# 

<Company Name>

HR Policy

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| Payroll Policy |

**Policy Effective Date: <DD/MM/YY>**

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Revision History

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| Ver No. | Change Description | Prepared By | Reviewed By | Approved By | Date |
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# Objective

The objective of a Payroll policy is to define the nuances of Payroll function, including providing Wage definition, Payment Calculation, Work week definition, Time & Attendance, Overtime Computations, Employee Benefits and Statutory Compliances, along with defined procedures. In the absence of proper definitions and procedures, there are possibilities of payroll errors leading to employee dissatisfaction and labour law violations.

# Scope and Applicability

This policy applies to all employees, contractors, consultants and temporary staff at <Company Name Here>. This policy also provides guidelines to HR & Payroll departments.

**This policy is owned by <Name of the Person> and reachable @ <Contact Number> and <email address>**

# Definition/Glossary

|  |  |
| --- | --- |
| Term / Abbreviation | Definition / Expansion |
| CTC | Cost to Company (Total salary offered to employee) |
|  |  |
|  |  |

# 

# Policy / Process

## 4.1. Payroll

The term 'Payroll' refers to the process of computing employee salaries and ensuring the Company is compliant with salary-related statutory laws and accounting aspects.

Payroll processing is an essential business function that involves arriving at the 'net pay' of the employees after the adjustment of necessary taxes and deductions. For an efficient payroll management process, the payroll administrator needs to plan the payroll process step-by-step.

As a business function, it involves:

1. Developing organization pay policy including procedures for obtaining employee salary input data from various stakeholders
2. Processing the inputs to arrive at Gross Pay and Net Pay
3. Ensuring timely credit of salaries to employee bank accounts
4. Supporting employees in claiming their flexible benefits, reimbursements, tax benefits, leave records, etc.
5. Distributing and defining payslip components to employees
6. Depositing statutory dues like [TDS](https://knowledge.greythr.com/display/GOIN/Tax+Deduction+at+Source), PF, PTax, ESI etc. with appropriate authorities and filing returns
7. Ensuring accurate accounting of payroll costs

## 4.2 Components of Payroll

### 4.2.1 Earnings

### 4.2.1.1 Basic Salary or Basic Pay

Basic salary or Basic Pay is the base income, computed at <35%-50%> of the total salary or CTC. This is the most predominant component of your pay since it has other dependencies such as Provident Fund, Gratuity, Payment of Bonus, etc. This amount is fully taxable in the hands of the employee.

### 4.2.1.2 Dearness Allowance

Dearness allowance is a certain percentage of the basic salary paid to employees, aimed at mitigating the impact of inflation. It is generally paid to government employees or public sector organisations and their pensioners too. However, in <Company Name>, it is included in Basic Pay itself.

### 4.2.1.3 Other Allowances

Income tax rules of India allow for certain salary components to be paid to employees that enjoy either full or partial tax exemptions. Some allowances have lain

### 4.2.1.4 House Rent Allowance

House Rent Allowance (HRA) is a component of salary which is paid to employees for meeting the cost of renting a home. It offers tax benefits to the employees for the sum that they pay as rent towards their accommodation every year. Salaried individuals residing in rented homes can claim this exemption as per prescribed rules and reduce their tax liability. HRA is computed at 40% of Basic Pay for non-metro cities and at 50% of Basic pay for Metro cities namely, Mumbai, Delhi, Kolkata & Chennai only.

### 4.2.1.5 Leave Travel Allowance

Leave travel allowance (LTA) is offered to our employees to cover their vacation travel expenses. This amount is exempted from tax under Section 10(5) of Income Tax Act, 1961. LTA covers only domestic travel costs and the mode of travel needs to be either by air or rail or any public transport. The costs do not include lodging, boarding, local conveyance or any such related costs but purely travel ticket costs only. Employees can claim for their spouse, children, parents, unmarried sisters and unemployed brothers too. LTA can be claimed twice in a block of 4 years. Any one such unutilised LTA in a block of 4 years can be carried forward to the immediate next block of 4 years. Employees are required to apply for Privilege leaves in order to claim LTA.

<Company Name> has fixed an amount of <Rupees per annum> / <%age of Basic Pay> as the LTA amount that can be claimed by employees.

### 4.2.1.6 Incentives

Incentive pay is a motivational pay component awarded to employees for results they achieve against specific goals provided to them. The main purpose of incentive payment is for employees to remain motivated, work hard and strive to achieve the best possible results.

At <Company Name>, incentives are a part of your CTC and are computed as a percentage of Basic Pay, as stated in your respective offer / salary revision letters.

**OR (please select appropriately for your organisation)**

At <Company Name>, incentives are paid over and above your CTC and are computed as a percentage of Basic Pay, as stated in your respective offer / salary revision letters.

### 4.2.1.7 Bonus

In accordance with the Payment of Bonus Act, 1965, <Company name> employees are eligible for bonus payments once a year, provided (a) employee has worked for more than 30 days in the company in the financial year (b) basic pay is less than or equal to Rs.21,000 per month (c) a positive financial results of the Company (d) The rate of Bonus can range from minimum 8.33% to 20% on the prescribed bonus ceiling of Rs.7000, depending on Company decision.

### 4.2.1.8 Over Time

Overtime is the amount of time an employee works bey=ond normal working hours. Overtime hours have to be approved by your respective Managers with complete justifications at least one hour before overtime is required. Overtime hours will be tracked through the Time & Attendance module. The basic calculation is Overtime pay = Hourly pay rate x 1.5 x overtime hours worked. Compensatory off will be given to employees for having worked on a designated weekend or a public holiday.

### 4.2.2 Pay Deductions and Adjustments

### 4.2.2.1 Advance Pay or Loans

<Company Name> employees can avail of interest-free Salary advance in the event of any exigency or personal emergency. The advance so paid will be adjusted / recovered in full / <in X number of instalments> from your next month’s salary. Employees need to route their applications to the Finance department through their respective Managers by providing complete details of the requirement and amount. The advance amount will be limited to 75% of your gross pay. Such advances can be given to an employee only on two such occasions in a financial year.

### 4.2.2.2 Tax Deducted at Source (TDS)

This is one of the most important statutory regulations that every organization has to adhere to. It was introduced to collect income tax from the source of an individual’s income. TDS is applicable on various income types such as salaries, interest, commission, etc.

Every employee is taxed at a different tax rate depending on their earnings. With the latest union budget announcements, employees in India can choose between two different tax regimes:

**Old Tax-Regime**

|  |  |
| --- | --- |
| **Income Tax Slab** | **Tax Rate** |
| Up to Rs. 2.5L | No Tax |
| Rs. 2.5L to Rs. 5L | 5% |
| Rs. 5L to Rs. 10L | Rs. 12,500 + 20% of total income exceeding Rs. 5L |
| Above Rs 10L | Rs. 1,12,500 + 30 % of total income exceeding Rs. 10L |

**New Tax Regime**

|  |  |
| --- | --- |
| **Income Tax Slab** | **Tax Rate** |
| Up to Rs. 2.5L | No Tax |
| Rs. 2.5L to Rs. 5L | 5% |
| Rs. 5L to Rs. 7.5L | 10% |
| Rs. 7.5L to Rs. 10L | 15% |
| Rs. 10L to Rs. 12.5L | 20% |
| Rs. 12.5L to Rs. 15L | 25% |
| Above Rs 15L | 30% |

Note: Additionally, Surcharge and Higher Education Cess is also applicable on tax amounts in both the regimes

### 4.2.2.3 Provident Fund (PF)

The Employee Provident Fund and Miscellaneous Act is one of the biggest social security cover for an employee. As part of this, both the employer and employee contribute 12% of basic pay to the employee’s retirement fund. All employees of <Company Name> are covered under this scheme.

**Contributions:**

|  |  |  |
| --- | --- | --- |
| Statutory | Employee | Employer |
| Provident Fund(PF) | 12% | 3.67% |
| Employee Pension Fund | NA | 8.33% |

### 4.2.2.4 Employee State Insurance Corporation (ESIC)

ESIC manages the health care insurance and treatment of workmen in case of sickness or injuries. <Company Name> employees whose gross salary is below Rs. 21,000 per month are covered under this scheme. The company contribution will be 4.75% of gross salary whereas the employee's contribution will be 1.75% of gross salary. Employees will be provided with ESIC cards based on which they can avail free health care for themselves and family members at any ESIC covered hospital.

### 4.2.2.5 Professional Tax (PTax)

PTax is a state tax and is applicable to only a few states. PTax is deducted from all

employees each month and remitted to the Commercial Tax office of each State as per

prescribed tax rates.

### 4.2.2.6 Labor Welfare Fund

The Labour Welfare Fund (LWF) focuses on the welfare of employees working in specific industries. It provides certain financial support to low income workmen in order to improve their working conditions, provide social security and raise their standard of living.

Both PTax and LWF contributions are managed by individual state authorities. The state Commercial tax department & Labour welfare board respectively determine the amount and frequency of the contribution during the financial year and the amount of deduction differs from state to state.

### 4.2.2.7 Perquisite tax

Perquisites, also referred to as fringe benefits or perks, are the benefits that a certain group of employees receive as a result of their official position. These are generally non-cash benefits given in addition to the cash salary. Some examples of perquisites include provision of a car for personal use, rent-free accommodation, payment of club membership, etc. The monetary value of perquisites gets added to the salary and tax is paid on them by the employee

### 4.2.3 Gratuity

Gratuity is an end-of-service benefit to employees. Gratuity is governed by the Payment of Gratuity Act and is paid by employer to employees for the loyalty & services rendered to the Company. An employee is eligible to receive gratuity only if they have completed a minimum of 5 years of continuous service in an organization. Secondly, this payment is due only upon termination of employment contract either by resignation or retirement of the employee.

The prescribed formula stipulated by the Act for the amount of gratuity an employee is supposed to receive is: Half a month’s monthly basic pay for the number of years of service completed. Therefore, gratuity payment depends on two components:.

1. Employee’s last drawn monthly basic salary
2. Number of years of service

Gratuity formula = (Last drawn monthly basic salary / 26 days) \* 15 days \* Number of years of service completed.

## 4.3 Payroll Process

Diagram

Description automatically generated

A typical monthly payroll process begins with sharing of a payroll calendar by the payroll department to all stakeholders, specifying each activity with timelines, responsibility and type of inputs / data / information required for salary processing.

Once the data is received & collated by the payroll department, it is checked for quality like correctness, adherence to policy or law and for authorisations, if any.

The verified data is entered in the payroll system and processed to arrive at Gross and Net salary of each employee.

Once these are checked and approved for payments, net salaries are credited to employee bank accounts while statutory remittances are processed.

Payslips are generated from the system and distributed to respective employees while various reports are generated for MIS purpose

Accounting entries are passed to capture payroll costs in the books of accounts.

Finally, any salary related queries from employees are responded to their satisfaction.

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## 4.4 Attendance

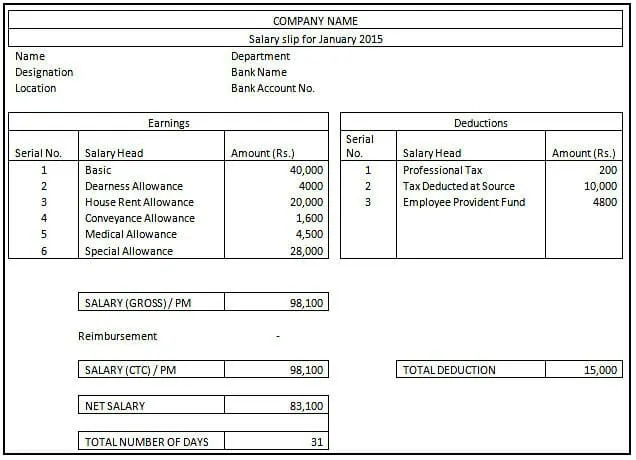
Attendance Management keeps track of employee’s working hours. It is a system used by HR & Payroll for computing the number of days salary to be paid for that month. It is also used to track leaves availed or applied, absenteeism and irregularities in office hours by employees.

## 4.5 Payroll Output

Gross Earnings = Monthly Earning Components / Number of calendar days in the month \* number of days attended

Gross Deduction = Monthly statutory deductions + any other non-statutory deductions, if any

Net Pay = Gross Earnings (–) Gross Deductions



# Special Circumstance and Exception

Any Deviation to this policy has to be approved by HR. Any changes to the policy has to be approved by Legal and Compliance.

# Non-compliance and Consequence

Non compliance of this policy will lead to disciplinary action by HR including upto termination of employment contract.

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