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# FROM VOLUNTARY CORPORATE RESPONSIBILITY TO STATUTORY ENFORCEMENT: A DOCTRINAL STUDY OF CSR UNDER SECTION 135 OF THE COMPANIES ACT, 2013

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## ABSTRACT

This paper studies the transformation of corporate social responsibility under Indian company law from a voluntary governance expectation into a statutory and enforceable obligation. The central argument is that Section 135 of the Companies Act, 2013 no longer operates merely as a moral exhortation attached to board reporting. After the amendments introduced in 2019 and 2020, and the detailed compliance framework supplied by the 2021 and 2022 rules, CSR has become a board-governed legal duty supported by spending thresholds, unspent-fund transfer rules, continuing oversight of ongoing projects, impact assessment, public disclosure, and monetary penalties. At the same time, the paper argues that India's CSR model remains conceptually distinct from a tax because it preserves managerial choice within Schedule VII, requires board-level judgment, and links corporate expenditure to policy design, project execution, and accountability. Using the latest official data for FY 2019-20 to FY 2023-24, the paper further shows that the statutory model has coincided with a clear rise in aggregate CSR expenditure and a concentration of spending in education, health care, environmental sustainability, and rural development. The paper concludes that the contemporary CSR regime under Section 135 is best understood as a hybrid public law mechanism embedded in company law: it is not purely voluntary, not purely penal, and not reducible to philanthropy. Its success depends on the quality of governance, disclosure, monitoring, and principled enforcement (Government of India, 2019, 2020; Ministry of Corporate Affairs, 2021a, 2022b; Press Information Bureau, 2026).

**Keywords:** Section 135, corporate social responsibility, Companies Act 2013, statutory enforcement, CSR-2, unspent CSR amount, doctrinal analysis, company law

## INTRODUCTION

Corporate social responsibility in India has undergone a notable legal transition. Before the statutory intervention of Section 135, corporate contribution to social welfare was generally discussed through the language of philanthropy, ethical business conduct, stakeholder responsibility, and voluntary governance. The enactment of Section 135 in the Companies Act, 2013 altered that position by creating a structured corporate obligation for companies crossing specified financial thresholds. Yet the early working of the provision remained, in practical terms, relatively soft. Boards were required to formulate CSR policy, recommend expenditure, disclose reasons for nonspending, and make annual disclosures, but the legal architecture still left substantial room for explanation in place of strict enforcement. That initial design led many observers to describe Indian CSR as a calibrated move away from pure voluntarism without fully embracing sanction-based compliance (Ministry of Corporate Affairs, 2019; Taneja et al., 2022).

The position today is materially different. The Companies (Amendment) Act, 2019 inserted the unspent amount framework and introduced a sharper punitive orientation. The Companies (Amendment) Act, 2020 then replaced the criminal aspect of the 2019 penalty design with a civil penalty model, thereby making the regime more administratively enforceable and doctrinally coherent. The Companies (Corporate Social Responsibility Policy) Amendment Rules, 2021 and 2022 deepened the compliance infrastructure by defining ongoing projects, refining implementing agency requirements, formalising impact assessment, strengthening website and annual-report disclosures, and ensuring that companies with unspent CSR balances remain within the committee and-compliance framework. The introduction of Form CSR-2, followed by subsequent filing adjustments, also shifted CSR from a broad narrative disclosure to a more standardised and data-rich compliance process (Government of India, 2019, 2020; Ministry of Corporate Affairs, 2021a, 2022a).

This paper argues that the doctrinal centre of gravity of Section 135 has now moved from voluntary responsibility to statutory enforcement. However, the transformation is not absolute. The regime still preserves board discretion within Schedule VII subjects, permits project-based structuring, recognises local area preference as directory rather than mandatory, and allows excess spending to be set off subject to rule-based conditions. Accordingly, the legal character of CSR under Indian company law is best understood as hybrid. It is mandatory in threshold,

structured in process, enforceable in consequence, and yet still purposive in its normative orientation (Taneja et al., 2022; Bhatia & Dhawan, 2023).

The paper proceeds in six parts. First, it explains how the original framework functioned and why it was often characterised as disclosure-led rather than penalty-led. Secondly, it maps the present doctrinal architecture of Section 135. Thirdly, it analyses the amendments and delegated legislation that converted CSR into an enforceable board obligation. Fourthly, it uses the latest official expenditure data to illustrate the contemporary working of the regime. Fifthly, it identifies unresolved doctrinal tensions, including the debate over whether mandatory CSR resembles a tax, the treatment of unspent amounts, and the risk of formal compliance without substantive social impact. The final section offers a legal conclusion on the present and future direction of CSR enforcement in India.

## **METHOD AND SCOPE OF THE DOCTRINAL INQUIRY**

This paper adopts a doctrinal method. The principal materials are the text of Section 135, the Companies (Amendment) Acts of 2019 and 2020, the Companies (Corporate Social Responsibility Policy) Amendment Rules of 2021 and 2022, the Companies (Accounts) Amendment Rules that introduced and adjusted Form CSR-2, official clarifications, and recent governmental data releases. The paper does not treat CSR only as a matter of business ethics or management studies. Its primary concern is legal meaning: what obligations the statute creates, how delegated legislation structures those obligations, what consequences follow from default, and how the architecture should be interpreted within company law (Government of India, 2019, 2020; Ministry of Corporate Affairs, 2021a, 2022a; Press Information Bureau, 2026).

A doctrinal approach is especially suitable for this subject because Section 135 has evolved through layered legal instruments rather than through the bare section alone. The amendment history is essential. The 2019 and 2020 Acts alter the meaning of non-spending and penalties. The 2021 and 2022 rules alter the meaning of ongoing project, disclosure, impact assessment, implementing agency, and committee continuity. CSR-2 alters the reporting architecture. Without reading these instruments together, the present legal character of CSR cannot be accurately understood (Government of India, 2019, 2020; Ministry of Corporate Affairs, 2021a, 2022b).

At the same time, this paper uses official expenditure data in a limited and disciplined way. The numerical material is not employed to conduct an econometric study, and no causal claim is made that the rise in reported spending is attributable solely to legal reform. The figures are used for a narrower purpose: to illustrate the working environment of the present regime and to show the scale, direction, and concentration of expenditure under the most recent officially available dataset. In a doctrinal paper, such empirical illustration is useful because it helps test whether a legal framework appears merely symbolic or has become operationally significant (Press Information Bureau, 2026).

The paper is therefore legal in method, but not legally narrow in vision. It reads the statute as a governance instrument with public consequences. It also approaches enforcement in a calibrated way. The object is not to argue that stricter regulation is always preferable. The real inquiry is whether the present architecture of Section 135 reflects a coherent and defensible movement from voluntary responsibility to statutory enforcement, and whether that movement has been designed in a manner consistent with sound company law, regulatory proportionality, and accountable social expenditure.

## **FROM VOLUNTARY RESPONSIBILITY TO LEGAL OBLIGATION**

The enactment of Section 135 represented an innovation in company law rather than a simple extension of corporate charity. Unlike classical philanthropic models, the Indian framework connected eligibility to statutory financial thresholds and linked expenditure to board responsibility. A qualifying company is now required to constitute a CSR Committee, formulate and recommend a CSR policy, approve projects through the Board, and ensure disclosure in the Board's report and, where applicable, on the company website. The statutory thresholds continue to rest on net worth of Rs. 500 crore or more, turnover of Rs. 1,000 crore or more, or net profit of Rs. 5 crore or more during the immediately preceding financial year. This threshold design is significant because it does not impose CSR on every company. Instead, it targets enterprises that have attained a defined scale and financial capacity (Ministry of Corporate Affairs, 2019; Bihari & Shajahan, 2023).

In its earlier form, Section 135 imposed a duty to spend at least two per cent of average net profits of the three immediately preceding financial years, but in practice the regime was often described as operating through disclosure and explanation. If the prescribed amount was not spent, the Board was expected to specify reasons in the report under section 134. Although this

was not legally trivial, the structure still allowed non-spending to remain within a reporting framework. The provision therefore occupied an intermediate space: it was more than voluntary ethics, yet less than a classic statutory compulsion backed by immediate penal consequences (Taneja et al., 2022; Bhatia & Dhawan, 2023).

The doctrinal shift began decisively with the 2019 amendment. The amended provision introduced a distinction between unspent amounts relating to ongoing projects and unspent amounts not tied to such projects. If the amount did not relate to an ongoing project, the company was required to transfer it to a Schedule VII fund. If it related to an ongoing project, the amount had to be transferred to the Unspent Corporate Social Responsibility Account within thirty days from the end of the financial year and then spent within the next three financial years, failing which it too had to be transferred to a Schedule VII fund. This amendment changed the legal meaning of non-spending. What had once been explainable non-compliance became a time-bound statutory obligation to spend or transfer (Government of India, 2019; Ministry of Corporate Affairs, 2021a).

The 2019 Act also introduced a punitive sub-section that contemplated fines on the company and officers, including imprisonment for officers in default. The 2020 amendment recalibrated this model by replacing the criminal language with monetary penalties. The present section 135(7) imposes a penalty on the company equal to twice the amount required to be transferred, or one crore rupees, whichever is less; officers in default are liable to one-tenth of the amount required to be transferred, or two lakh rupees, whichever is less. This change is doctrinally important. It moved the regime away from symbolic criminalisation and toward adjudicatory enforceability, which is more consistent with the design of compliance-based corporate regulation (Government of India, 2019, 2020).

The result is that Section 135 now rests on a layered legal logic. The normative justification of social responsibility remains intact, but the route of implementation is unmistakably statutory. India has not merely encouraged responsible business conduct; it has embedded a mandatory social expenditure architecture inside company law and attached it to board accountability, disclosure, transfer obligations, and civil penalties. That is the true legal significance of the move from voluntarism to enforcement (Government of India, 2020; Ministry of Corporate Affairs, 2021a).

## THE DOCTRINAL STRUCTURE OF SECTION 135

A doctrinal reading of Section 135 shows that the provision is not limited to the spending clause in sub-section (5). It creates an integrated governance chain. Sub-section (1) determines applicability and committee formation. Sub-sections (2) to (4) organise internal governance through the CSR Committee and the Board. Sub-sections (5) to (7) impose the spending, transfer, and penalty architecture. Sub-section (8) authorises the Central Government to issue directions necessary to ensure compliance. The legal force of CSR therefore lies in the combination of threshold, process, disclosure, expenditure, and consequence (Government of India, 2020; Ministry of Corporate Affairs, 2021a).

The committee function remains central even after the shift to stricter enforcement. The CSR Committee is expected to formulate and recommend the CSR policy, recommend expenditure, and monitor the policy from time to time. The Board, after considering the Committee's recommendation, must approve the policy, disclose its contents, and ensure that the activities included in the policy are undertaken. The statutory design thus prevents CSR from becoming a purely managerial side-function or a casual donation practice. Board oversight is built into the text, which is one reason why the modern regime must be seen as part of corporate governance law rather than as a free-standing welfare mechanism (Ministry of Corporate Affairs, 2021a; Taneja et al., 2022).

The second key doctrinal element is the character of the spending duty. The company must spend at least two per cent of average net profits in pursuance of its CSR policy. This is not an open-ended welfare mandate. It is a quantified obligation linked to historic profitability and confined to Schedule VII subjects. The local area proviso further requires the company to give preference to the local area and areas around it where it operates. However, official clarification in 2026 reaffirmed that this preference is directory and not mandatory. The company must therefore balance local expectations with broader national priorities. This clarification is important because it rejects a rigid territorial reading of CSR and preserves a degree of policy discretion for the Board (Ministry of Corporate Affairs, 2021b; Government of India, 2025).

The third element is the treatment of unspent amounts. The distinction between ordinary nonspending and ongoing projects is now foundational. Where no ongoing project exists, the amount must be transferred to a specified Schedule VII fund. Where an ongoing project exists and the statutory conditions are satisfied, the amount goes to the Unspent CSR Account and

remains earmarked for time-bound spending. This design serves two functions. It reduces the scope for indefinite carry-forward under vague project language, and it aligns corporate bookkeeping with a legally traceable spending pathway (Government of India, 2019; Ministry of Corporate Affairs, 2021a).

The fourth element is the capacity for calibrated flexibility. Section 135 now expressly permits excess expenditure to be set off against future CSR obligations for such number of succeeding financial years and in such manner as may be prescribed. The rules permit such set-off up to the immediate succeeding three financial years, subject to conditions. This provision recognises that CSR projects often operate on multi-year cycles and that rigid year-end accounting can distort implementation. The law therefore combines compulsion with limited flexibility, provided that the flexibility is rule-based and auditable (Ministry of Corporate Affairs, 2021a).

The fifth element is the reporting and data architecture. The 2021 rules strengthened the annual report framework, website disclosure, and impact assessment requirements for larger CSR obligors. Companies with average CSR obligation of ten crore rupees or more in the three immediately preceding financial years must undertake impact assessment of qualifying large projects through an independent agency. The Board must place such reports before itself and annex them to the annual report on CSR. In addition, Form CSR-2 has introduced a more standardised mode of electronic reporting. The cumulative effect is to shift CSR from descriptive reporting toward structured compliance data (Ministry of Corporate Affairs, 2021a, 2022a).

Taken together, these features show that Section 135 is no longer doctrinally reducible to a spending clause. It is a governance provision with financial, procedural, disclosure, and enforcement dimensions. That wider structure explains why the contemporary legal debate is not about whether CSR is merely voluntary, but about how the statutory model should be interpreted and enforced in a principled way (Bhatia & Dhawan, 2023; Bihari & Shajahan, 2023).

## **THE SHIFT TO STATUTORY ENFORCEMENT THROUGH AMENDMENT AND DELEGATED LEGISLATION**

The most significant change in the post-2019 period is the legal narrowing of escape routes. Before the amendment cycle, a company could remain formally compliant by articulating

reasons for shortfall in spending. After the amendment cycle, non-spending triggers a legal transfer obligation. The doctrinal centre of Section 135 has therefore shifted from narrative justification to financial accountability. This is the clearest marker of statutory enforcement (Government of India, 2019, 2020).

The 2019 amendment deserves attention not merely because it introduced consequences, but because it converted unspent CSR from a descriptive accounting entry into a regulated legal category. Once the law required transfer to a Schedule VII fund or to the Unspent CSR Account, the unspent amount acquired a distinct juridical character. It ceased to be a matter left to board explanation alone. This change is crucial for doctrinal analysis because it demonstrates that Indian company law no longer treats CSR under Section 135 as a matter of corporate benevolence (Government of India, 2019; Ministry of Corporate Affairs, 2021a).

The 2020 amendment then refined the enforcement model by converting the earlier penal design into civil monetary penalties. This move should not be read as dilution. On the contrary, it made enforcement more consistent with adjudicatory corporate regulation. The law now relies on measurable defaults, quantifiable transfer obligations, and monetary consequences. Such a model is often easier to administer, easier to defend normatively, and less vulnerable to the criticism that CSR violations are being over-criminalized (Government of India, 2020).

The 2021 CSR Policy Amendment Rules supplied the operational vocabulary that the amended section required. The rules refined the meaning of CSR, recognised ongoing projects, regulated administrative overheads and surplus from CSR activities, tightened the framework for implementation through section 8 companies, registered public trusts, and registered societies, and mandated registration of implementing agencies. They also strengthened website disclosure and annual reporting while making impact assessment mandatory for a class of larger companies. The significance of these rules lies in the fact that enforcement without definitional clarity would have been unstable. The rules supplied that clarity (Ministry of Corporate Affairs, 2021).

The 2022 amendment rules, although narrower in appearance, also matter doctrinally. They ensured that a company having any amount in its Unspent CSR Account continues to maintain a CSR Committee and comply with the relevant sub-sections. This is an important anti-evasion device because a company cannot argue that it has fallen outside the threshold in a later year and yet avoid oversight over previously earmarked unspent CSR amounts. The amendment also

adjusted disclosure annexures and thereby further standardized reporting (Ministry of Corporate Affairs, 2022b).

The creation of Form CSR-2 and the subsequent adjustments to its filing mechanics complete the movement toward data-driven enforcement. CSR-2 requires structured information on the CSR Committee, spending, implementing agencies, ongoing projects, impact assessment, and unspent amounts. In legal effect, this means that CSR can now be reviewed not only through narrative annual reports but also through a discrete regulatory filing architecture. The filing reform increases comparability, regulatory visibility, and the possibility of targeted adjudication (Ministry of Corporate Affairs, 2022a).

In doctrinal terms, the present regime therefore rests on three reinforcing pillars: substantive obligation, procedural traceability, and monetary consequence. Substantive obligation is supplied by the spending and transfer rules. Procedural traceability is supplied by committee governance, board approval, website disclosure, annual reporting, impact assessment, and CSR-2. Monetary consequence is supplied by section 135(7). This architecture explains why it is no longer analytically satisfactory to describe Indian CSR law as only a voluntary or disclosure-based model (Government of India, 2020; Ministry of Corporate Affairs, 2021a; Ministry of Corporate Affairs, 2022a).

## **RECENT EXPENDITURE PATTERNS UNDER THE CURRENT REGIME**

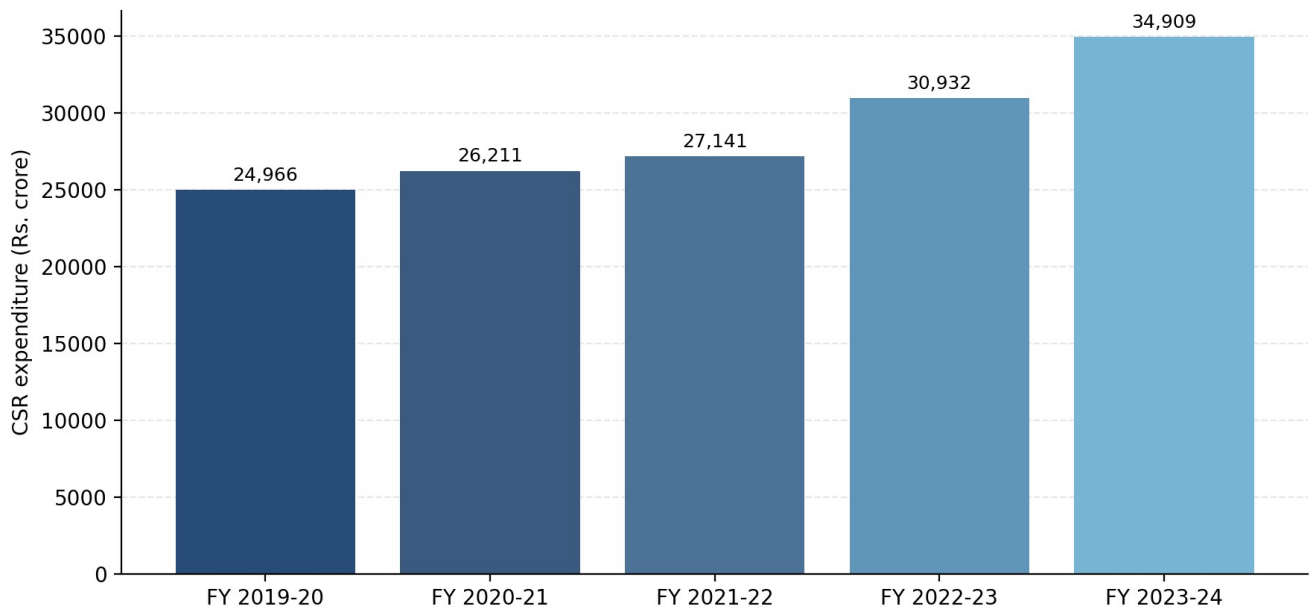
The latest official expenditure figures reinforce the doctrinal claim that CSR is now operating within a more structured and enforceable compliance environment. Aggregate CSR expenditure reported in the MCA registry for the last five financial years shows a steady upward movement from FY 2019-20 to FY 2023-24. The five-year total, as stated in the official reply released in February 2026, stands at Rs. 1,44,159.05 crore. The data do not, by themselves, prove causation between legal reform and increased spending; however, they do show that the post-amendment period has been accompanied by sustained growth in reported CSR expenditure and improved visibility of spending patterns (Press Information Bureau, 2026).

**Table 1. Year-wise CSR expenditure in India under Section 135**

Financial year	CSR expenditure (Rs. crore)	Year-on-year change	Observation
FY 2019-20	24,965.82	—	Base year in the fiveyear official series.
FY 2020-21	26,210.95	4.99%	Increase despite pandemic-period economic disruption.
FY 2021-22	27,141.45	3.55%	Moderate rise under the amended compliance framework.
FY 2022-23	30,932.08	13.97%	Sharp acceleration in reported expenditure.
FY 2023-24	34,908.75	12.86%	Highest expenditure in the official five-year series.

**Interpretation:** Table 1 shows a clear upward trend in reported CSR expenditure during the post-amendment period. Expenditure increased from Rs. 24,965.82 crore in FY 2019-20 to Rs. 34,908.75 crore in FY 2023-24, which represents a rise of approximately 39.8 per cent over five years. The strongest acceleration appears in FY 2022-23 and FY 2023-24. The pattern suggests that CSR spending has become more regularised, more visible, and more deeply integrated into annual corporate compliance behaviour. Although expenditure growth may also reflect profit recovery and improved reporting quality, the consistency of the trend supports the view that statutory refinement has strengthened the practical seriousness of Section 135 (Press Information Bureau, 2026).

**Chart-1 Year-Wise CSR expenditures in India under Section-135(FY 2019-20 to 2023-24, In INR Crore)**



**Interpretation:** Chart-1 visually reinforces the same conclusion. The bars show gradual growth in the first three years and then a steeper increase in the last two years of the series. In legal-policy terms, this matters because Section 135 is often critiqued as producing symbolic compliance. The official trend does not support a purely symbolic reading. The available numbers indicate that the regime is associated with substantial real expenditure at scale. The figure therefore supports the doctrinal proposition that CSR has moved from a soft reporting obligation toward a financially consequential compliance duty (Press Information Bureau, 2026).

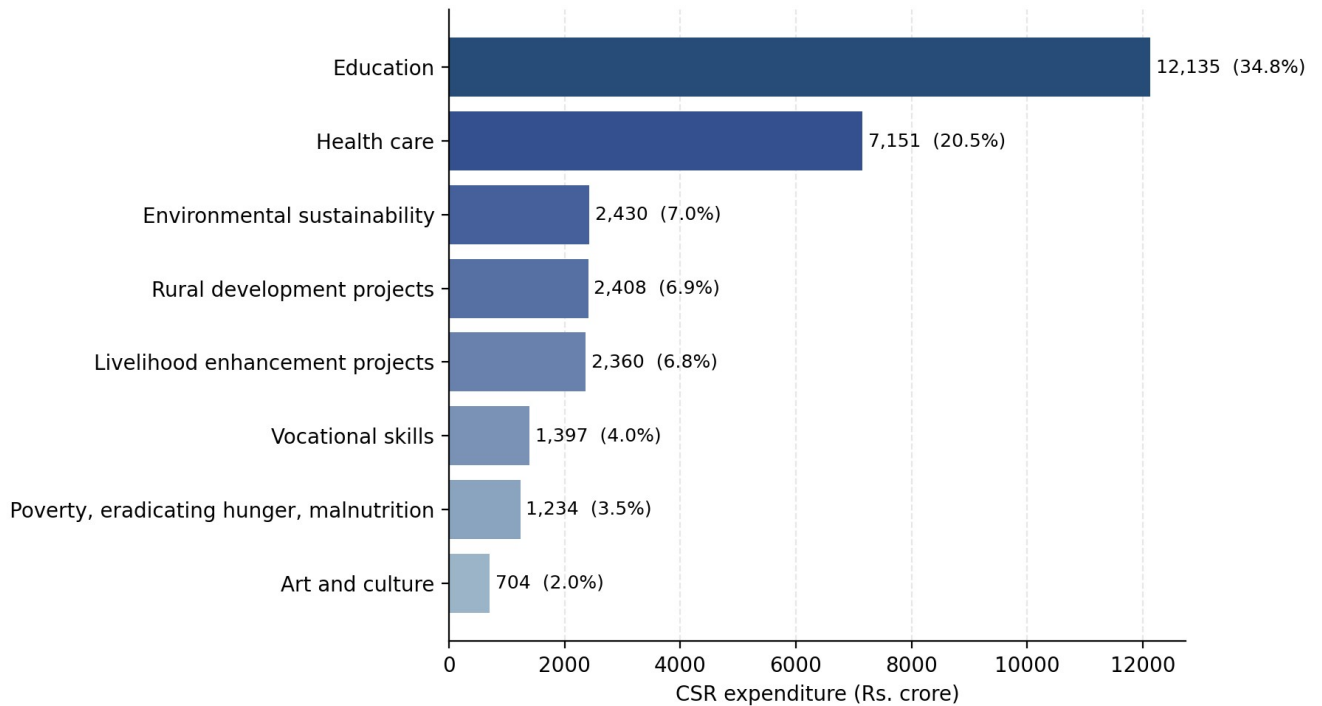
The latest sector-wise data for FY 2023-24 further reveal how CSR funds are distributed across development heads. Education and health care remain the dominant sectors, while environmental sustainability, rural development, livelihood enhancement, and vocational skills also command substantial allocations. The concentration pattern is important for doctrinal analysis because it demonstrates that mandatory CSR is not randomly diffused. Boards appear to cluster expenditure around nationally salient, administratively recognisable, and implementation-friendly heads under Schedule VII (Press Information Bureau, 2026).

**Table 2. Leading CSR development sectors in FY 2023-24**

Development sector	FY 2023-24 (Rs. crore)	Share of total	Rank
Education	12,134.57	34.76%	1
Health care	7,150.87	20.48%	2
Environmental sustainability	2,429.97	6.96%	3
Rural development projects	2,408.09	6.90%	4
Livelihood enhancement projects	2,360.09	6.76%	5
Vocational skills	1,396.55	4.00%	6
Poverty, eradicating hunger, malnutrition	1,233.93	3.53%	7
Art and culture	704.04	2.02%	8
Training to promote sports	692.09	1.98%	9
Prime Minister's National Relief Fund	589.61	1.69%	10

**Interpretation:** Table 2 shows that education alone accounted for about 34.76 per cent of total reported CSR expenditure in FY 2023-24, while health care accounted for about 20.48 per cent. Together, these two sectors absorbed more than half of the total. Environmental sustainability, rural development projects, and livelihood enhancement projects each crossed Rs. 2,300 crore and formed a strong second tier. The distribution suggests that boards prefer sectors with visible public value, established implementation pathways, and a clear fit with Schedule VII categories. It also indicates that mandatory CSR has become an important supplementary channel for social-sector financing, though the concentration of expenditure raises questions about whether some Schedule VII heads remain underutilized (Press Information Bureau, 2026).

**Chart-2 Top CSR development sectors in FY 2023-24(Amount in INR Crore)**



**Interpretation:** Chart 2 makes the concentration structure immediately visible. Education is clearly the largest head, followed by health care at a substantial but lower level. Thereafter the bars narrow, showing a relatively sharp drop to the next tier of sectors. This visual pattern matters for legal analysis because it highlights the practical effect of leaving project selection to board judgment within a broad statutory schedule. The law mandates expenditure, but it does not equalise expenditure across heads. The result is a controlled but selective deployment of private corporate funds toward preferred public purposes (Press Information Bureau, 2026).

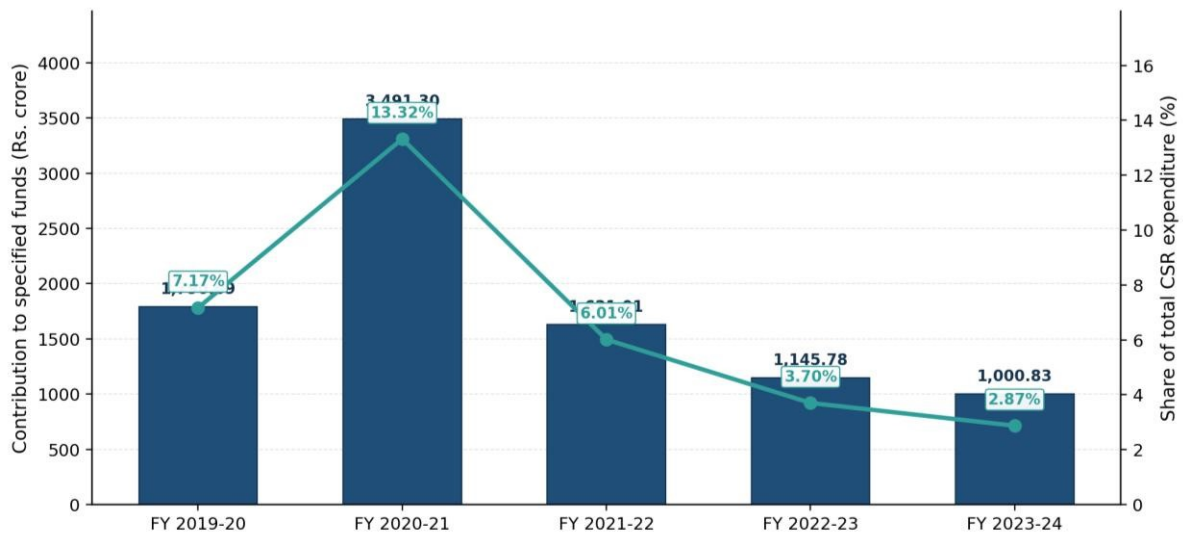
A related pattern appears in the use of specified funds within the CSR framework. Official data show that contributions routed to specified funds rose sharply in FY 2020-21 and then declined steadily over the next three years. This trend is analytically useful because it helps distinguish direct project-based CSR spending from fund-based allocation under Schedule VII (Press Information Bureau, 2026).

**Table 3. CSR contribution to specified funds under Section 135 (FY 2019-20 to FY 2023-24)**

Financial year	Contribution to specified funds (Rs. crore)	Total CSR expenditure (Rs. crore)	Share of total CSR	Observation
FY 2019-20	1,790.69	24,965.82	7.17%	Baseline level in the five-year series.
FY 2020-21	3,491.30	26,210.95	13.32%	Peak year; strong concentration in notified funds.
FY 2021-22	1,631.01	27,141.45	6.01%	Sharp normalization after the previous-year spike.
FY 2022-23	1,145.78	30,932.08	3.70%	Further decline in both absolute amount and share.
FY 2023-24	1,000.83	34,908.75	2.87%	Lowest share in the five-year series despite higher overall CSR spend.

**Interpretation:** Table 3 indicates that contributions to specified funds did not rise in proportion to overall CSR expenditure. The amount peaked at Rs. 3,491.30 crore in FY 2020-21, accounting for 13.32 per cent of total CSR spending, and then fell continuously to Rs. 1,000.83 crore in FY 2023-24, or only 2.87 per cent of total expenditure. This pattern suggests that recent CSR compliance has been increasingly channelled through direct project implementation and sector-specific expenditure rather than through concentrated transfers to notified funds (Press Information Bureau, 2026).

**Chart-3 Trend in CSR contribution to specified funds and its share of total CSR expenditure (FY 2019-20 to FY 2023-24)**



**Interpretation:** Chart 3 makes the shift especially clear. The bar series shows a sharp one-year spike in FY 2020-21 followed by a sustained decline in subsequent years, while the line series shows that the proportional importance of specified funds has narrowed even more quickly. In doctrinal terms, this supports the view that the post-amendment CSR regime is operating less as a fundtransfer model and more as a monitored spending framework centred on board-approved projects, disclosures, and traceable implementation (Press Information Bureau, 2026).

**DOCTRINAL ISSUES IN THE ENFORCEMENT ERA**

The first doctrinal issue is whether mandatory CSR under Section 135 should be treated as a tax in disguise. The argument arises because the law compels eligible companies to deploy a fixed percentage of profits toward socially beneficial activities. However, the tax analogy is incomplete. A tax is typically collected by the state into a public exchequer and then allocated through public budgeting. Under Section 135, the company itself remains responsible for policy formulation, project choice within Schedule VII, implementation design, agency selection, monitoring, and disclosure. Even where an unspent amount must be transferred to a specified fund, that consequence operates as a response to non-compliance, not as the primary design of the regime. The statutory model is therefore closer to a regulated governance obligation than to a classical tax. This distinction is conceptually important because it preserves the company law identity of the provision (Taneja et al., 2022; Jain et al., 2023).

The second issue concerns the meaning of enforcement. A stronger legal regime is not necessarily a better regime if it generates box-ticking rather than meaningful social outcomes. That risk remains real. A company may satisfy formal requirements through safe-sector expenditure, standardised agency partnerships, and conservative reporting without genuinely aligning CSR with local need, measurable impact, or long-term developmental logic. The 2021 impact assessment framework partly addresses this problem for larger obligors, but the deeper challenge persists: the law can compel expenditure and reporting more easily than it can compel substantive social imagination (Taneja et al., 2022; Bihari & Shajahan, 2023).

The third issue concerns the relationship between board autonomy and public purpose. Section 135 is unusual because it imposes a public-facing obligation through the private governance organ of the Board. This structure has advantages. It internalises social responsibility into corporate decisionmaking and prevents CSR from being treated as an external afterthought. Yet it also generates difficulty where boards prefer low-risk, reputationally safe, or visibility-oriented projects. The broad language of Schedule VII allows flexibility, but flexibility can also produce concentration in a few familiar sectors. The legal challenge is therefore to preserve board discretion while ensuring that the discretion is exercised in a principled and accountable way (Jain et al., 2023; Kulkarni & Aggarwal, 2024).

The fourth issue is the role of the local area proviso. The 2026 official clarification that local area preference is directory rather than mandatory is sensible as a matter of national policy coherence. A rigid territorial reading could prevent companies from participating in national or inter-state priorities. At the same time, a merely directory approach may weaken the distributive promise that communities around major corporate operations should receive meaningful social investment. The present law strikes a balance, but the actual fairness of that balance depends heavily on board practice and public disclosure (Ministry of Corporate Affairs, 2021b; Government of India, 2025).

The fifth issue concerns continuity of obligation where a company no longer meets the threshold but still retains an unspent CSR balance. The 2022 rules addressed this by ensuring that a company with an amount in the Unspent CSR Account remains within the committee-and-compliance framework. This is a strong doctrinal choice. It recognises that once an amount has acquired the legal character of earmarked CSR money, subsequent changes in financial threshold should not dissolve accountability for its utilisation (Ministry of Corporate Affairs,

2022b).

The sixth issue concerns adjudication and penalty design. The shift from criminal sanction to civil penalty in 2020 makes conceptual sense and aligns with a modern regulatory approach. However, the effectiveness of this design depends on consistency of detection, proportionality of orders, and transparency of adjudication. Scattered orders can create compliance signalling, but a mature enforcement ecosystem requires predictable standards and accessible reasoning. In that sense, the future of Section 135 lies not only in statutory text but also in the quality of administrative enforcement practice (Government of India, 2020; Government of India, 2025).

Overall, the doctrinal tensions of the present regime do not undermine the basic conclusion of this paper. They show instead that Indian CSR law has entered a more sophisticated phase. The central question is no longer whether CSR is voluntary. The real question is how a mandatory CSR regime should be interpreted so that it remains lawful, effective, transparent, and socially meaningful (Bhatia & Dhawan, 2023; Bihari & Shajahan, 2023).

## **IMPLICATIONS FOR LEGAL PRACTICE AND REFORM**

For legal practice, the transformation of Section 135 means that CSR advice can no longer be limited to annual report drafting or generic policy formulation. Compliance now begins with threshold monitoring and committee constitution, but it does not end there. Counsel must also advise on project classification, implementing-agency eligibility, registration requirements, treatment of surplus, distinction between administrative overheads and programme expenditure, maintenance of the Unspent CSR Account, board resolutions for set-off claims, and the evidentiary basis for annual disclosures. In other words, CSR now requires continuous legal supervision rather than year-end narrative review (Ministry of Corporate Affairs, 2021a, 2022a).

A second implication concerns board process. Because the law is board-driven, documentary discipline matters. A company that wishes to defend its CSR position must be able to show a coherent chain of decision-making: committee recommendation, board approval, project rationale, implementing-agency documentation, fund release logic, monitoring notes, and explanation of any non-spending or transfer decision. Where ongoing projects are relied upon, the project design and timeline must be genuine and contemporaneously recorded. Legal advice should therefore be integrated with governance practice and not treated as an after-the-event

compliance patch (Ministry of Corporate Affairs, 2021a; Taneja et al., 2022).

Thirdly, the adjudicatory environment calls for clearer and more accessible enforcement standards. Monetary penalties under section 135(7) are measurable, but predictability depends on the reasoning adopted by adjudicating authorities. A more mature enforcement framework would benefit from systematically published orders, standard reporting of facts, and better public access to compliance patterns. Such transparency would strengthen both deterrence and fairness. Companies would better understand their exposure, and regulators would gain a more coherent body of precedent for future action (Government of India, 2020; Government of India, 2025).

Fourthly, there is room for doctrinal refinement in the treatment of local area preference and sectoral concentration. The present directory reading is sound because it avoids territorial rigidity. Yet a stronger disclosure requirement explaining how local area concerns were considered could improve legitimacy without narrowing board discretion. Likewise, where expenditure is heavily concentrated in a small number of sectors year after year, enhanced board explanation may help demonstrate that the selection remains aligned with social need rather than mere compliance convenience (Ministry of Corporate Affairs, 2021b; Press Information Bureau, 2026).

Fifthly, impact assessment should gradually become a more central feature of the regime. At present, it applies only to larger obligors and qualifying projects. That is understandable from a proportionality perspective. Even so, the legal culture around CSR would benefit if boards increasingly treated impact assessment not as a threshold-triggered obligation alone but as a governance discipline. Better impact evidence would reduce the critique that mandatory CSR produces spending without demonstrable value. It would also strengthen the normative defence of the statutory model (Ministry of Corporate Affairs, 2021a).

Finally, the continuing legitimacy of Section 135 depends on preserving the distinction between enforceable CSR and disguised exaction. The law should continue to regulate obligation, process, disclosure, and consequences, but it should avoid converting CSR into a centrally appropriated levy by default. The present framework largely maintains this balance because it keeps the Board at the centre of decision-making within a statutory envelope. Reform should therefore focus less on increasing compulsion in the abstract and more on improving transparency, interpretive clarity, impact evidence, and adjudicatory consistency (Taneja et al.,

2022; Bose et al., 2024).

## CONCLUSION

Section 135 of the Companies Act, 2013 has moved decisively beyond a disclosure-centred and largely voluntary understanding of corporate social responsibility. The amendment cycle of 2019 and 2020, followed by the operational rules of 2021 and 2022 and the structured reporting architecture of CSR-2, has transformed CSR into a board-governed statutory obligation supported by time-bound transfer rules and measurable monetary penalties. The doctrinal significance of this transformation lies in the conversion of non-spending from an explainable shortfall into a legally regulated event with defined consequences (Government of India, 2019, 2020; Ministry of Corporate Affairs, 2021a, 2022a).

At the same time, the Indian model has not abandoned the normative foundations of CSR. It still relies on board judgment, project design, implementing agencies, Schedule VII alignment, and impact-oriented spending. For that reason, the present regime should not be reduced either to philanthropy or to taxation. It is better described as a hybrid company law mechanism through which Parliament has imposed socially directed financial responsibility on economically significant companies while preserving a meaningful zone of corporate choice (Taneja et al., 2022; Jain et al., 2023).

The latest official data support the seriousness of this legal transformation. Aggregate CSR expenditure has grown substantially over the last five financial years, and sector-wise allocations reveal a structured concentration in education, health care, environmental sustainability, rural development, and livelihood enhancement. These trends are consistent with a regime that is no longer merely rhetorical. They reflect a framework that is producing high-value, reportable, and increasingly standardised expenditure (Press Information Bureau, 2026).

For legal scholarship and legal practice, the principal lesson is clear. The future debate on CSR under Section 135 should not ask whether mandatory CSR is possible in company law. India has already answered that question in the affirmative. The better inquiry is whether the present framework can sustain principled enforcement without reducing CSR to formal compliance alone. That balance between enforceability and substantive social purpose will determine the continuing legitimacy of India's mandatory CSR model (Bhatia & Dhawan, 2023; Kulkarni & Aggarwal, 2024).

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#### **Appendix note: Emerging trajectory of CSR adjudication and compliance**

The practical direction of CSR law in India will increasingly depend on the interaction between statutory text and adjudicatory behaviour. Section 135 now contains measurable obligations, but the discipline of compliance is shaped by the manner in which registrars and adjudicating authorities identify defaults, classify them, and express the resulting orders. For that reason, the future of CSR under company law is likely to be influenced as much by regulatory method as by legislative amendment. A transparent body of orders can perform an educative function by clarifying what counts as a valid ongoing project, what explanations are insufficient, and how the Board's report should reflect transfer obligations and spending decisions (Government of India, 2020; Government of India, 2025).

A further development is the growing importance of standardised data. Once CSR-2 filings accumulate over successive years, compliance analysis becomes easier and more targeted. This may improve enforcement quality, but it may also increase the pressure on companies to adopt defensible internal systems for project monitoring, partner due diligence, and year-end reconciliation of unspent amounts. From a legal practice perspective, this means that CSR advice is moving closer to a combined field of company law, governance, compliance design, and regulatory reporting (Ministry of Corporate Affairs, 2022a).

The emerging trajectory therefore points toward a more mature enforcement ecosystem rather than a dramatic change in the substantive law. The broad architecture of Section 135 is already in place. The next phase is likely to concern interpretive refinement, improved comparability in disclosure, better public access to adjudication patterns, and a stronger relationship between expenditure claims and impact evidence. These developments, if pursued carefully, would further stabilise the movement from voluntary corporate responsibility to statutory enforcement without eroding the distinctive company law character of the Indian CSR model (Bhatia & Dhawan, 2023; Government of India, 2025).