PAYROLL IN INDIA

Combining multiple salary components and complex tax rules

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.

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.

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

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
Multiple salary components

The various allowances and reimbursements distributed in addition to salary are a significant component of remuneration. Companies have the flexibility to adjust them and provide benefits, as they are part of the deal between the employee and the company. These additional components are usually governed by simple rules and can be included in the salary structure on an individual basis, as the employee and the company may agree to do so.

Social security contributions

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

Employees contribute to the following social security contributions:
- Employee's Provident Fund (EPF): This is a mandatory contribution by employees to a provident fund, which is a type of pension plan. It is a retirement savings scheme for employees in India. The employer also contributes a matching amount to the EPF.
- Employees State Insurance (ESI): This is a mandatory contribution by employees to a government-run insurance scheme that provides cash benefits in the event of hospitalization.
- Professional Tax: This is a tax that is deducted from the employee's gross earnings. The employer is responsible for calculating and deducting this tax.
- Income Tax: This is a tax that is deducted from the employee's gross earnings. The employer is responsible for calculating and deducting this tax.
- Local tax: This is a tax that is deducted from the employee's gross earnings. The employer is responsible for calculating and deducting this tax.

Effective tax calculations

Indian employees are subject to two types of taxes. Both are calculated, based on the employee's gross earnings. The calculation itself takes into account other income from the employee and the employee's tax bracket.

The calculation of tax is typically done on a monthly basis. As non-monetary benefits, such as allowances and perquisites, may be partially or wholly tax-exempt, the employee's gross earnings can change on a monthly basis, affecting the amount of tax that is calculated.

Exhaustive reporting processes

Companies must issue compliance reports for tax authorities and government social security agencies. Throughout the year, as part of the payroll processing, companies must produce the correct tax documentation for their employees, which includes the Employee Income Tax Form 16 (annual income statement for employee) and Salary Income Tax Form 16A (annual income tax statement for employee).

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

VETAN PACHII

Behind an Indian payslip

Dearness Allowance (DA): covers various expense categories such as housing expenses, school expenses for children, and transportation expenses.

Performance Incentives: Incentives provided to employees for exceeding specific performance targets.

Not on payslip sample: the payslip part of a payslip.

Employee State Insurance (ESI): mandatory for employees who work in unorganized sectors. The ESI scheme provides cash benefits in the event of hospitalization.

Advance Deduction: A deduction taken from the employee's gross earnings to pay for future expenses, such as legal fees or medical expenses.

Canteen Deduction: A deduction taken from the employee's gross earnings for canteen services.

Miscellaneous deductions: Other deductions taken from the employee's gross earnings, such as payments for professional development or subscriptions to professional magazines.

Employee Information (Cont.)

Paid Days, LOP Days: Paid days and leave on official leave for employees.

Bank name, account number: The name of the bank and the account number of the employee.

Pan no: The Permanent Account Number, which is a unique identifier for each employee.

Technological innovations in payroll processing

With advancements in technology, payroll processing is becoming more streamlined and efficient. Companies are adopting automated systems to calculate and deduct taxes, deduct allowances and reimbursements, and process payroll information. These systems help in reducing errors, improving accuracy, and streamlining the payroll process.

Conclusion

Payroll processing in India is a complex process that involves numerous regulations and rules. Companies must ensure they are compliant with all relevant laws and regulations to avoid penalties. With the increasing use of technology, payroll processing is becoming more efficient and accurate, allowing companies to focus on their core business operations.
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.

We ensure statutory payroll compliance worldwide, support deployment and control of your corporate policy, and international expansion.

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