NOTES

Corporate Social Responsibility (CSR) : Company Law

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Corporate Social Responsibility refers to the obligation of companies to contribute towards social, environmental, and economic development as part of their business operations. ***India became the first country to statutorily mandate CSR spending through Section 135 of the Companies Act, 2013, read with Schedule VII and the Companies (CSR Policy) Rules, 2014.***

The provision reflects a shift from voluntary corporate philanthropy to a legally enforceable obligation, requiring qualifying companies to institutionalize social spending as part of their governance framework.

Applicability of Section 135

Section 135(1) applies to every company having a **net worth of Rs. 500 crore or more**, or **turnover of Rs. 1000 crore or more,** or **net profit of Rs. 5 crore or more**, during the immediately preceding financial year. Such companies must constitute a CSR Committee of the Board.

The threshold applies to **both listed and unlisted companies**, including **foreign companies having a branch or project office in India** that meet these criteria. **Holding and subsidiary companies are assessed independently** unless the parent company undertakes CSR on behalf of the group.

CSR Committee

The CSR Committee must consist of **at least three directors**, including one independent director. However, where a company is not required to **appoint an independent director under Section 149(4)**, the committee may function without one, provided it still has at least two directors.

The Committee is responsible for formulating and recommending the CSR Policy, indicating activities to be undertaken **under Schedule VII, recommending expenditure, and monitoring implementation.** Companies not meeting the threshold amount under the second proviso to **Section 135(9) (CSR obligation up to Rs. 50 lakh) are exempted from constituting a committee.**

CSR Expenditure Requirement

Section 135(5) mandates that the Board ensure the company spends, in every financial year, at **least 2% of the average net profits made during the three immediately** preceding financial years, **calculated in accordance with [Section 198.]**

If the company has not completed three financial years since incorporation, the average is computed based on the years for which it has been in existence. **Preference is to be given to spending in the local area where the company operates.**

Schedule VII Activities

CSR activities must fall within the categories listed in Schedule VII, *which include eradicating hunger and poverty, promoting education, gender equality, environmental sustainability, protection of national heritage, contribution to relief funds, rural development projects, and disaster management, among others.*

Activities undertaken in the normal course of business are generally excluded from qualifying as CSR expenditure, **except research and development activities related to COVID-19 for specified financial years, as clarified through subsequent amendments.**

Unspent CSR Amount

The Companies (Amendment) Act, 2019 and 2020 introduced a ***structured mechanism for unspent CSR amounts.*** Under Section 135(5), if the company fails to spend the required amount, and the unspent amount does not relate to an ongoing project***, it must be transferred to a Fund specified in Schedule VII (such as the PM CARES Fund) within six months of the financial year's end.***

Where the unspent amount relates to an ongoing project, it must be transferred to a ***special account called the "Unspent Corporate Social Responsibility Account" within 30 days of the financial year's end***, and utilized within three financial years, failing which it must be transferred to a Schedule VII Fund.

Penal Consequences

Section 135(7) prescribes **penalties for non-compliance**. The company is liable to a penalty of twice the amount required to be transferred, or Rs. 1 crore, whichever is less. Every officer in default is liable to a penalty of one-tenth of the amount required to be transferred, or Rs. 2 lakh, whichever is less.

This marks a departure from the earlier **"comply or explain" approach, converting non-transfer of unspent CSR funds into a punishable default, thereby strengthening enforcement.**

CSR Reporting

Companies covered under Section 135 must disclose their CSR Policy and include an annual report on CSR in their Board's Report, in the format prescribed under the CSR Rules. This includes details of the amount spent, projects undertaken, and reasons for any shortfall.

Rule 8 of the CSR Rules also mandates impact assessment for CSR projects with an outlay of Rs. 1 crore or more, undertaken by companies having an average CSR obligation of Rs. 10 crore or more in the preceding three financial years.

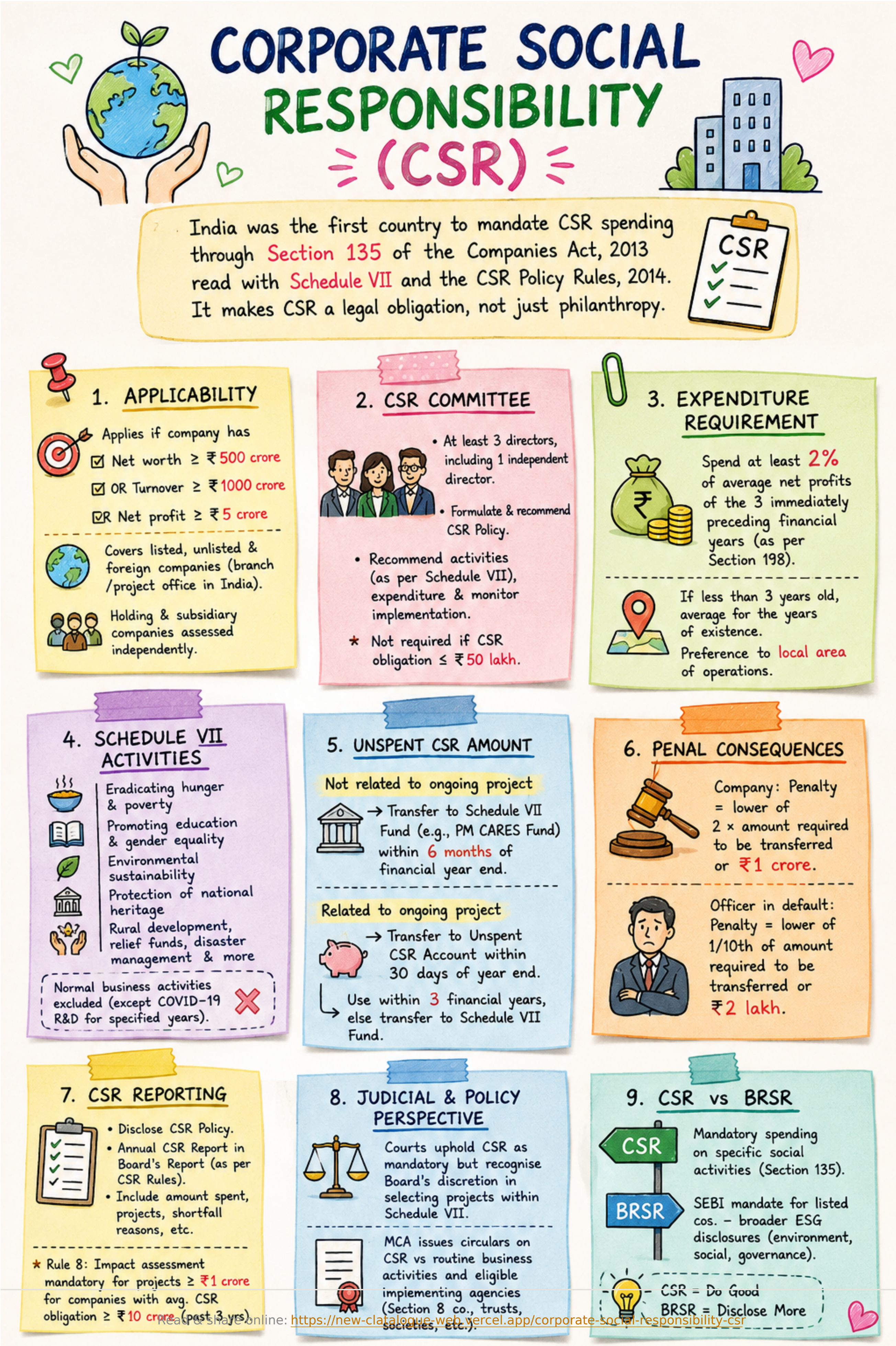
Judicial and Policy Perspective

Courts have generally upheld the mandatory nature of CSR spending while recognizing the Board's discretion in selecting projects within Schedule VII. The Ministry of Corporate Affairs has periodically issued clarificatory circulars distinguishing CSR from routine business activities and specifying eligible implementing agencies, such as Section 8 companies, registered trusts, and societies with an established track record.

Distinction from Sustainability Reporting

CSR under Section 135 is distinct from Business Responsibility and Sustainability Reporting (BRSR) mandated by SEBI for listed companies. While CSR focuses on mandatory expenditure on specified social activities, BRSR requires broader disclosure on environmental, social, and governance parameters, reflecting India's evolving corporate governance landscape.

Section 135 represents a unique legislative attempt to mandate corporate participation in nation-building through structured social spending. For CLAT PG aspirants, understanding the applicability thresholds, CSR Committee composition, unspent amount mechanism, and penal provisions is essential, as this remains a frequently tested and evolving area of company law.


CORPORATE SOCIAL RESPONSIBILITY (CSR)
India was the first country to mandate CSR spending through Section 135 of the Companies Act, 2013 read with Schedule VII and the CSR Policy Rules, 2014. It makes CSR a legal obligation, not just philanthropy.
CSR
1. APPLICABILITY
Applies if company has
Net worth ≥ ₹500 crore
OR Turnover ≥ ₹1000 crore
OR Net profit ≥ ₹5 crore
Covers listed, unlisted & foreign companies (branch /project office in India).
Holding & subsidiary companies assessed independently.
2. CSR COMMITTEE
• At least 3 directors, including 1 independent director.
• Formulate & recommend CSR Policy.
• Recommend activities (as per Schedule VII), expenditure & monitor implementation.
* Not required if CSR obligation ≤ ₹50 lakh.
3. EXPENDITURE REQUIREMENT
Spend at least 2% of average net profits of the 3 immediately preceding financial years (as per Section 198).
If less than 3 years old, average for the years of existence.
Preference to local area of operations.
4. SCHEDULE VII ACTIVITIES
Eradicating hunger & poverty
Promoting education & gender equality
Environmental sustainability
Protection of national heritage
Rural development, relief funds, disaster management & more
Normal business activities excluded (except COVID-19 R&D for specified years).
5. UNSPENT CSR AMOUNT
Not related to ongoing project
→ Transfer to Schedule VII Fund (e.g., PM CARES Fund) within 6 months of financial year end.
Related to ongoing project
→ Transfer to Unspent CSR Account within 30 days of year end.
Use within 3 financial years, else transfer to Schedule VII Fund.
6. PENAL CONSEQUENCES
Company: Penalty = lower of 2 × amount required to be transferred or ₹1 crore.
Officer in default: Penalty = lower of 1/10th of amount required to be transferred or ₹2 lakh.
7. CSR REPORTING
• Disclose CSR Policy.
• Annual CSR Report in Board's Report (as per CSR Rules).
• Include amount spent, projects, shortfall reasons, etc.
* Rule 8: Impact assessment mandatory for projects ≥ ₹1 crore for companies with avg. CSR obligation ≥ ₹10 crore (past 3 yrs).
8. JUDICIAL & POLICY PERSPECTIVE
Courts uphold CSR as mandatory but recognise Board's discretion in selecting projects within Schedule VII.
MCA issues circulars on CSR vs routine business activities and eligible implementing agencies (Section 8 co., trusts, societies, etc.).
9. CSR vs BRSR
CSR
Mandatory spending on specific social activities (Section 135).
BRSR
SEBI mandate for listed cos. – broader ESG disclosures (environment, social, governance).
CSR = Do Good
BRSR = Disclose More