



IN THE BUSINESS OF YOUR SUCCESS™

## PAYROLL IN INDIA

Combining multiple  
salary components  
and complex tax rules

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**ADP STREAMLINE™**

MULTI-COUNTRY PAYROLL & HR ADMINISTRATION

HR. Payroll. Benefits.

# Payroll in India: cumbersome processes that make accuracy a challenge

With just four or five lines for income and even fewer for deductions, payslips in India appear straightforward.

But this simplicity belies two major complexities: a large variety of possible salary components and an intricate tax management scheme, both of which make accuracy a real challenge.

## EARNINGS

### Components

- A base salary that may be supplemented with overtime hours, performance bonuses and commissions
- A large number of additional pay components in the form of fixed allowances, expense reimbursements or perquisites
- Flexibility for companies to develop their own remuneration packages

### Process

- Manual collection and processing of receipts for reimbursements
- Numerous forms to generate and submit to authorities for compliance purposes

XYZ India Private Limited					
Payslip for the month of January '13					
EMP CODE	:XXXXX	PAN NO	:ABCDEFGH		
EMPNAME	:XXXXXXXXXX	PF NO	:TN/XYZ/0001		
DOJ	:01/01/2012	PAID DAYS	:31		
DESIGNATION	:XXXXXXXXXX	LOP DAYS	:0		
DEPARTMENT	:XXXXXXXXXX	BANK NAME	: ICICI		
LOCATION	:XXXXXXXXXX	ACCOUNT NUMBER	:01234567890		
EARNINGS		ACTUAL	EARNED	DEDUCTIONS	AMOUNT
Basic Pay		8000	8000	Provident fund	600
House Rent Allowance		2000	2000	Employee State Insurance	394
Conveyance Allowance		800	800	Professional Tax	200
Medical Reimbursement		1250	1500	Income Tax	800
Leave Travel Allowance		1500	4500		
<b>GROSS EARNINGS</b>		<b>13550</b>	<b>16800</b>	<b>GROSS DEDUCTIONS</b>	<b>1994</b>
<b>NET PAY</b>	<b>: 14806</b>				
<b>IN WORDS</b>	<b>: Rupees Fourteen Thousand Eight Hundred and Six Only</b>				
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Several factors generate cumbersome administrative tasks in the Indian payroll process.

Companies must gather receipts then check and record the amounts of allowances paid in the form of reimbursements.

Tax management requires handling the different policies applicable to the many components of remuneration and arising from additional employee data.

## DEDUCTIONS

### Components

- Mandatory payments to federally administered social welfare funds
- Withholding at the source of income tax (federal) and professional tax (state)

### Process

- Income tax calculation made complex by the different tax schemes applied to allowances
- Annual tax calculation requiring collection of additional information about investments made by the employee
- Annual tax report to give to the employee

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# Multiple salary components

The various allowances and reimbursements distributed in addition to salary are a significant component of remuneration.

In India, the salary, or basic pay, itself only represents a fraction of remuneration—generally 40% to 50%. In addition, companies offer their employees additional pay components. These can take the form of fixed allowances; reimbursement of expenses, such as medical expenses; or even perquisites such as the use of a vehicle.

These additional pay components are aimed at supporting the different needs of employees, like housing, conveyance, leave travel, education and professional development, as well as school for children.

Companies have the flexibility to adopt their own policies on salary components and offer employees specific combinations of basic pay, allowances, reimbursements and perquisites, which is known as a Flexible Benefit Plan (FBP). Consequently, payslips look very different depending on the employees and the company.

Reimbursements in particular generate cumbersome administrative processes, as employees must submit supporting documents. It is incumbent upon the companies to retrieve the receipts, check them and enter their amounts during payroll processing. Calculating

allowances can also be thorny: the Dearness Allowance (DA), for example, can include a variable (VDA).



# Social security contributions

Employees contribute to different federal social welfare funds. Contributions are calculated by companies and deducted from salary.

Employees contribute to three governmental social protection schemes in force in India. Employees' contributions are complemented by employer payments, which do not appear on the payslip. These calculations are generally governed by simple rules involving a fixed percentage or amount.

The Employees Provision Fund (EPF) is mandatory for employees who earn less than INR 6,500 in monthly revenue at companies with more

than 20 employees. The EPF provides them with a savings account for future pension disbursements under a super annuity. The EPF contribution can be supplemented by an additional voluntary provident fund (VPF) contribution.

All employees who earn less than INR 15,000 are eligible for and contribute to Employee State Insurance (ESI). It provides the employees and their relatives with full medical insurance in cases of surgery or sickness requiring

hospitalization. The ESI scheme also protects them in the event of maternity and disability or death due to employment injury.

Finally, employees contribute to the Labor Welfare Fund, which is a state-managed fund to improve working conditions, especially in unorganized sectors. The contribution is a fixed amount for each state. LWF payment period differs for each State in India.



# Behind an Indian payslip

## EMPLOYEE INFORMATION

- **Employee identity** and position details (job, department, etc.)
- **DOJ:** date of hire

## EARNINGS

**Basic Pay:** base component of salary

**House Rent Allowance (HRA):** supports housing expenses

**Conveyance Allowance:** supports daily transportation expenses

**Child Education Allowance:** supports school expenses for children

**Special Allowance:** covers miscellaneous expenses related to office duties (academic research, tours, uniform, etc.)

**Hostel and Washing Allowances:** support temporary housing and living expenses

**Performance Incentive:** bonus/commissions

*Not on payslip sample:* the **Dearness Allowance (DA)** cost of living adjustment

## REIMBURSEMENT DETAILS

**Medical Reimbursement:** covers "minor" medical expenses, such as doctors and medicine, that are not covered by health insurance

**Leave Travel Allowance:** covers private family travel within India

**PDR:** Professional Development Reimbursement to cover the cost of professional development (professional magazines, trade shows, association membership)

**Telephone Reimbursement**  
**Vehicle Reimbursement**  
**Driver Salary Reimbursement** } cover various expense categories

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LOCATION	:XXXXXXXXXX	ACCOUNT NUMBER	:01234567890		
EARNINGS		ACTUAL	EARNED	DEDUCTIONS	AMOUNT
Basic Pay		5000	5000	Provident fund	600
House Rent Allowance		2000	2000	Voluntary Provident fund	600
Conveyance Allowance		800	800	Employee State Insurance	394
Child Education Allowance		400	400	Professional Tax	200
Special Allowance		2500	2500	Labour Welfare Fund	10
Hostel Allowance		600	600	Income Tax	5000
Washing Allowance		1200	1200	Canteen Deduction	150
Performance Incentive			10000	Advance Deduction	1200
<b>GROSS EARNINGS</b>		<b>12500</b>	<b>22500</b>	<b>GROSS DEDUCTIONS</b>	<b>8154</b>
<b>NET PAY</b>		<b>: 14346</b>			
REIMBURSEMENT DETAILS					
Components	OP. Balance	Eligibility of the month	Paid for the month	Closing Balance	
Medical Reimbursement	10000		1250	1500	9750
Leave Travel Allowance	15000		1500	4500	12000
PDR	9000		1000	7500	2500
Telephone Reimbursement	7500		1500	1500	7500
Vehicle Reimbursement	22000		4000	8500	17500
Driver Salary Reimbursement	900		900	900	900
<b>Total Reimbursement Paid for the month</b>				<b>24400</b>	
<b>NET TRANSFER</b>		<b>: 38746</b>			
<b>IN WORDS</b>		<b>: Rupees Thirty Eight Thousand Seven Hundred Forty Six Only</b>			
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## EMPLOYEE INFORMATION (CONT.)

**PAN No:** Permanent Account Number—employee tax reference number

**PF No:** Provision Fund number—personal pension account

**Paid Days, LOP Days:** days of presence and absence

**Bank Name, Account Number:** employee's bank details

## DEDUCTIONS

**Provident Fund:** Employee's contribution to the country's pension scheme, amounts to 12% of Basic Pay and Dearness Allowance. Employer contributes the same amount.

**Voluntary Provision Fund:** Additional voluntary contribution to provident fund by employee.

**Employee State Insurance:** Employee's contribution to the nation-wide medical insurance scheme. It amounts to 1.75% of the employee's gross earnings. Employer's contribution is 4.75%.

**Professional Tax:** Local tax calculated and deducted by companies. Applies only in some Indian states. Each state has its own tax rate table.

**Labor Welfare Fund:** Employee's annual contribution to a state fund to improve working conditions. For example, contributions in Punjab in 2013 are INR 10 for employees and INR 20 for employers

**Income Tax:** Income taxes are deducted every month from the employee's pay based on a complex annual calculation that includes earnings, allowances, perquisites and income/losses from other investments. Income tax rates in India are tied to gender and age.

**Canteen Deduction**  
**Advance Deduction** } Miscellaneous deductions

*Not on payslip sample:* **Personal Loans:** reimbursement of loans granted by companies to employees

# Complex tax calculations

Employees pay state and federal taxes. Companies assume responsibility for calculating, deducting at the source and paying to tax authorities.



Indian employees are subject to two types of taxes. Both are calculated, deducted from earnings and paid each month to the collection agency by the employer.

The professional tax is levied at the state level in several Indian states. It is

based on the employee's total income and an index established in each state. For each salary bracket, or slab, there is a certain sum to pay each month. Income tax is a federal tax. Its amount is calculated annually for a financial year running from April 1<sup>st</sup> to March 31<sup>st</sup>. The resulting calculation serves as a basis for monthly tax deductions at the source (TDS) and payments.

Income tax calculation is extremely complicated. As non-monetary benefits, perquisites that do not appear on the payslip must be specifically added to taxable income.

## SUBTLE RULES

The calculation itself takes into account very subtle exemption rules which apply to the multiple salary components. Depending on their type and amount and on the employee's personal status, allowances may be tax-exempt or

partially or totally taxable. For instance, employees can claim tax exemption of their Leave Travel Allowance two times over a four-year period.

In addition to allowances and perquisites, companies have to include other income from the employee and collect documents about revenue sources such as bonds, stocks or rents in order to perform the full tax calculation. In light of the requirement to collect receipts for allowances, this step further increases the burdens of the payroll process.

The last quarter of the financial year, when companies are preparing the year-end report for their employees, is an extremely busy period in payroll departments.

# Exhaustive reporting processes

Companies must issue compliance reports for tax authorities and government social security agencies.

Throughout the year, as part of the payroll process, companies must issue forms to provide to the tax authorities and government social security agencies. Some are statutory or payroll compliance reports, while others are *challans* which serve as receipts and accompany payments. Some, but not all, of these reports can be produced and sent electronically.

Many reports are issued every month, specifically for social security and tax authorities (Provision Fund monthly

statement, combined PF *challan*, Employee State Insurance monthly report, ESI *challan* report, Income Tax monthly statements).

Indian companies also have to produce reports with varying frequency throughout the year. These include Income Tax Form 16 (annual income tax statement for employee) and Income Tax Form 24Q (quarterly statement of tax deducted at source).



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ADP STREAMLINE™

# Borderless Human Resources



## A MULTI-COUNTRY PAYROLL SERVICE

ADP Streamline's outsourced service enables you to harmonize your company's multi-country payroll and human resources administration.

## UNIQUE BENEFITS

Whatever your size, type of organization, and geographical footprint, you can rely on ADP Streamline to be your trusted business partner and single point of accountability.

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ADP Streamline serves clients in 80 countries, and it will serve 91 in the coming months.

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