



॥ अक्षयं ते भविष्यति ॥

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CORPORATE SOCIAL RESPONSIBILITY

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Introduction

- Corporate social Responsibility is a new model introduced by the Companies Act, 2013 and is aimed at ensuring that corporate houses return some benefit to the society, from where they draw all their resources. It is aimed at maintaining equilibrium between the corporate sector and the society in general, for the mutual development of both.
- Provision regarding CSR are contained in section 135 of Companies Act, 2013.



Liability of CSR

Every Company including its Holding or Subsidiary company and a Foreign company having branch or project office in India, which fulfill the below criteria will have to spend **2% of its average net profit during three preceding years** on Corporate Social Responsibility as per the provisions of Section 135 of the Act.



Criteria for company for applicability of CSR

Net Worth

- Rs. 500 Cr or more

Or

Turnover

- Rs 1000 Cr or more

Or

A Net Profit

- Rs. 5 Cr or more



Calculation of Net worth

	Particular	Amount
	Share Capital	XXX
Add	Reserve and Surplus	XXX
Less	Accumulated Loss	XXX
Less	Deferred Expenditure	XXX
Less	Mis Expenditure not Written Off	XXX
Less	Reserve Created out of Revaluation of Assets	XXX



Calculation of Net Profit as per Section 198

	Particular	Amount
	Net profit as per the Profit and Loss A/c (PBT)	XXX
Less	Profit by way of premium on shares and debentures, Which are issued or sold by the Company	XXX
Less	Profit on sales by the Company of forfeited shares	XXX
Less	Profit of a Capital Nature including profits from sale of the undertaking	XXX
Less	Profit from sale of any Immovable Property or fixed Asset of Capital Nature Comprised in undertaking unless the business of company consists , whether wholly or partly, of buying and selling any such property or assets	XXX
Less	Any Change in Carrying amount of an asset or of a liability recognized in equity reserves including surplus in Profit and Loss A/c on measurement of asset or liability of Fair Value	XXX



Less	All the usual Working Changes	XXX
Less	Director's Remuneration	XXX
Less	Bonus or Commission paid or Payable to any to any member of the company's staff, or to any engineer , technician or person employed or engaged by the company, whether on a whole time or on part time basis	XXX
Less	Any tax notified by the central Govt. As being in the nature of a tax on excess or abnormal profits.	XXX
Less	Any tax on business profits imposed for special circumstances or reasons and notified by CG in this behalf	XXX
Less	Interest or debentures issued by company	XXX
Less	Interest or mortgages executed by the company and on loans and advances secured by a charge on its fixed or floating assets	XXX
Less	Outgoings inclusive of contributions made u/s 181	XXX
Less	Depreciation to the extent specified in section 123	XXX
Less	Any compensation or damages to be paid in virtue of any legal liability including a liability arising from a Breach of contract	XXX

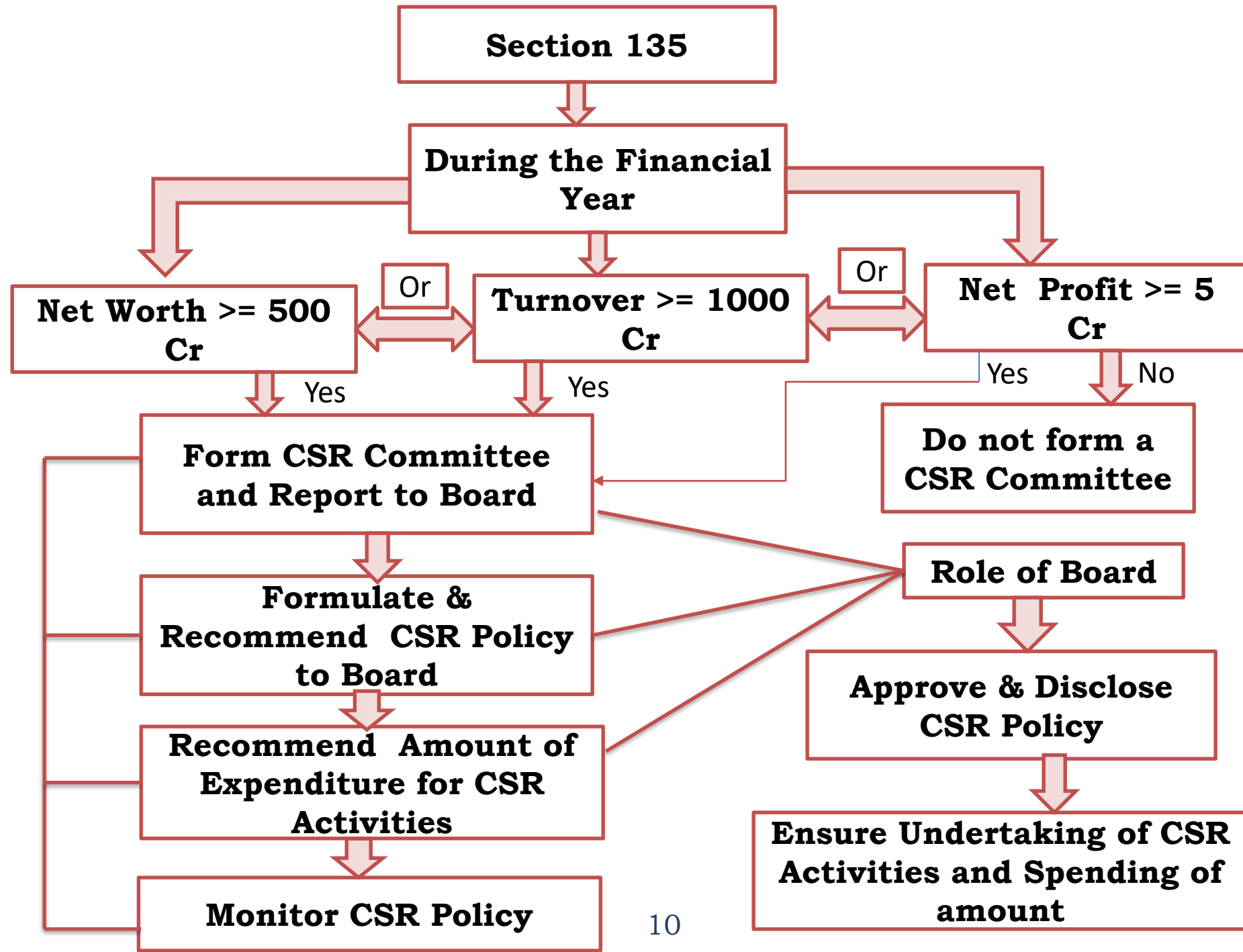


Less	Any Sum Paid by the way of Insurance against the risk of meeting any liability such as referred to above	XXX
Less	Debts considered bad and written off or adjusted during the year of account	XXX

Note: Following items shall not be Included

1. Any Income Tax or Super Tax Payable by the company or any other tax on property i.e Profit before Tax
2. Any compensation, damages or payments made voluntarily, that is to say, otherwise than in virtue of a liability
3. Any changes in carrying amount of an asset or of a liability recognized in equity reserves including surplus in profit and loss A/c measurement of the asset or the liability at fair value
4. Loss of capital nature including loss on sale of undertaking





Areas for application of allocated funds

Preference should be given to Local Area and areas around it operate and activities should be in in connection with Schedule VII

- Eradicating hunger, poverty and malnutrition, promoting healthcare, preventive healthcare and sanitation, including contribution to the Swachh Bharat Kosh set-up by the Central Government for the promotion of sanitation and making available safe drinking water

Promoting education, including special education and employment enhancing vocation skills especially among children, women, elderly, and the differently abled and livelihood enhancement projects;

Promoting gender equality, empowering women, setting-up homes and hostels for women and orphans; setting-up old age homes, day care centres and such other facilities for senior citizens and measures for reducing inequalities faced by socially and economically backward groups

Ensuring environmental sustainability, ecological balance, protection of flora and fauna, animal welfare, agro-forestry, conservation of natural resources and maintaining quality of soil, air and water including contribution to the Clean Ganga Fund set-up by the Central Government for rejuvenation of river Ganga

Areas for
Application of fund
for CSR

Areas for Application of fund for CSR

- Protection of national heritage, art and culture including restoration of buildings and sites of historical importance and works of art; setting-up-public of libraries; promotion and development of traditional arts and handicrafts

Measures for the benefit of armed forces veterans, war widows and their dependents

Training to promote rural sports, nationally recognised sports, paralympic sports and Olympic sports

Contribution to the Prime Minister's National Relief Fund or any other fund set-up by the Central Government for socio-economic development and relief and welfare of the Scheduled Castes, the Scheduled Tribes, other backward classes, minorities and women

Contributions or funds provided to technology incubators located within academic institutions approved by the Central Government

Rural Development Projects

Slum Area Development



Consequences for non compliance of section 135

For Company

- **Fine** not less than **Rs.50,000/-**
- Which may extend to **Rs.25,00,000/-**

For Officer

- Punishable with **Imprisonment** for a **term** which may extend to **3 years** Or
- With **fine** not less than Rs. **50,000/-** but which may extend to Rs. **5,00,000/-** Or
- Both



Tax Implication

Any expenditure (not being expenditure of the nature described in sections 30 to 36 and not being in the nature of capital expenditure or personal expenses of the assessee), laid out or expended wholly and exclusively for the purposes of the business or profession shall be allowed in computing the income chargeable under the head "Profits and gains of business or profession".

- *Explanation 1.*-For the removal of doubts, it is hereby declared that any expenditure incurred by an assessee for any purpose which is an offence or which is prohibited by law shall not be deemed to have been incurred for the purpose of business or profession and no deduction or allowance shall be made in respect of such an expenditure



- *Explanation 2.*-For the removal of doubts, it is hereby declared that for the purposes of sub-section (1), any expenditure incurred by an assessee on the activities relating to corporate social responsibility referred to in section 135 of the Companies Act, 2013 (18 of 2013) shall not be deemed to be an expenditure incurred by the assessee for the purposes of the business or profession.

In accordance with the FAQ's issued by the Ministry of Corporate Affairs dated 12.01.2016, under FAQ No.3, where it is clearly stated that *'The amount spent by a company towards CSR cannot be claimed as business expenditure. The Finance Act, 2014 provides that any expenditure incurred by an assessee on the activities relating to Corporate Social Responsibility referred to in section 135 of the Companies Act, 2013 shall not be deemed to be an expenditure incurred by the assessee for the purpose of business or profession'*.

Therefore, CSR expenditure is disallowed under the Income Tax Act, 1961



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RESPONSIBILITY



Reporting of CSR in Financial Statement

- Expenditure incurred on CSR Activities shall be disclosed by way of a note to the statement of profit & Loss
- In Line with Schedule III , should be recognized as separate line item as “CSR Expenditure” in statement of profit & Loss.
- The relevant note should disclose the break up of various heads of expenses included in line item “CSR Expenditure”
- Note to accounts relating to CSR Expenditure should contain as follow:
 - a) Gross Amount require to spent
 - b) Amount Spent During the yea

Particular	In Cash	Yet to paid	Total
Construction / acq. Of Asset	XXX	XXX	XXX
On purpose other than above	XXX	XXX	XXX

- c) Details of related party transactions e.g Contribution to a trust controlled by the company
- Annual report on CSR which is to be included in board’s report



Cessation from Compliance of CSR

- Four Years lock- in Period for a company fulfilling a CSR Criteria in one year if not may be noted that Once company has fulfilled any criteria for One year it has to fulfill CSR obligations for subsequent three Financial years, even if he does not fulfill any criteria in those years.



DISCLAIMER

- This presentation is made strictly to the clients of J V VASANI & Co.
- The views and opinions expressed in this presentation are our personal views. The application and impact of tax laws can vary widely based on the specific facts involved.
- It is advisable to take any decision after consulting us professionally.

