OBOX HR Solutions Pvt Ltd.

Payroll Guidelines

A Manual to Navigating Payroll Regulations in India

General Guidelines - Salary Structure

Structuring Salaries is an important assignment for any company. Structuring the salary is done to benefit both:

- **For the Employee – It should be tax-efficient**

The Salary structure should allow employees to save as much tax as possible

- **For the Employer – It should reduce the employer's liability**

The salary structure should reduce the liability of the employer. The employer's contribution to PF, Gratuity, etc. should be kept as low as possible, to ensure statutory compliance and to control the CTC (Annual salary) cost

- **Statutory Compliance**

The salary structure should comply with the statutory requirements as per the prevailing laws applicable to each of the categories of employees and industry.

Three Types of Salary:

- **Net Salary**

This is the salary you get in your hands and thus also sometimes called an in-hand salary/take-home salary. This is the amount you get (or pay) after deductions such as PF, ESI, PT, TDS, loss of pay, and other deductions as per your company

- **Gross salary**

This is the salary which is shown in the payslip. This salary is the total earnings of an employee (Basic salary and allowances) excluding statutory and non-statutory deductions. Please note that the gross salary will include loss of pay based on employee attendance. It includes bonuses, overtime pay, holiday pay, and other differentials

- **CTC Salary – Cost to Company Salary:**

CTC or Cost to Company is the total amount that any organization spends (directly or indirectly) to engage an employee. It refers to the total salary package of the employee. CTC is inclusive of monthly components and annual components, cost of benefits provided to the employee. It also includes the fixed and variable pay components.

There are certain components of salary which are not paid along with the monthly salary; they include employee reimbursements, employee benefits, annual components, and variable components like Bonus, etc

The CTC Salary is the total of your Gross Salary+ Annual Components + Employee Benefits + Variable Pay. "CTC Salary is the notional amount to calculate the cost of engaging an employee and never the actual amount which is received by the employee".

Option 1

Sample Salary Structure	Monthly	Annually
Basic	140343	1684116
Conveyance Allowance	0	0
Education Allowance	200	2400
House Rent Allowance	70172	842064
Medical Allowance	0	0
Mobile/Internet		
Reimbursement	1000	12000
Leave Travel Allowance (LTA)	1000	12000
Fuel Reimbursement	4000	48000
Books & Subscription	1000	12000
Asset Reimbursement (Mobile/Earphones etc.)	1250	15000
Food Coupons	1000	12000
Professional Development	130893	1570716
Gross Salary Fixed	350858	4210296
Variable Pay Monthly	1950	23400
Employer PF Contribution	173333	2079996
CTC	526141	6313692

Note:

• Reimbursement allowances marked in yellow are optional and other allowances can be added for tax benefit.

• Such allowances should be given to employees who have CTC is above INR 10, 00,000/- wherein they get the tax benefit.

• For employees below INR 7, 20,000/- we shall remove the allowances and add in Professional Development.

Option 2

Particulars	Monthly	Annually	Monthly	Annually	Monthly	Annually
Basic Salary	15,000	1,80,000	15,000	1,80,000	50,000	6,00,000
House Rent Allowance (HRA)	5,000	60,000	7,500	90,000	25,000	3,00,000
Allowance			2,500	30,000	25,000	3,00,000
GROSS SALARY	20,000	2,40,000	25,000	3,00,000	1,00,000	12,00,000
Provident Fund Contribution	1,800	21,600	1,800	2,160	6,000	72,000
ESIC Contribution	950	11,400				
Canteen Contribution	1000	12,000	1000	12,000	1000	12,000
Transport Contribution	1000	12,000	1000	12,000	1000	12,000
Total of Monthly Benefits	4,750	57,000	3800	45,600	8000	96,000
Variable Salary	2,500	30,000	5.000	60,000	15,000	1,80,000
Bonus	1,667	20,000	2,083	25,000	8,333	1,00,000
Gratuity	833	10,000	1,042	12,500	4,167	5,00,000
Leave Encashment	833	10,000	1,042	12,500	4,167	5,00,000
Leave Travel Allowance	500	6,000	1,000	12,000	2,500	30,000
Medical Insurance	833	10,000	1,000	12,000	2,500	30,000
Total Annual Benefits	7,166	86,000	11,000	1,32,000	36,250	4,35,000
Cost to Comapny (CTC Salary)	31,967	3,83,000	39,800	4,77,600	1,44,250	17,31,000

- **Reimbursements:**

Occasionally, employees are entitled to several reimbursements like books and periodicals, phone bills, newspaper bills, driver's salary, internet, etc. The amount is not received in the salary, but on submission of the bills, reimbursement is given. Generally, there is an upper limit for every category of reimbursement

• Sodexo Coupons:

To provide the maximum non-taxable amount which is restricted to Rs.50/- per meal during working hours i.e. 50 x 22 days = 1,100 it was given to as 2 meals a day if working hours includes both meal timings i.e. 12 to 9

Deductions	How is it Calculated	Whom does it apply
Provident Fund	Employer and Employee each contribute Contribution 12% of Basic + DA + Special	Companies that have more than 19 or more employees. It is mandatory for employees whose Basic+DA+ Special is less than Rs.15,000 a month
ESIC	Employer Contribution is 3.25% of Gross Salary; Employee Contribution is 0.75% of Gross Salary	If a company has 10 or more employees who have a gross salary of less than Rs. 21000 a month, then it applies to all those employees
Professional Tax	Varies from state to state	All employees of applicable states
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- **Provident Fund (PF):**

Employee Provident Fund is an employee benefits scheme where investments are made by both the employer and the employee each month. It is a savings platform that aids employees to save a portion of their salary each month, from which withdrawals can be made following a month from the date of cessation of service or upon re rement. At least 12% of an employee's basic salary is automatically deducted and goes to the Employee Provident Fund every month. The contributions are maintained by the Employees Provident Fund Organization (EPFO). Provident fund is an investment both by the employer and the employee each month, the lump sum amount of which acts as an employee's retirement benefits scheme Provident Fund Employees Provident Funds and Miscellaneous Provisions Ac

- **Provident Fund Employees Provident Funds and Miscellaneous Provisions Act, 1952**

- Social security for the employees towards the compulsory savings for retirement is controlled by the above PF Act.

- Every employee shall contribute towards Provident Fund 12% of his / her - Basic Salary (Basic+DA) / (Basic + DA + Allowances)

- Every employer must deduct and contribute towards Provident Fund for employees, in case the number of employees engaged at any given point of time is more than 19.

• Organizations with less than 20 employees, can voluntarily contribute and comply with the PF Act.

• The threshold amount for the Basic Salary for Provident Fund Contribution at present is Rs.15,000/- per month.

• Gratuity

Gratuity is the part of the salary that is received by an employee from the employer for the services offered by the employee upon him or her leaving the job. Though an employee can receive the gratuity amount only after 5 years, it will be deducted by the employer every year and hence it will get deducted from your CTC.

• Health Insuranc

Many companies provide health insurance and life insurance to their employees, the premium for which is borne by the employer OR is included in the CTC (optional).

• Income tax

The tax levied on one's personal income is called income tax. Usually, an employee gets his or her salary after the tax deduction by the employer. This process is called Tax Deduction at Source (TDS). The deducted tax amount is paid to the government by the company

• Employees State Insurance Corporation (ESIC)

Deductions towards ESIC are mandatory for employees whose gross salary is not more than Rs. 21,000. It is only applicable in companies where there are 10 or more employees within the Rs.21, 000 gross salary bracket. Employees must contribute 0.75% of the gross salary and employers have to contribute 3.25% of the gross salary.

• Employee's State Insurance Act of 1948

• Social security for the employees towards the medical assistance is provided in ESIC Act

• Every employee shall contribute towards ESIC 0.75% of his / her Gross Salary every month

• Every Employer must contribute towards ESIC 3.25% of Gross Salary

• Every employer must deduct and contribute towards ESIC for employees, in case the number of employees engaged at any given point of time is more than 10.

• The threshold amount for the Basic Salary for Provident Fund Contribution at present is Rs.21,000/-per month

• Professional tax

Professional tax is the tax charged by the state government to let an individual practice a certain profession. It depends on one's monthly salary and also on the state in which one works. The professional tax levied varies from state to state in India.

• Labour Welfare Fund

Labour Welfare Fund, as the name suggests, is a contribution made by salaried employees for the benefit of the labour class.

The contribution amount varies from state to state and is relatively small. The employer and the employee both make contributions and the employer pays approximately twice the employee contribution. The payments are made semi-annually in June and December. Like Professional Tax,
Labour Welfare Fund contributions also vary from state to state where they are applicable.

• Conclusion

This is an effort to highlight some of the critical points on structuring the salary. Structuring of the salary for the employees depends on the business dynamics, industry, and the income tax benefit for each of the employees.

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