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Key Highlights on Corporate Social Responsibility under Companies Act, 2013

Abbreviations:

1. **CSR** – Corporate Social Responsibility
2. **CSRP** – Corporate Social Responsibility Policy

Important Points:

1. CSR committee needs to be constituted if any of the following conditions are breached **since the incorporation** of the Company:

A. Net worth – 500 Cr. or More,

B. Turnover – 1000 Cr. or More,

C. Net Profit – 5 Cr. or More.

Note: *If any Company qualifies in any of the condition as mentioned above, then the CSR committee shall be formed as soon as possible.*

If any Company qualifies as above, then Board of such Company shall ensure that the Company shall spend in every financial year at least 2 % of the average net profit made during 3 immediate preceding financial years.

Example: A. If any Company following March 31 as financial year then the amount to be spent on CSR in financial year 2014-15 will be as follows:

Net Profit Before Tax:

2011 – 12 XXX

2012 – 13 XXX

2013 – 14 XXX (If audited figures are available or else the calculation can be done on basis of year 12-13)

Total – XXXX

Average Net Profit = $\text{Total Profit} / 3 = \text{XX}$

Hence 2 % of XX amount needs to be spent by the Company in the financial year 2014-15.

B. If any Company following December 31 as financial year then the amount to be spent on CSR in financial year 2014 will be as follows:

Net Profit Before Tax:

2011 – XXX

2012 – XXX

2013 – XXX (If audited figures are available or else the calculation can be done on basis of year 2012)

Total – XXXX

Average Net Profit = Total Profit/3=XX

Hence 2 % of XX amount needs to be spent by the Company in the financial year 2014.

2. CSR committee should consist of 3 director out of which at least one director should be independent director. However as per clause 5 (1) of Companies (CSR) Rules, 2014 private company which is not required to appoint an independent director on the Board, shall have CSR committee without independent director.

3. Composition of the CSR committee shall be disclosed in the Board of Directors Report. ***Hence it is mandatory for the Company to form the CSR committee before finalization of the Board of Directors Report, if applicable.***

4. CSR committee has to formulate CSR Policy, whereby the detailed activities viz. detail project, duration of project, amount to be spent on project, location etc. to be undertaken should find their place in policy and recommend the Board of such policy.

5. Members of CSR committee are individually liable for monitoring and implementation of the policy.

6. Board Resolution required for constitution of CSR committee and approval of CSR policy.

7. The activities to be undertaken by CSR committee should not directly or indirectly benefit the Company or employees of the Company and their families or any other person related to the Company.

8. Contribution to any Political party or Government agency shall not be considered as CSR activity except as provided in the Rules.

9. Not exceeding 5 % of total CSR expenditure can be spent by Companies for building CSR capacity of their own personnel as well as those of their implementing agencies.

10. Mere donation to the NGO, TRUST or any other agencies would not amount to CSR activity.

11. Earmarked amount of any particular financial year must be spent in the same financial year for the activity as specified by the CSR committee. Hence carry forward of the balance amount is not available and Board needs to explain for not spending the amount in the Board report.

12. Any Company or Body Corporate incorporated outside India which has a place of business in India whether by itself or through an agent, physically or through electronic mode; and conduct any business activity in India in any other manner, if they have branch office or project office in India which fulfills the criteria given in point no. 1 shall comply with CSR. ***In nutshell the provisions of the CSR are also being made applicable to foreign companies.***

Also the Committee of such company should consist of minimum 2 people of which one person shall be resident in India who is authorized to accept notice and other documents on behalf of ***foreign Companies.***

13. Activities which may be included by companies in their Corporate Social Responsibility Policies

Activities relating to:—

- (i) Eradicating extreme hunger and poverty;
- (ii) Promotion of education;
- (iii) Promoting gender equality and empowering women;

- (iv) Reducing child mortality and improving maternal health;
- (v) Combating human immunodeficiency virus, acquired immune deficiency syndrome, malaria and other diseases;
- (vi) Ensuring environmental sustainability;
- (vii) Employment enhancing vocational skills;
- (viii) Social business projects;
- (ix) contribution to the Prime Minister's National Relief Fund or any other fund set up by the Central Government or the State Governments for socio-economic development and relief and funds for the welfare of the Scheduled Castes, the Scheduled Tribes, other backward classes, minorities and women; and
- (x) Such other matters as may be prescribed.

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Thank You