**Corporate Social Responsibility**

**INTRODUCTION:**

In the new Companies Act 2013, there is the new provision for the “Corporate Social Responsibility” under the Section 135 of the Companies Act 2013. By following the provision of the CSR, the companies are giving something back to the society.

**APPLICABLE SECTION SECTIONS & RULES:**

Section 135 (Corporate Social Responsibility) and Schedule VII and Rules (Corporate Social Responsibility Policy) Rules, 2014 of the Companies Act 2013.

**APPLICABILITY OF THE CSR:**

The applicability of the CSR provisions on the certain class of Companies having:

(a) net worth of the company rupees Five hundred crore or more; OR

(b) turnover of the company rupees One thousand crore or more; OR

(c) net profit of the company rupees five crore or more.

during any financial year to constitute a Corporate Social Responsibility (CSR) Committee of the Board. Any financial year has been clarified as to imply any of the three preceding financial years.

Note: the provisions of CSR are not only applicable to Indian companies, but also applicable to branch and project offices of a foreign company in India.

If the company fails to spend such amount, the Board shall, in its report made under clause (o) of sub-section (3) of section 134, specify the reasons for not spending the amount.

\* “average net profits” shall be calculated in accordance with the provisions of Section 198 of the Companies Act 2013.

**CONSTITUTION OF THE CSR COMMITTEE:**

The CSR committee shall be constituted with 3 or more directors, out of which at least one director shall be an Independent Director.

**CALCULATION OF CONTRIBUTION UNDER CSR:**

The company spends, in every financial year, at least 2% of the \*average net profits of the company made during the three immediately preceding financial years, in pursuance of its Corporate Social Responsibility Policy:

Activities of the company shall give preference to the local area and areas around it where it operates, for spending the amount earmarked for Corporate Social Responsibility activities defined under the Schedule VII of the Companies Act 2013.

If the company fails to spend such amount, the Board shall, in its report made under clause (o) of sub-section (3) of section 134, specify the reasons for not spending the amount.

\* “average net profits” shall be calculated in accordance with the provisions of Section 198 of the Companies Act 2013.

**CONSTITUTION OF THE CSR COMMITTEE:**

The CSR committee shall be constituted with 3 or more directors, out of which at least one director shall be an Independent Director.

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| **Types of the Company** | **Board of CSR Committee** |
| Listed Companies | 3 or More Directors including at least one Independent Director |
| Public Company | 3 or More Directors including at least one Independent Director  *Note: if the company is not required to independent director then no need of independent director in the CSR committee.* |
| Private Company | 2 Directors |
| Branch and Project Offices of a Foreign Company | At least 2 persons, *one person resident in India authorised to accept on behalf of the company service of process any notices or other documents served on the company and another person shall be nominated by the foreign company* |

The composition of the Corporate Social Responsibility Committee is required to be disclosed in the Board’s report prepared under the Act.

**CSR COMMITTEE'S FUNCTIONS:**

In accordance with section 135 the functions of the CSR committee include:

(a) formulating and recommending to the Board, a CSR Policy which shall indicate the activities to be undertaken by the company as specified in Schedule VII;

(b) recommending the amount of expenditure to be incurred on the CSR activities.

(c) monitoring the Corporate Social Responsibility Policy of the company from time to time.

(d) Further the rules provide that the CSR Committee shall institute a transparent monitoring mechanism for implementation of the CSR projects or programs or activities undertaken by the company.

The CSR Committee shall formulate and recommend to the Board, a policy which shall indicate the activities to be undertaken (CSR Policy); recommend the amount of expenditure to be incurred on the activities referred and monitor the CSR Policy of the company. The Board shall take into account the recommendations made by the CSR Committee and approve the CSR Policy of the company.

**DISPLAY OF CSR ACTIVITIES ON THE COMPANY’S WEBSITE:**

The Board of Directors of the company shall, after taking into account the recommendations of CSR Committee, approve the CSR Policy for the company and disclose contents of such policy in its report and the same shall be displayed on the company’s website, if any, as per the particulars specified in the Annexure.

**CLARIFICATION:**

1. “Net Worth” means the aggregate value of the paid-up share capital and all reserves created out of the profits and securities premium account, after deducting the aggregate value of the accumulated losses, deferred expenditure and miscellaneous expenditure not written off, as per the audited balance sheet, but does not include reserves created out of revaluation of assets, write-back of depreciation and amalgamation.

2. “Turnover” means the aggregate value of the realization of amount made from the sale, supply or distribution of goods or on account of services rendered, or both, by the company during a financial year;

3. ‘Net Profit’ means the net profit of a company as per its financial statement (calculated as per followed by the section 198 of the Companies Act 2013), but shall not include the following:

(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 in companies in India, which are covered under and complying with the provisions of section 135 of the Act.

It has also been clarified in the Rules that every company which ceases to satisfy the criteria mentioned above for three consecutive financial years shall not be required to –

(a) constitute a CSR Committee; and

(b) comply with the provisions contained in section 135, till such time it meets the criteria specified in sub section (1) of section 135.

**CONCLUSION:**

In this way the CSR policy establishing a guideline for compliance with the provisions of Regulations to dedicate a percentage of Company‘s profits for social projects and an opportunities for the company to participate in socially responsible initiatives.