



December 2022

GST LEVY ON CSR

Employability to suffer despite generosity

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SUMMARY

EXECUTIVE

EXECUTIVE SUMMARY

Emerging economies face a plethora of social, environmental and economic issues, adversely impacting the overall development and offering challenges. India is not an exception, it is a country of innumerable contradictions - on the one hand, it has grown as the world's fifth-largest economy by nominal GDP and third-largest by purchasing power parity, on the other hand, it is still home to the largest number of people living in poverty and other social issues. There is an uneven distribution of the resources and incidences of inequalities are high. This inequality is posing a threat to growth if it goes unchecked. Hence, it is imperative to have a strategy in place to safeguard the poor and the deprived section of the society to achieve significant and sustainable human development. Especially business plays a leadership role in bringing the needful transformation.

The Companies Act, April 2013 is a landmark legislation that created an opportunity for Indian companies to contribute in the areas of development. It is also the first country to make the incorporation of CSR activities mandatory for qualifying companies. As seen, companies satisfying the criteria are mandatorily required to incur CSR expenditure. However, the lack of availability of input tax credit on procurement of goods/services for performing CSR activity is an issue. Overall, there is a huge hue and cry in the trade and industry with respect to the applicability of GST provisions on CSR activities.

It is time to analyze and understand the nature and magnitude of the GST issues and their impact and implication on the business. As part of the report, an attempt has been made to examine an overall CSR composition and its distribution especially in the education and skill development sectors and how the CSR activities in these two sectors are enhancing the nation building aspect. Besides this, the report has successfully captured the CSR impact on business ability to retain the top talent and affect the retention rates. The report has highlighted that the next generation of employees currently entering the workforce seek out employers with a clear and effective CSR strategy. Furthermore, the report has been carried out with a survey with an objective of capturing the sentiment of business toward the effect of the GST levy on CSR. The Survey of the report has successfully captured the knowledge and awareness of businesses on GST and its impact and opinion on pre vs post-GST levy. The final segment of the report provides a set of recommendations on exemption of GST on CSR activities, drives in bridging the employability gap and assists in making India, the Skill Capital of the World.

THE REPORT

HIGHLIGHTS OF

KEY FINDINGS

The Impact

- ▀ The impact of CSR activities has been affected in case of a majority (83%) of the businesses surveyed. Most (79%) of this impact has been adverse.
- ▀ 95% of all businesses believe that the levy of GST on a social good initiative is unjustified. The grouse is divided between **inappropriate categorization** (39%) and lack of input credit (23%).
- ▀ 80% of all businesses believe that GST should not be levied on CSR activities and think that such a levy is detrimental to activity levels.

The Implications

- ▀ Nearly all businesses (97%) think that the waiver of GST could spur an increase in CSR activity levels.
- ▀ The levy might dampen potential benefactors. Businesses across six sectors (out of twenty) predict a double digit percentage rise in activity in the near future. Healthcare and Information Technology lead with a 15% growth prediction each.
- ▀ Lower penalties for failure to implement CSR by GST-compliant businesses, resolving ambiguities, reinstating input credit and CSR's status as a "charity" or "gift" are recommendations offered by businesses.



INTRODUCTION

Over 14,81,069 companies in the country represent corporate businesses. These companies have a major share in building the economy and contribute successfully to the country's GDP. CSR ropes in the private sector to perform their commitment towards the society. India is the first country to make Corporate Social Responsibility (CSR) mandatory in the world, following an amendment to the Companies Act 2013.

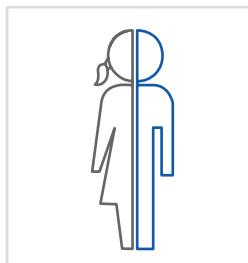
CSR being an approach towards Socio-Profit sustainable development with the focus on the bottom lines of Socio-eco-environmental performance, is contributing to universal call to action - Global Goals/Sustainable Development Goals (SDGs) and creating value in the lives of the communities. Inclusive growth of community is being witnessed by CSR initiatives in the realm of Education, Skill Development, Health, Social Entrepreneurship etc. In turn, value is being created for society through market growth, job creation and generating opportunities.



CSR COMPOSITION

In a list **30** activities mentioned on the government CSR website, the major ones are listed below:

Gender Equality



Women Empowerment



Education, Skill Development



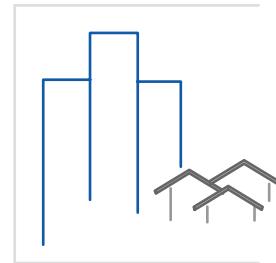
Health Care



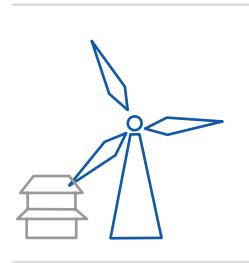
Environmental Sustainability



Socio-Economic Inequalities



Rural Development Projects



CSR IN EDUCATION & SKILL DEVELOPMENT

■ Education:

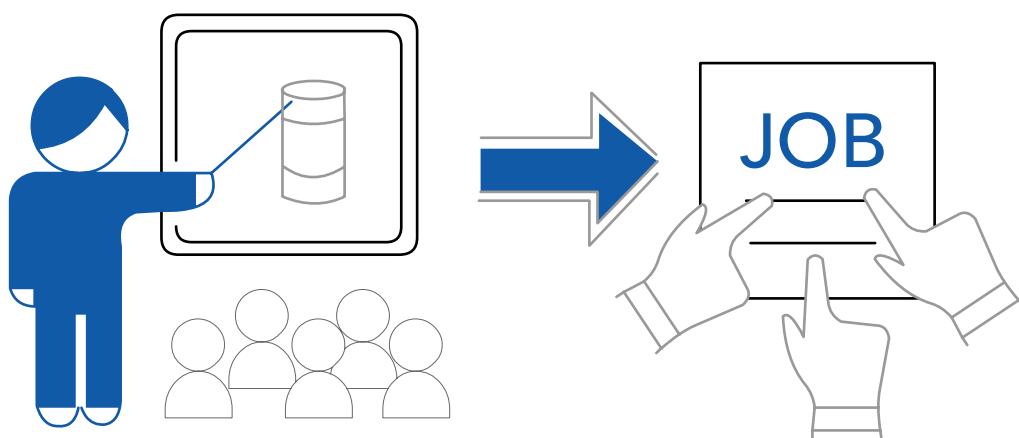
| Data | Fiscal Year 2019-20 | Fiscal Year 2020-21 |
|--------------------------|---------------------|---------------------|
| CSR Expenditure in Total | INR 7164.49 Cr | INR 6391.86 Cr |
| Total Companies | 9325 | 9315 |
| Top State | Maharashtra | Maharashtra |

- As reported in government data, CSR expenditure on education has fallen majorly in the education sector in the last fiscal year. GST levy on skill development and education must be reconsidered as the digital India Inc. growth story marches on.
- The size and volume of Maharashtra as a contributor to CSR collections, almost a good share goes back to it, and a prosperous distribution of funds specifically for backward states needs a thorough look through.

CSR INTERVENTION IN SKILL DEVELOPMENT

The objective of Skill Development of any country is to create a workforce empowered with the necessary and continuously upgraded productive skills, knowledge and nationally recognized qualifications to gain access to decent employment. Among persons of age 15-59 years, about 2.2% are reported to have received formal vocational training and 8.6% are reported to have received non-formal vocational training. While the debate on the exact quantum of the challenge continues, there is no disputing the fact that it is indeed a challenge of formidable proportions. National Policy for Skill Development and Entrepreneurship (2015)* estimated that a total of 427.4 million people require skill training between 2015 and 2022. Out of which, 119.50 million require skilling since they are fresh entrants. Around 307.09 million labour force requires either up-skilling or re-skilling. It is apparent that around 61 million individuals need to be skilled every year from 2015 to 2022. As part of the CSR skill training initiatives, many of the corporates are contributing towards skill development by creating impact at national level as described by many studies.

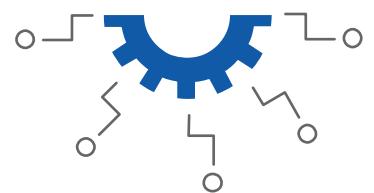
* <https://www.msde.gov.in/en/reports-documents/policies/national-policy-skill-development-and-entrepreneurship-2015>



WHY COMPANIES ARE OUTSOURCING CSR TO NGOs

Over the last two decades, CSR has grown from a niche position of limited interest to become an increasingly important management issue. The big challenge for companies is how to develop an approach that can truly deliver the set ambitions as part of these initiatives. However, some companies have managed by directly involving themselves in executing CSR activities, while some others have engaged in smart partnering with the implementing agencies. Companies directly dealing with CSR are facing a plethora of challenges - long term and dedicated commitment in serving and meeting the project objectives, having to set the right workforce whose values have to resonate with the organization, suitable infrastructure in place, required skill set and expertise in executing the CSR.

As companies continue to increase the breadth and depth of CSR initiatives, we are witnessing an increasing amount of partnerships with third-party organizations. NGOs are playing an increasingly important role in formulating the social responsibilities of companies and have been considered as main drivers of CSR initiatives. As Gol confirmed, the Country has a total 17,130 implementing agencies that are implementing CSR activities. With the rise in the legal obligations for the companies, NGOs are providing them the right platform in terms of infrastructure, cost, time, expertise, capability and reach. With this, these organizations are emerging as the best CSR implementation partners and helping in improving the brand and to upkeep the reputation in the market. Since most of the companies have to engage their employees in the execution of a project, the right kind of team/employee may not yield desired results and it is hard to execute on track and in time. Some companies even do not have enough bandwidth to handle CSR responsibilities. Companies are providing financial support and other help based on their core service for the social cause, NGOs are executing CSR by streamlining the activities and customizing solutions.

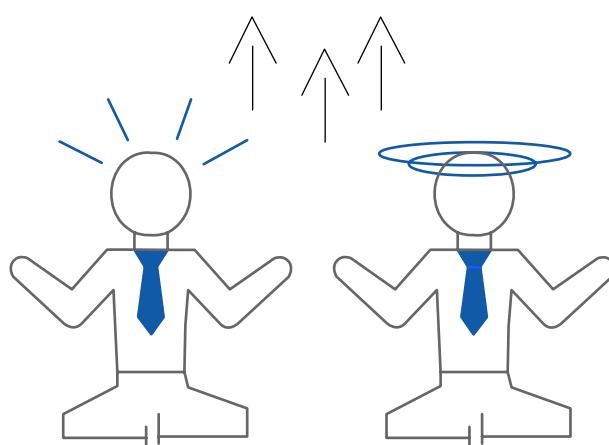


IMPACT OF CSR ON BUSINESS

CSR is becoming a crucial part of any company's long term strategy, especially in the war on talent. An effective CSR initiative not only enriches the community, but also contributes to improving the company's culture, boosts employee engagement and helps retain the best people.

Companies with strong purpose and social responsibility practices have a positive impact on talent attraction and employee retention. Most of the studies indicate that businesses with a commitment to CSR could see productivity increase twofold and turnover reductions by up to 50%.

CSR initiatives that promote upskilling and reskilling are gaining momentum, transforming labour productivity and in turn boost economic growth. In addition to this, organizations that are creating CSR programs that are meaningful to their employees and aligned with the organization's values can see direct links to achieving business goals. CSR programs are attracting new talent as well as retaining employees by keeping them engaged and stimulating productivity. These employees, in turn, make an impact on the bottom line which results in cost saving.



CSR ACTIVITIES AND GST LEVY

The 18 percent GST levied on CSR activities is discouraging industries catering to skill development and is too high for the development sector, mostly impacting on livelihoods at the grassroots level. This may impact on training activities or the partners to come forward in joining their hands in fulfilling the objective of Skill India Mission. In addition to this, availing ITC on CSR spending has been highly disputed. Different companies / businesses interpret the issue of availing GST on CSR spending differently, some of them take these activities as an integral part of their final output. Since it is having direct impact on the businesses in turn affects the productivity and retention rates. In this direction, exemption on GST on CSR programs bring a revolution in the journey of bridging the employability gap, improving India's Skills Capital and tackle effectively the attrition issue by not compromising with the productivity level.



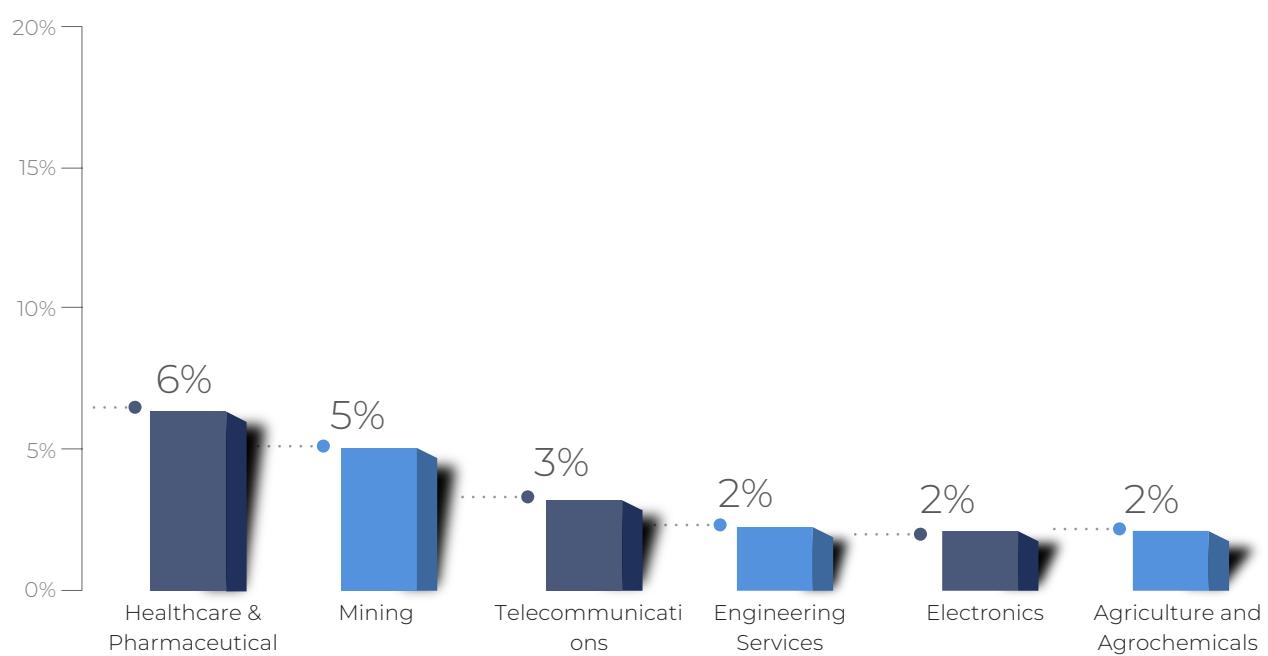
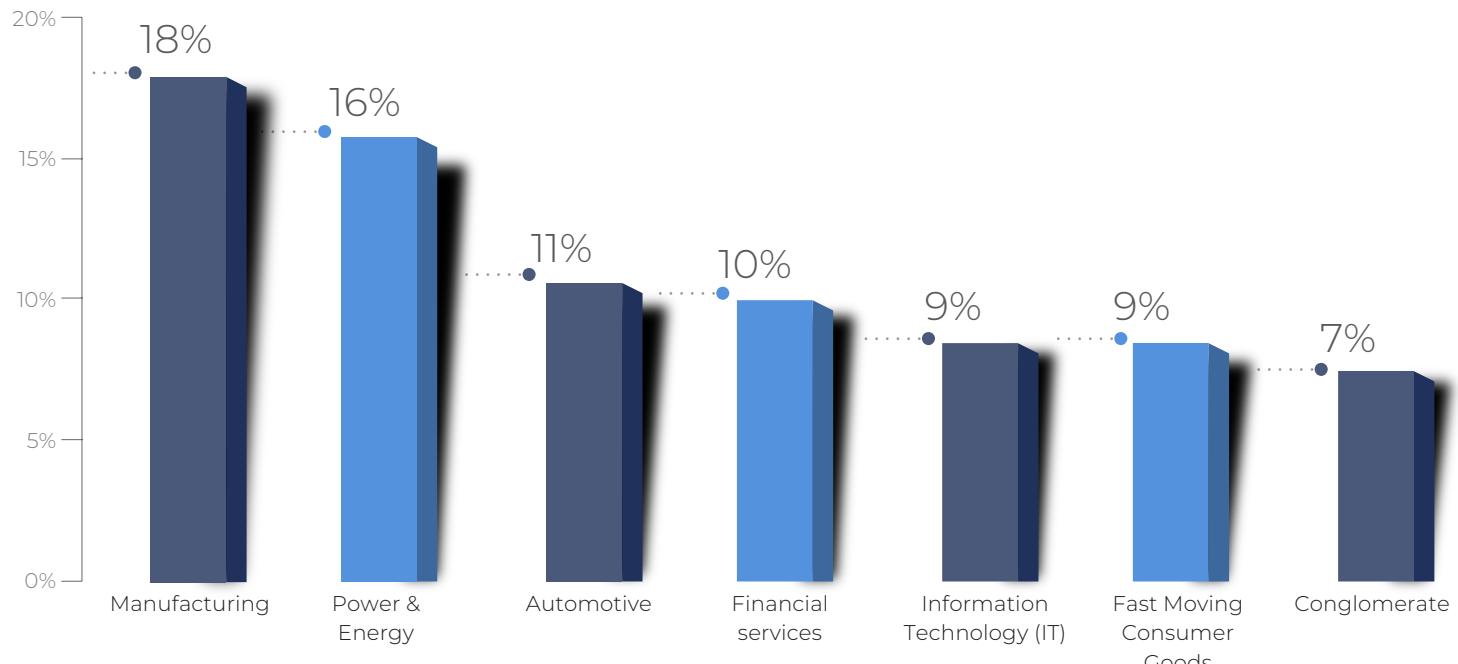


BACKGROUND

BACKGROUND

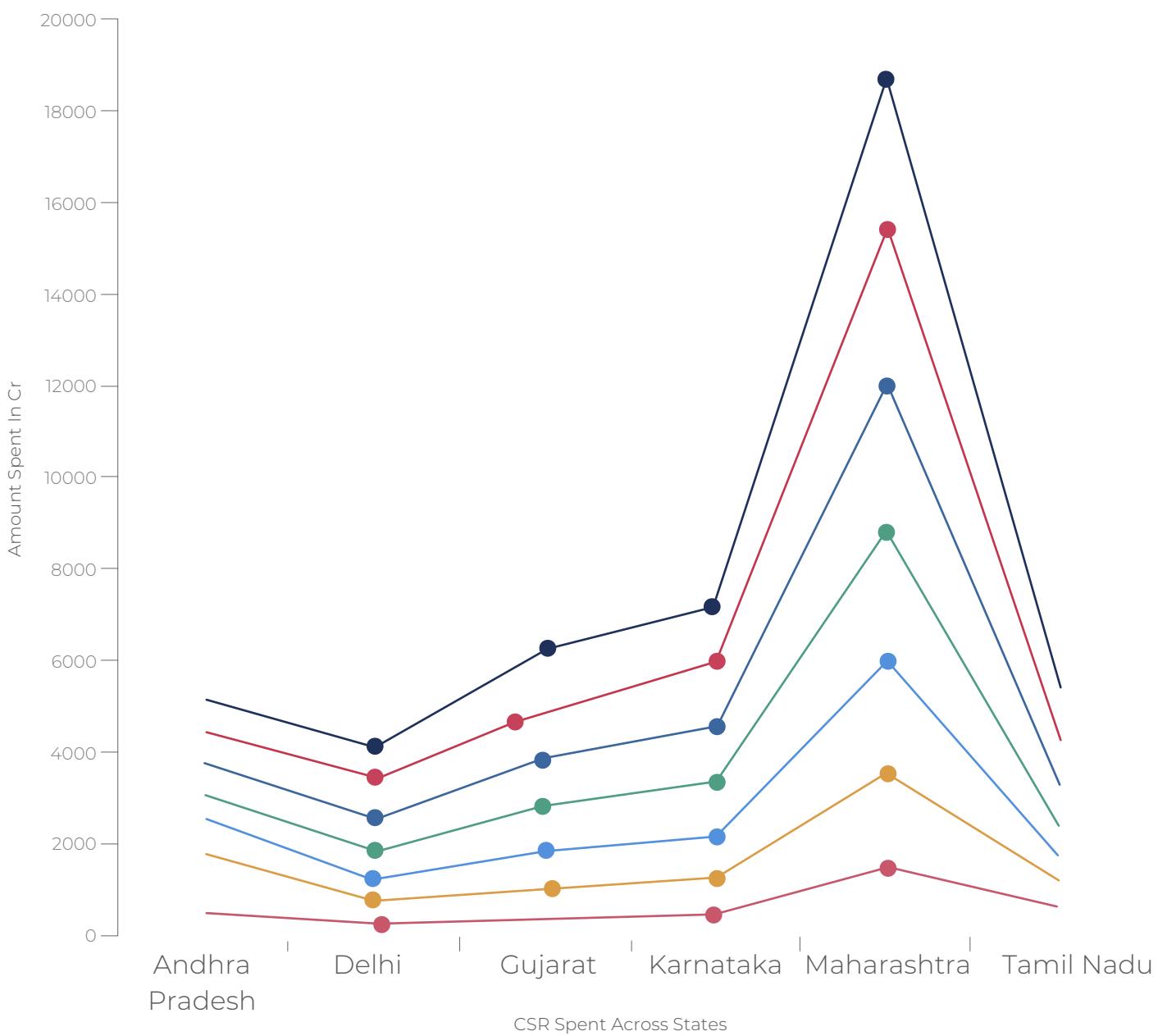
- ▀ Data pertaining to the sectoral CSR contribution from the top hundred listed companies shows that four sectors –Manufacturing, Automotive, Power & Energy and Financial Services –comprise 55% of all CSR contributions. The contribution from this cohort is growing at 14% CAGR, over the past 6 years. The TeamLease Education Foundation survey reflects the same degree of willingness to give on part of companies from six key sectors, while 14 more sectors also plan to increase their CSR contributions significantly. All of this means that the 13% share of the CSR fund deployment which flows into Education and Livelihood have the potential to be significantly larger in size; and the resultant fillip to employability and employment would be substantial.
- ▀ However, a formidable hurdle stands in the way of growing CSR grants. Aggregate corporate contributions have routinely fallen short of the 2% net profit mark as mandated by law. The levy of GST on CSR activities is not likely to help the cause of ensuring compliance and expanding the overall pool of CSR grants. Moreover, since nearly a third of the gross CSR grants pool will end up with the exchequer, businesses will be left with a significantly lower two-thirds of the total CSR budgets to actually spend on activities. The math leaves one with an invariable sense of being robbed out of one's benevolence.

CSR fund contribution across sectors



CSR DISTRIBUTION PAN INDIA

Most of the funds are flowing to developed states rather than states that require funding for development. Maharashtra, for instance, accounts for 13 percent of the total spending. Six states—Andhra Pradesh, Delhi, Gujarat, Karnataka, Maharashtra, and Tamil Nadu—accounted for over one-third of total CSR spending in 2020-21.



SURVEY OBJECTIVES & INSIGHTS

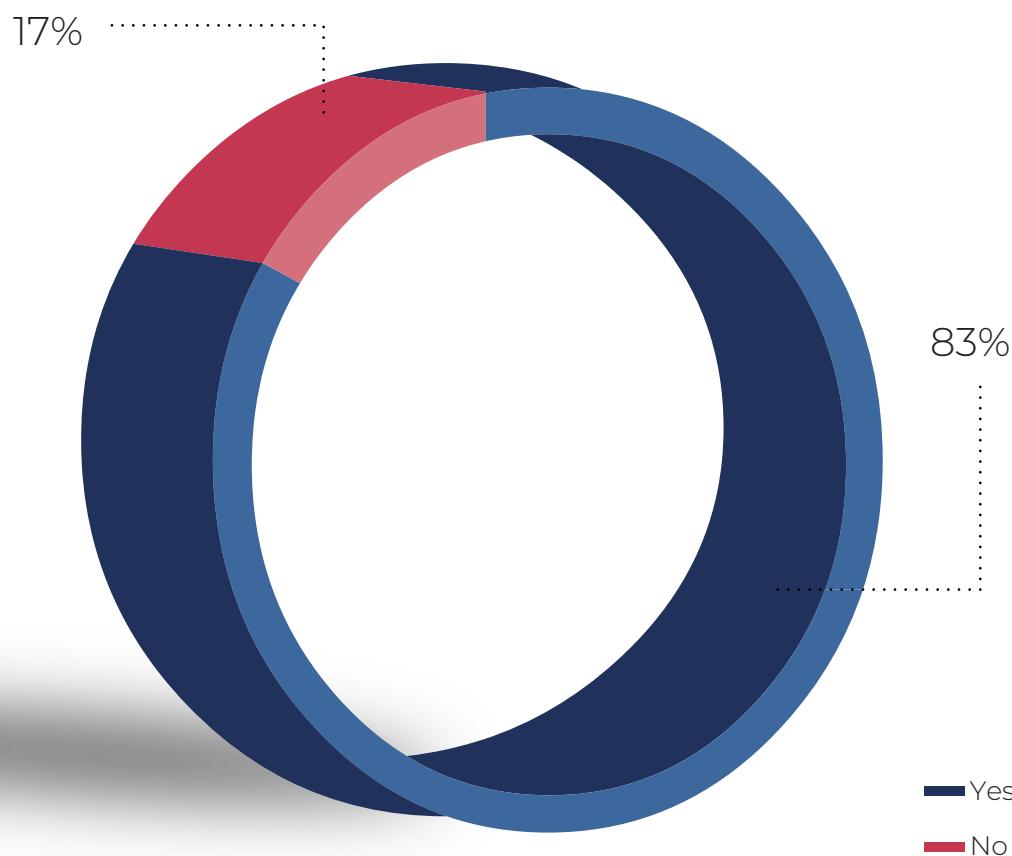
- ▀ The problem statement is based on background data generated for Pre- vs. post-GST analysis of CSR activities. India Inc. aims to reach 1 lakh crore on CSR spending in the coming decade, but will we be able to do that, given a tax regime on philanthropy holds us back?
- ▀ This Survey report aims to capture the sentiment of businesses toward the effect the GST levy on CSR may have on CSR activity levels. It dwells on how businesses view this aspect of the regime and what they believe is the right thing to do for more of their ilk to carry on with social good and under the law.
- ▀ Following the objective, survey questions were based on knowledge & awareness of businesses on GST for CSR activities, the impact, and opinion on pre vs. post-GST levy. Also, the future predictions consider policy changes that can help the cause of better philanthropy opportunities for the businesses in India Inc.

SURVEY FINDINGS

CSR ACTIVITIES SUFFER POST-GST LEVY

- Following the levy of the Goods and Services Tax, the impact of CSR activities has been affected in case of a majority (83%) of the businesses surveyed.
- Nearly half of all respondents (47%) have proportionately curtailed CSR activities and grants and about one out of four (24%) have reduced CSR grants while sustaining activity levels
- Only a minor proportion (8%) sees no change at all, and an equal proportion has slightly reduced both grants and activities.

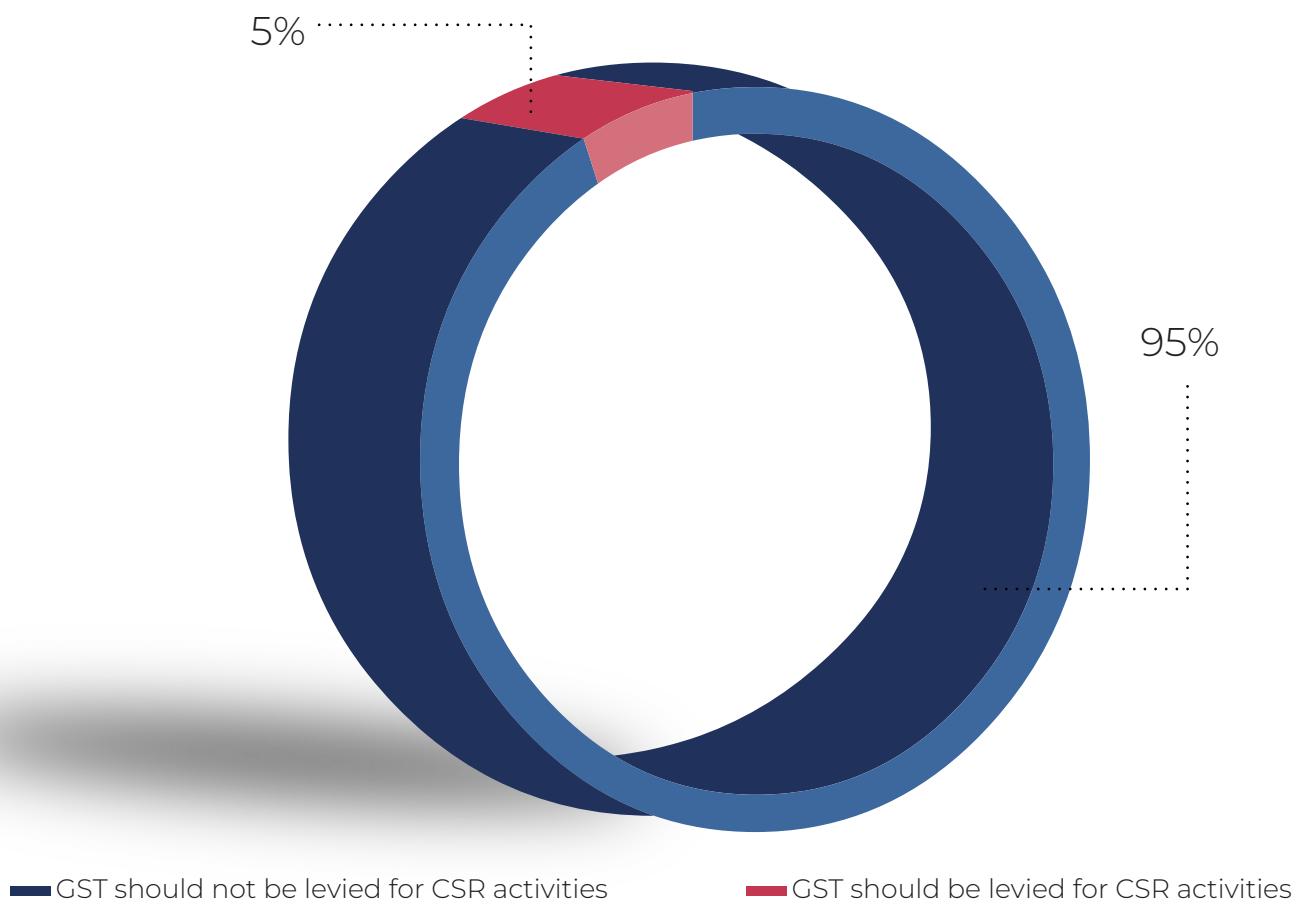
Impact of CSR activities affected post GST levy



SOCIAL GOOD TAXED: BUSINESSES DISAGREE

- ▀ Nearly all businesses (95%) – save a minuscule 5% – believe that the levy of GST on CSR activities is unjustified.
- ▀ About two out of five businesses (39%) find “charity being taxed” unacceptable. Nearly one out of four businesses (23%) think that input credit (ITC) must be reinstated for a social good activity.
- ▀ A significant 12% believe that the obligatory nature of CSR must be done away with, at least for small businesses. 5% believe that this ruling and 80G conflict with each other, and 3% believe that over the 3-year time window in consideration, cashflows also matter.

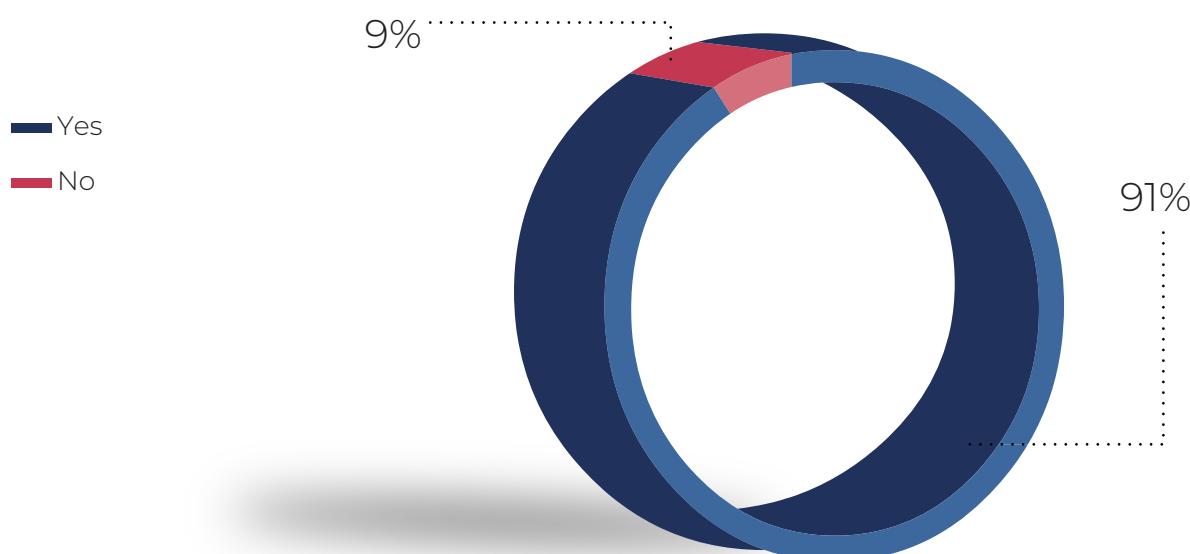
The right approach as per businesses



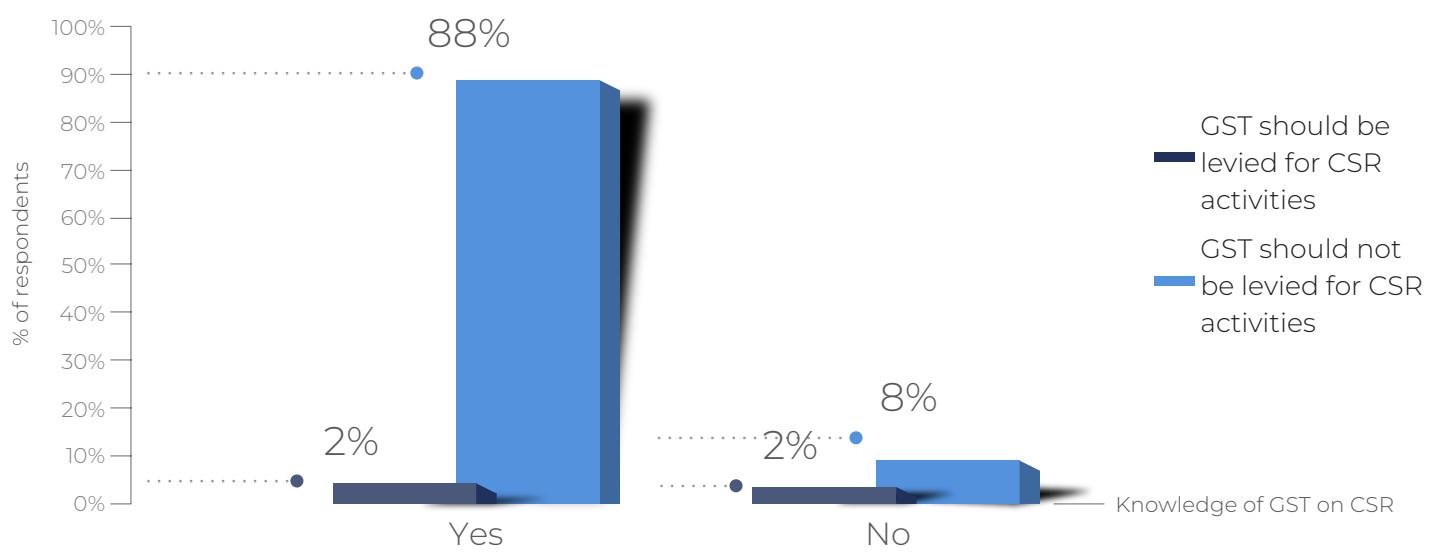
MOST OF THOSE AWARE OPPOSE THE LEVY

- ▀ A good majority of businesses (91%) are aware of the current regime of a GST levy on CSR activities. However, that leaves a small but significant 9% unaware.
- ▀ A large majority of all businesses surveyed (88%) are both aware of the levy and are opposed to it. A minuscule 2% are aware and are in favour of the levy of GST on CSR activities.
- ▀ Another 8% of businesses who are unaware of the levy are opposed to it as well.

Awareness of the levy



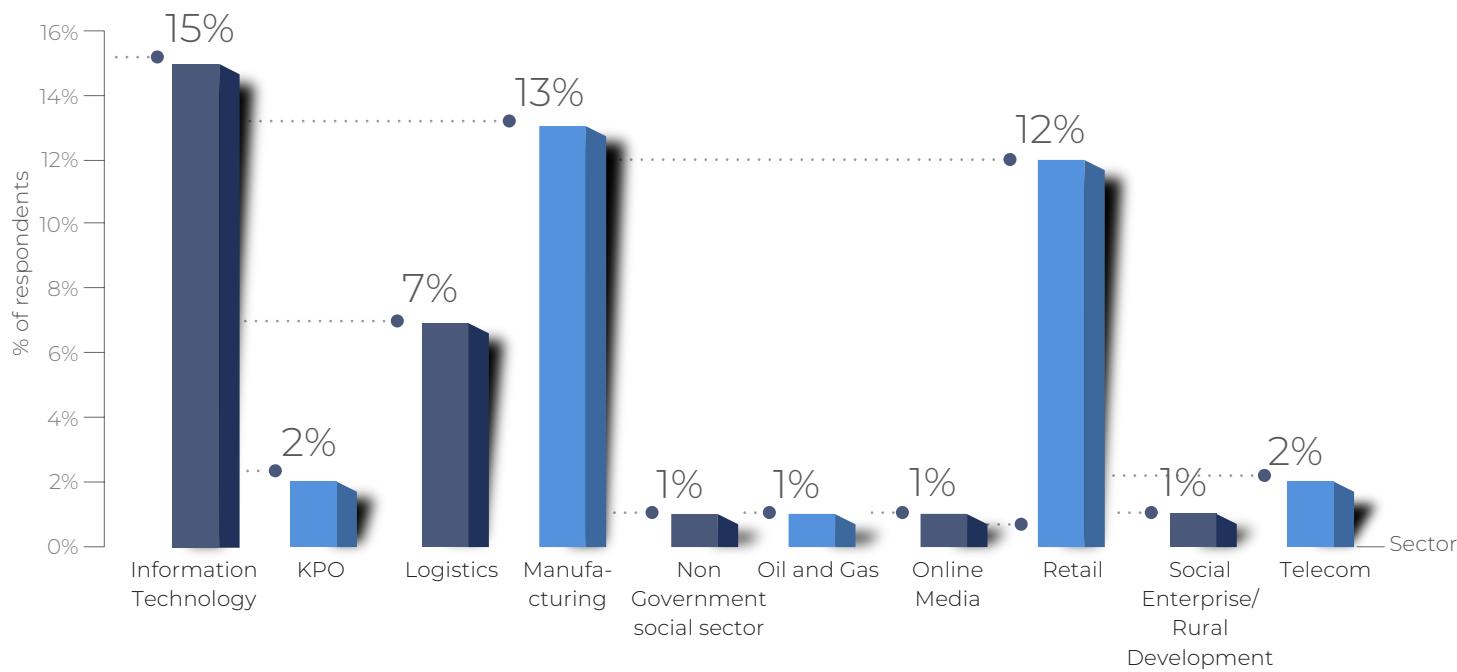
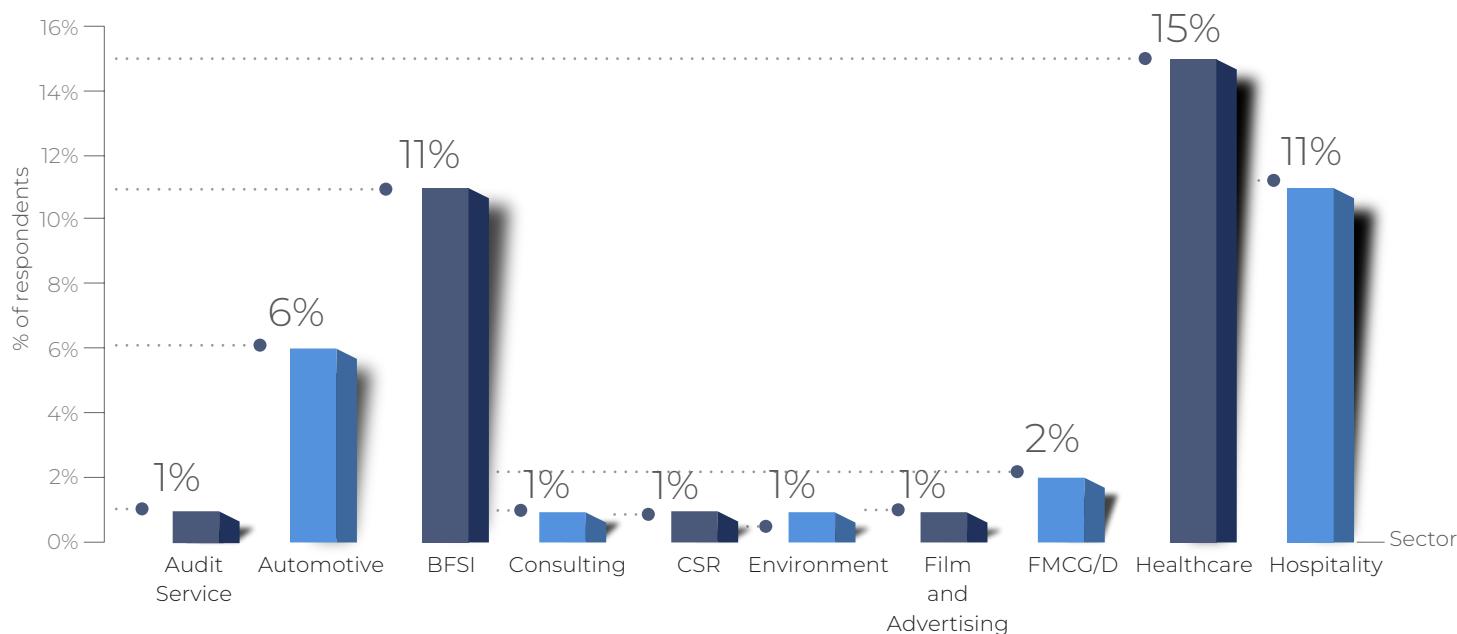
Awareness vs opinion on the levy



INDIA INC EAGER TO IMPROVE ACTIVITY LEVELS

Businesses across six sectors, out of the twenty covered, predict a double digit percentage rise in their CSR activities in the near future (1 – 2 years). Healthcare and Information Technology foresee a bigger increase in their activity levels than all other sectors.

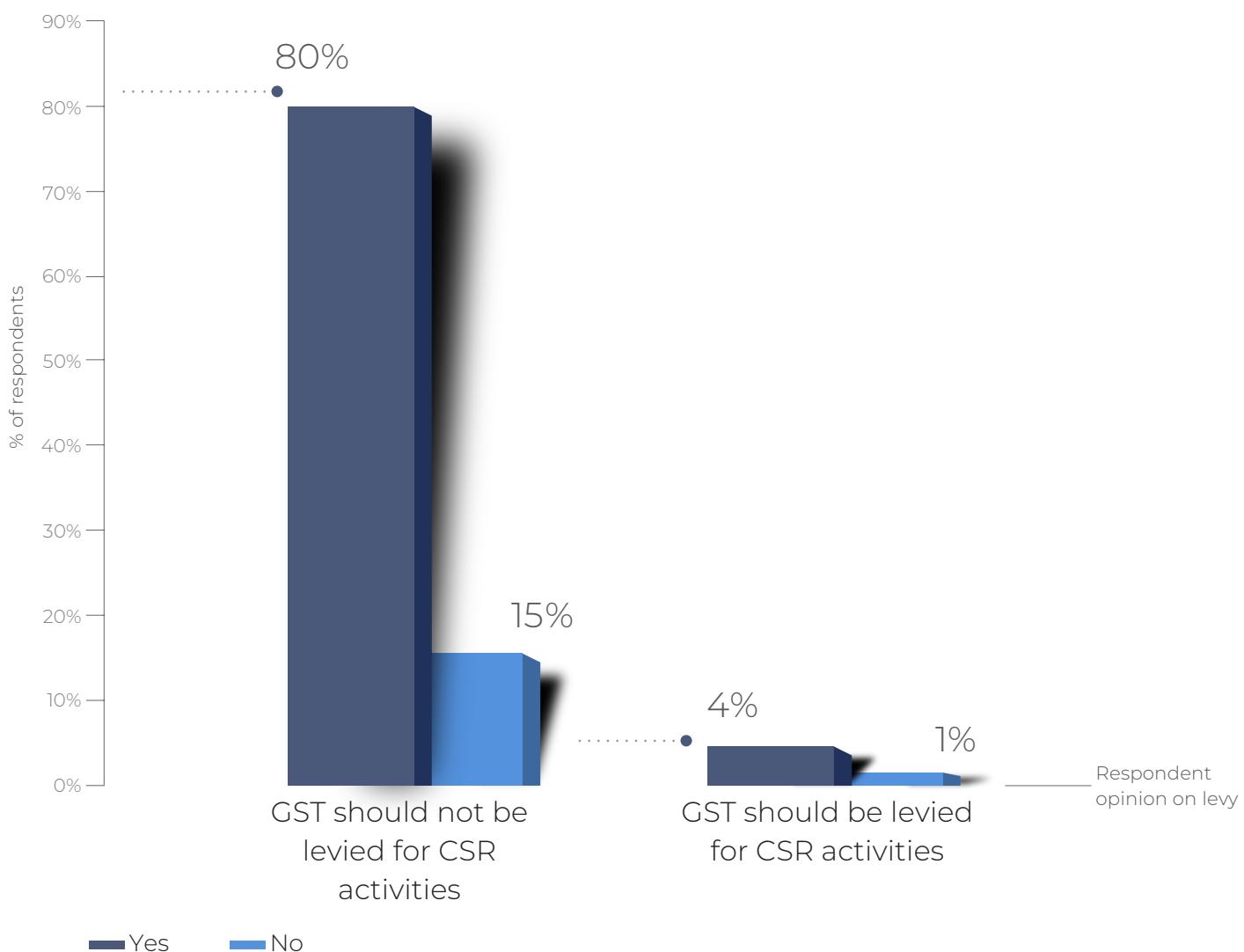
% rise predicted in CSR activities



GST LEVY DETRIMENTAL TO ACTIVITY LEVELS

- ▀ An overwhelming majority (80%), who believe that GST should not be levied on CSR activities also think that such a levy is detrimental to activity levels.
- ▀ However, a much smaller 15% who also disagree with the levy, do not think that it is detrimental to activity levels.
- ▀ Even within the category of businesses who believe GST could be levied on CSR activities, most believe it will adversely affect activity levels.

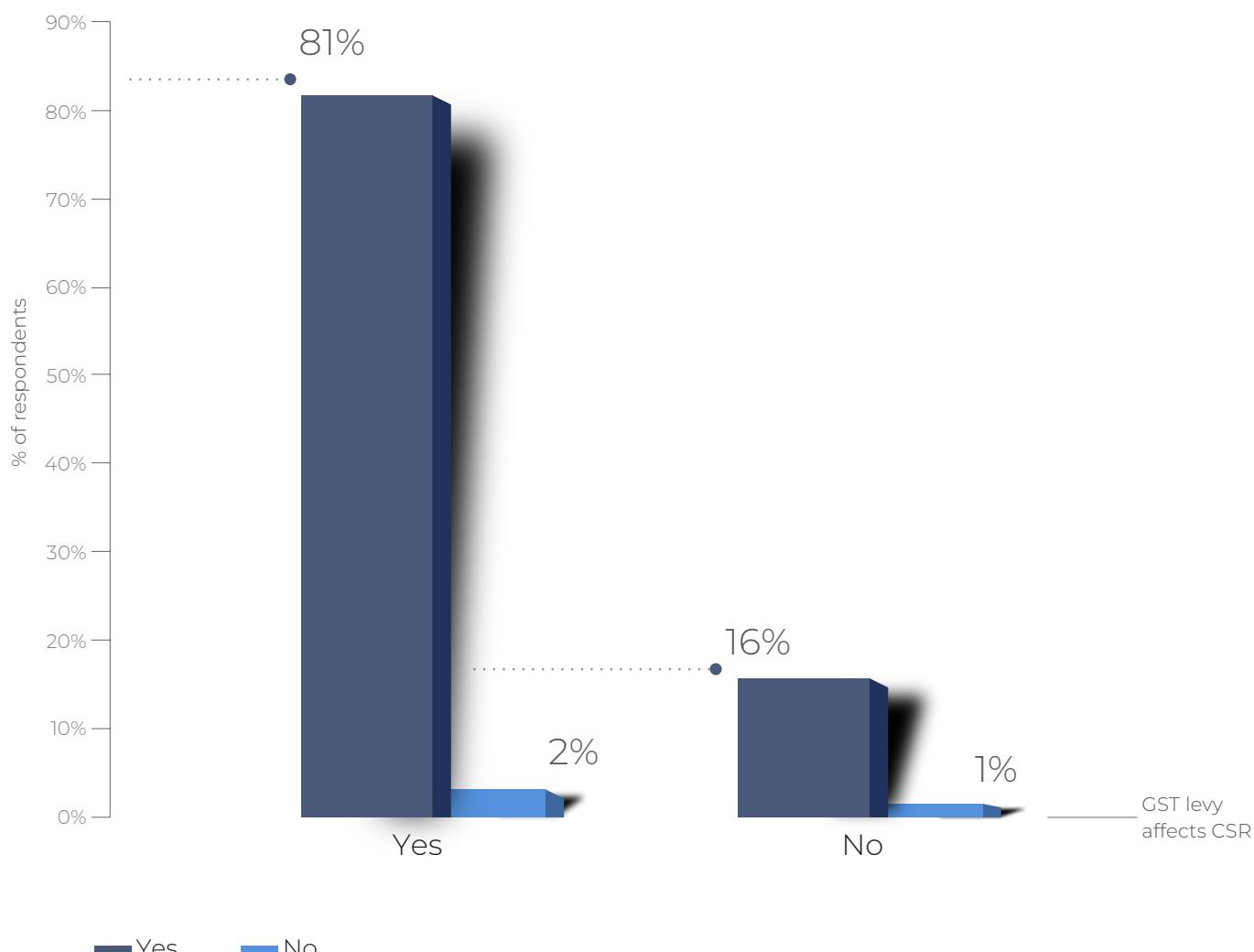
Levy of GST has a detrimental effect?



WAIVING OFF LEVY = RAISED CSR GRANTS

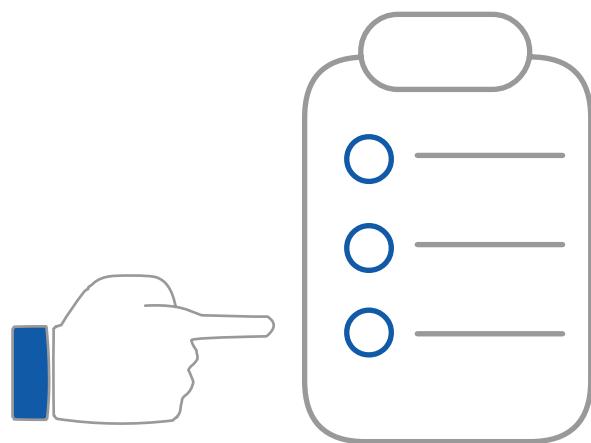
- ▀ Nearly all businesses (97%) think that the waiver of GST could spur an increase in CSR activity levels. This opinion prevails amongst those who believe that the GST levy affects CSR as well as amongst those who believe otherwise.
- ▀ The indirect implication of this response seems to be that regardless of whether businesses believe the levy influences corporate grants and activities, they also believe that a waiver will propel better grants and increase in activity levels.

Increase in activity upon waiving off GST



RECOMMENDATIONS

- ▀ Inappropriate categorization of CSR spends and the consequent lack of input credit are the main factors bothering businesses about the current state of the regime. The regime needs to be broadly reviewed along these two aspects and corrective action needs to be taken.
- ▀ With a view that the 2% net profit mark is complied with, the GST council might need to take a more considerate approach towards businesses that are otherwise GST-compliant. In fact, survey respondents opine that penalties for failure to implement CSR should come down for GST-compliant businesses.
- ▀ As with most other tax regimes, the GST levy on CSR needs to be rid of superfluous and ambiguous provisions that unjustly tilt the scale against businesses. Survey respondents point to ambiguity with respect to “blocked credit” and cash donations (which are not “goods and services”) to be resolved.
- ▀ The contentious issue of disallowing input credit in the case of GST levy on CSR needs to be addressed on priority. Earlier, CENVAT allowed input credit. A similar approach should be instituted for CSR. Will encourage CSR fund conservation and better grants.
- ▀ The regime seems to be blind to the philanthropic spirit with which Indian businesses contribute to society. Respondents have a view that CSR’s status as a “charity” or “gift” must be reinstated. The spirit of philanthropy is lost with the introduction of taxation.



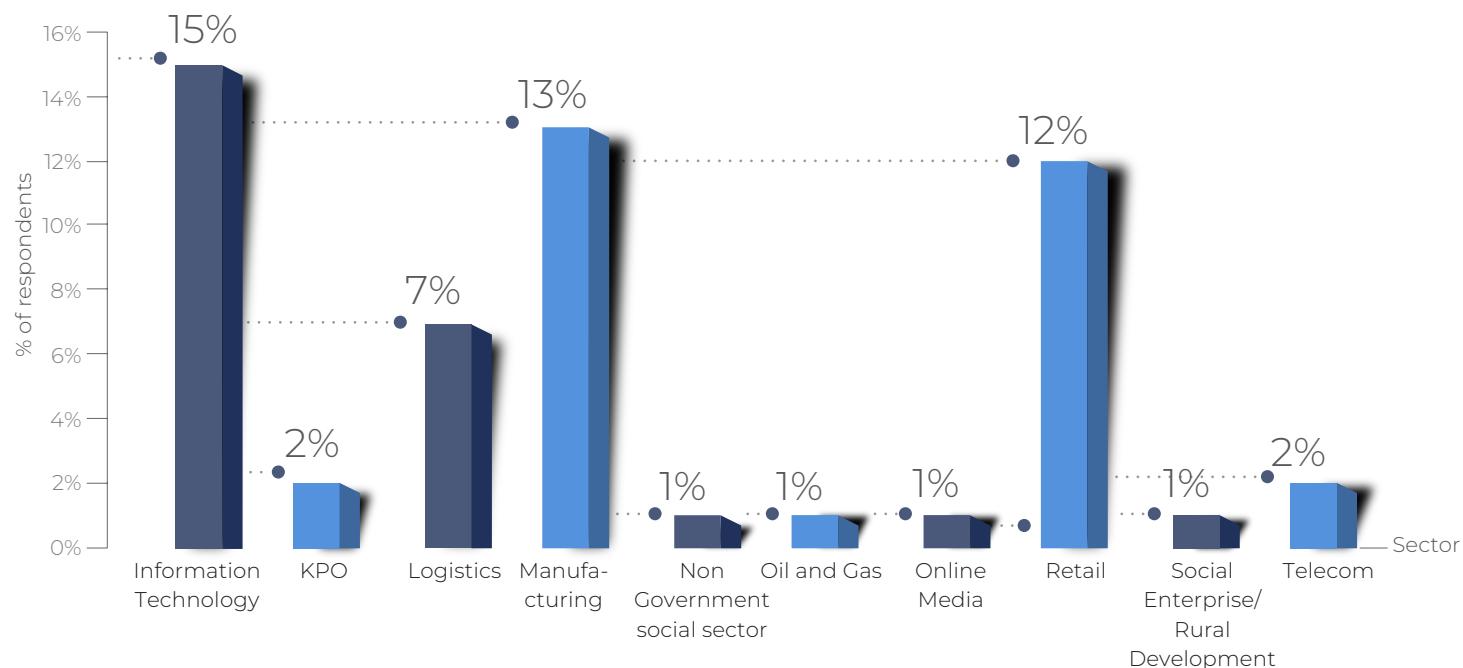
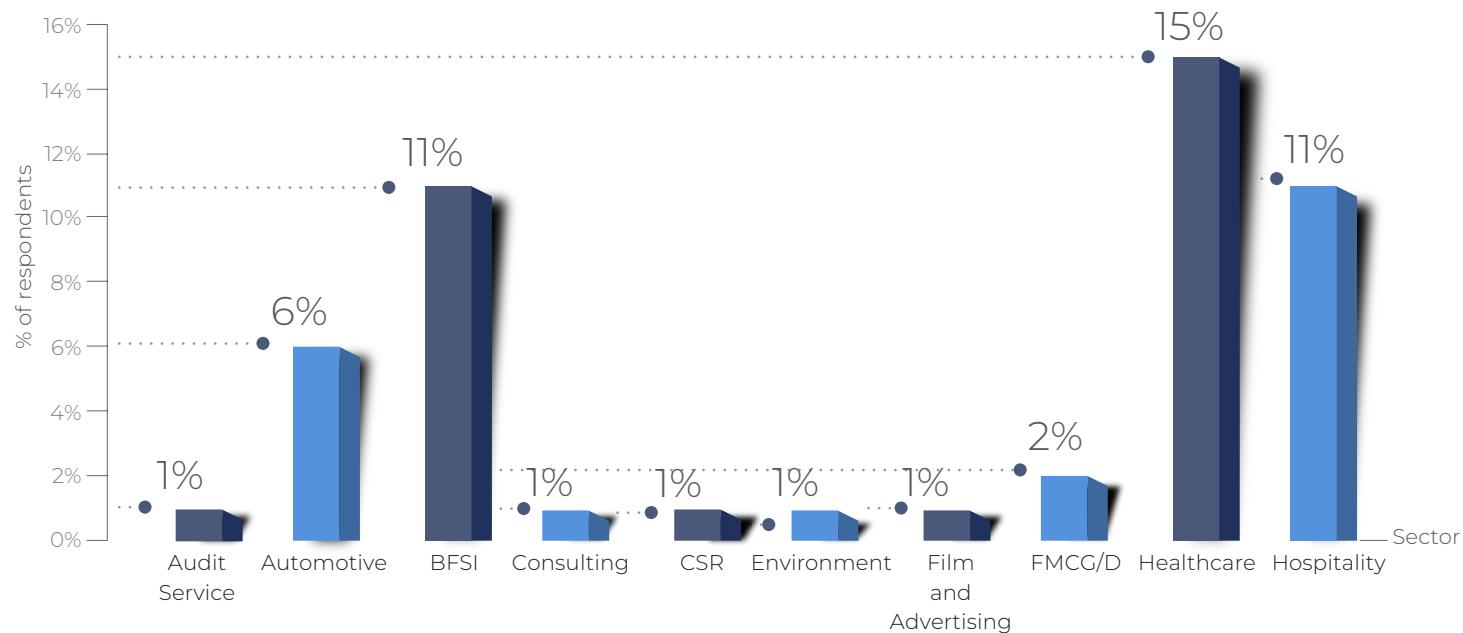
PROFILE

RESPONDENT

RESPONDENT PROFILE

TOTAL SAMPLE SIZE:

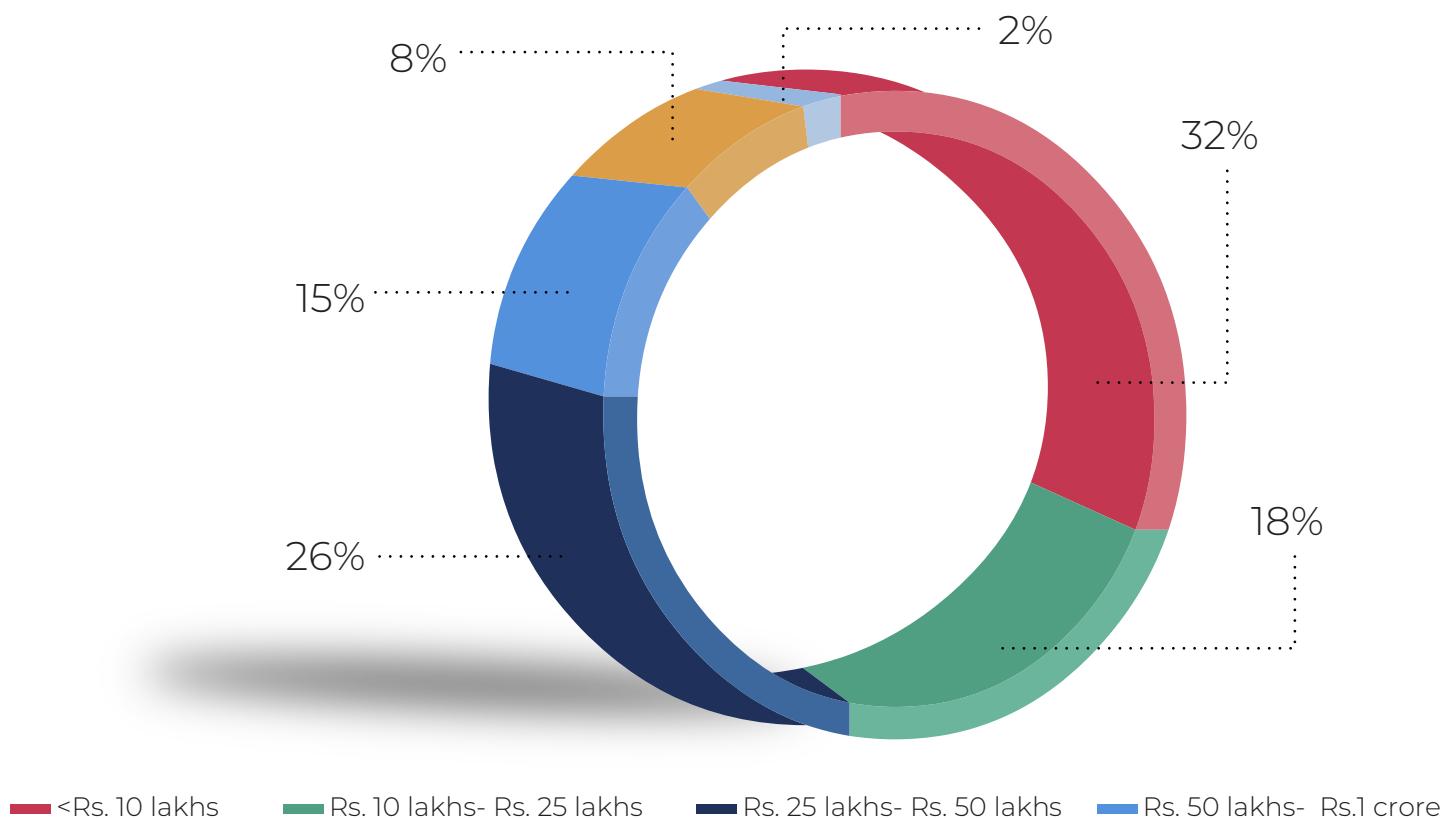
Sector breakdown



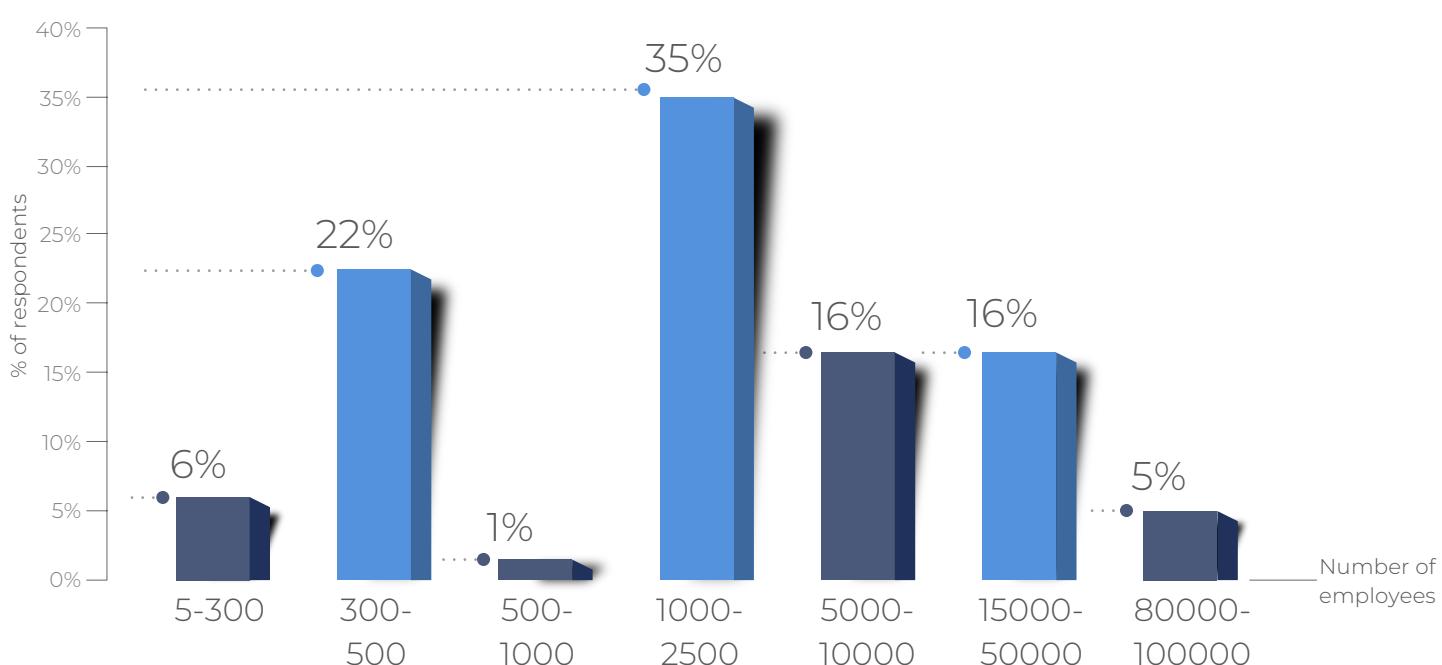
RESPONDENT PROFILE

TOTAL SAMPLE SIZE:

Annual budget for CSR in 2022-23



Organizational size





Corporate Office

315 Work Avenue Campus, Ascent Building,
#77, Koramangala Industrial Layout,
Jyothi Nivas College Road, Koramangala,
Bangalore - 560095, Karnataka, India

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