertheless, the sub-clauses differ in their procedural operation. Sub-clause (vi) requires the prescribed authority to examine the institution’s objects, genuineness and actual conduct before granting approval. Sub-clause (iiiab), by contrast, is a statutory exemption that does not require prior approval, but the institution must establish during assessment that it satisfies both the educational-character and Government-financing conditions.

Caution is also required before importing the incidental-business framework of section 11(4A) directly into section 10(23C)(iiiab). New Noble aligned the treatment of incidental business under the former seventh proviso to section 10(23C) with section 11(4A). In the case of a statutory university, however, activities such as seed production may constitute part of the institution’s core educational, research or extension functions rather than a separate business merely incidental to those functions. The characterisation must therefore depend upon the governing mandate and the activity’s actual manner of operation.

5.2 The Revenue's Strongest Case

The strongest argument on the Revenue's side is that the Income-tax Act retains independent authority to look at what an institution actually does, regardless of what its establishing statute permits. Post-New Noble case, the word "solely" sets a hard boundary. Just because a statute allows a university to run a farm or sell produce doesn't automatically make that activity educational under tax law. The Revenue's point is a fair one: an institution can have exclusively educational objects on paper while still running an unrelated business in practice, and when that happens, actual conduct must prevail over the formal wording of its objects.

There's also the reality that a statutory body can end up doing two different things at once, its educational functions, and a separate commercial operation running alongside them. Consider an agricultural university that expands its dairy operation to an industrial scale, markets its products aggressively in competition with private businesses, employs a separate commercial workforce with no meaningful student or faculty involvement, and generates substantial recurring profits. In such circumstances, the activity may no longer be adequately explained by teaching, research or extension requirements. Large-scale production, market-oriented pricing, operational autonomy and the absence of academic participation would materially weaken the claimed educational nexus. The institution would then bear the evidentiary burden of demonstrating that the activity remains integrated with its exclusively educational purpose.

5.3 The Institution's Strongest Case

On the other side, the institution's strongest response is that specialised education simply can't be reduced to classroom lectures alone. For an agricultural university, the field is the classroom, and the harvest is the exam. Output from practical training and research, hundreds of tonnes of grain from experimental farms, or seeds bred for drought resistance can't just be consumed internally. It has to be distributed or sold, both to avoid wasting a national resource and to fulfil the university's statutory extension mandate.

Generating receipts here is a consequence of the educational work, not what's actually driving it. Pricing on these goods is usually set by state policy or a cost-recovery model, not the profit-maximising logic you'd see in a commercial enterprise. A Government institution carrying out its statutory duties is itself solid, objective evidence of public purpose. Scale also has to be judged against the size and statutory responsibilities the university actually carries; a state-wide agricultural university is naturally going to need a much bigger farm than a small local college would. Pulling the final sale out of context, away from the years of integrated teaching and research that led up to it, produces an artificial legal picture that doesn't match how the institution actually functions. And the fact that no one is personally profiting from any of this, no private enrichment, no distribution to individuals only reinforces the public, non-profit nature of the activity.

6. Revenue activity by category

The application of these principles varies according to the nature, beneficiaries and operational character of the particular revenue-generating activity.

Fee-charging tuition, examinations, affiliation, laboratory, library, training, and course charges. This is generally the least controversial category. Many universities' governing statutes expressly authorise them to fix and collect fees and other charges, and the case law has never treated fee-charging as somehow at odds with an educational purpose. Fees tied to examinations and certifications have also held up in the courts, as long as the underlying function is genuinely educational.

Hostels, transport, textbooks, and similar student facilities. New Noble and related authorities specifically recognise these as capable of being incidental to education, but only when they're kept confined to students. The flip side is just as clear: a hostel or catering operation that's been detached from the educational institution, or thrown open substantially to outsiders, might not itself count as part of an educational institution, and could be treated very differently.

Experimental farms, seed and crop production, and veterinary or dairy clinical facilities. These sit at the centre of the statutory-mandate argument developed in Sections 1-2 and deserve their own treatment here rather than only in the compliance table in Section 9. Where the founding statute requires the university to run experimental farms or clinical facilities for teaching and research, and students and faculty are actually involved in the work, the resulting output, grain, seed, milk, clinical treatment, is the physical residue of a teaching and research process, not a separate line of business. The activity becomes harder to defend once any of the following appear together: pricing set to maximise revenue rather than to recover cost or follow government-notified rates; scale that has outgrown what the curriculum and research programme require; a workforce hired independently of the academic departments; and an absence of any student or faculty role in day-to-day operations. No single one of these factors is fatal on its own, consistent with the multi-factor design of the test in Section 4, but their combination is the clearest signal that an activity has drifted from education into independent commerce.

Extension work, farmer training, field-worker programmes, and short non-degree courses. For agricultural and other specialised institutions, these are often written directly into the statute. The Assam, Maharashtra, Karnataka, Bihar, and the central agricultural university statutes all provide for training field workers, farmers, village leaders, and other people who aren't formally enrolled students. ICAR's own materials describe this kind of programme as practical agricultural education, part of the same teaching-research-extension model. On that footing, fee-charging extension programmes have a strong case for staying within the exemption, so long as they remain tied to the institution's statutory educational mission.

Sponsored research, testing, certification, consultancy, and advisory services. The case law here is thinner, so this requires a more careful, inference-driven analysis. Where the founding statute expressly includes research, dissemination of findings, laboratories, specialised centres, collaboration, or advisory services, as several agricultural university statutes do, receipts from sponsored research or advisory work shouldn't automatically be taken as evidence against educational character, particularly where faculty and students are actually involved, and the results feed back into teaching, extension, or institutional infrastructure. But the risk climbs sharply once the activity starts to resemble a stand-alone commercial service offered to unrelated third parties, with little real pedagogic connection and substantial revenue coming from outsiders. New Noble's treatment of outsiders using institutional premises and infrastructure is probably the closest analogy available. It's a reasonably strong inference, but it remains an inference, since there's no single Supreme Court ruling that deals directly with section 10(23C)(iiiab) and sponsored research.

Canteens. A canteen that purely serves students internally as part of hostel life or general campus welfare is much easier to defend than a public-facing catering concession would be. There's no dedicated Supreme Court ruling on educational canteens under section 10(23C)(iiiab), but New Noble's acceptance of "allied facilities (such as catering etc.)" tied to student hostels makes the likely direction fairly clear.

7. Burden of proof and the practical operation of the clause

Since section 10(23C)(iiiab) is self-executing, the practical burden at the assessment stage falls on the institution to prove two things: that it has an educational, non-profit character, and that it meets the Government-funding ratio. For years after 2015, that second requirement is really just an annual quantitative computation under Rule 2BBB. The first requirement, though, has to be established every year, drawing on the constituting statute, the memorandum or trust deed, university regulations, audited accounts, and evidence of how the activity in question actually operates in practice. New Noble makes clear that in the approval context, the authority is entitled to examine the objects, the accounts, and the pattern of income and expenditure to test whether the institution is genuine and that reasoning carries real weight even in cases like section 10(23C)(iiiab), where no formal prior approval is required.

8. Comparative perspectives and policy implications

In the United Kingdom, the law and HMRC guidance draw a line between primary purpose trading and unrelated trading. Trading that's part of a charity's primary purpose or that helps that purpose along isn't taxed at all. HMRC's own examples include an independent school charging tuition fees, a college selling textbooks to its students, or a museum running a café for visitors. Trading unconnected to the charity's primary purpose is treated differently and may be taxable. HMRC's example is a university renting out student accommodation to the general public over the summer break. So the UK model openly accepts revenue generation as long as it's primary-purpose or ancillary-purpose trading, and only flags risk once an activity drifts into genuinely non-primary-purpose commerce [25].

The United States takes a different route, through the doctrine of unrelated business income tax. IRS materials make clear that exempt organisations, including public colleges and universities, aren't taxed on income from activities substantially related to their educational purpose, even where those activities technically amount to a trade or business. But once an exempt organisation regularly runs a trade or business that isn't substantially related to its exempt purpose, that income gets taxed as unrelated business income, generally reported on Form 990-T. So the American approach doesn't treat every revenue-generating activity as a threat to tax-exempt status; it simply taxes the unrelated portion, while leaving the exemption intact for genuinely related educational activity [26].

The lesson for India here is fairly straightforward. Section 10(23C)(iiiab) does not indicate that any revenue activity would destroy educational character. The more useful dividing line is not "charitable" versus "revenue-earning", it's related versus unrelated, primary-purpose versus non-primary-purpose, incidental versus independent commercial activity. Indian jurisprudence already has the building blocks for exactly this distinction, especially in Oxford University Press [15] and New Noble [2]. The principal difficulty lies less in the absence of an underlying legal distinction than in its consistent application to the facts of specialised educational institutions.

This carries real policy weight. Public universities and specialised statutory institutions work in sectors such as medicine, agriculture, engineering, law, and public policy, where experiential education inevitably generates operational receipts. Clinical services, laboratories, seed and demonstration farms, continuing education, extension training, testing and certification, and hostels are often written directly into the institution's statutory design. Treating all of this as disqualifying "commerciality," just because it happens to generate money, would undercut the very public missions these statutes were created to serve. At the same time, a doctrine that turns a blind eye to genuine campus commercialisation would just invite abuse. The right policy answer, then, is a clearer, more principled line between educational monetisation that's internal to the institution's mission and unrelated commercial monetisation of its assets.

9. Compliance checklist, practical recommendations

The most effective compliance strategy is to treat section 10(23C)(iiiab) as a documentation-heavy character test, not merely a tax-return position. Institutions should be able to prove, with contemporaneous records, that every impugned receipt stream is legally and educationally anchored.

Compliance item	Why it matters under the case law
Ensure the constituting statute, trust deed, or memorandum contains only educational or educationally related objects	After New Noble [2], “solely” means exclusive educational objects; unrelated objects materially increase risk.
Map each revenue activity to a statutory power or object-clause provision	A clear statutory or regulatory foundation is strong evidence that the activity forms part of the institution’s educational mandate, although its actual operation must also be examined.
Maintain segment-wise books of account	Separate accounting helps show the activity’s educational

Compliance item	Why it matters under the case law
for hostels, transport, extension, consultancy, research, and training	nexus and the application of surpluses to education. New Noble [2] emphasises separate accounting in the context of incidental business, while segmental accounts also provide important evidence of scale, nexus and application of receipts.
Restrict student/beneficiary facilities to students or defined beneficiaries where possible	Hostels, catering, buses, and similar facilities are safest when they serve pupils/students, not the open market.
Document how surpluses are reapplied to teaching, research, extension, infrastructure, scholarships, laboratories, or hostels	Surplus is not fatal, but plough-back to education remains highly probative.
Compute the Rule 2BBB ratio annually using total receipts, including voluntary contributions	Post-2015 section 10(23C)(iiiab) eligibility turns upon this annual computation.
Review compliance with other applicable state or sectoral laws	Although this point arises most directly under section 10(23C)(vi), New Noble [2] treats compliance with relevant state law as probative of genuineness.
Avoid open-ended outsider use of infrastructure for unrelated workshops, courses, or commercial events	This is the high-risk fact pattern identified expressly in New Noble [2] .
Where a genuinely commercial activity is unavoidable, consider ring-fencing it through a taxable vehicle or formal arm's-length arrangement [27]	Comparative charity practice often uses this approach, and it limits contamination of the educational institution's character.
Where the Government-financing threshold is not satisfied, separately evaluate the alternative exemption or registration route applicable to the relevant statutory period	For years governed by the 1961 Act, the institution may need to examine section 10(23C)(vi) or sections 11-12. For tax years governed by the 2025 Act, eligibility must be considered under the corresponding Schedule VII and registered non-profit organisation framework. Failure of the financing condition does not by itself establish loss of educational character.

Table 3: Author's Proposed Evidentiary Matrix
The following indicators are illustrative and no individual factor is conclusive.

Disputed Activity	Evidence of Educational Nexus	Red Flags Indicating Independent Commercial Purpose
Seed / Crop Production	Governing statute mandates, ICAR protocols, student field-diaries, faculty supervision records, and cost-recovery pricing sheets.	Zero student involvement; separate commercial branding; market-driven pricing; scale vastly exceeding research needs.
Dairy / Livestock Farm	Veterinary curriculum mapping; animal clinical records linked to academic research; state-regulated disposal of perishable output.	Standalone commercial dairy management; aggressive retail marketing; disproportionate investment in production over clinical training.
Testing / Consultancy	Board or Academic Council resolutions defining technology transfer policy; integration with postgraduate research projects; public-purpose documentation.	Operation independent of academic departments; profit-sharing with faculty outside statutory limits; pure commercial competition with private labs.
Research Commercialisation	Patent filings under university policy; technology transfer agreements focused on public dissemination and agricultural advancement.	Diversion of institutional resources to private ventures; lack of academic publication; commercial operations wholly severed from pedagogy.

From a remedial standpoint, the applicable route depends on the statutory period. For years governed by the 1961 Act, an institution failing the financing condition under section 10(23C)(iiiab) may need to evaluate the approval route under section 10(23C)(vi) or registration under section 12AB. For tax years governed by the 2025 Act, the institution must instead examine the corresponding Schedule VII and registered non-profit organisation framework. In either period, a financing failure should not be confused with a finding that the institution has ceased to exist solely for educational purposes.

10. Conclusion

The decisive question is not merely whether an activity has a statutory origin, but whether its actual execution remains integrated with the institution's educational, research and extension functions. Statutorily mandated revenue-generating activities do not, in principle, negate the character of an educational institution under section 10(23C)(iiiab). Educational character may, however, be compromised where the institution pursues unrelated objects, permits outsider-facing commercial exploitation, or conducts an activity with an independent profit-oriented character. Separately, failure to satisfy the Government-financing condition may defeat the exemption under section 10(23C)(iiiab) even where the institution continues to exist solely for educational purposes. The institution must therefore establish, first, that its objects and actual activities remain exclusively educational or genuinely incidental to education and, secondly, that the independent Government-financing requirement is satisfied for the relevant year.

11. Conclusion

The author declares that there is no conflict of interest concerning the research, authorship or publication of this paper.

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