

## India's CSR Landscape

### What is the issue?

\n\n

\n

- There has been a culture of insincerity towards the envisioned provisions of “Corporate Social Responsibility (CSR)” mandate.

\n

- Revamping the regulatory provisions and addressing the anomalies in the “Companies Act” are critical to ensure better CSR compliance.

\n

\n\n

### What is the overall appeal of the CSR mandate?

\n\n

\n

- Companies Act stipulates that companies with a “net worth of Rs 5 billion, or turnover of Rs 10 billion or net profit of Rs 50 million per annum” must spend 2% of net profits on CSR.

\n

- Notably, “net profit” is derived accounting number that companies can tinker with, and “turnover” could've been a better metric for CSR calculations.

\n

- Even if this irrationality is overlooked, there are several other inefficiencies in the CSR mandate which needs to be scrutinised.

\n

- Data shows that “Indian companies” aren't spending as much on “Corporate Social Responsibility” (CSR) as mandated by law.

\n

- Presently, the government is already looking into the records of top 1,000 companies, and prosecutions have been launched against 254 companies.

\n

\n\n

### What are the financial ambiguities in the act?

\n\n

\n

- **Taxation** - The rules stipulate that that CSR spending excludes “activities undertaken in pursuance of the normal course of business of the company”.

\n

- In other words, the amount a company spends on CSR cannot be claimed as business expenditure and be offset from taxable income.

\n

- Tax experts say this creates room for ambiguity as business expenditure is vaguely defined, thereby resulting in several court cases.

\n

- **Tokenism** - There are many schemes like “PM’s Relief Fund, Rural Development and Skill Development projects” that enjoy tax exemptions.

\n

- Hence, the bulk of CSR spending is merely cheque-writing activity, which defeats the spirit of the act, which is to get corporate entities to go social.

\n

- **Carry Over** - Presently, unspent CSR money is allowed to be transferred to the next financial year, which is causing stagnation in this domain.

\n

- Notably, only revenue and tax expenditure is allowed to be carried over, and as CSR is neither, it is not prudent to allow this accumulation unchecked.

\n

- A provision for the unspent amount must be spent within a year is needed to avoid this clause becoming an excuse for companies.

\n

- **Dedication** - CSR spending of many companies focus on aligning their philanthropic programmes to their image-building exercises alone.

\n

- Consequently, their CSR wings are mere arenas for forwarding their brand and remain institutionally weak to sustain initiatives to effectuate actual change.

\n

\n\n

\n\n

\n