

# Companies Act 2013 – Inclusive Growth

Corporate Social  
Responsibility 2013

12/7/2013



The Companies Act, 2013 ('2013 Act'), enacted on 29 August 2013 on accord of Hon'ble President's assent, has the potential to be a historic milestone, as it aims to improve corporate governance, simplify regulations, enhance the interests of minority investors and for the first time legislates the role of whistle-blowers. The new law will replace the nearly 60-year-old Companies Act, 1956 ('1956 Act').

The 2013 Act provides an opportunity to catch up and make our corporate regulations more contemporary, as also potentially to make our corporate regulatory framework a model to emulate for other economies with similar characteristics. The 2013 Act is more of a rule-based legislation containing only 470 sections, which means that the substantial part of the legislation will be in the form of rules. There are over 180 sections in the 2013 Act where rules have been prescribed and the draft rules were released by the MCA in three batches. It is widely expected that the 2013 Act and indeed the rules will provide for phased implementation of the provisions and in line with this, 98 sections of the 2013 Act have been notified and consequently the corresponding section of the 1956 Act cease to be in force.

# Companies Act 2013

Section 135 of the 2013 Act states that every company having:

- 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 any financial year shall constitute a Corporate Social Responsibility Committee of the Board

The committee would comprise of three or more directors, out of which at least one director shall be an independent director

## Applicability

The mandate of the said CSR committee shall be:

- to formulate and recommend to the Board, a Corporate Social Responsibility Policy, which
- shall indicate the activities to be undertaken by the company as specified in Schedule VII;
- to recommend the amount of expenditure to be incurred on the activities referred to above;
- to monitor the Corporate Social Responsibility Policy of the company from time to time

## Constitution of CSR Committee

### **The Board of the company shall:**

- approve the CSR Policy for the company and disclose contents of such Policy in its report and also place it on the company's website, and
- ensure that the activities as are included in CSR Policy of the company are undertaken by the company, and
- ensure that the company spends, in every financial year, at least two per cent of the average net profits

If the Company fails to spend such amount, the Board shall, in its report specify the reasons for not spending the amount

“Average net profit” shall be calculated in accordance with the provisions of section 198 of the 2013 Act

# Responsibility of the Board

- 'Net Profit' for the section 135 and these rules shall mean, net profit before tax as per books of accounts and shall not include profits arising from branches outside India
- Reporting will be done on an annual basis commencing from FY 2014-15
- Tax treatment of CSR spend will be in accordance with the IT Act as may be notified by the Central Board of Direct Taxes (CBDT)
- CSR activities may generally be conducted as projects or programmes (either new or ongoing) excluding activities undertaken in pursuance of the normal course of business of a company

## CSR Rules

The CSR Committee shall prepare the CSR Policy of the company which shall include the following:

- specify the projects and programmes to be undertaken
- prepare a list of CSR projects/programmes which a company plans to undertake during the implementation year, specifying modalities of execution in the areas/sectors chosen and implementation schedules for the same
- CSR projects/programmes of a company may also focus on integrating business models with social and environmental priorities and processes in order to create shared value
- surplus arising out of the CSR activity will not be part of business profits of a company
- would specify that the corpus would include 2 percent of the average net profits, any income arising therefrom, and surplus arising out of CSR activities

# CSR Policy

- A company may also implement its CSR programs through not-for-profit organisations that are not set up by the company itself. Such spends may be included as part of its prescribed CSR spend only if such organisations have an established track record of at least three years in carrying out activities in related areas
- Companies may collaborate or pool resources with other companies to undertake CSR activities.
- Only such CSR activities will be taken into consideration as are undertaken within India
- Only activities which are not exclusively for the benefit of employees of the company or their family members shall be considered as CSR activity
- Companies shall report, in the prescribed format, the details of their CSR initiatives in the Directors' Report and in the company's website

## CSR Policy

Green Resources Technologies Private Limited (GreenRe) is a boutique professional services firm providing advisory on CSR, environment, sustainability, international mechanisms and standards to dynamic corporate houses.

With a partner led approach and sound technical expertise the firm has extensive experience across many industries and businesses of various sizes. Moreover, with our robust compliance solutions and ability to navigate complexities we help dynamic organizations unlock their potential for growth through expansion, capital or acquisitions.

## About GreenRe

Website:

[www.greenre.in](http://www.greenre.in)

For further queries, please feel free to connect with us at:

Green Resources Technologies Pvt. Ltd.

251, Lake Town

Block – B

Kolkata – 700089

Mail: [info.greenre@gmail.com](mailto:info.greenre@gmail.com)

Phone: 033 – 6450 6801

## Contact Information