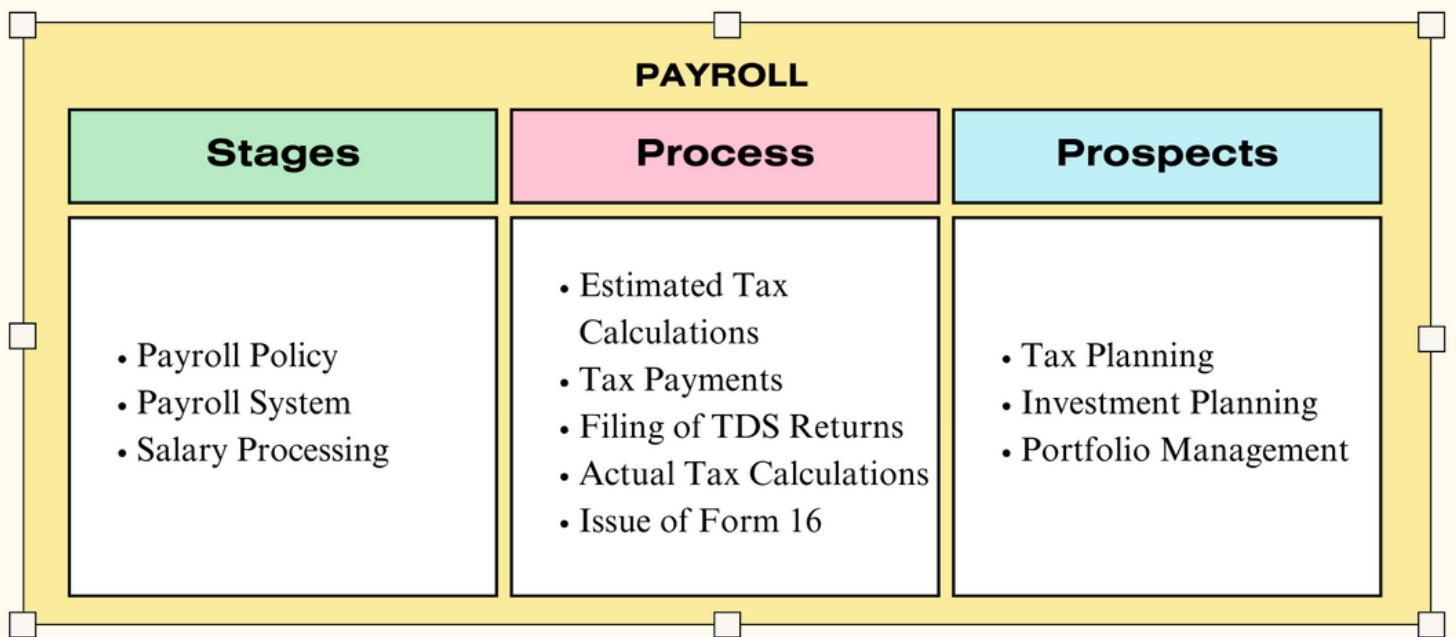




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Payroll Processing – Beyond crediting salary



Salary, emoluments, perquisites, allowances, whatever you call is always close to heart And when villain (i.e. taxation) intervenes, heart breaks. Comparison starts and finds the way to payroll team. Sensitivity increases the dynamism of the payroll function. Payroll processing whether simple or critical now-a-days is decided by the systems in place - whether to go for on the shelf product or customized product?

Requirements of every organization are different. Some has 5 days a week whereas some has 6 days, some has domestic culture whereas some has foreign, different leave calendar, different holiday list, local industrial labour laws and what not. All these things complicates the payroll process and ask for professional execution of the roles & responsibilities. In a VUCA world, where health of the organization is measured in terms of managements dynamism, quality product/services, work culture & attrition, and legal compliances, payroll function is appreciated in standing of the organization.





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Payroll function need to be seen beyond traditional thinking. Statutory compliances are different at Central, State and Local level. Right from placing the advertisement for new recruitments, interviews, issuing appointment letters, to get the tax saving investment declarations to monthly payroll to internal job transfer to exit interviews are all part of payroll function. Every stage of this function demands different skillset.

Discriminating questions before the businesses are

- whether to outsource or develop inhouse payroll function?
- whether to partially outsource?
- at what scale, business shall have independent function?
- what-if this function doesn't have back-up plan? How will this function sustain?
- how to manage payroll database, audit trail, data security and
- many more

This write-up has been articulated to offer the practical view to the “Payroll processing”. The article is documented considering the industrial practice and to assist the businesses.





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Stages

- Payroll Policy
- Payroll System
- Salary Processing

Stages in Payroll Processing

1. Payroll Policy

- Every organization shall have well written payroll policy which shall always be subject to evolution. Hence, new versions shall be created and signed-off from time to time.
- Payroll policy shall define and explain the different statutory requirements considering the need of labour laws at local, state and federal level.
- Possible disputed clauses shall be identified and defined from time to time.





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2. Payroll System

- Though payroll can be processed manually, it is recommendable to go for the systems. System helps in compiling the data. Centralization helps in retrieving the information at right point of time.
- System provides the auto-update facility thereby improving the compatibility with the latest rules and regulations. Right vendor and system selection are important.
- Time in and time out along with location can be easily recorded using the geo-based apps. Service industry providing the onsite client services are immensely benefited because of accountability.
- Extended use of the system helps in measuring the hourly productivity of the employee/ worker and can be incentivized accordingly.

3. Salary Processing

- Emoluments can be credited to the employees account at one click upon approval from the checker.
- Compliances of Provident Fund (PF)/ Employee State Insurance (ESI)/ Professional Tax (PT)/ Labour Welfare Fund (LWF) can be easily taken care in a time bound manner.
- Salary slips can be easily generated which helps the employees to understand the salary calculation thereby bringing more transparency.





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Process

- Estimated Tax Calculations
- Tax Payments
- Filing of TDS Returns
- Actual Tax Calculations
- Issue of Form 16

How do the business entity deal with the taxation of employees?

Income Tax department has extended its wings through linking of PAN, Adhar, Bank account and machine learning (ML) viz.

- Rental income gets reflected against the PAN of the landlord once HRA is claimed by the employee
- PAN of the lender helps to validate the right claim of the housing loan, educational loan interest and principal
- Erroneous claim of LTA can be tracked by the department using ML





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The onus to prove the correct information processing lies on both employer and employee.

As correct tax deduction is the responsibility of the employer, payroll process shall be intelligently designed and executed.

- At the beginning (generally April) of the financial year, the employer calls for the estimated tax saving investments.
- On the estimation basis, tax is calculated for every employee for the whole year and is being deferred over 12 months. Tax varies depending upon the salary package. Accordingly, the monthly salary is processed.
- Every employer offers 8-9 months for actual tax saving investments to every employee. Somewhere in December - January, on the basis of actual tax saving investment, TDS is recalculated.
- These tax saving investments are validated by the tax team in order to calculate the employees actual tax liability.
- On the actual basis, TDS is deferred on rest of the months in the year.
- At the end of the year, Form16 is generated by way of filing TDS returns.





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Prospects

- Tax Planning
- Investment Planning
- Portfolio Management

Failure to Plan is Planning to Fail

With the growing economy and high packages, one shall see the investment opportunities beyond tax saving. Majority of tax saving investments are given in chapter VIA of the Income Tax Act, 1961. The different heads of Income offer unique tax saving clauses. It is always recommendable to seek the professional help.

We shall understand after certain level of income, investment planning supersedes tax planning. With every additional penny, additional tax will have to be paid. Hence, it is important to go for the right investment with the help of right consultant.

