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New wage rule may raise India Inc's costs from April

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Synopsis
To be effective from next financial year, the new definition of wages (that includes salaries of executives in the private sector) caps allowances at 50% of total compensation.

Recruitment firms said that for executive salaries, especially in the higher brackets, allowances constitute 70-80% of total compensation.

Come April 2021, **salary** slips, provident fund (**PF**) and gratuity components, take-home pay and even balance sheets of **India Inc** will be impacted, thanks to the government's new compensation rules, which are part of the **Code on Wages** passed by Parliament last year.

To be effective from next financial year, the new definition of wages (that includes salaries of executives in the private sector) caps allowances at 50% of total compensation. That means basic pay (in government jobs, basic pay plus dearness allowance) will have to be 50% or more of total pay from April.

Recruitment firms and company HR heads ET spoke to said this essentially means:

1. Most pay structures in India Inc will change because the non-allowance part is usually less, sometimes substantially lower, than 50%.

2. PF contributions of both employees and employers will go up.

3. Take-home pay of many executives may decrease as PF contributions go up.

4. But their social security kitty as well as post-retirement gratuity amount will be bigger. Gratuity is calculated on the basis of basic pay, which will go up.

5. Companies may see jump in costs as their contribution to the PF kitty rises and gratuity payout increases.

Recruitment firms said that for executive salaries, especially in the higher brackets, allowances constitute 70-80% of total compensation.

“The new definition will do away with the current practice of structuring salaries with higher allowances to lower social security contributions,” a senior government official told ET, speaking off record.

Saraswathi Kasturirangan, partner, Deloitte India said, “the increase in wages for purposes such as PF, gratuity etc, will impact employers’ costs as well as employee take-home pay”.

Xpheno co-founder Kamal Karanth said: “Gratuity payout hike will increase the cost impact for employers when it comes to CXOs. And CXOs will see an increase in their net income from gratuity by almost 1-1.5 times, thanks to this new wage code.”

According to Vishal Grover, practice reader (retirement solutions), Aon India, organisations have started to inquire about the potential changes in the compensation structures and its impact on the wage bill.

“Once this is enforced the wage bill and long-term provisions for most employers are likely to go up by 10 to 12% ballpark,” said Biplob Banerjee, chief people officer of Allied Blenders and Distillers (ABD).

HR experts ET spoke to said they had begun to examine changes to the existing wage structure with some raising queries with HR consultants to help tweak the salary components so as to have minimum impact on their balance sheets.

“Initial set of enquiries have come from organisations whose basic pay to gross pay ratio is much lower than 50% and which foresee a significant impact on their wage bill," Grover said. As per Aon India, the typical basic pay to gross pay ratio is in the range of 30% to 50% across industries.

"Therefore, all organisations which have a basic pay to gross pay ratio of less than 50% would be adversely impacted through higher payroll costs," Grover added.

"The new definition of wages in some cases could increase the financial burden on the employers in light of the enhanced wage payout and social security contributions. This is likely to drive employers to revisit their wage structures to appropriately balance the components," said Pooja Ramchandani, partner at Shardul Amarchand Mangaldas & Co, a law firm.

"We are still in the planning stage. We will take a look at salary structures if necessary to help employees and also balance overall costs," said Sarthak Raychaudhuri, vice president (HR), Asia at Whirlpool Corporation. He said the impact will vary based on salary levels as the percentage of bonus and other allowances for senior people are higher than others.

CIEL HR Services, which employs around 11,000 employees across 200 clients, said it will have to review salaries for about 75% of its employees. "Salary components and the amounts have to change depending on the changes in final rules while new components may have to be added," said Aditya Mishra, CEO of CIEL HR Services.

Staffing firms, which have the majority of their workforce in the lower to middle-income pay brackets, also foresee some tweaking at their end to align to the new wage definition.

"To meet the new definition, it is necessary to tweak the wage structure. As a consequence, a portion of house rent allowance shall also be included for the purpose of determining contribution to the social security scheme like PF," said Rituparna Chakraborty, co-founder of Teamlease Services.

Some experts see positives in the move. "Employers will find it easier to be more compliant and employees will have more social security," said Suchita Dutta, executive director of the Indian Staffing Federation.

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Synopsis
This comes after the government introduced the Quarterly filing of Return with Monthly Payment (QRMP) scheme as part of ongoing reforms.

Agencies

NEW DELHI: **Goods and Services Tax** (**GST**) payers will need to fill only four **GSTR-3B returns** in a year instead of 12 at present from January 1.

This comes after the government introduced the **Quarterly filing of Return with Monthly Payment** (QRMP) scheme as part of ongoing reforms.

The scheme, which is optional, will ease the returns filing process for 9.4 million taxpayers, which is about 92% of the total GST base that have annual aggregate turnover up to Rs 5 crore, sources in the Department of Revenue said.