India’s CSR Landscape

What is the issue?

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- There has been a culture of insincerity towards the envisioned provisions of “Corporate Social Responsibility (CSR)” mandate.
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- Revamping the regulatory provisions and addressing the anomalies in the “Companies Act” are critical to ensure better CSR compliance.
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What is the overall appeal of the CSR mandate?

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- 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.
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- Notably, “net profit” is derived accounting number that companies can tinker with, and “turnover” could’ve been a better metric for CSR calculations.
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- Even if this irrationality is overlooked, there are several other inefficiencies in the CSR mandate which needs to be scrutinised.
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- Data shows that “Indian companies” aren’t spending as much on “Corporate Social Responsibility” (CSR) as mandated by law.
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- Presently, the government is already looking into the records of top 1,000 companies, and prosecutions have been launched against 254 companies.
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What are the financial ambiguities in the act?

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- **Taxation -** The rules stipulate that that CSR spending excludes “activities undertaken in pursuance of the normal course of business of the company”.
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- In other words, the amount a company spends on CSR cannot be claimed as business expenditure and be offset from taxable income.
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- Tax experts say this creates room for ambiguity as business expenditure is vaguely defined, thereby resulting in several court cases.
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- **Tokenism -** There are many schemes like “PM’s Relief Fund, Rural Development and Skill Development projects” that enjoy tax exemptions.
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- 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.
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- **Carry Over -** Presently, unspent CSR money is allowed to be transferred to the next financial year, which is causing stagnation in this domain.
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- 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.
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- A provision for the unspent amount must be spent within a year is needed to avoid this clause becoming an excuse for companies.
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- **Dedication -** CSR spending of many companies focus on aligning their philanthropic programmes to their image-building exercises alone.
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- Consequently, their CSR wings are mere arenas for forwarding their brand and remain institutionally weak to sustain initiatives to effectuate actual change.
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