

CORPORATE SOCIAL RESPONSIBILITIES IN COMPANIES ACT 2013

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Abstract

Amendment made in 2013 in the Companies Act 1956, includes a Corporate Social Responsibility Policy in Section 135. This Policy, simply referred to as the 'CSR Rules', states the guidelines to be followed by corporations for conducting Corporate Social Responsibility. CSR Rules came into effect in Indian corporate companies since April 1, 2014.

Key notes:

CSR, Committee, Functions, Social responsibility and Report

Introduction

The Corporate Sector in India is formed of companies providing goods and services other than financial services. Over 11,90,000 companies in India come under the bracket of Corporate businesses. These companies have a major share in building the economy and contribute to India's GDP. Corporate companies are significant for businesses in a country because they allow freedom of doing business, innovation, and varied services. CSR ropes in the private sector to perform their duties towards the society and environment. Corporate business is the one which we normally call a business. This sector comprises companies that work for a private profit. Corporate companies are considered separate legal entities concerning their functioning. The shareholders of the company have a right to decide on the company's affairs.

Corporate Social Responsibility (CSR)

Social Responsibility is the duty of every individual or company towards the society and environment. Corporate Social Responsibility is a part of business and professional's ethics of a company. Tasks performed under CSR may be activist, philanthropic, etc. CSR is also known as Corporate Citizenship or Corporate Sustainability. Every company has certain impacts on its stakeholder, for example, the people employed in it, the place it is located, the people living there, those consuming its products or services, etc.

This directly or indirectly has an impact on the environment as well. The duties of a company to minimize its harmful impact, and/or improve the quality of life and health of the society and

environment, are altogether known as the corporate social responsibilities. CSR is a significant role played by the corporate companies, which mainly shows that profits should not be the only goal of a company, to promote sustainable development in the market, help in reducing the problems faced by the society, etc. The products and services of the company should be socially sustainable. This also helps in strengthening the company's brand reputation. CSR should not be confused with charity or donations by a company, nor it is completely for profits or as a business venture; rather, it is an amalgamation of economic and social development principles of a company.

Corporate Social Responsibility in India

India became the first country to mandate CSR in corporate sector companies. The *Ministry of Corporate Affairs (MCA)* of the Government of India governs and regulates the corporate sector companies, under the Companies Act of 1956, 2013. Amendment made in 2013 in the Companies Act 1956, includes a *Corporate Social Responsibility Policy in Section 135*. This Policy, simply referred to as the 'CSR Rules', states the guidelines to be followed by corporations for conducting Corporate Social Responsibility. CSR Rules came into effect in Indian corporate companies since April 1, 2014.

What do you mean by Social Responsibilities?

So what programs come under social responsibility? These are initiatives that need financial assistance to improve the lives of under-served and unprivileged sections of the society. These can be broadly classified as the following list of social and environmental welfare initiatives, as mentioned in Schedule VII of the Companies Act 2013:

- Promotion of Education
- Eradication of Hunger and Poverty
- Promotion of gender equality and women empowerment
- Combating with deadly diseases like HIV-AIDS
- Environmental Sustainability
- Social Business projects
- Contribution to PM Relief Funds, State, and Central Funds
- Employment enhancing Vocational Skills
- Protection of national heritage, art, culture, etc

- Healthcare facilities for women and children Contributions made to improve sanitation, water facility, healthcare, education, etc. for the underprivileged, are included under these responsibilities.

Are all companies obliged for Corporate Social Responsibility?

No. The **Sub-Section 1 of CSR Rules of the companies Act, 2013** makes it mandatory for the following companies, to be applicable for Corporate Social Responsibility:

- Companies with an annual net worth equal to or more than Rs 500 crore
- Companies with an annual turnover equal to or more than Rs 1000 crore
- Companies with an annual net profit of Rs 5 crore or more.

Companies completing any one of the criteria mentioned here for three consecutive years are obliged to follow Corporate Social Responsibility in India. These companies will be considered as covered under Section 135 of the Companies Act, 2013.

CSR Committee

To comply with the CSR Rules, the companies completing the above criteria have to form a committee from the existing Board of directors, known as the ‘CSR Committee’. The Committee should have a minimum of 3 members, of which at least one member should be an independent director. This came into effect in India from April 1, 2014, onwards.

Functions of a CSR Committee

The key functions of a Corporate Social Responsibility Committee in India are listed below.

- To frame a Corporate Social Responsibility Policy which includes activities like the ones listed in Schedule VII of the Companies Act, 2013.
- Propose the required expenses for the CSR activities.
- Describe the working of the company to achieve its CSR goals
- Monitor and/or modify the CSR policy of their company.
- The CSR Committee should hold meetings at least twice a year, for discussing and overseeing the implementation of the CSR Policy. Minimum 2 out of 4 Directors must be present for the meetings.

A Corporate Social Responsibility Policy: Objectives

The CSR Policy of a company should be formed, amended, and applied in agreement with the CSR

Rules of the Companies Act 2013. The Policy should mandate required or a minimum of 2% of the net profits of the company to be used for social responsibility. It should also look for providing the company’s workforce to partake in social responsibility programs.

Compliance of the CSR Committee

- The companies having a CSR committee are ought to spend a **minimum of 2% of their net profits** in practising CSR for the next three consecutive financial years. The company has to set aside this amount for CSR projects.
- The **Board of Directors** has to devise a **CSR Policy** for the company, plan its budget accordingly, and assume CSR activities on the recommendations of the Committee.
- In the case of foreign companies having their branches in India, their annual net worth, profit, and loss shall be calculated as directed under Sections 198 and 381 of the Companies Act, 2013.
- The expenditure under CSR Policy is liable for tax deductions, and no special tax exemptions are given for it under the Finance Act, 2014.
- The expenditure on the CSR staff or personnel, in the form of salaries, etc. is restricted to 5% of the total CSR expenditure.

CSR Report

The Board of Directors of a corporate company has certain functions regarding their CSR. One among many duties is the formation of an annual CSR Report, which is nothing but a detailed statement of compliances of the CSR and the CSR policy. As mentioned in Rule 8 and Sub-Section 3 of Section 135 of the Companies Act, 2013, the Board ought to report on the constitution of a CSR Committee, and other details. A Corporate Social Responsibility Report includes the following specifications:

- The constitution of the company’s CSR Committee
- A summary of the company’s CSR Policy, the social responsibility projects or duties undertaken by the company, etc.
- A statement is showing the net profits of the company for the previous three financial years.
- The proposed expenditure, which should be at least 2% of the net profit.
- Expenditure details of the budget allocated to the CSR programs

The Report should also state the reasons for failure in spending the said amount in CSR, in case.

The report should be released on the company’s website, and the link to the CSR initiatives should also be uploaded.

If the Company does not meet the criteria under Section 135

In case the company ceases to be covered under Section 135, i.e. does not anymore have a net worth of Rs 500 crore, or profit of Rs 5 crore, etc., then the company is not liable to follow the CSR norms as laid by the Companies Act 2013.

Companies are required to follow CSR norms, form a CSR committee, as long as they meet the said requirements. There are no penalties for non-obligations of CSR Policy or if the company ceases to be covered under Section 135.

Examples of CSR in Indian corporate companies

The Tata Group in India is perhaps the most CSR-active company in India. It has undertaken initiatives under the field of education (research, educational institutions, and scholarships), agriculture and environment, sports, healthcare, etc.

Other companies too, like Ultratech Cement, Mahindra and Mahindra, Infosys, Bharat Petroleum, ITC Ltd, etc., had volunteered for many CSR activities even before the CSR Rules were mandated. These companies have started programs for sanitation, youth training, girl child

education, healthcare, etc. widely in Indian villages.

Conclusion

While Corporate Social Responsibility in India is undertaken by many of the corporate sector companies, it plays a significant role in making provisions like modern and improved training, facilities, education, healthcare, etc. to the underprivileged. However, CSR in India is not under any penalty, and companies often try to evade CSR. Making stringer rules and imposing penalties will help reduce this problem.

Reference:

1. *Companies (Corporate Social Responsibility Policy) Rules, 2014, Rule 5(1(ii))*
2. *Companies (Corporate Social Responsibility Policy) Rules, 2014, Rule 5(1(iii))*
3. *Section 135 (3) of the Companies Act*
4. *Section 135 (4) of the Companies Act*
5. *Companies (Corporate Social Responsibility Policy) Rules, 2014, Rule 2(1)(f)*
6. *Frequently Asked Questions (FAQs) with regard to Corporate Social Responsibility under Section 135 of Companies Act, 2013. General Circular No. 01/2016 bearing No. 05/19/2015-CSR. (Issued on 12th January, 2016)*
7. *Section 198 of the Companies Act, 2013 deals with calculation of profits; Companies (Corporate Social Responsibility Policy) Rules, 2014, Proviso to Rule 2(1)*