

Understanding Provision 135 of the Companies Act 2013

The 2% CSR Clause

Section 135 of the Companies Act states that every company having:

1. Net worth of rupees five hundred crore or more (100 million \$ or more),
2. Or a turnover of rupees one thousand crore or more (200 million \$ or more),
3. Or a net profit of rupees five crore or more (1 million \$ or more).

Must spend at least two percent of its average net profits made in the preceding three financial years.

The company shall constitute a Corporate Social Responsibility Committee of the Board consisting of three or more directors, out of which at least one director shall be an independent director.

Corporate Social Responsibility Committee

The Corporate Social Responsibility Committee will:

1. Formulate and recommend to the Board, a Corporate Social Responsibility Policy for the company
2. Recommend the amount of expenditure to be incurred on these activities
3. Monitor the CSR Policy of the company from time to time

Board Responsibilities

The Company Board of in turn must:

1. Disclose the contents of the CSR Policy in its report and place it on the company's website
2. Ensure that all activities included in the CSR Policy are undertaken by the company
3. Ensure that the company spends, in every financial year, at least 2% of the average net profits of the company made during the three immediately preceding financial years

Choosing a Cause

The company may choose to give preference to the local area and areas around it where it operates. If the company fails to spend the prescribed amount, the Board shall, in its annual report, specify the reasons for not spending the amount.

In choosing a Trust or Society or Section 8 company to implement the CSR policy, the company must ensure that the organizations it has chosen has an established track record of at least three years.

Fine for non-compliance shall be punishable with fine between Rs 50,000- Rs 25,00,000 and every officer of the company who is in default shall be punishable with imprisonment for a term which may extend to 3 years or with a fine which shall between Rs 50,000 – Rs 5,00,000, or with both.