# Short note on corporate social responsibility

**Year of Applicability:** CSR is applicable from Financial Year 2014-15

**Qualifying company (Section 135):-** CSR is applicable to every Indian Companies including its holding or subsidiary which meet least of the following threshold Limit in any of the three preceding financial years:-

* Net worth of at least Rs 500 Crore
* Turnover of at least Rs1000 crore
* Net Profit of at least Rs5 Crore

It is also applicable to branch and project offices of a foreign company in India.

Note: - Though an Indian Company fulfils the aforesaid criteria it does not imply that it will automatically get applicable to its holding or subsidiary. It is necessary that holding or subsidiary themselves fulfils the criteria specified in Section 135

Net worth = Aggregate value of the paid-up share capital

+ All reserves created out of the profits

+ Securities premium

Aggregate value of the accumulated losses, deferred expenditure and miscellaneous expenditure not written off

Net worth does not include reserves created out of revaluation of assets, write-back of depreciation and amalgamation.

Amount to be spent on CSR (Section 135(5)): - Every financial year company will have to spend at least 2% of the average net profit of the company made during the three immediately preceding financial years.

**MEANING OF NET PROFIT**

**NET PROFIT** on the basis of section 198 of the Companies Act, 2013

Less : profit arising from any overseas branch or branches of the company, whether operated as a separate company or otherwise

Less : dividend received from other companies in India, which are covered under and complying

with the provisions of section 135 of the Act as well as dividend received from a company

incorporated outside India

Note : 1. It is not necessary to recalculate the Net profit u/s 198 of the Companies Act, 2013 for

financial statement prepared under Companies Act 1956

2. Income Earned Outside India shall not be considered for determining CSR spend in India.

**Surplus Generated from CSR Activities**: - Surplus arising out of CSR activities shall not be

considered as business profit of the company rather it will go back to CSR fund over and above the 2% contribution.

**Will Expenditure incurred by Foreign Holding Company qualify as CSR spend of the Indian subsidiary? -** It will be counted only if the CSR expenditure is routed through the Indian subsidiary and ifthe Indian subsidiary is required to do so as per section 135 of the Act.

**CSR COMITTEE**: - Qualifying Company will be required to constitute CSR committee with at least 3 directors out of which at least 1 shall be an Independent director however unlisted public company &Private Company is not required to have an independent director therefore they shall constitute CSR committee without independent director. In case of foreign company the CSR committee shall compromise of at least 2 persons out of which 1 person should be a person resident in India authorised to accept on behalf of the company service or process and any notices or other documents served on the company and another person shall be nominated by the foreign company.

**Role of CSR COMITTEE: -**

1. Formulate and recommend to the Board, a Corporate Social Responsibility Policy which shall indicate that the activities to be undertaken by the company will be as specified in Schedule VII.

2. Recommend the amount of expenditure to be incurred on the activities referred above and

3. Monitor the implementation of the CSR projects or programs or activities proposed to be undertaken by the Company.

**CSR POLICY:-**

(1) The CSR Policy of the company shall, inter-alia, include the following, namely –

(a) A list of CSR projects or programs which a company plans to undertake falling within the purview of the Schedule VII of the Act, specifying modalities of execution of such project or programs and implementation schedules for the same; and

(b) Monitoring process of such projects or programs:

Provided that the CSR activities does not include the activities undertaken in pursuance of normal course of business of a company.

Provided further that the Board of Directors shall ensure that activities included by a company in its Corporate Social Responsibility Policy are related to the activities included in Schedule VII of the Act.

(2) 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.

**Activities not Permissible under CSR**

1. CSR activities have to be in the nature of projects/programs rather than one-off events such as marathons, awards, charitable contributions and advertisements and sponsorships given to TV programs. Such events shall not qualify as CSR expenditure.

2. Contribution to any political party or political purpose as defined u/s 182 of the Companies Act, 2013.

3. Activities undertaken in pursuance of the normal course of business of the Company is not CSR

4. The CSR projects or programs or activities that benefit only the employees of the company and their families shall not be considered as CSR activities.

5. Expenses incurred by companies for the fulfilment of any Act/ Statute of regulations would not count as CSR expenditure under the Companies Act.

**Will Contribution to Corpus of a Trust/ society/ section 8 companies etc. will qualify as CSR expenditure?**

It will qualify provided

(a) The Trust/ society/ section 8 companies etc. is created exclusively for undertaking CSR activities or

(b) Where the corpus is created exclusively for a purpose directly relatable to a subject covered in Schedule VII of the Act.

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