A BRIEF ON CSR PROVISIONS IN COMPANIES BILL
Contents

- CSR Definition
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The European Commission defines corporate social responsibility as:

- "the responsibility of enterprises for their impacts on society.
- To fully meet their social responsibility, enterprises “should have in place a process to integrate social, environmental, ethical human rights and consumer concerns into their business operations and core strategy in close collaboration with their stakeholders”.

- “Giving back” to society in the form of programs that benefit the less privileged members of society for inclusive growth.

- Promoting corporate conscience, corporate citizenship, social performance, sustainable responsible business/Responsible Business.
The initial business model focused solely on maximizing profits.

Subsequently focus shifted to People

Today, business model encompass “giving back to the society”

Sustainable business incorporates social, environmental and economic development into its operational structure.

Known as Triple Bottom line business framework. These dimensions are commonly called the three Ps: PEOPLE, PLANET AND PROFIT.
Purpose of including CSR in Companies Bill

- Companies can foster better relations and maintain goodwill with society in the local region.
- Issues on Land acquisition for several large projects which affect the employment of the local populace can be amicably settled by including them in business model.
- A sustainable business be developed and society to gain along with the business growth.
- Synergizing partnerships between Corporates and Governments.
- Voluntary guidelines issued by MCA on CSR in 2009 set the tone.
- India pioneer in the world where CSR norms have been made mandatory by making it as a part of the statute.
Worldwide examples of countries who have formulated CSR regulations:

- **DENMARK** – CSR information in companies’ annual financial reports
- **INDONESIA** – All public companies to issue CSR reports
European Union (EU) and the United Nations (UN), in particular, play a large role in setting the international agenda for CSR and affecting the CSR approaches of corporations worldwide.

- **UN INITIATIVES** - Introduction of UN Global Combat and Global Reporting Initiative (GRI) in 2009

- **EUROPEAN UNION** - Analysis of information relating to environment to be included in the Annual Report.
Provisions of CSR in Companies Bill (1/4)

- **Applicability**
  - All Companies having net worth of Rs. 500 crore or more; or
  - turnover of Rs 1,000 crore or more; or
  - net profit of Rs 5 crore or more during any financial year

- **CSR Committee - Roles & Responsibilities**
  - Minimum 3 Directors, of which one is an independent Director
  - Formulate CSR policy and recommend to the Board
  - Recommend the amount of expenditure for different activities
  - Monitor the Policy from time to time
Provisions of CSR in Companies Bill (2/4)

- **Board – Roles & Responsibilities**
  - Approve CSR policy and disclose in its report and on website of the Company
  - Ensure:
    - that company undertakes activities as per CSR Policy and
    - spends, in every financial year, at least 2% of the average net profits made during the 3 immediately preceding financial years, in pursuance of its CSR Policy.
  - Incase Company fails to spend such amount, Board to specify the reasons in Directors’ Report

- **Recognized CSR activities**
  CSR activities are specified under Schedule VII includes:
  - eradicating extreme hunger and poverty;
  - promotion of education;
  - promoting gender equality and empowering women;
Provisions of CSR in Companies Bill (3/4)

- reducing child mortality and improving maternal health;
- combating human immunodeficiency virus, acquired immune deficiency syndrome, malaria and other diseases;
- ensuring environmental sustainability;
- employment enhancing vocational skills;
- social business projects;
- contribution to the PM National Relief Fund or any other fund set up by the Central Govt or State Govts for socio-economic development and relief and funds for the welfare of the SCs, STs, other backward classes, minorities and women;
- such other matters as may be prescribed.
Penalties
- No specific penalties contemplated in the bill w.r.t. CSR
- However, non disclosure of reasons of insufficient CSR spent in Board’s Report attract sections 450 & 451

CSR Rules
- The Bill provides for rules to be prescribed in relation to CSR provisions.
- The rules are currently in the process of being drafted.
Typical contents of CSR Policy

- Short title & Applicability
- CSR Vision Statement & Objective
- Funding & Allocation
- Overall Budget distribution For CSR
- Planning
  - Identification of Thrust Areas/ Initiative
- Implementation
  - Process of Implementation
  - Identification of Programmes
  - Area of CSR Activity
  - Executing Partners/Agencies
- Monitoring & Feedback
Tax Implications (1/2)

- The tax benefit against CSR spending, introduced by the Companies Bill would vary widely depending on the nature of such expenditure.

  - Deduction as expenditure incurred wholly and exclusively for the purpose of business u/s 37 of Income Tax Act

  - Since it is the percentage based on PAT, it may be treated by Income Tax Department as Appropriations.
## Tax Implications-Issues (2/2)

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<th>Illustrations of CSR expenditure</th>
<th>Tax implications</th>
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| 1.    | Directly promoting education, reducing child mortality and improving maternal health by setting up schools/clinics | * No clarity on revenue costs such as salaries of teachers, nurses being allowed as business deduction.  
* No clarity on depreciation being allowed on capital assets such as furniture (tax laws don't allow depreciation against land) |
| 2.    | Donations made                                                                                   | * Varying amount of deduction (50% or 100%) depending on the donee fund. Cap on eligibility amount, except for certain funds. |
| 3.    | Contributions to Skill development projects or agricultural extension projects                   | *150% of the amount contributed towards notified projects only (Problem: Lag in notification of projects) |
| 4.    | Contributions to eligible projects of local authorities/public sector organizations             | *100% of the amount contributed towards notified projects only (Problem: Lag in notification of projects) |
THANK YOU