

FAQs on Corporate Social Responsibility

Q: If a company invests CSR amount for a particular financial year in a project and then for some reason, the project is subsequently stopped, what is the time limit to use the unspent CSR amount? Does the time limit start afresh?

A: The time limit does not start afresh. The company should transfer the unspent amount within thirty days from the end of the financial year to a special account (to be called the Unspent Corporate Social Responsibility Account) to be opened by the company in a scheduled bank for the particular financial year. The unspent amount is to be then spent, by the company in pursuance of its obligation towards CSR Policy, within a period of three financial years from the date of such transfer.

In case of failure to spend the unspent account, the company should transfer the same to a Fund specified in Schedule VII (such as, Prime Minister's National Relief Fund or a fund set up by the Central Government or the State Governments for socio-economic development) within a period of thirty days from the date of completion of the third financial year.

Recommendation: The High-Level Committee has recommended increasing the timeframe for spending unspent CSR amount to five years.

Q: Is it mandatory for a company to spend the amount earmarked for CSR activities in local areas?

A: No. The emphasis on spending the CSR amount in local areas is only directory and not mandatory in nature.

Recommendation: The High-Level Committee has recommended issuing a clarification to remove any ambiguities in interpreting relevant section of the Companies Act, 2013 and ensuring that companies are aware that, though preferred, it is not mandatory to spend the CSR amount in local areas.

Q: Can a company spend CSR amount in R&D?

A: The company may spend CSR amount in R&D in conjunction with a publicly funded institution. The CSR amount may also be spent on incubators funded by the Central or State governments or any agency of a Central or State public sector undertaking. For example, a private pharmaceutical company may undertake research in pharmaceuticals in conjunction with a publicly funded institution like an IIT or the ICMR and derive benefit from it.

Q: Can the expenditure incurred towards personnel exclusively appointed by the companies for implementing the CSR activities of the company, be included in the expenditure earmarked for CSR activities?

A: Salary paid by the companies to regular CSR staff as well as employees, who render their services for CSR will be part of Administrative overheads and should not exceed 5% of the total CSR expenditure as per rule 4(6) of the CSR Policy, Rules 2014.

Q: What tax benefits can be availed under CSR?

A: No specific tax exemptions have been extended to CSR expenditure per se. The Finance Act, 2014 also clarifies that expenditure on CSR does not form part of business expenditure. While no specific tax exemption has been extended to expenditure incurred on CSR, spending on several activities like contributions to Prime Minister's Relief Fund, scientific research, rural development projects, skill development projects, agricultural extension projects, etc., which find place in Schedule VII, already enjoy exemptions under different sections of the Income Tax Act, 1961.

Recommendation: The High-Level Committee has recommended that all CSR activities listed in Schedule VII should enjoy uniform tax benefit. Further, CSR expenditure to be made deductible from the income earned for the purpose of taxation and mode of implementation should be tax neutral.

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