Zoho Payroll

A comprehensive guide to

payroll compliance in India

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INTRODUCTION

India is emerging as the fastest-growing economy in the world, thanks to the contribution of its multinational conglomerates, small and medium enterprises, and startups. These micro, small, and medium enterprises (MSME) employ a whopping 110 million people across various services and play a significant role in the country's economic growth. However, running an MSME or a startup comes with its own set of challenges, including managing complex payroll and **complying with regulations.**

The World Bank's Ease of Doing Business index ranked India at 63 among 190 countries.

*This index ranks countries against each other based on how each country's regulatory environment is conducive to run a business.

Staying compliant with India's vastly distinct and regionally intricate regulatory landscape is a huge challenge for businesses of all sizes. There are 40 labour-related acts at the Central level alone which govern how labour is employed and paid in each organisation.

With a lack of expertise and access to resources, business owners are often left in a lurch to decode each of these laws by themselves and comply with them.

We understand how overwhelming it can be for you to comprehend these laws when you're putting your best efforts into growing your business. That's why we did the groundwork for you. We researched all payroll-related laws in India, and compiled this e-book in a language that could be easily understood by anyone. By the end of this e-book, you'll be able to:

- Understand the intricacies of payroll compliance.
- Learn all you need to know about the various payroll-related acts in India.
- Gain knowledge necessary to ensure compliance and avoid legal and financial pitfalls.

PAYROLL PROCESS

In simple terms, payroll is the process of paying your employees for the work they have done during a specific period.

However, payroll is not just calculating each employee's salaries; it is one of the biggest spends and a critical function of every business. There are multiple moving parts involved and stakeholders from different teams must work in tandem to get it done on time. Here's a high-level overview of the series of steps involved in completing payroll successfully from scratch:

Small business owners and startup founders new to the industry often have limited resources and manpower to mange this complex payroll process. They end up handling payroll manually or by relying on outdated technology.

According to a **survey**, 39% of businesses still rely on paper or spreadsheets for payroll management.

Processing payroll manually can be extremely time consuming and highly prone to human errors. People who use spreadsheets for their payroll needs tend to invest a tremendous amount of time importing data into cells and battling with its formulas. Adding to this complexity is the burden of staying up to date with the latest laws and regulations of the land.

The better way: Use cloud-based payroll software, like **Zoho Payroll**, to automate payroll and compliance for your business. The software is built to adapt to the changing compliance landscape and the Zoho Payroll team will ensure the software is up to date with all the latest regulations.

PAYROLL COMPLIANCE

Payroll compliance means adhering to the laws and regulations put in place by the central and state governments surrounding the payroll process. There are 18 such central legislations in India and we'll be discussing in detail what each act states, so you're well-informed about running a successful payroll operation.

The Employees' Provident Funds and Miscellaneous Provisions Act	The Employees' State Insurance Act	The Labour Welfare Fund Act
Professional Tax	The Income Tax Act	The Apprentices Act
The Contract Labour Act	The Employee's Compensation Act	Equal Remuneration Act
The Factories Act	The Shops and Establishment Act	The Industrial Disputes Act
Industrial Employment (Standing Orders) Act	Maternity Benefits Act	Minimum Wages Act
The Payment of Bonus Act	The Payment of Gratuity Act	The Payment of Wages Act

Note: We have taken great care to ensure that the information mentioned here is accurate and up to date as of June 2023. However, please be advised that the deadlines and clauses mentioned are subject to change according to government policy. We recommend that you regularly check for updates from the government.

MAJOR PAYROLL STATUTES IN INDIA

The Employees' Provident Funds and Miscellaneous Provisions Act, 1952

What it is

An act that provides institution for provident funds (pension fund + deposit-linked insurance fund) for enrolled employees in India.

When it is applicable

Compliance with the act is mandatory if your organisation has 20 or more employees (including contract workers) or if your employee earns less than ₹ 15,000 per month.

How it works

Through this act, the statutory body, the Employees' Provident Fund Organisation (EPFO), provides an EPF savings scheme to enrolled employees. Employers and employees registered under the act contribute an equal share of 12% EPF wages every month. Employees can use the corpus once they retire, resign, or during times of need.

What you must do

- **Register your business** under the scheme through the EPF website within one month of attaining the required employee strength.
- **Get your employees enrolled** and make sure each of them has a Universal Account Number allotted by the EPFO.
- **Deduct employee contributions** before processing their salaries each month and add your employer contributions.
- **Deposit the collected amount** through the EPFO portal before the 15th of the following month.

For more in-depth information, take a look at our guide on Employees' Provident Fund.

The Employees' State Insurance Act, 1948

What it is

An act that aims to provide social security and certain benefits to employees who are unable to work due to unforeseen situations.

When it is applicable

All non-seasonal factories and companies with a minimum of 10 employees (in some states, the minimum threshold is 20 employees) who have a salary of up to ₹ 21,000 per month must register under the act. Refer to this table for state-specific rules.

States requiring minimum of 10 employees	States requiring minimum of 20 employees	States where ESI Act is not enacted
Andhra Pradesh	Andaman and Nicobar	Arunachal Pradesh
Bihar	Assam	Manipur
Chhattisgarh	Chandigarh	Mizoram
Delhi	Dadra and Nagar Haveli	Sikkim
Gujarat	Daman and Diu	
Haryana	Goa	
Jharkhand	Himachal Pradesh	
Karnataka	Jammu and Kashmir	
Kerala	Lakshadweep	
Odisha	Madhya Pradesh	
Pondicherry	Maharashtra	
Punjab	Meghalaya	
Rajasthan	Nagaland	
Tripura	Tamil Nadu	
Uttarakhand	Uttar Pradesh	
West Bengal		

How it works

The employer and the employee need to contribute a combined 4% of the employee's gross wage each month towards the Employees' State Insurance (ESI) fund managed by the Employees' State Insurance Corporation (ESIC). Enrolled employees can utilise the amount and get the benefits such as allowance and medical care.

What you must do

- **Get registered under the Act** within 15 days from the date of applicability.
- **Collect employee's contributions,** add your employer contributions, and deposit the amount through the ESIC portal or through any one of the authorized banks before the 15th of every month.
- **Submit half-yearly returns** to the ESIC using the Return of Contributions form. The due date to file returns for the contribution period from April to September is the 12th of November; the due date for the October to March period is the 12th of May.
- **Maintain records** and registers of ESI payments and ESIC return reports, and provide them for verification whenever asked for.

Recent amendment

The maternity benefit amount for insured members in case of confinement has been increased from ₹ 5,000 to ₹ 7,500.

Additional resources

- Article on the basics of ESI.
- Guide on the ESI registration, payment, and more.

The Labour Welfare Fund Act

What it is

The act aims to improve the labourers' working conditions and living standards by providing eligible employees and their dependants with medical care, housing, education, and other benefits.

When it is applicable

The Labour Welfare Fund (LWF) is applicable only if your business is based out of these states:

- Andhra Pradesh
- Chandigarh
- Chhattisgarh
- Delhi
- Goa
- Gujarat
- Haryana
- Karnataka
- Kerala
- Maharashtra
- Madhya Pradesh
- Odisha
- Punjab
- Tamil Nadu
- Telangana
- West Bengal

How it works

Since LWF is a state-specific statutory, the state governments decide the deduction cycle and contribution rates. In most cases, the employer and the employee have to contribute a fragment of the employee's wages to the fund, which is utilised to provide benefits to enrolled employees. In some cases, the state government will also contribute their share.

What you must do

- **Get your establishment registered** within 15 days of commencement.
- **Collect LWF dues** from your workers and contribute your share towards the fund based on the rates determined by your state.
- **Remit payments to the state government** before the deadline specified by your state authorities.
- **File LWF returns** using the correct form at the correct intervals.

For more details, read our in-depth guide on Labour Welfare Fund.

Professional Tax Act

What it is

It is a tax levied on all employees, freelancers, and individuals who earn a living by any type of work from self employment to full-time professional jobs.

When it is applicable

Organisations operating out of the following 20 states, with at least one employee on their payroll must comply with the Professional Tax (PT) regulations.

- Andhra Pradesh
- Assam
- Bihar
- Chhattisgarh
- Gujarat
- Jharkhand
- Karnataka
- Kerala
- Maharashtra
- Madhya Pradesh
- Manipur
- Meghalaya
- Mizoram
- Nagaland
- Odisha
- Punjab
- Puducherry
- Sikkim
- Tamil Nadu
- Telangana

How it works

PT is a state-specific statutory and the commercial department of each state collects this tax based on the individual's income. The collected amount is used to better the infrastructure of the state and to improve services provided for professionals.

What you must do

- **Register your business** through the state government's website within 30 days of applicability.
- **Deduct tax from employees** before processing their salaries based on the slab set by the state authorities.
- **Deposit the collected amount** to the government before the due date.
- **File yearly returns** using the form prescribed by your legislature.
- **Maintain reports** of PT annual return summary and PT statements for future references.

For additional learning, have a look at our definitive guide to professional tax.

The Income Tax Act, 1961

What it is

The Income Tax (IT) Act is a comprehensive statute that governs taxation in India. It sets the rules and regulations for the collection and recovery of income tax.

How it impacts your payroll operations

Section 192 of the IT Act makes it mandatory for employers to deduct a tax at source (TDS) on the salary payable to employees as per the rates set by the government.

Income tax slabs according to the old and the new tax regime for FY 2023-2024:

Income threshold	New tax regime rates
Up to ₹ 3 lakhs	**Nil**
₹ 3 lakhs to ₹ 6 lakhs	**5%**
₹ 6 lakhs to ₹ 9 lakhs	**10%**
₹ 9 lakhs to ₹ 12 lakhs	**15%**
₹ 12 lakhs to ₹ 15 lakhs	**20%**
Above ₹ 15 lakhs	**30%**

Income threshold	Old tax regime rates
Up to ₹ 2.5 lakhs	**Nil**
₹ 2.5 lakhs to ₹ 5 lakhs	**5%**
₹ 5 lakhs to ₹ 10 lakhs	**20%**
Above ₹ 10 lakhs	**30%**

Note: The tax slab and rates are subject to change according to government policy. We suggest you check for the latest updates from the government.

When it is applicable

The act applies to all organisations from the very first employee whose income exceeds the exemption limit.

What you must do

- **Calculate and deduct TDS** from your employees' salaries before processing them each month, as per the income tax slab they fall under.
- **Track your company's TDS liabilities** and make payments to the government before the 7th of the following month.
- **File returns** once every quarter using Form 24Q.
- **Generate and distribute Form 16** to your employees at the end of the fiscal year after the successful filing of TDS returns.

Recent amendments

- The new tax regime will be the default regime starting in the 2023-2024 financial year for all taxpayers.
- The rebate limit increased from ₹ 5 lakh to ₹ 7 lakh and a standard deduction of ₹ 50,000 has been introduced in the new tax regime.
- The highest surcharge rates for taxpayers who earn more than ₹ 5 crore in a year is reduced from 37% to 25% in the new tax regime.

To learn more about the current tax rates, take a look at our detailed blog on the Union Budget 2023.

OTHER PAYROLL RELATED ACTS IN INDIA

The Apprentices Act, 1961

Purpose
To provide training to unskilled workers and improve their employability.

Apprentices
The act defines apprentices as those who work for low pay to learn a skill or trade.

Applicability
Every establishment with 30 or more regular and contract employees must take in apprentices.

Employer responsibilities
Provide a safe working environment, ensure compliance with training standards, and pay stipends to apprentices.

The Contract Labour Act, 1970

Purpose
To govern the employment of contract labour in various industries.

Applicability
Every organisation employing 20 or more contract workers on any day of the preceding 12 months must obtain a license from the government.

Employer responsibilities

- Pay wages to contract workers at par with the wages of regular employees for the same work.
- Provide them with employment contracts, pay slips, and social security benefits such as provident fund, gratuity, and bonuses.

The Employee's Compensation Act, 1923

Purpose

A social welfare act that provides financial aid to employees or their dependents in the event of an employment injury or death.

Applicability

Applies to employees who work in hazardous environments and those who are not covered by the Employees' State Insurance Act.

Employer responsibilities

- Pay compensation to the employee or their dependents in the event of a workplace injury.
- Report the injury or death of an employee to the state authority and maintain a record of accidents that occur in the workplace.

Did you know: This act was called the Workmen's Compensation Act when it was enacted in 1923.

Equal Remuneration Act, 1976

Purpose

To ensure equal pay for men and women for the same work or work of a similar nature.

Applicability

All organisations, including government and private firms.

What it states

Employers cannot discriminate against women in matters related to recruitment, wages, promotions, and working conditions.

Employer responsibilities

Maintain registers containing details of all employees, including their wages at all times.

Non-compliance

Those who violate the act can face legal actions such as fines and imprisonment.

The Factories Act, 1948

Purpose
To regulate the working conditions in factories and ensure the safety, health, and welfare of workers.

Applicability
All factories employing 10 or more workers.

Employer responsibilities

- Ensure the safety of workers by providing them with protective equipment and safe working conditions.
- Offer 12 days of leave for those who have worked for at least 240 days in a calendar year.
- Restrict working hours for all workers to a maximum of 48 hours per week and for workers who work in hazardous environments to nine hours per day.

The Shops and Establishment Act

Purpose
A state-level legislation that regulates working conditions of employees in shops, commercial establishments, and similar places.

Applicability
The act applies to all kinds of shops and establishments operating in a state. Eligibility of coverage under the act is determined by the state authorities based on the nature of the establishment and the work being carried out, rather than the number of employees. For instance, a shop with only one employee may still be covered by the act.

Employer responsibilities

- Obtain a license to run an establishment from the state government and renew the license periodically.
- Ensure basic amenities such as canteens and restrooms are provided for employees at work.
- Maintain records related to employment.

The Industrial Disputes Act, 1947

Purpose
To govern the settlement of disputes between employers and employees, including those related to wages, layoffs, retrenchment, and other employment conditions.

Applicability
All industrial establishments, including public and private sector companies.

Employer responsibilities

- Provide workers with statutory benefits such as minimum wages, overtime pay, and leave.
- Give notice of change to workers and government authorities before effecting any layoffs, retrenchment, or closures.

Recent amendment
The 2020 amendment mandates that establishments employing more than 300 workers must seek prior government approval before retrenching workers.

The Industrial Employment (Standing Orders) Act, 1946

Purpose
To ensure employees access to safe working conditions, social security benefits, and protect them from exploitation at work in certain industries.

Applicability
All industrial establishments where 50 or more workers are employed.

Employer responsibilities

- Define the terms and conditions of employment in consultation with the workers.
- Get approval for standing orders from the government authority.
- Notify the workers of any changes made to the standing orders.

Maternity Benefits Act, 1961

Purpose

To regulate the employment of women in establishments for a certain period before and after child-birth.

Applicability

All establishments employing 10 or more employees excluding those who are covered by the Employees' State Insurance Act will come under the purview of this act.

Benefits

- Female employees are entitled to a paid maternity leave of 26 weeks, if they have worked for the employer for at least 80 days in the preceding 12 months.
- In case of miscarriage or medical termination of pregnancy, the employee is entitled to six weeks of additional leave.

Employer responsibilities

- Inform female employees of their rights under the act.
- Provide employees maternity leave with paid leave and medical allowances.

Recent amendments

- Provision to work from home during the maternity leave period.
- Mandatory facility of crèche if the establishment employs 50 or more employees.

The Minimum Wages Act, 1948

Purpose

To ensure workers in certain scheduled employments, such as construction, mines, and factories, receive fair wages for their work, and to prevent exploitation.

Applicability

All establishments with 1,000 or more employees in a state.

How it works

Minimum wage varies from one state to another as both the central and the state government fix and revise this wage based on the type of employment and the cost of living in each state.

Employer responsibilities

- Pay workers at least the minimum wage fixed by the state government.
- Maintain records of employees and their wages.

Recent amendments

- Extension of the act to all employments including those in the unorganised sector.
- Automatic revision of minimum wages every five years based on the consumer price index.

The Payment of Bonus Act, 1965

Purpose
To incentivize employees in certain establishments with a bonus payment-based on the company's profits and the employee's salary.

Applicability
Every establishment which employs 20 or more people.

Eligibility
All employees, including part-time employees who earn less than ₹ 21,000 per month (basic + dearness allowance, excluding other allowances), and have worked for 30 days in that accounting year.

Employer responsibilities

- Calculate annual bonus amounts based on employees' wages and profits earned by the establishment.
- Pay a minimum of 8.33% and a maximum of 20% of wages as a bonus to eligible employees within eight months from the closing of the accounting year.

Pro tip: Use **Zoho Payroll's bonus calculator** to quickly calculate your employees bonus payout for this year.

The Payment of Gratuity Act, 1972

Purpose

To ensure eligible employees receive a one-time payment of gratuity after completing a minimum of five years with the same organisation.

Applicability

Every establishment with 10 or more employees.

Calculation

Gratuity is calculated based on the employee's last drawn salary which includes basic salary, dearness allowance, and their years of service. Here's the gratuity formula for non-government employees who are covered under the act:

$$\text{Gratuity} = \frac{(15 * \text{Last drawn salary} * \text{Tenure of working})}{26}$$

Pro tip: Use **Zoho Payroll's free gratuity calculator tool** to compute your employees' lump sum amounts and learn all about gratuity from our **guide on The Payment of Gratuity Act.**

Employer responsibilities

- Calculate and process gratuity payouts within 30 days from the date an employee becomes eligible for it.
- Either use the establishment's finances to make gratuity payments or obtain a group gratuity plan from LIC to cover these expenses.

Recent amendment

The central government has increased the maximum limit of gratuity that can be paid from ₹ 10 lakhs to ₹ 20 lakhs.

The Payment of Wages Act, 1936

Purpose

It ensures employees from various industries are paid on time by having penalties for wages paid late by a month.

What it states

Organisations with less than 1,000 employees must pay their employees before the 7th of every month. Organisations with more than 1,000 employees must pay wages by the 10th of every month.

Applicability

The act applies to every organisation where an employed person's monthly wage does not exceed ₹ 24,000.

Employer responsibilities

- Calculate and disburse wages to employees within the stipulated time frame.
- Pay wages either through cash or cheque. Direct salary transfer to the employee's bank account can be made only after getting prior consent from the employee.

NEW LABOUR CODES

While these laws offer much-needed benefits both to the employer and the employees, the sheer volume of laws has led to compliance complexity.

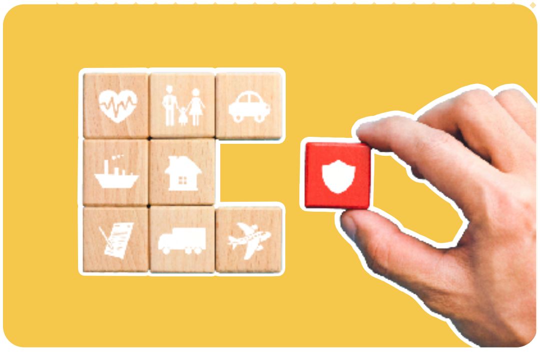
To simplify compliance for employers and promote ease of doing business in India, the central government introduced four new labour codes in 2020. Once implemented, the four codes will consolidate over 100 state laws and 40 central laws that regulate various aspects of labour such as working conditions, wages, and social security.

Objective	The four new codes	Features	Benefits for employers
To consolidate the existing labour laws and facilitate ease of doing business in India.	• The code on wages • The code on social security • The code on industrial relations • The code on occupational safety, health, and working conditions	• Universalization of minimum wages. • Simplification of compliance requirements. • Better social security coverage.	• Greater flexibility in hiring and firing. • Improved dispute resolution. • More empowerment of workers.

The code on wages, 2019

The code universalizes the minimum wage for all employees in both the organised and unorganised sectors. Employers' liabilities under this code include:

- Ensuring timely payment of minimum and overtime wages to employees.
- Avoiding exploitation of workers by employing them for only eight hours a day with a one-hour break.
- Providing equal payment of wages to both men and women for the same nature of work.
- Maintaining an employee register either digitally or through a records book.
- Generating and distributing pay slips with the details of the organisation and employees' CTC.



The code on social security, 2020

This code extends the reach of social security schemes such as provident fund, insurance, and gratuity to all sectors of work, including gig workers and platform workers. To stay compliant with the code you need to do the following things:

- Register establishments and employees with various social security bodies—EPFO, ESIC.
- Deduct contributions from employee's salaries, add their employer contributions, and make payments towards social security schemes.
- Provide benefits such as maternity leave and gratuity payouts to eligible employees.
- Disclose all social security related information to employees.

The code on industrial relations, 2020

This streamlines the laws related to trade unions, employment conditions for industries, and industrial disputes. The code emphasises building a stronger employer-employee relationship, creating better working conditions, collective bargaining, and employee re-skilling. Under this code, employers are required to do the following:

- Maintain an industrial relations policy and inform employees of their rights under the code.
- Form one or more grievance handling committees if you employ 20 or more workers.
- Seek permission from the government before retrenching employees if you employ 300 or more employees.
- Give one month of notice or an equivalent pay for the same period along with 15 days of wages for every year of continuous service before retrenching employees.

The code on occupational safety, health, and working conditions, 2020

The code aims to ensure employees across all sectors are treated equally and have safe working conditions. The legislation will be applicable to every organisation that employs more than 10 employees across various industry sectors and businesses. Employer responsibilities under this code include:

- Facilitating a risk-free workplace and providing employees with robust equipment.
- Registering with the appropriate governing bodies if the establishment falls under the "Hazardous" category.
- Offering social security benefits, medical check ups, and suitable working conditions for inter-state workers.
- Providing a letter of appointment to all employees at the beginning of their service to formalise their employment.

HOW YOU CAN ENSURE PAYROLL COMPLIANCE

The sheer depth of these payroll regulations and acts can be overwhelming even though we have only included the basic information you need to be aware of. Now, imagine if you have to manage all of these compliance requirements manually or through outdated systems.

Today, there are systems that can help reduce the burden on payroll teams. With cloud-based payroll software, like Zoho Payroll, you can put statutory compliance on autopilot mode, and always keep a spotless compliance record.

Here's how Zoho Payroll can ensure compliance for you:

- The software comes with built-in EPF, ESI, PT, LWF, and TDS compliance.
- It always makes accurate statutory deductions and provides real-time visibility into the deductions made.
- It can generate statutory reports and forms such as EPF-ECR reports, ESIC returns, Form 24Q, and others so you can file returns easily.
- It can help you generate and distribute Form 16 so your employees can understand their tax liabilities.
- Whenever there's a change in tax laws, the engineers on the backend will update the software so you can keep your business on good legal footing.

Beyond this, the software has the capability to automate various aspects of the payroll workflow. Quickly import employee details, calculate payroll automatically, pay and distribute payslips on time, and stay compliant with confidence with Zoho Payroll.

Sign up for a free trial and see how we're simplifying payroll for thousands of businesses in India.

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