

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

DISCLAIMER

The contents of this hotline should not be construed as legal opinion. View detailed disclaimer.

This Hotline provides general information existing at the time of preparation. The Hotline is intended as a news update and Nishith Desai Associates neither assumes nor accepts any responsibility for any loss arising to any person acting or refraining from acting as a result of any material contained in this Hotline. It is recommended that professional advice be taken based on the specific facts and circumstances. This Hotline does not substitute the need to refer to the original pronouncements.

This is not a Spam mail. You have received this mail because you have either requested for it or someone must have suggested your name. Since India has no anti-spamming law, we refer to the US directive, which states that a mail cannot be considered Spam if it contains the sender's contact information, which this mail does. In case this mail doesn't concern you, please unsubscribe from mailing list.

Research Papers

Little International Guide (India) 2024

November 08, 2024

Unmasking Deepfakes

October 25, 2024

Are we ready for Designer Babies

October 24, 2024

Research Articles

The Bitcoin Effect

November 14, 2024

Acquirers Beware: Indian Merger Control Regime Revamped!

September 15, 2024

Navigating the Boom: Rise of M&A in Healthcare

August 23, 2024

Audio

Digital Lending - Part 1 - What's New with NBFC P2Ps

November 19, 2024

Renewable Roadmap: Budget 2024 and Beyond - Part I

August 26, 2024

Renewable Roadmap: Budget 2024 and Beyond - Part II

August 26, 2024

NDA Connect

Connect with us at events, conferences and seminars.

NDA Hotline

[Click here to view Hotline archives.](#)

Video

"Investment return is not enough" Nishith Desai with Nikunj Dalmia (ET Now) at FI8 event in Riyadh

October 31, 2024

Analysing SEBI's Consultation Paper on Simplification of registration for FPIs

September 26, 2024

