Native Teams

India Knowledgebase

Payroll, compensation and benefits

Salary structure

Base salary is a fixed portion of an employee's total salary package, usually between 40%-60% of the CTC (Cost To Company).

The generic minimum wage for India for a white collar is INR 21917.
But the average minimum wage for a skilled white-collar employee in India with 1-2 years of experience involves several factors, including the specific profession, industry, and location.
India does not have a single, national minimum wage for all workers, including white-collar employees. Every Indian State has its own minimum salary.

Statutory benefits, mandated by law, include contributions to the Employee Provident Fund (EPF), Employee State Insurance (ESI), gratuity and maternity leave. These benefits are crucial for employees' financial security, health, and well-being.

Here are some of the taxable allowances:

Dearness allowance
Entertainment allowance
Overtime allowance
City compensatory allowance
Interim allowance
Project allowance
Tiffin/meals allowance,
Cash allowance: When the employer provides a cash allowance like
Marriage allowance,
Bereavement allowance
Holiday allowance, it becomes fully taxable.
Non-practicing allowance
Warden allowance
Servant allowance

Most of the allowances are not applicable for Private sector employees.

Tax-free allowances in salary are those allowances that are usually paid to an employee for their service or as compensation to manage specific expenses.

Daily allowance
Academic/research allowance
Conveyance allowance
Allowances paid to government employees posted outside India
Compensatory allowances paid to judges
Travelling allowance
Actual HRA received
Rent paid minus 10% of basic salary.

Salary and wages

In India, the mandatory local currency is only INR (Indian Rupees). This currency is used for all financial transactions, including salaries, allowances, and benefits within the country.

The contracted amount for salaries must be paid in INR (Indian Rupees). Payments in foreign currency are not standard practice for employees, except in specific cases like foreign employees on deputation.

Salary payments for employees are generally made in the local currency, INR (Indian Rupees). Foreign currency payments are not standard practice for local employees. However, foreign employees on deputation to India may receive their salaries in foreign currency under specific conditions, but this is not common for regular local employees.

For provident fund contributions, the ceiling is 12% of the minimum wage, which is INR 15,000. This means the maximum contribution to the Provident Fund is based on this amount, regardless of the employee's gross salary exceeding this threshold.

In India, salary calculations typically use calendar days for a full month. This means that irrespective of the number of working days in a month, salary is calculated on the basis of 30 days per month, unless otherwise specified in the employment contract or company policy.

Salary payments are typically structured over 12 months. This means employees receive their salary on a monthly basis throughout the year, totaling 12 payments annually.

While 13th month pay is not a statutory requirement, some companies may choose to provide. The standard salary arrangement in India includes only a basic 12 month salary structure.

Salary payment deadline is not fixed, 5th of the following month, last day of the month worked and 1st of following month depending upon client request.

Salary calculation specifics

The minimum wages act of 1948 covers several listed employments to ensure that workers receive fair wages for their work. For any hours of work exceeding those required, it is ordered that employees must be given double the regular rate of wages as overtime pay.

Overtime pay = (basic salary + DA) / total weekly work hours * two * number of overtime hours
total weekly work hours = number of normal working days * average daily work hours.
Holiday pay - private sector employees are entitled to a minimum of 15 days of earned leave per year, but again, this varies by state. The terms of paid time off are specified in employment agreements.

Employers are required to inform employees about public holidays and ensure they are granted paid leave or extra remuneration for working on those days

Allowances and deductions

Mandatory allowance are EPF, ESI, Gratuity, Maternity Leave

ESI- salaried person below 20000 per month is eligible and Gratuity is optional.

Private pension system/annuity plans are retirement plans that help you create a source of guaranteed income for your retirement years. The retirement benefits can be invested in a lump sum or the investment can be invested over years. The invested amount is utilized to generate returns which are paid out to the policyholder on retirement. Private sector employees can now opt for 14% of their basic salary toward NPS and get income tax deduction.

Payroll declarations-Income tax declarations

As per the Income Tax Act, while computing the Taxable Income the following are deducted from the Gross Salary for the Employees.

Before configuring your income tax declarations, you can set the tax regime details for all employees. Employees opting for the new option tax regime u/s 115BAC have to forgo some of these deductions and exemptions. In order to simplify the calculations, the applicability of deductions and exemptions for each tax regime are predefined in Tally. ERP 9. This means even when you declare the value for a deduction or exemption, it is not considered for tax calculation if the respective deduction or exemption is not eligible under the selected tax regime.

Exemptions: As per section 10 , Allowances such as HRA, LTA, Transport Allowance, Children Education Allowance and Children Hostel Expenditure Allowance are exempted from Income Tax.

Deductions Under Chapter VI-A: As per Chapter VI-A of Income Tax, the following Deductions are allowed while computing the taxable income:
Investments (U/s 80C, 80CCF, 80CCG, etc.): Subject to a ceiling. certain investments are allowed as deduction when the system computes Taxable Income.
Others (U/s 80D, 80DD, 80E, etc.): Certain other expenses such as Mediclaim, and Interest paid on higher education loans are deducted before arriving at the taxable income.

Bonus and incentives

Every employer shall be bound to pay to every employee in respect of any accounting year, a minimum bonus which shall be 8.33% of the salary or wage earned by the employee during the accounting year or Rs. 100, whichever is higher. However, not all employees in India receive a performance bonus, depending upon segment and department. Performance bonuses can vary based on the company, industry, and individual performance. They can be a fixed amount or a percentage of the employee's base salary, typically ranging from 5% to 20%.

Employee Incentive Programs come in various sizes, kinds, and types. They are generally classified based on their purpose and are customized by organizations to serve their specific needs. They can be broadly classified under three heads:

Monetary Incentives: (Salary Incentives, bonus, commission, profit sharing, stock options, recognition rewards)
Non-monetary Incentives: (Employee Recognition, Flexible Work Development, Wellness Programs, Workplace Perks)
Performance-based Incentives: (Sales Performance Incentives, Individual Performance Awards, Team-Based Incentives, Goal-Based Incentives,)

Employer contributions

Employer contributions payment (Employer contributions can be paid in a variety of ways, EPF, ESIC, pension if any. An employer is liable to pay his contribution in respect of every employee and deduct employees contribution from wages bill and shall pay these contributions at the above specified rates to the Corporation within 15 days of the last day of the Calendar month in which the contributions fall due.

If any employee incurs any expenses on behalf of the organisation it will be treated non taxable. The company reimburses after validating them through multiple approval levels. Reimbursable expenses include business supplies, work-related travel costs, education or training, and other business-related expenses. Expenses which will not be supported with proofs will be considered as allowances and it will be taxable.

Benefits packages

Group health insurance plans offer medical coverage to members of an organisation or employees of a company. They may also provide supplemental health plans—such as dental, vision, and pharmacy—separately or as a bundle. Risk is spread across the insured population, which allows the insurer to charge low premiums. Any organisation, startup, cultural/social establishment or any other group sharing the same interest can purchase a group health insurance policy. As per IRDAI, any company or group with at least 20 team members are eligible for buying a group insurance scheme.

For private sector employees there are no Retirement benefits like Pension, one can voluntarily buy from the Market as per their requirements, but all Govt. or Public undertaking Employees should have a retirement age of 58 years to receive the EPF pension. However, if they retire before this age, that is, between 50 and 57 years, they will receive a reduced pension. Private sector employees should focus on financial planning to build enough funds to spend a good life after retirement. Some common ways are: 1. Investing in EPF, PPF, NPS etc. which gives constant income after retirement.

Discretionary benefits are benefits that are provided at the employer's discretion, and can include:

Health insurance
Transportation allowance
Work-from-home benefits
Performance bonuses
Training and development programs
Childcare facilities
Wellness programs

The employee provident fund (EPF) scheme requires both employees and employers to contribute 12% of the employee's basic salary.

Unemployment insurance, launched by the Employees' State Insurance Corporation (ESIC), is a social security measure designed to provide financial assistance to workers who have lost their jobs involuntarily.

As for workers or employees, they are covered or entitled under ESI when they earn less than Rs. 21,000 per month and Rs. 25,000 in the case of a person with disability. The worker contributes 1.75% of their salary while the employer contributes 4.75% towards the ESI scheme.

A workmen compensation policy is compulsory for employers, specifically for companies having large labour forces. To shield themselves against the liabilities resulting from workmen's injuries. The Workmen's Compensation Act of 1923 in India provides financial compensation to employees who are injured, incapacitated, or die while working. The act covers a wide range of employees, including those in construction, mines, factories, plantations, and on mechanically propelled vehicles. The government enforces the act through labour inspectors from the Ministry of Labour's social security division.

Salary limit for employees with disabilities, with monthly wage up to Rs. 25000/- per month, working in the private sector would be covered. PDB is payable to an IP who suffers permanent residual disablement as a result of EI (including Occupational Diseases) and results in loss of earning capacity. Disability insurance in India is a contract between an insurance company and a policyholder that provides a monthly benefit if the policyholder is unable to work due to a disability. Disability insurance can be purchased as a rider with a health or term life insurance plan. One has to separately buy it.

Currency and payment considerations

Currency requirements

In India, salaries must be paid in the local currency, Indian Rupees (INR), for Indian nationals. Foreign employees on deputation may receive their salary in a foreign currency, allowing them to maintain a foreign currency account outside India. However, they are still liable for income tax in India, which must be paid in INR. When dealing with currency exchanges, the prevailing exchange rate (spot rate) should be used for transactions.

Taxation and compliance

Employee and employer tax obligations

Payroll tax or income tax refers to taxes withheld by an employer from an employee’s salary. The tax is on par with tax deducted at source (TDS) and has to be remitted to the government.

Tax slabs depend upon the two tax regimes in India.

(Old and New) Income tax - The tax slabs and rates are different in old and new tax regimes. Various deductions and exemptions are allowed in the Old tax regime. The new regime offers lower rates of taxes, but permits limited deductions and exemptions.

New Regime- standard deductions of 50000 INR , Reference:
https://www.incometax.gov.in/iec/foportal/help/individual/return-applicable-1

Income tax for new joiners remains the same as above, tax is calculated on a prorated basis, depending upon the investment declarations submitted and taxes paid from April FY24 to the last working day.

Employers must comply with a range of tax laws and payroll contributions including Individual income tax (IIT), social security contributions, VAT, withholding tax, and business tax. Nonetheless, employers do not have to withhold any income taxes for their employees.

Payroll declarations and reporting

Deadline of Payroll Declarations: Submission of reports: Employers give employees until the end of the financial year, which is March 31, to provide all the necessary proofs. From the beginning of the financial year until February, the calculation of TDS is based on the investment declarations made by the employee.

Deadline for sending annual declarations to employees: The due date for submitting Form 12BB is typically at the end of the financial year, usually in January or February.

Termination and severance

Termination Payments Date: As per salary schedule but on request can be done anytime after the last working day, there is no specific date for the Full and Final settlement (FnF) to be made, and it can take anywhere from 45 to 90 days. Experts generally consider 30 to 45 days to be an ideal time for the FnF settlement.

No additional termination pay is provided beyond the statutory entitlements and contractual agreements. The final settlement typically includes pending wages, any unused leave encashment, and other dues as per the employment contract.

The payment for terminated employees is generally processed within 30-45 days of the employee's last working day. However, there is no legally mandated deadline for this settlement, and the timing can vary based on company policies and the complexity of the final settlement process.