Corporate Social Responsibility

Are you prepared to implement Section 135 of the Companies Act, 2013?
Content

► CSR - an integral part of doing business in India

► Permissible CSR activities

► Key aspects

► Computation of Profits

► Framework for effective CSR

► How EY can assist you
## CSR - an integral part of doing business in India

**Board level CSR Committee:**
- Comprising of 3 or more directors with at least one independent director,
- Composition to be disclosed in the annual Board of Directors’ report

**Responsibilities of the CSR Committee:**
- Formulate and recommend a CSR Policy and amount of CSR expenditure
- Regular monitoring of the CSR initiatives

**Annual spending on CSR by companies:**
- Every financial year, at least 2% of the average net profits made during the 3 preceding financial years
- **Schedule VII** indicates activities that can be undertaken by a company.

**Responsibilities of the company’s Board:**
- Approve and disclose CSR Policy in the annual Directors’ Report and on company website
- Ensure implementation of CSR activities as per the Policy
- Directors’ Report to specify reasons in case the specified amount is not spent
CSR - an integral part of doing business in India

Applicable to all companies incorporated in India and having either of the following in any financial year:

- Net worth of INR 500 crore or more or;
- Turnover of INR 1000 crore or more or;
- Net profit of INR 5 crore or more.

- Section 134 – Financial Statements, Boards' report - If a company fails to spend CSR amount, the Board shall in its report specify the reasons for not spending the amount.

- If a company contravenes the provisions of section 134, the company shall be punishable with fine which shall not be less than fifty thousand rupees but which may extend to twenty-five lakh rupees and every officer of the company who is in default shall be punishable with imprisonment for a term which may extend to three years or with fine which shall not be less than fifty thousand rupees but which may extend to five lakh rupees, or with both.

Net profit to be calculated as per Section 198 of the Companies Act.
Permissible CSR activities

Companies Act, 2013 (Schedule VII)
► Eradicating extreme hunger and poverty;
► Promotion of education;
► Promoting gender equality and empowering women;
► Reducing child mortality and improving maternal health;
► Combating human immunodeficiency virus, acquired immune deficiency syndrome, malaria and other diseases;
► Ensuring environmental sustainability;
► Employment enhancing vocational skills;
► Social business projects;
► Contribution to the Prime Minister’s National Relief Fund or any other fund set up by the Central Government or the State Governments for socioeconomic development and relief and funds for the welfare of the Scheduled Castes, the Scheduled Tribes, other backward classes, minorities and women; and
► Such other matters as may be prescribed
### Computation of Profits – Section 198

<table>
<thead>
<tr>
<th>Particulars*</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profits as per Profit &amp; Loss Account</td>
<td>XXX</td>
</tr>
<tr>
<td>Credit to be provided for:</td>
<td></td>
</tr>
<tr>
<td>Bounties and subsidies received from Government</td>
<td>XXX</td>
</tr>
<tr>
<td>Credit not to be provided for:</td>
<td></td>
</tr>
<tr>
<td>Premium/ Profit on sale of shares</td>
<td></td>
</tr>
<tr>
<td>Profits of Capital Nature – including profits on sale of undertakings</td>
<td></td>
</tr>
<tr>
<td>Profits from sale of immovable property/ fixed assets – unless undertaken</td>
<td></td>
</tr>
<tr>
<td>Permissible Deductions:</td>
<td></td>
</tr>
<tr>
<td>Usual Working Charges - revenue expenditures, bonus or commission</td>
<td>(XXX)</td>
</tr>
<tr>
<td>Abnormal or Special Tax</td>
<td>(XXX)</td>
</tr>
<tr>
<td>Interest on debentures, loans or advances</td>
<td>(XXX)</td>
</tr>
<tr>
<td>Compensations/ damages in virtue of legal liability, bad debts written off…</td>
<td>(XXX)</td>
</tr>
<tr>
<td>Non-permissible deductions:</td>
<td></td>
</tr>
<tr>
<td>Income tax paid under Income Tax Act, 1961</td>
<td></td>
</tr>
<tr>
<td>Loss of Capital Nature</td>
<td></td>
</tr>
<tr>
<td>Compensations/ Damages paid voluntarily</td>
<td></td>
</tr>
<tr>
<td><strong>Profits as per Section 198</strong></td>
<td><strong>XXX</strong></td>
</tr>
</tbody>
</table>

*Illustrative list. For details, please refer to Section 198 of Companies Act, 2013*
Most of the Companies will have reasonable financial resources to spend on CSR. It is up to us to effectively utilize the resources to yield maximum results.

1. Aligned with business objectives
2. Sustainable
3. Compliance with the provision of Companies Act, 2013
4. Result oriented
5. Scalable

Effective CSR

- Brand visibility
- Social capital
- Partnerships
- Business opportunities
- Relationships
- Nation building
How EY can assist you?

We suggest a comprehensive approach to prepare for Section 135 and implement CSR as per the provisions.
## How EY can assist you

<table>
<thead>
<tr>
<th>Aspect</th>
<th>How we can assist?</th>
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</table>
| Assess preparedness of the Company as per the provisions of Section 135 and map the changes required | **Undertake a rapid diagnostics study to:**  
  ► Assess applicability of Section 135 to the parent company and its subsidiaries – each company registered as a separate legal entity will have to follow the provisions of Section 135.  
  ► Assess allow ability of existing CSR activities as per the provisions of Section 135  
  ► Map the changes required in the existing CSR strategy and governance as per the provisions of Section 135. |
| Governance – CSR Committee                                            | **Provide initial support in orientation and policy formulation**  
  ► Orientation of the CSR committee members on the provisions of Section 135  
  ► Define roles and responsibilities  
  ► Assist in developing CSR Policy and implementation road map as per the provisions of Section 135 |
## How EY can assist you

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| **Implementation mechanism**   | **Support in setting-up not for profit entity (if required) and identifying implementation partners**  
► Present possible implementation platforms and assist in establishing a Not For Profit entity (if required)  
► Assist in identifying implementation partners and undertake due diligence of selected NGO partners  
► Develop standard operating procedures for selection of partners, defining results matrix, baseline, monitoring, implementation, reporting, etc.                                                                                                                         |
| **Implementation support**     | **Monitoring the CSR activities**  
► Suggest result oriented activities/projects  
► Regular monitoring of CSR activities in order to facilitate achievement of intended results  
► Financial monitoring of CSR projects  
► Suggest areas that need to be improved and strengthened |
### Measuring the results and reporting

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<th>How we can assist?</th>
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| **Develop results framework**  |  ► Identify key indicators to measure the results of CSR and reporting to the Government as well as other stakeholders  
                                  |  ► Prepare baseline data                                                           
                                  |  ► Assess results achieved against the baseline data                                
                                  |  ► Assist in compiling the annual CSR report as per the provisions of the Companies Act |
## How EY can assist you

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<thead>
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<th>Aspect</th>
<th>How we can assist?</th>
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<tbody>
<tr>
<td>Tax</td>
<td><strong>Approach CSR in a strategic way</strong>&lt;br&gt;► Identifying and aligning CSR expenditure connected with the business of the company in compliance with provisions of Companies Act, 2013 and Income Tax Act, 1961&lt;br&gt;► Assistance in computation of net profit as per section 198 to determine CSR contribution&lt;br&gt;► Evaluate alternate forms of legal presence and obtain tax exemptions (e.g. section 11, 12 of Income-tax Act, 1961)&lt;br&gt;► Drafting of trust deed / constitution documents as required&lt;br&gt;► Manage tax compliances and related advisory of the entity set up for CSR activities&lt;br&gt;► Explore possibility of combining specific provisions of Income-tax Act, 1961 to improve prospects of CSR deductibility (included availability of weighted deductions)&lt;br&gt;► Ensuring appropriate documentation concerned with running and operation of the CSR activities vehicle from tax perspective&lt;br&gt;► Identifying FCRA implications, if any</td>
</tr>
</tbody>
</table>
### Our credentials

<table>
<thead>
<tr>
<th>Large Telecom Company</th>
<th>A leading mini-ratna I Public Sector Enterprise under the Ministry of Petroleum, India</th>
<th>A large steel manufacturer in India</th>
<th>A leading auto mobile company in India</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grant Expenditure Evaluation of CSR Projects</td>
<td>Development of CSR policy and a long term perspective plan</td>
<td>Business model for establishing vocational training centre</td>
<td>Assisting in preparing a business model for scholarship scheme</td>
</tr>
<tr>
<td>Foundation of a leading IT company in India</td>
<td>A leading diversified company in India</td>
<td>Foundation of a large pharmaceutical and life sciences company in India</td>
<td>A business conglomerate involved in construction, power, real estate, etc.</td>
</tr>
<tr>
<td>Review of CSR policy</td>
<td>Assistance in developing business plan for skill development in Gems and Jewellery sector</td>
<td>Social Needs Assessment for Community Development Activities</td>
<td>Developing CSR investment plan for Udupi region in Karnataka</td>
</tr>
</tbody>
</table>
Our credentials

- **Leading real estate company in India**
  - Feasibility Study for setting up vocational skills development academy focused on retail and hospitality sector

- **A large FMCG company**
  - Project management support for Water Conservation Projects

- **A world leading academic institution**
  - Advisory and regulatory assistance for setting up operations in India

- **A large foundation set up to empower Rural India**
  - Assist in developing scaling-up strategy for Maharashtra

- **Foundation of a leading real estate developer in India**
  - Scoping Study for Skill Development Initiative

- **A large agricultural products company**
  - Documentation of Social Initiatives and Development of Social Investment Approach

- **A global company with interest in living, industry and farm essentials**
  - Scoping study for: Skill development initiatives in Agriculture
Thank you

For further details please contact:

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