Page 401 – 415

INTERNATIONAL JOURNAL OF LAW MANAGEMENT & HUMANITIES

[ISSN 2581-5369]

Volume 9 | Issue 3

2026

Corporate Social Responsibility in India: An Obligation or Manipulation

DEEPIKAA N*, MUKESH KUMAR S R**, AND SINDHUJA. A.K***

ABSTRACT

Corporate Social Responsibility abbreviated as CSR, is the company's way of giving back to the society. Corporate Social Responsibility (CSR) is specified under Section 135 of the Companies Act, 2013. This framework was introduced so that companies also focus on societal welfare and sustainable development and do not function solely with profit making motive. India's mandatory CSR framework was envisioned as a progressive mechanism to strengthen ethical corporate governance and public welfare. In the corporate arena, even though majority of businesses comply with CSR mandates, there are certain entities that indulge in unethical practices whereby they transcend the noble objectives that are outlined under the Seventh Schedule of the Companies Act, 2013. There are situations where obligation turns into pure compliance activity. This paper aims to critically examine the effectiveness of Corporate Social Responsibility (CSR) as mandated under the Companies Act, 2013. Through a doctrinal analysis, it aims to analyse the effectiveness of the framework in achieving its intended objectives of social welfare and sustainable development. The paper also examines the possible loopholes that can be misused by companies through the means of CSR and the effects of the same in cases of tax evasion.

Keywords: *Corporate Social Responsibility, Diversion of Funds, Misuse of CSR, Tax Avoidance, Tax Evasion.*

I. INTRODUCTION

Businesses are committed to provide a positive contribution to the society through means of Corporate Social Responsibility. Companies have the duty and obligation to contribute for economic sustainability, welfare of the society and to not just hold on to profit oriented activities.This is not about charity but about companies taking responsibility for their actions. India was a pioneer to mandate CSR by legislating Section 135 of Companies Act, 2013. Although this is a progressive step towards a robust corporate governance, the implementation and monitoring mechanism is still a concern. Companies are also permitted to expend the CSR funds on government projects and this in turn strengthens Private-Public Partnership. The

* Author is a Student at VIT School of Law, VIT Chennai Campus, India.
** Author is a Student at VIT School of Law, VIT Chennai Campus, India.
*** Author is a Teaching Cum Research Associate at VIT School of Law, VIT Chennai Campus, India.

concept of CSR was introduced to serve a noble purpose, that is to give back to the society but this has been diluted as the companies engage in unethical practices such as tax evasion, corporate frauds, misappropriation of funds, promotional activities etc. Such issues raises the question and the need to examine whether companies in India follow CSR as an obligation with utmost responsibility or just seen as a mere compliance activity. As per Institutional Theory, companies follow these regulations because they want to be portrayed legitimate and as an entity that is socially responsible. This is done so that it maintains a positive image in front of the stakeholders and public and not because it wants to bring out a positive change. It can be seen that many companies actually mimic the same by following CSR only on paper and misusing them for tax evasion purposes, diluting the actual purpose. However, the Stakeholder Theory states that businesses must act in a responsible manner towards the public, employees, government etc and not just to its shareholders. If companies follow CSR practices in a diligent manner and comply with all provisions related to tax payment, they fulfill the obligation that they hold towards the society. From these two theories we can deduce that the misuse of CSR provision and funds in India is not just a loophole but is a governance concern of corporate standards and business ethics.

Corporate Social Responsibility (CSR)

The Companies Act, 2013 specifies regarding Corporate Social Responsibility under Section 135.When read along with Companies (CSR Policy) Rules, 2014 it can be understood that it is not an exhaustive list and a company which satisfies any of the criteria outlined under Section 135(1) is mandated to follow CSR. The criteria is as follows :

i. Has net worth of Rs. 500 crore or more

ii. Has a turnover of Rs.1000 crore or more

iii. Has a net profit of Rs.5 crore or more

When the company has fulfilled any of these criteria then it is mandated to spend at least 2% of the average net profit from the past three years on CSR activities. This provision is applicable to Section 8 companies also. Schedule VII of the Companies Act, 2013 outlines the areas in which CSR funds can be utilised. Some of these include promotion of education, slum area development, empowerment of women, ensuring a sustainable environment etc. There are mentions with regard contributions made towards Swatch Bharat Kosh, Prime Minister's National Relief Fund, PM CARES fund are also considered as valid CSR activities.

Prior to the 2021 Amendment, there was very minimal consequences if companies failed to spend the prescribed amount on CSR activities. They had to mention the reason as to why they were unable to do so in their annual report. This came under the 'Comply or Explain approach'. Initially, the companies were mandated to constitute a CSR Committee irrespective of what the CSR budget is. There was no mention with regard to a specific timeline to spend the CSR funds and the management of the unspent funds. After the Companies (CSR Policy) Amendment Rules, 2021 was introduced, many changes were established to fulfill the void present initially. These rules mandated that the companies need to disclose their spending on their official website and also in their annual reports. It also states that if the amount to be spent for CSR is less than Rs.50 lakhs, it is not mandatory to form a CSR committee and those functions are to be carried out by the Board of Directors. It also specified that the unspent CSR funds for any ongoing project, the amount must be transferred to a special CSR account within 30 days from the end of that financial year and the same needs to be used within 3 years. In case of failure to do so, the amount needs to utilised for any of the funds mentioned under Schedule VII. One of the major update was the introduction of impact assessment. In order to productively implement the usage of CSR funds and to ensure that it is being used in an efficient manner and not just for namesake, companies whose CSR obligation exceeds Rs.10 crore in three preceding financial years have to conduct an independent assessment on their CSR projects.

Despite all these efforts and compliance provisions, CSR activities have been widely used for tax avoidance and evasion purposes and sometimes even used for promotional purposes. This diminishes the whole objective of why CSR was made mandatory.

Corporate Social Responsibility: A Global Outlook

The global perspective on corporate social responsibility (CSR) highlights the role that businesses play in furthering the Sustainable Development Goals (SDGs). The Sustainable Development Goals (SDGs) are a set of 17 goals that the UN adopted to address global social, economic, and environmental challenges. Businesses are encouraged to align their CSR efforts with the SDGs in order to contribute to its accomplishment[1].Businesses are encouraged by the United Nations Global Compact (UNGC) to integrate their strategies with the ten principle that focuses on human rights, labour standards, anti corruption and environmental stewardship. The OECD Guidelines for Multinational Enterprises provide suggestions regarding responsible corporate conduct emphasizing on sustainability and ethical supply chain. ISO 26000 provides an extensive framework for social responsibility. It mandates companies to inculcate CSR into their core strategies. In the European countries, CSR is mostly codified and non compliance of

[1] MONUMENT THULANI BONGANI MAKHANYA ET. AL, CORPORATE SOCIAL RESPONSIBILITY- A GLOBAL PERSPECTIVE (IntechOpen 2024)

the same would amount to strict penalties whereas in the United States it is a voluntary practice. In Africa, CSR activities are routed to help the mitigation of local issues such as poverty, conservation of environment etc. Australia focuses more on sustainability of environment which is a national priority[2].

From this it can be seen that CSR practice is voluntary in many countries and is more oriented towards stakeholders engagement instead of statutory obligation. However in India it is a mandatory standard. This approach however was progressive in nature, it has also created favourable situations of tax evasion and corporate fraud.

Tax Evasion versus Tax Avoidance

Even though these terms are interchangeably used in normal sense there are many differences between them. When there is an obligation to pay tax and the tax payer willfully resorts to illegal and unethical means to evade tax payment then it is termed as tax evasion. Illegal means of tax evasion includes under reporting of income or overstating of expenses by way of false deductions, misrepresenting assets etc. Section 276C of the Income Tax Act,1961 specifies that any person including HUFs, individual, AOP, firm, company etc will be penalised for non payment of taxes. Thus Tax Evasion is an unlawful and fraudulent activity. Tax avoidance on the other hand is not defined properly in taxing statutes and is not considered illegal. It uses legal tactics to significantly lessen the tax burden. Tax payers make use of the gaps and loopholes available to reduce the amount of tax to be paid. Many companies use this method and channel their funds through foreign subsidiaries or offshore branches to reduce the tax obligation in their country[3].Although this seems lawful, it is seen as exploiting the system rather than making a positive contribution to the revenue system.

Activities that are not permitted under CSR requirements

The following actions are exempt from the CSR regulations:

1. Activities that are performed in accordance with the regular operations of the firm:

However, for the fiscal years 2020–2021, 2021–2022, and 2022–2023, any company engaged in research and development of any new vaccine, medication, or medical device in its regular course of business may carry out such work related to COVID-19, provided that the following requirements are met:

---

[2] Ajitesh Kumar, *Corporate Social Responsibility: A Global Perspective* LAWJURIST (2025). Available at : <https://lawjurist.com/index.php/2025/02/20/corporate-social-responsibility-a-global-perspective/>

[3] Mohammed S Chokwala, *Understanding Tax Evasion and Penalties in India* CLEARTAX (2025).Available at : <https://cleartax.in/s/tax-evasion-and-penalties-in-india>.

- Such R&D activities are undertaken in partnership with any institutes or organizations specified in item (ix) of Schedule VII of the Act;
- Details of such activity are disclosed independently in the Board’s CSR Annual report.

2. Apart from training Indian athlete to represent any State or UT at the national level or India internationally, the company engages in activities outside of India.

3. Activities that help the company’s personnel.

4. Activities that firms sponsor in order to gain marketing advantages for their goods or services.

5. Activities that are performed to fulfill any additional statutory requirements under any other Indian law[4].

Literature Review

The paper ***“Corporate Social Responsibility and the Trust Deficit”*** by **Amita Joseph** critically examines the concept and practice of Corporate Social Responsibility, with particular reference to India. It looks at the historical context, international trends, and the failures of CSR as a tool for genuine social and environmental change and concludes that all too often, it serves corporate interests at the expense of addressing the root causes of injustice.The paper argues that CSR was a response to anti-corporate movements, which threatened companies' ‘license to operate'. Firms frequently use CSR to promote the need for voluntary, market-led approaches to social and environmental problems-the author considers this ineffective. It shifts responsibility away from companies, protects their interests, and prevents efforts to address the root causes of injustice.The paper argues that CSR is driven more by a motive for profits and not by ethics and can thus easily be reversed when economic fortunes change. It sees CSR not as a reform, but as a distraction, diverting attention away from corporate.

Xing Li, Jeong-Bon Kim, Haibin Wu, and Yangxin Yu, in their paper titled ***“Corporate Social Responsibility and Financial Fraud: The Moderating Effects of Governance and Religiosity”***, discuss how the managers of corporations optimally use CSR activities together with the occurrence of fraudulent financial reporting. This suggests that CSR is used intentionally to create goodwill for the corporation, mislead investors and the public, and reduce the possibility of fraud detection. Strategic use of CSR has also been supported by descriptive cases, such as the high amount of CSR participation by Enron when it was practicing fraud. The authors' paper reveals that managers can use CSR to develop favorable relations with necessary

[4] Naincy Mishra, *Corporate Social Responsibility (CSR) under Companies Act, 2013* IPLEADERS (2024). Available at :<https://blog.ipleaders.in/csr-laws-india/>

stakeholders, usually employees, customers, and suppliers, who often play an essential role in reporting corporate financial fraud, and thus, the risk of fraud detection is substantially reduced. The efficiency of this process is contingent on corporate governance and religiosity. The study also reveals that a manipulative strategy of using CSR in cloaking fraud is more effective in a setting when the aggregate level of religiosity is high because people who have religious beliefs are more sensitive to social issues and consequently appreciate CSR activities more, making them easily biased by the manipulative tactics. The study, therefore, reiterates the complex and contrasting views on the underlying relationship between CSR and earnings management. Some studies suggest that CSR communicates ethical commitment whereas other studies point out that it is used as a strategy for reputation management and fraud.

The paper **"CSR, Tax Evasion And, Avoidance In India"**, by **Manan Gupta**, delves into the interrelationship between Corporate Social Responsibility, tax evasion, and tax avoidance within the Indian context, highlighting the instances where funds allocated for CSR are misused with the intention of tax evasion.It emphasizes that whereas payment of taxes due is a major social commitment for companies, various studies have demonstrated the link between tax avoidance/evasion and corporate governance behavior. The study explores the various techniques adopted for tax evasion, including under-reporting of income, overstating deductions, and misrepresentation of accounts. One of the significant techniques adopted is the 'trust method,' in which money allocated for CSR funds is transferred to charitable trusts, which are then used for tax evasion. The paper also points out that CSR consulting firms facilitate these activities by showing inflated costs. The implications of tax evasion include fines, loss of corporate image, and reduction in government receipts, which retard national development. Though tax evasion is illegal, the paper distinguishes it from tax avoidance, which involves adopting legal measures to reduce tax liabilities by exploiting loopholes in the concerned tax legislation. The Supreme Court has also explained the difference between the two terms. The paper states that since there is no ceiling on CSR spending in India, a company can spend a considerable amount, which can facilitate increased profit rather than complying with tax payments, thus efficiently using CSR as a means of tax avoidance. Case studies, such as NALCO and the PM Cares fund, reveal that CSR funds were allegedly misused or diverted, and raised questions about transparency and accountability. The paper concludes that the rates of taxes should be reduced to encourage companies to pay tax rather than evade it.

The article ***"Fraudulent Practices Under the Garb of Corporate Social Responsibility in India and What Can Be Done to Curb This Menace,"*** by **Swareena Pokley**, looks at the challenges created by the obligatory nature of CSR in India-that is, a specific legal mandate under Section

135 of the Companies Act, 2013.It brings into light how this imposed responsibility, which was actually entrusted for eliciting philanthropic actions, has led to the emergence of 'corporate social irresponsibility' and a host of other unethical practices. The researcher mentions that even the government misuses such CSR funds for political motives and tax evasion. Additionally, corporations exploit CSR for profit-oriented marketing strategies, avoiding taxes, and personal benefits in several ways. The article provides examples of how NGOs misuse funds, how PSUs divert CSR resources for political campaigns or private entities, how companies like Hindustan Unilever Limited use CSR as a means for marketing, and how the PM CARES Fund is used as a conduit for tax evasion. The study identifies 'greenwashing' and 'ghost beneficiaries' as common fraudulent practices. He suggests some measures for addressing these issues: ensuring good corporate governance, creating management teams for CSR activities, and encouraging shareholder activism as a means of ensuring accountability. The author emphasizes that what is needed is a change of mindset from merely looking at CSR as a statutory or moral obligation to a truly socially responsible and philanthropic enterprise. The paper postulates that CSR, even as it espouses values of sustainability and citizenship, has largely been reduced in India to a tick-box exercise that companies have to comply with, rather than actually being implemented in an ethical and effective way, therefore defeating the very purpose of the concept.

The paper ***"CSR in the Shadows: Red Flags and Fraudulent Practices in Corporate Social Responsibility"***, by **Riya**, looks at less savory dimensions of CSR. It shows how CSR, despite its proclaimed goals to address social problems and contribute to sustainable development, can be used to commit financial crimes, corporate crime, and other illegal activities. The research discloses a number of patterns of questionable practices and high-risk corporate social responsibility efforts, including those that relate to the exploitation of inactive or fictitious NGOs and/or intermediary third parties. It underlines the absence of substantial oversight and accountability in the allocation and use of CSR funds, linking the fraudulent acts to legal loopholes and insufficiency of governance structures. It further assesses the potential of blockchain, AI, and real-time auditing for better accountability and increased levels of transparency in these issues.

The article ***"Corporate Social Responsibility in India: Issues and Challenges,"*** written by **Shivangi Dhawan** and **Rabinarayan Samantara**, aims to identify various factors which have an impact on CSR practices of Indian companies, as well as problems and challenges related to CSR in India. The report follows the 'Triple Bottom Line' approach, People, Planet, & Profit, apart from expectations of various other stakeholders, thus advocating CSR as a comprehensive and integrated management concept. It also identifies the drivers of CSR in India: social media influence, ecological sustainability, governmental pressures, public demands, investor expectations, value transfer, customer preference, cost management, tax incentives, and brand enhancement. This paper also mentions major obstacles to the effective implementation of CSR, such as a general lack of understanding of the principles behind CSR, a lack of transparency in reporting, problems with aligning business objectives with the interests of shareholders, greenwashing, lack of proper funding, inadequate local infrastructure and capacity, lack of consensus, and limited community participation. In that context, it concludes that the implementation of successful CSR requires strategic planning, efficient execution, and awareness. The study by Samantara and Dhawan thus presents a very comprehensive overview of the CSR environment in India by highlighting its obligatory nature, its driving elements, and finally the host of challenges that hinder its effective implementation on optimal levels. This suggests that CSR requires being managed on a strategic and transparent level so that society and the environment equally benefit from it.

The paper ***"Corporate Social Responsibility (CSR) in India – Evolution and Challenges (From Ancient Period to Present Age)"*** by **Kuldeep Kumar Chauhan and Shuchi Dawra** attempts to cover the evolution of CSR in India step-by-step and emphasise the growing demand for targeted, organised, and closely watched CSR in Indian society. The study also notes the difficulties in carrying out corporate social responsibility. The writers conduct a thorough analysis of several publications, studies, and news stories about corporate social responsibility (CSR) in India, examining its development and difficulties from ancient to the present. The study charts the evolution of corporate social responsibility (CSR) from a charitable practice in ancient India to a legally mandated one following the enactment of Section 135 in the Companies Act 2013. Lack of awareness of corporate social responsibility (CSR) in Indian society, inadequate CSR network capacities among implementing NGOs, problems with reporting transparency, and a shortage of qualified NGOs in rural regions are some of the major obstacles noted.

Research Objectives

- To find out whether the companies use CSR for tax evasion purposes.
- To analyse whether CSR has been used as a mere promotional activities that will enhance the goodwill of the company.
- To find out the possible loopholes and examine whether the company is actually being socially responsible.
- To suggest recommendations to reduce the misuse of CSR.

II. Methodology

This research is based on doctrinal study, it analyses Section 135 of the Companies Act, 2013 and Companies (CSR Policy) Rules, 2014 which serves as a source of this research.This helps understand the obligations and scope of CSR. Articles, Case laws, empirical review on Annual CSR Reports of various companies are used as the Secondary source for this research. These secondary sources provide critical insights and perspectives on this particular topic. It aids in analysing how the provisions relating to CSR have been interpreted and practically implemented in the society and also highlights the challenges, possible loopholes and instances of tax evasion.In order to facilitate the research better, an empirical review was taken by thoroughly analysing annual CSR reports of various companies. This gives an in depth understanding as to whether implementation is effective in practical parlance or just an obligation on papers.

III. Empirical review

In order to strengthen the research, credible empirical data from various sources were analysed and reviewed critically.

- As per the report of **Sattva Consulting (2024),** companies in India spent around Rs.29,000 crore on CSR activities during the financial year 2022-2023 which was 13% higher than the previous year[5]. This amount shows a progressive growth. However the report also highlights that around 20% of companies did not meet the prescribed requirement of 2% spending and 56% of companies spend beyond the prescribed minimum limit. From this uneven trend of CSR spending we can figure out that there are companies which genuinely follow CSR practices where there are other companies that use this for strategic tax planning purposes[6].
- **CSRBOX (2022)** observed the CSR spending of 301 listed companies of India. It found that the average budget of each company amounted to Rs. 40 crore per company. However, again only 38% of the companies spend more than the minimum requirement of 2%. It was also observed that larger firms showed a tendency to structure their CSR spending through their own foundations or external trusts. These are ways through which companies can claim

---

[5] *CSR Spending Surges 13 percentage : Companies Look Beyond Compliance,* BUSINESS STANDARD (2024). Available Pt :<https://www.business-standard.com/content/press-releases-ani/csr-spending-surges-13-percentage-companies-look-beyond-compliance>

[6] Sattva Consulting, *The State Of CSR In India Data Guide 2024* SCRIBD (2024). Available at : <https://www.scribd.com/document/784491791/Sattva-State-of-CSR-in-India-Report-2024>

tax deductions. By this it can be found that CSR in some cases is not entirely about doing activities that improvise the society but is also about corporate financial planning[7].

- According to the reports of **CRISIL Foundation (2023)**, it was found out that top 100 companies spent only 3% of the CSR funds towards aspirational districts. These regions lack proper infrastructure and are usually termed as economically backward. They were willing to spend more in urban areas than the rural ones because those spending done in rural areas sometimes go unnoticed. These companies spend their CSR funds in areas where their brand is visible which enhances their image and increases goodwill. This can be seen as an example of how companies align their CSR activities as a promotional activity and fail to fulfill the core idea behind it[8].
- A study by **KPMG** showed that around 52% of top 100 listed companies of India did not meet the minimum standards of spending. The founder of India CSR, a NGO found out that the void between the prescribed standards and the actual figures shows the misuse of provisions regarding CSR. This is found to be a way in which companies resort to tax evasion mechanisms[9].

These empirical data shows us that even though CSR is mandated, weak implementation and monitoring mechanism diminishes the intention behind Section 135 of Companies Act, 2013.

IV. CSR FRAUDS AND MISAPPROPRIATION: PERSPECTIVE FROM MEDIA REPORTS

Instances of CSR fraud have been reported from 2015, two years after the provisions of CSR was made compulsory. A news report titled, ***'How Indian Companies Are Misusing Public Trust To Launder Their CSR Spending'*** published by The Economic Times on 2015 brings these issues into the limelight. The method used by companies to evade tax and indulge in fraudulent activities is, the company who is obligated to pay a certain amount for CSR funds does so by writing a cheque to any charitable trust. The trust manages the amount and gives them back to the promoters or any other official of the company after the tax deductions are calculated. Through this way, money is diverted and effectively laundered under the disguise of legitimate purpose[10]. India CSR founder Rusen Kumar has said that, "*Some of the companies*

---

[7] CSRBOX, *2022 India CSR Outlook Report* (2022). Available at :<https://csrbox.org/media/CSRBOX-India-CSR-Outlook-Report-2022_Full-version.pdf>

[8] *CSR spending shows headrooms for better distribution: Crisil Foundation* TAXTMI (2025). Available at :<https://www.taxtmi.com/news?id=30568>

[9] B Sivakumar,*CSR Implementation Plagued by Corruptions, Says Watchdog* FORTUNEINDIA (2023). Available at : <https://www.fortuneindia.com/macro/csr-implementation-plagued-by-corruption-says-watchdog/113417>

[10] Dinesh Narayanan, *'How Indian Companies Are Misusing Public Trust To Launder Their CSR Spending'* THEECONOMICTIMES (Oct 21, 2015). Available at: <https://economictimes.indiatimes.com/news/economy/finance/how-indian-companies-are-misusing-public-

may divert or siphon off CSR funds for non CSR purposes such as personal expenses,political donations, bribes, or illegal activities.[11]" He also noted that many companies have misappropriated their CSR funds and have given false reports which is directly linked with tax evasion.

This trend has been continuing from the initial days till the present year. Various reports of CSR fraud and instances of tax evasion have been identified even in 2025.

During February 2025, there was and incident of CSR fund scam that happened in Kerala. The main issue in this incident was that the CSR funds were not appropriately used for social welfare purposes and the funds were being diverted. This issue highlights the lack of proper monitoring infrastructure which leads to corrupted practices[12]. In August 2025, the Income Tax Department conducted search and seizure in six states including Uttar Pradesh, Rajasthan, Maharashtra after discovering that there was a large scale scam with respect to CSR funds. The money was routed secretly back to their own accounts. The scam was alleged to be worth of Rs. 50,000 crore[13]. This raises concern as to how these contributions are purely done for tax evasion purposes. The Deputy Chief Minister of Karnataka, D K Shivakumar had made a statement during a review meeting that corporates are indulging in illegal practices in disguise of CSR donations. The corporates are getting back 50% of the donations that they make to non profit organisations[14].

These reports give us an insight of practical complications of effective CSR management. These instances raises question regarding the real intention of corporates behind spending CSR funds. Is it serving the actual purpose? Or is it done as a mere tickbox mechanism? Reasons for various scams and irregularities needs to be addressed and efficient control mechanisms needs to be implemented.

V. Corporate social responsibility: from a judicial perspective

In the case of ***Brabourne Commerce Pvt. Ltd. v. State of West Bengal***[15] **(2024)**, in accordance with Section 135 of the Companies Act, the petitioner corporation requested that criminal

trusts-to-launder-their-csr-spending/articleshow/49474584.cms?from=mdr>

[11] B Sivakumar, CSR Implementation Plagued by Corruptions,Says Watchdog FORTUNEINDIA (2023). Available at: <https://www.fortuneindia.com/macro/csr-implementation-plagued-by-corruption-says-watchdog/113417

[12] The Hindu Bureau, *SIT formed to probe 34 cases related to CSR funds scam* THEHINDU (Feb 10, 2025). Available at: <https://www.thehindu.com/news/national/kerala/sit-formed-to-probe-34-cases-related-to-csr-funds-scam/article69202906.ece>

[13] *IT raids in 6 states to unearth CSR fund diversion scam* TIMESOFINDIA (Aug 25 2025).Available at : <https://timesofindia.indiatimes.com/city/lucknow/i-t-raids-in-6-states-to-unearth-csr-fund-diversion-scam/articleshow/123489441.cms>

[14] *CSR News: What is the new CSR scam going on in Karnataka?* THECSRJOURNAL (Jun 5, 2025). Available at : <https://thecsrjournal.in/csr-news-what-csr-scam-karnataka-deputy-chief-minister-shivakumar/>

[15] Brabourne Commerce Pvt. Ltd. v. State of West Bengal (2024) 03 CAL CK 0033

proceedings be quashed. The Court observed that the corporation continued to file financial statements for the ensuing years, notwithstanding the corporation's argument that they were exempt from CSR efforts under Section 135. The Court stated that the firm was not allowed to use the benefit of merger after the year of amalgamation, notwithstanding the fact that this appears to be done to avoid corporate social responsibility. The trial was allowed to continue after the court determined that there was prima facie evidence of the alleged violations against the corporation.In the case of ***Charan Singh Meena v. Ministry of Corporate Affairs***[16] the case revolved around the petitioner's inability to fulfil a statutory responsibility under Section 135 of the Companies Act was the focus of the current Public Interest Litigation. In order to guarantee rigorous adherence to CSR for the development of neighbouring communities, the PIL requested instructions from the Union. It was claimed that although no work was done in the field, it appeared to be completed on paper. It was complained that the Union had not established a system to guarantee that the real task of corporate social responsibility was carried out.The High Court stated that there was a chance that Corporate Social Responsibility would remain on paper rather than being implemented in practice because the Union acknowledged that there was no such system. In light of the Union's claims and arguments, the High Court of Madhya Pradesh ordered the State's District Collectors to determine whether businesses were truly fulfilling their obligations under Section 135 of the Companies Act. The High Court requested that they be sent to the Registrar of Companies for appropriate action if they were determined to be below the percentage required under Section 135. In the case of ***Adani Power Rajasthan Ltd. v. ACIT***[17], the issue concerns the income tax return that the petitioner filed for the assessment year 2017–18, claiming a loss. Although the loss was acknowledged in accordance with Income Tax Act Section 143(3), ACIT sent a notice requesting that the IT return be reopened. The petitioner argued that the CSR amount was only for business purposes and that no income was escaped, notwithstanding the ACIT's argument that it was not authorised (under Section 37 of the IT Act), resulting in escape of assessment. The High Court determined that ACIT's allegations were false. The petitioner clarified that they were not required to spend any money on corporate social responsibility because they had lost an average of Rs 187.67 crores in net worth during the three previous fiscal years. The Court agreed with the petitioner's position, citing another Adani Power case in which a similar notice was set aside and dismissed. The motion to quash and set aside the contested notice was granted by the court. The CSR case law affirms that the requirements under Section 135 of the Companies Act

[16] Charan Singh Meena v. Ministry of Corporate Affairs WP No.877/2017
[17] Adani Power Rajasthan Ltd. v. ACIT (2024) 461 ITR 210 (Guj) (HC)

concerning net worth or profits are directly correlated with CSR obligations.

VI. Case studies

Several controversies regarding the diversion of CSR funds beyond social welfare have been identified. Major concerns include the usage of CSR funds for tax related benefits, brand building and strategic compliance rather than social welfare. The **PM CARES Fund**[18] controversy that came up during the COVID-19 phase, intensified this concerns. The Ministry of Corporate Affairs, through a notification stated that any contribution made towards the PM CARES were recognised as a CSR activity and they also qualified for tax exemption as per Section 80G of the Income Tax Act. This raised questions as to whether the CSR expenditure fulfilled the actual intention as envisioned under the provisions of Companies Act, 2013. Similar allegations were made in the **NALCO** case, where CSR funds were transferred to private educational institutions[19]. There were concerns regarding transparency and legitimacy because they do not directly serve the public rather, they appeared to benefit the private institutions. It was criticised that it lacked effective monitoring and oversight. **The Satyam Scam** shed light on corporate governance failures[20]. Though it does not directly deal with CSR, it showcases how corporations can manipulate funds and at the same time hold a reputable image. This highlighted the need for transparency, accountability and compliance mechanisms.

These case studies show that despite the progressive intent of the legislature, weak enforcement and oversight mechanism continue to creates lacunae that might be exploited by the companies.

VII. Analysis

Through a thorough analysis of various case studies,reports,articles and case laws it can be evidently seen that CSR provisions in India are not fulfilling the purpose for which it was brought in. In many cases we can see that the intention behind CSR activities are not societal reforms but tax planning, corporate fraud and tax evasion ideologies. Even though the reports suggests that there is a significant increase in the CSR spending the impact that it has on the society and public is very limited. There are reported incidents where companies who are well capable of spending 2% of the net profits fail to do so and companies who contribute more than the prescribed standards get back that money through a middleman or promoter. There are

---

[18] Manan Gupta, CSR, Tax Evasion,and Avoidance in India 6 IJLMH 1135 (2023).Available at : <https://ijlmh.com/paper/csr-tax-evasion-and-avoidance-in-india/>

[19] Ishika Sharma, Corporate Social Responsibility and Tax evasion, (2023) LEGAL MAXIM.Available at : <https://www.legalmaxim.in/corporate-social-responsibility-and-tax-evasion/>

[20] Satyam Scandal, Mohanlal Sukhadia University- Udaipur. Available at : <https://mlsu.ac.in/econtents/5678_Satyam.pdf>

companies that diligently follow CSR practices but the numbers are still very low compared to the number of large companies India has. The Kerala and Karnataka scams throws light on how companies use the loopholes that are present. The intention of Section 135 of Companies Act,2013 is very progressive but the drawback is that there is lack of proper implementation and enforcement infrastructure and lack of monitoring mechanism. Without proper structured monitoring mechanism and stricter liabilities CSR will remain as a tool for tax evasion and will not fulfill the purpose of societal reforms. Until and unless companies see CSR as a value driven process and not just as an obligation, the effectiveness of CSR will remain diminished.

VIII. Recommendations

To enhance the effective implementation of CSR mechanism in India, AI algorithms and machine learning can be used to monitor the amount spent by companies on CSR activities. This ensures transparency and accountability. Reports and audits regarding CSR are collected individually by SEBI, IT Department and the Ministry of Corporate Affairs. A comprehensive system can be built by which all these data can be cross checked and verified and by this way discrepancies can be easily found out. This system will ensure that there is proper monitoring of data. AI systems can be used to automatically flag any misappropriation. The CSR reports of every company must be made accessible by the public which ensures accountability. This must be in a manner where people have the right to know information through RTI Act, the same mechanism must be used here. Rewarding mechanism can be implemented by the Government to those companies that follow CSR provisions with due diligence. The Government must ensure that the amount spent by the companies through NGO donations are legitimate and used efficiently. CSR activities must be merged with ESG so that companies follow it legitimately. Introduce stringent punishments and penalties for promoters or any other middlemen who indulge in fraudulent activities. These might reduce the chances and circumstances of misuse of CSR.

IX. Conclusion

CSR in India has evolved from a landscape of voluntary contribution to a mandatory obligation. Despite the continued efforts and progressive intent, misuse of CSR provisions and funds undermines the actual purpose of this social commitment. It must not be seen as a mere tick box mechanism but an ethical and moral contribution to the society. This is a way of giving back to the society. If implementation mechanism are strengthened the enforcement of CSR would be effective. Transparency and accountability are the two main traits that are needed for proper monitoring mechanism. A proper collaboration between the company, government and public

 [ISSN 2581-5369]

is the need of the hour to achieve the goal of making CSR as a genuine social instrument for the welfare of the society.

*****

 [ISSN 2581-5369]