

CSR & Social Governance

(Chapter 4)

(Total= 20 marks)

Time - 1 Hr

Answer the following question.

Case Study 1

As per the United Nations Organisation, Impact implies changes in people's lives. This might include change in their knowledge, skills, behavior, the way health & education conditions of are changing across community. Such changes may be negative or positive, small or huge in quantum, it can be either long term or short term and may be identifiable or non-identifiable.

As per International Institute of Sustainable Development, "A Social Impact Assessment is a process of research, planning and the management of social change or consequences (positive and negative, intended and unintended) arising from policies, plans, developments and projects".

In other words, Social Impact refers to net effect of the proposed project on stakeholders. This may include impact on community as whole or on individuals or upon a single families or set of families, organisations or industries as a whole.

The net effect of any project upon people's life would termed as Social Impact and detailed assessment of such impact upon lives of community or individual would help the originator of CSR projects to plan and execute such projects more properly.

Examples of Social Impact includes:

People's way of life - that is, how they live, work, play and interact with one another on a day-to-day basis.

Their culture - that is, their shared beliefs, customs, values and language or dialect.

Their community - its cohesion, stability, character, services and facilities.

Their political systems - the extent to which people are able to participate in decisions that affect their lives, the level of democratization that is taking place, and the resources provided for this purpose.

Their health and well-being - health is a state of complete physical, mental, social and spiritual well-being and not merely the absence of disease or infirmity.

From above listed examples it is quite clear that social impact assessment should not only assess the impact of projects on lives of people but also should carve out the impact on natural resources, environmental impact and interactions between such environmental factors.

Questions:

(5 marks each)

1. Explain the importance of social impact assessment.

Answer

Following are the importance of Social Impact Assessment:

- **To drive answerability:** Arranging funding from donors is a task in itself and when an organization arranges such fund, the donors make it usually compulsory to report back on how the funds are being utilized and what is the progress of the project wherein such funds are spent. In such situation organizations might have predetermined targets with them such as the number of people the project will reach within a given time and it will be quintessential to monitor project regularly to collect this information.

- **To secure future funding:** Social impact of organisation will affect the decision of funding bodies of further & continuing funding as they will want to observe the concrete evidence of organisation's project's impact upon target stakeholder. Ongoing monitoring and evaluating can provide evidence

of what a project has achieved and what might be achieved as project implementation continues in the future.

- **To check the project's progress against the planned:** Loosing the sight of original aims for implemented project is easy in current scenario and monitoring the same on monthly, quarterly, half-yearly or yearly basis can prevent such situation and will lead to be concentrated on original aims as were specified during planning stage. A social impact assessment process also helps keep an eye on whether timelines & budgets are being adhered to as stipulated.

- **To learn from experience:** Appropriate monitoring and evaluation of project means one can see what has worked well and what has not. Subsequently this information can be used to improve future projects or funding applications. Social impact assessment tools enable organisations to collect data that track successes and failures and helps to build strong data management systems.

- **To motivate staff and volunteers:** Showing the volunteers and staff real and concrete evidence of their impact, will make them feel great. Environmental and social impact assessment can also encourage them to continue working with the organisation and involve them in future endeavours of the change journey of the organisation.

2. A corporate social audit is important because it can increase a company's responsibilities to the community. How does a corporate social audit examines the following elements of a company.

Answer

a. Transparency with financial and accounting practices: A corporate social audit can determine how transparent a company is with its financial and accounting practices. It ensures that all staff members report information accurately and that the company files its taxes according to state and federal regulations. It also ensures that the company shares as much financial information as possible with the public in the form of financial reports.

b. Transparency with product defects or other issues: A corporate social audit reports if a company has been transparent with any issues in its products or other offerings. For example, imagine a consumer goods company unknowingly sold a laundry detergent that contained harmful phosphates. If the company recalled the product, issued a public apology, and distributed proper compensation after realizing the error, it may still receive a satisfactory audit because of its transparency.

c. Fair hiring practices and employee treatment: A corporate social audit can also determine if a company participates in fair hiring practices. This can include hiring employees without discriminating against them because of their gender, race, sexuality, religion any other basis. It can also include making reasonable accommodations for potential employees with disabilities and giving them a fair chance to secure available positions.

d. Participation in charitable giving: A corporate social audit assesses how much a company participates in charitable giving. The audit may evaluate what percentage of its profits it donates to worthy causes. It may also check to see if the company offers incentives for its employees to volunteer, like offering a paid day off of work to volunteer at a local food bank or another organization.

Case Study 2

This Report is issued in accordance with the terms of our engagement letter dated (date).

The accompanying Statement contains the details of utilization of funds received from (name of the company from whom CSR amount has been received hereinafter referred as "the Company") by (name of the entity who received the amount hereinafter referred as "the entity") under XX Project (name of the Project under which the amount was received and hereinafter referred as "the Project") having its office at (address of the entity) for CSR activities pursuant to the requirements of spending on CSR activities by the Company as per Section 135 of the Companies Act 2013 (hereinafter referred as the Act) read with Schedule VII to the Act and has been initialled by us for identification purposes.

The management of the entity is responsible for preparation of the accompanying Statement including the preparation and maintenance of all accounting and other relevant supporting records

and documents. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of the Statement and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances. The management is also responsible for ensuring that the [Project of] entity complies with the requirements specified by the Company at the time of providing the funds regarding end utilisation to meet the CSR requirements of the company and for providing all relevant information to the Company as agreed to between the Co

Questions:

(3 marks each)

1. What are the penal provisions for non-compliance with the provisions regarding transfer of unspent amount?

Answer

The said non-compliance is a civil wrong and shall attract the following penalties:

- Company - Twice the unspent amount required to be transferred to any fund included in Schedule VII of the Act or Unspent CSR Account, as the case may be, or one crore rupees, whichever is less.
- Every Officer in Default - 1/10th of the unspent amount required to be transferred to any fund included in Schedule VII of the Act or Unspent CSR Account, or two lakh rupees, whichever is less.

2. What are the presentation and disclosure requirements related to CSR under the Companies Act, 2013?

Answer

As per General Instructions for Preparation of Financial Statements in accordance with Schedule III of the Companies Act 2013, the amount of CSR expenditure should be disclosed by way of note to the Statement of Profit & Loss.

For better financial reporting practices create a separate line item for CSR Expenditure in Statement of Profit & Loss.

A company may be in losses but still qualify for CSR spend due to net worth or turnover limit. In such cases a disclosure would be made in Board's Report.

Following disclosure are required in notes to account of CSR expenditure:

1. Gross Amount required to be spent.
2. Amount approved by the Board.
3. Amount spent during the year on Construction/ acquisition of asset Other purposes
4. Details of Related Party Transactions (Trust/ society/ section 8 company which is controlled by company for making CSR spend).

Q3. **(4 marks)**

Are Corporate Social Responsibility (CSR) expenditures allowed as deductions under the Income Tax Act, 1961? Are there any specific CSR activities that qualify for tax benefits under other sections of the Income Tax Act?

Answer

CSR and Income Tax:

- Finance (No. 2) Act, 2014 has introduced Explanation 2 to Section 37(1) which states that for the purposes of section 37(1), expenditure incurred by companies on CSR as per Section 135 of the Companies Act shall not be deemed to be expenditure incurred for the purposes of business or profession.

The rationale for the same is given in the Memorandum to the Finance Bill as follows:

- 1) CSR expenditure is application of income and hence not incurred wholly and exclusively for the purposes of business;
 - 2) CSR provisions are intended for corporates to share the burden of the Government in providing social service and allowance of such expenditure would amount to subsidizing one-third of such expenditure by the Government.
- The Memorandum also clarifies that the CSR expenditure which falls under sections 30 to 36 would be allowed as deduction subject to fulfilment of conditions specified in those sections.

- CSR donations are eligible for deduction under Section 80G of the Income-tax Act subject to specified.

Exceptions - Goldman Sachs Services Pvt. Ltd v. JCIT [IT(TP)A No. 2355/Bang/2019]; First American (India) Pvt. Ltd v. ACIT (ITA No.1762/Bang/2019) and Allegis services (India) Pvt. Ltd v. ACIT (ITA No.1693/ Bang/2019)

- CSR Spenders can avail allowability of certain expenses under Section 30 to Section 36 of the Income Tax Act, 1961:

Section 30	Deduction on repairs, municipal tax, and insurance for premises.
Section 31	This section provides deduction on repairs and insurance of plant, machinery, and furniture.
Section 32	Under this section, CSR spenders can get depreciation on tangible assets like building, machinery, plant, furniture and also on intangible assets like know-how, patents, trademarks, licenses.
Section 35	Under this section, deduction is given on expenditure for scientific research and knowledge extension in natural and applied sciences under agriculture, animal husbandry and fisheries. Payment to approved universities/research institutions or company also qualifies for deduction. In-house R & D too is eligible for deduction, under this section.
Section 35CCD	Deduction for skill development projects.
Section 36	Here, deduction is provided regarding insurance premium on stock, health of employees, loans or commission for employees, interest on borrowed capital, employer contribution to provident fund, gratuity and payment of security transaction tax.

No specific tax exemptions have been extended to CSR expenditure. The Finance Act, 2014 also clarifies that expenditure on CSR does not form part of business expenditure.

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