

FCRA Administrative Expenditure: Managing Within the 20% Limit

A practical framework for classification, cost structure, carry-forward and monthly monitoring

In brief. FCRA caps administrative expenses at 20% of foreign contribution received in a year. Staying within it sustainably rests on five levers: correct classification under Rule 5, leaner delivery, domestic funding for overheads, the new one-year carry-forward of unused allowance, and monthly monitoring — with prior approval from the Government as the exceptional route.

1. Introduction and legal basis

An organisation must not use more than 20% of the foreign contribution (FC) received in a financial year for administrative expenses, unless it first obtains approval from the Central Government. This is a statutory requirement under Section 8(1)(b) of the Foreign Contribution (Regulation) Act, 2010 (FCRA).

The applicable framework is:

- **FCRA (Amendment) Act, 2020**, effective 29 September 2020: reduced the limit from 50% to 20% and prohibited transfer of FC to any other person (Section 7).
- **Rule 5, FCRA Rules, 2011**: defines administrative expenses.
- **FCRA (Amendment) Rules, 2024**, effective 1 January 2025: allows unspent administrative allowance to be carried forward to the next financial year, and requires the certifying Chartered Accountant to report any FCRA violations.
- **FCRA (Amendment) Rules, 2025**, effective 26 May 2025: requires prior-permission applicants to submit a detailed expense breakup and a declaration that administrative expenses will not exceed 20%.

For NGOs with several projects and substantial finance, HR, compliance and governance costs, the limit can be difficult to meet. The aim is not simply to be within 20% on 31 March. It is to build a sustainable system of correct classification, efficient delivery, fair cost allocation, donor negotiation, planning and monthly monitoring.

2. Determination of FCRA administrative expenditure

2.1 Classify expenditure in accordance with Rule 5

Administrative expenditure is determined by Rule 5 of the FCRA Rules, 2011, based on the actual nature and purpose of each expense, not the accounting head under which it is recorded.

In broad terms, Rule 5 treats the following as administrative expenses (verify against the current official text):

- Salaries, travel and other remuneration of members of the Executive Committee or Governing Council.
- Costs of personnel hired to manage the organisation's activities, including their salaries and travel.
- Office running costs: electricity, water, telephone, postage, repairs to office premises, stationery, printing, travel of Executive Committee members and office equipment.
- Accounting for and administering FC, including audit and professional fees.
- Legal expenses.

The proviso to Rule 5 excludes expenses incurred directly in furtherance of the organisation's stated objectives. Salaries and travel of field staff, trainers and programme staff who directly implement activities are therefore programme expenditure. Office upkeep, accounting and similar functions remain administrative even if described as supporting the objectives.

2.2 Adopt a conservative but evidence-based approach

Where classification is unclear, obtain an interpretation from the FCRA auditor or legal adviser. Document it and apply it consistently across projects and years, unless the law, new facts or professional advice warrant a change.

Conservative does not mean treating every doubtful item as administrative. Equally, an expense must not be labelled programme merely to avoid the ceiling. The goal is correct, consistent and well-documented classification.

2.3 Prepare an FCRA Administrative Expenditure and Overhead Policy

The governing body, or its authorised committee, should approve a policy that specifies:

- Principles for classifying administrative and programme expenditure, with a list of common items and their agreed treatment.
- Treatment of common and shared costs.
- Allocation methods for staff costs, premises, utilities, professional fees and other shared costs.
- Supporting documentation required (job descriptions, timesheets, usage records).
- Who reviews and approves classifications.
- The calculation base for the 20% limit, including the treatment of interest on FC.
- Monitoring against the ceiling and escalation.
- Calculation, ordering and disclosure of the carry-forward allowance.

- The procedure for seeking prior approval.

Review the policy annually and whenever the law changes.

3. Permanent solutions: reduce the need for administrative expenditure

3.1 Redesign programme delivery

Direct implementation does not require the NGO to perform every activity with its own staff. Specialist service providers, including for-profit firms, can be engaged for defined services.

For example, an HIV programme may procure patient mobilisation, transport to government hospitals for testing, and facilitation of treatment access. Logistics, technology, training and data collection can be procured in the same way.

This must be genuine procurement of services, not a transfer of FC or of programme responsibility. Safeguards:

- A written contract with defined deliverables, rates and reporting, priced at arm's length.
- Selection through a documented procurement process; check that the vendor is a genuine service business, not a related party or an NGO acting as an implementing partner.
- Payment against invoices and verified deliverables only, never as advances that resemble a grant.
- The NGO keeps control of programme design, targets, quality checks and beneficiary records.
- Confidentiality and data-protection clauses, which are essential where beneficiary data is sensitive, such as HIV status.

The NGO remains accountable for compliance, use of FC, beneficiary safeguards and quality. A contract that is in substance a sub-grant would breach Section 7.

3.2 Reduce avoidable administrative costs

Review the administrative cost structure at least annually and remove unnecessary costs without weakening essential controls. Areas to review:

- Management and support staffing.
- Office premises and related costs.
- Travel and accommodation.
- Consultants and professional services.
- Software, technology and communication.
- Procurement and vendor management.
- Duplicated functions across projects and departments.

The aim is an efficient support structure, not a lower ratio at any cost.

3.3 Allocate shared costs fairly

Where staff, premises or systems serve both FCRA-funded and domestically funded work, allocate costs on a reasonable, documented basis. For example, staff costs by timesheets and premises by floor area or usage.

The method must reflect actual use. A cost must not be moved to domestic funds merely to avoid the ceiling if it properly belongs to FCRA-funded activity, and no expense may be charged twice to different grants or sources.

4. Other structural solutions

4.1 Meet eligible overheads from domestic funds

The 20% ceiling applies only to foreign contribution. Legitimate overheads above it can be met from unrestricted domestic donations, domestic grants, CSR funds or other permissible domestic income.

This is usually the most dependable long-term solution. Build a deliberate domestic fundraising target for core costs. Maintain source-wise accounts, confirm that each domestic fund's conditions permit the expense, and never charge the same expense to both sources.

4.2 Negotiate realistic budgets with donors

At negotiation, explain the full cost of delivery, including finance, compliance, monitoring, safeguarding and reporting. Ask donors to fund project-specific costs as direct lines and to contribute fairly to shared costs.

- Budget direct costs as direct where the work justifies it, such as project accountants, programme vehicles and field offices. A budget label alone does not decide the statutory classification.
- For **prior-permission** cases, the 2025 amendment requires a project report with a detailed expense breakup and a declaration that administrative expenses will not exceed 20%. The budget must be compliant from the outset.
- Assess the combined administrative impact of all grants together, not each grant alone.

4.3 Review capital expenditure separately

Capital expenditure is generally not treated as administrative expenditure. It must still advance the organisation's objectives; otherwise it may be treated as an investment or an inadmissible use.

Assess each significant asset, such as vehicles or medical equipment, by its actual purpose and use. Office assets used for administration, such as office furniture or the finance team's computers, should be reviewed with the FCRA auditor rather than assumed to be outside the ceiling.

5. Annual planning and statutory options

5.1 Carry forward unused administrative allowance

Since 1 January 2025, the unspent part of a year's allowable administrative expenditure may be carried forward to the immediately succeeding financial year only. The reasons must be disclosed in the annual return (Form FC-4). Any carried-forward amount not used in that succeeding year lapses; it cannot roll forward again.

Illustration (₹ lakh)

Item	FY 2026–27	FY 2027–28	FY 2028–29
FC received	100	100	100
Current-year allowance (20%)	20	20	20
Brought forward from previous year	0	5	0
Total available	20	25	20
Administrative expenditure	15	22	18
Unused current-year allowance carried forward	5	0	2
Brought-forward amount lapsed	0	0	0

In FY 2027–28, spending of ₹22 lakh uses the ₹5 lakh brought forward plus ₹17 lakh of the current allowance, leaving ₹3 lakh of current allowance unused. Whether that ₹3 lakh can itself be carried forward depends on the ordering rule applied, which the rules do not spell out. The table takes the conservative view that nothing is carried into FY 2028–29. Agree the ordering method with the FCRA auditor, record it in the policy and apply it consistently.

Maintain the schedule in Annexure A. The carry-forward is a one-year bridge, not an accumulating reserve.

5.2 Seek prior approval from the Central Government

Where unavoidable administrative expenditure is expected to exceed the available allowance, apply to the Central Government (Ministry of Home Affairs) for prior approval.

This suits genuine exceptional needs, such as a one-off compliance or systems exercise. Approval is not automatic; take professional advice on the application and do not incur the excess until approval is received. Treat this as an exceptional route, not a routine way to fund overheads.

5.3 Review the timing of FC receipts

The ceiling is linked to FC received during the year, so the timing of genuine receipts affects the calculation. Some commentators argue the base should be FC utilised; the policy should state the base adopted, with the auditor's agreement.

Where the donor agreement permits an advance or scheduled instalment, consider whether timing fits programme and cash-flow needs. Funds must not be drawn early merely to inflate the ceiling. A higher base this year usually means a lower base next year.

5.4 Interest and other income

Interest earned on FC balances is itself foreign contribution and must be accounted for as such. Whether it forms part of the 20% calculation base is not settled. Take professional advice, document the approach and apply it consistently; do not assume it increases the ceiling.

6. Year-end measures: exercise caution

6.1 Avoid routine deferral of payments

Postponing administrative payments to April moves the cash payment into the next year, but it is not a solution:

- It consumes the next year's allowance and shifts the pressure forward.
- Liabilities must still be recognised in the accounts.
- It strains relations with staff and vendors; delaying salaries may also breach labour obligations.
- A recurring pattern may be seen as an artificial arrangement and may be reported by the certifying CA.

Use the carry-forward provision first.

6.2 Avoid artificial reclassification

Do not move expenses between administrative and programme heads solely to stay within the ceiling. Every reclassification must be supported by the nature of the work, records and the rules. Retain evidence for significant or borderline items.

7. Consequences of exceeding the limit

Administrative expenditure above the limit without prior approval is a contravention of Section 8. Possible consequences include:

- Disclosure of the violation in the CA certificate filed with the annual return, which since 1 January 2025 must state whether any FCRA provision has been violated.
- Proceedings, penalties or compounding of the offence under the Act.
- Restrictions on further receipt or use of FC, or suspension or cancellation of registration in serious or repeated cases.
- Difficulty at renewal, which requires a clean compliance record.

The specific consequence depends on the facts; take advice promptly if a breach occurs. Regularising it early is far better than repeating it.

8. Monthly monitoring and MIS

A monthly FCRA administrative expenditure MIS (template in Annexure B) should replace year-end adjustments. It should show:

- 1 FC received to date and forecast FC receipts for the full year.
- 2 Projected full-year allowance (20% of forecast receipts).
- 3 Eligible carry-forward brought forward, shown separately.
- 4 Total available allowance (items 2 + 3).
- 5 Administrative expenditure incurred to date.
- 6 Committed but not yet incurred expenditure, shown separately.
- 7 Forecast expenditure for the remaining months.
- 8 Projected year-end administrative expenditure.
- 9 Projected headroom or excess.
- 10 Corrective action, owner and target date.

Measure year-end projected expenditure against total available allowance, not year-to-date expenditure against year-to-date receipts. Receipts are often lumpy, so a year-to-date ratio can show a false breach or a false comfort.

Suggested internal triggers (management controls, not statutory thresholds):

Projected expenditure as % of total available allowance	Action
75%	Finance head reviews classification and forecasts
85%	Corrective action plan agreed with programme heads
95%	Escalation to senior management; decide on domestic funding or a prior-approval application

Where an excess is projected, review classification, allocation, the cost structure, available domestic funds and the need for prior approval, in that order.

9. Governance and accountability

Role	Responsibility
Finance head	Maintains the calculation and carry-forward schedule, prepares the monthly MIS, flags any projected breach
Programme heads	Provide accurate information on activities, staff deployment and direct costs; maintain timesheets
Senior management	Reviews significant variances and approves corrective action
Governing body or committee	Approves the policy; reviews compliance at least quarterly
FCRA auditor or legal adviser	Advises on classification, the calculation base, carry-forward, unusual transactions and prior-approval applications

The annual return (Form FC-4), CA certificate and supporting records must be complete and consistent with the approved policy and actual expenditure.

10. Implementation priorities and conclusion

- 1 Prepare and approve the FCRA Administrative Expenditure and Overhead Policy.
- 2 Review classifications and shared-cost allocation methods, with supporting records.
- 3 Set up the carry-forward schedule and include it in budgeting and Form FC-4 preparation.
- 4 Introduce the monthly MIS with forecasting and escalation triggers.
- 5 Build a domestic funding strategy for legitimate overheads.
- 6 Redesign delivery and cut avoidable costs where it improves efficiency.
- 7 Negotiate realistic, compliant budgets with donors.
- 8 Seek prior approval where a genuine excess is anticipated.
- 9 Review the policy annually with the FCRA auditor or legal adviser.

Managing FCRA administrative expenditure is a year-round discipline, not a year-end accounting exercise. Correct classification comes first; efficiency, domestic funding, the carry-forward and, exceptionally, prior approval then provide the headroom.

Annexure A: Carry-forward schedule (₹)

Line	Item	Amount
A	FC received during the year (per adopted base)	
B	Current-year allowance (20% of A)	
C	Brought forward from previous year	
D	Total available (B + C)	
E	Administrative expenditure incurred	
F	Utilised from brought forward (per ordering policy)	
G	Brought-forward amount lapsed (C – F)	
H	Unused current-year allowance carried forward	
I	Reason for carry-forward (for Form FC-4)	

Annexure B: Monthly MIS template (₹)

Line	Item	Apr	May	Jun	...	Mar
1	FC received to date					
2	Forecast full-year FC					
3	Projected allowance (20% of 2)					
4	Brought forward					
5	Total available (3 + 4)					
6	Admin spent to date					
7	Committed, not incurred					
8	Forecast for remaining months					
9	Projected year-end (6 + 7 + 8)					
10	Headroom / (excess) (5 – 9)					
11	% of total available (9 ÷ 5)					
12	Action, owner, date					

References

- Foreign Contribution (Regulation) Act, 2010, Section 8(1)(b), as amended by the FCRA (Amendment) Act, 2020.
- Foreign Contribution (Regulation) Rules, 2011, Rule 5, as amended by the FCRA (Amendment) Rules, 2024 and 2025.
- TaxGuru, *Recent Amendments to FCRA, 2010 and Rules, 2011*.
- Acuity Law, *FCRA Update: Key revisions for Foreign Contribution Recipients*, January 2025.
- FoxMandal, *FCRA Norms Revised: Enhanced Financial Compliance*, 2025.
- FMSF, *Confusions in computation of Administrative Expenditure* (Feb 2023) and *Analysis of the FCRA Law on Administrative Expenses* (Jul 2024).

Disclaimer: This article is a management and compliance framework, not legal or professional advice. Validate the policy and calculations against the current official FCRA provisions, Form FC-4 requirements and advice from your FCRA auditor or legal adviser. Position as at October 2026.