



# Corporate Social Responsibility

Corporate Social Responsibility is a company's sense of responsibility towards community and environment.

It is basically a way that the company gives back to the society.

Voluntary

Companies  
Act, 2013

Mandatory

Came into force  
on 1<sup>st</sup> April, 2014

Why  
?

To reduce economic disparity

# SECTION 135

and the Companies (Corporate Social Responsibility) Rules, 2014

- ✓ Net worth more than equal to Rs 500 cr, or
  - ✓ Turnover more than equal to Rs 1000 cr, or
  - ✓ Net profit more than equal to Rs 5 cr
- During immediately preceding financial year.



CSR Committee

- 3 or more directors, including at least 1 Independent Director
- 2 or more directors where the company does not require to appoint ID(s)
- Foreign co: at least 2 persons, one of which shall be foreign nominee director

# Net profit

NP shall be calculated as per Section 198 (calculation of profits) of the Act. It shall not include:-

- (i) any profit arising from any overseas branch or branches of the company, whether operated as a separate company or otherwise; and
- (ii) any dividend received from other companies in India, which are covered under and complying with the provisions of section 135 of the Act

# CSR Committee

Formulate and recommend CSR Policy to the Board.

Recommend the amount of expenditure

Monitor CSR Policy from time to time

# Board of Directors

Disclose composition of CSR Committee in Board's Report

Approve CSR Policy, disclose it in Board's Report and website

Ensure that the activities taken up by co is as per the Policy

Ensure that the co spends, in every FY, at least 2% of avg NP of 3 immediately preceding FY

In case of failure to spend such amount, specify the reasons for not spending in Board's Report.

# CSR Activities

- ✓ Undertaken in India
- ✓ Preference to local area
- ✓ In accordance with CSR Policy
- ✓ Activities included in Schedule VII

Activities that shall not be included in CSR

- Activities undertaken in pursuance to normal course of business
- That benefits only the employees and their families
- Contribution to political party

# Execution

A company may undertake its CSR activities **individually** or through a company established under **section 8** of the Act or a **registered trust** or a **registered society**, established by the company or Central Government or State Government or any entity established under an Act of Parliament or a State legislature, either singly or alongwith any other company.

A company may also **collaborate with other companies** for undertaking projects or programs or CSR activities in such a manner that the CSR Committees of respective companies are in a position to report separately on such projects or programs.

If, the Board of a company decides to undertake its CSR activities through a company established under section 8 of the Act or a registered trust or a registered society, latter shall have an established track record of three years in undertaking similar programs or projects;

and the company has specified the projects or programs to be undertaken, the modalities of utilisation of funds of such projects and programs and the monitoring and reporting mechanism

## Other provisions

Every company which ceases to be a company covered under section 135 of the Act for three consecutive financial years shall not be required to -

(a) constitute a CSR Committee; and

(b) comply with the provisions of the said section, till such time it meets the criteria.

The CSR Policy of the company shall specify that the surplus arising out of the CSR projects or programs or activities shall not form part of the business profit of a company.

CSR provisions does not apply for a period of five years from the commencement of business of a Specified IFSC public or private company.

In case of a foreign company, the balance sheet shall contain an Annexure regarding report on CSR.

# The Companies (Amendment) Act, 2019

31<sup>st</sup> July, 2019

## Section 21 (not yet in force)

- Ensure that the co spends, in every FY, at least 2% of avg NP of 3 immediately preceding FY (or where the company has not completed the period of 3 FY since its incorporation, during such immediately preceding financial years)
- In case of failure to spend such amount, specify the reasons for not spending in Board's Report (unless the unspent amount relates to any ongoing project, transfer such unspent amount to a Fund specified in Schedule VII, within a period of 6 months of the expiry of the FY)
- Unspent amount pursuant to any ongoing project shall be transferred within a period of 30 days from the end of the FY to a special account in any scheduled bank to be called the Unspent Corporate Social Responsibility Account, and such amount shall be spent by the company in pursuance of its obligation towards the CSR Policy within a period of 3 FY from the date of such transfer, failing which, the company shall transfer the same to a Fund specified in Schedule VII, within a period of 30 days from the date of completion of the 3<sup>rd</sup> FY

## Contravention or Default

The company shall be punishable with fine of Rs 50,000 to Rs 25 lakhs

Every officer of such company who is in default shall be punishable with imprisonment for a term which may extend to three years or with fine of Rs 50,000 to Rs 5 lakhs, or with both.

The Central Government may give such general or special directions to a company or class of companies as it considers necessary to ensure compliance of provisions of this section and such company or class of companies shall comply with such directions.

# High Level Committee on Corporate Social Responsibility, 2018

- Chairmanship of Shri Injeti Srinivas, Secretary, MCA
- Set up to review the existing framework, and
- Formulate a roadmap for future implementation
- After discussions held in 3 sessions, placed its recommendations

# Recommendations

- Extend the scope to LLPs, Banks, and other entities not covered under Companies Act.
- CSR Provisions not to be mandatory for companies which have not completed 3 years from its incorporation.
- Companies having CSR amount below Rs. 50 lakhs not be obliged to form CSR Committee. Rather, the Board can fulfill the obligations of CSR Committee.
- Unspent amount along with interest earned on it, shall be spent within 3-5 financial years, depending on the nature of project.
- Further the unspent amount which shall remain after expiry of this period shall be transferred to a fund to be specified by the Central Government, and not to Prime Minister National Relief Fund, which shall be used by the Government for projects recognized under Schedule VII of the Companies Act, 2013.

❑ Remove criminal liabilities (imprisonment), and impose only civil liability, i.e penalty on default can extend to 2-3 times the amount involved in default, maximum penalty being Rs. 1 cr upon the default being made good.

❑ Detailed reporting on the CSR spending where capital assets are being created. Further such projects that lead to asset creation should be carried out in partnership with the State and Community. The ownership of asset thus created will rest with public, and the company shall only look into its operation.

❑ Local area in the provisions is only directory and not mandatory in nature. Where it is difficult to define local area, the company shall give priority to national requirements.

❑ Companies having average CSR amount of Rs. 5 crore or more in the 3 immediately preceding FY is recommended by Committee to disclose an assessment study in their Board Report for that financial year that is to be done once in a period of 3 years.

❑ The Committee recommends that the Board shall execute a project through an Implementing Agency (IA) once it has ascertained its credibility. The said IA should be registered with MCA to carry out CSR activities.

Transfer of funds to Implementing Agencies shall not mean that the CSR amount is spent. The Board needs to ensure and report on the spending on CSR activities.

All activities under Schedule VII to be made tax deductible. Further the mode of implementation (when implementing through IA or on an individual capacity of the company) shall also not affect the said deductibility.

Administrative overhead is the cost incurred (salary paid) by the company on staff and employees who render their service for CSR. The Committee recommends that 5% limit on administrative overheads should be given an extension of additional 5%.

5% of companies mandated to carry out CSR activities will be subject to 3<sup>rd</sup> party assessment of its CSR project on a random basis.

Government may prescribe the thresh-hold, meeting which the company shall have to include a CSR professional/expert. The Board can voluntarily adapt to this even if it does not meet the criteria.

## Schedule VII

Activities relating to:

- (i) *eradicating hunger, poverty and malnutrition, promoting health care* including preventive health care and sanitation including contribution to the Swachh Bharat Kosh set-up by the Central Government for the promotion of sanitation and making available safe drinking water;
- (ii) *promoting education, including special education and employment enhancing vocation* skills especially among children, women, elderly, and the differently abled and livelihood enhancement projects;
- (iii) *promoting gender equality, empowering women, setting up homes and hostels* for women and orphans; setting up old age homes, day care centres and such other facilities for senior citizens and measures for reducing inequalities faced by socially and economically backward groups;
- (iv) *ensuring environmental sustainability, ecological balance, protection of flora and fauna,* animal welfare, agroforestry, conservation of natural resources and maintaining quality of soil, air and water including contribution to the Clean Ganga Fund setup by the Central Government for rejuvenation of river Ganga;

- (v) *protection of National Heritage, art and culture including restoration of buildings and sites of historical importance and works of art; setting up public libraries; promotion and development of traditional arts and handicrafts;*
- (vi) *measure for the benefit of armed force veterans, war widows and their dependents;*
- (vii) *training to promote rural sports, nationally recognized sports, Paralympic sports and Olympics sports;*
- (viii) *contribution to the Prime Minister's National Relief Fund or any other fund set up by the Central Government for socio-economic development and relief and welfare of the Scheduled Castes, the Schedule Tribes, other backward classes, minorities and women;*
- (ix) *contributions or funds provided to technology incubators located within academic institutions which are approved by the Central Government;*
- (x) *rural development projects;*
- (xi) *slum area development.*



Thank  
you!!

-Muskan Agarwal