

Social Sector Hotline

October 15, 2014

SOME CHANGES MADE TO CLARIFY CSR EXPENDITURE NORMS

- The Ministry of Corporate Affairs has amended the Companies (Corporate Social Responsibility Policy) Rules, 2014
- Clarification issued with respect to the nature of expenditure to be incurred for CSR activities
- CSR expenditure to include spending on administrative overheads as well within the 5% cap

BACKGROUND

Recently, the Ministry of Corporate Affairs ("MCA") made changes to the expenditure norms on CSR activities by amending the Companies (Corporate Social Responsibility Policy) Rules, 2014 ("CSR Rules") by further clarifying the nature of expenditure that can be undertaken by companies to build their CSR capabilities. While the CSR Rules, as notified on 27.02.2014¹, allowed companies to build CSR capabilities of their personnel as well as those of their implementing agencies through institutions with an established track records of at least three (3) financial years, such expenditure were capped at five per cent. (5%) of the CSR expenditure of the company in one financial year.

Providing more clarity to stakeholders, the MCA vide notification dated September 12, 2014² included overhead and administrative expenses within the contours of (5%) five per cent. cap that companies are allowed to spend on building administrative capabilities and staffing. The text of the amended rule 4(6) of the CSR Rules is as follows:

*Companies may build CSR capacities of their own personnel as well as those of their Implementing agencies through institutions with established track record of at least three financial years but such expenditure **including expenditure on administrative overheads**, shall not exceed five percent of total expenditure of the company in one financial year.*

ANALYSIS

The recent amendment is a welcome relief for companies undertaking CSR activities as there have been concerns expressed about the treatments and quantum of CSR fund that could be spent on administrative activities and capacity building in furtherance of carrying CSR activities as per the Company's CSR Policy. With increasing social expectations from large companies with huge technological and financial resources in India, it has become almost mandatory for such companies to invest heavily on human resource management to build CSR capabilities. In emerging economies such as India the intrinsic merit of doing good through CSR needs to be institutionalized. This can be done by providing greater incentives and flexibility to companies to hire CSR personnel and experts in the field of voluntary sector. However, by putting a ceiling of five per cent. (5%) on the expenses that companies will incur on administrative overheads, there could be a situation of an unfavorable demand/supply of trained CSR personnel or NGOs with CSR specific skills. Thus, by fixing a cap on administrative overheads, the challenges of utilizing resources for conducting CSR activities still remains.

– Rahul Rishi & Dr. Milind Antani

You can direct your queries or comments to the authors

¹ http://www.mca.gov.in/Ministry/pdf/CompaniesActNotification2_2014.pdf

² General Circular No. 36/2014 (F. No. 05/01/2014-CSR), Ministry of Corporate Affairs, Government of India. Please visit http://www.mca.gov.in/Ministry/pdf/circular_36_17092014.pdf for more information. Website last accessed on September 18, 2014

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