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CSR to exclude political funding

BS REPORTER
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Political funding by India Inc will not qualify as spending on corporate social responsibility (CSR), according to the CSR rules notified by the ministry of corporate affairs on Thursday, about five months after draft rules in this regard were put in the public domain for consultation.

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The norms will also be applicable to foreign companies with branches or project offices in India. For these companies, all CSR activities have to be carried out in India.

The notification, effective from April 1 this year, clearly states any contribution from companies made "directly or indirectly" to any political party won't be considered CSR activity. The notification comes merely months before general elections in the country.

Last year, the government had provided a new structure for political funding by companies, under which these entities could set up 'electoral trusts' for providing funds to registered political parties. The 'electoral trust' structure also provides for a few tax benefits to these entities for funds provided to political parties. About a dozen entities, including those related to the Ambanis, Tatas, Mittals, Birlas and Vedanta, have already set up such trusts.

Companies' CSR activities will cover a wide range of activities, added after consultations with stakeholders. These include projects promoting preventive health care and sanitation, livelihood enhancement projects, protection of national-heritage art & culture and steps for the benefit of armed forces veterans.

Activities aimed at reducing the inequality faced by socially and economically backward groups have been included under CSR.

However, activities that help only company employees and their families won't be part of CSR activities.

Before finalising and notifying the rules, the ministry of corporate affairs consulted various stakeholders, including stalwarts of India Inc. The draft CSR rules were issued on September 10, 2013.

The new Companies Act, 2013, mandates companies with a net worth of at least ₹500 crore or a turnover of at least ₹1,000 crore or a net profit of at least ₹5 crore to spend at least two per cent of their average net profits of the past three years on CSR activities. While deciding if a company has to spend on CSR, profit from foreign branches and dividend received from other companies in India will be excluded from the net profit criteria.

The board reports for companies spending on CSR have to include an annual report on CSR activities. In the case of a foreign company, its balance sheet will have to have an annexure on CSR spend.

"The CSR rules released today (Tuesday) have answered many questions companies had. The time taken for release of the rules is justified by the clarity the rules have brought out," said Santhosh Jayaram, technical director (sustainability), KPMG in India.