Complete Guide for Payroll Management in India

Introduction

If you are not an expert, you might see payroll as a boring, frustrating, and complex task. However, every business owner must deal with payroll one day or another because it is one of the biggest organizational expenses, and any miscalculation or mistake in its process may be fatal to your business financially and to your employees morally.

In this guide, we have explained the payroll process step-by-step, so you can feel confident while processing payroll and complete the process in less time.

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What is Payroll?

In dictionary terms, payroll is defined as the complete list of employees and the salary paid to them by the company.

While in business terms, payroll is defined as the entire process of paying salaries to employees, which includes preparing a list of employees, tracking working hours, calculating wages, distributing payslips, filing statutory dues, etc.

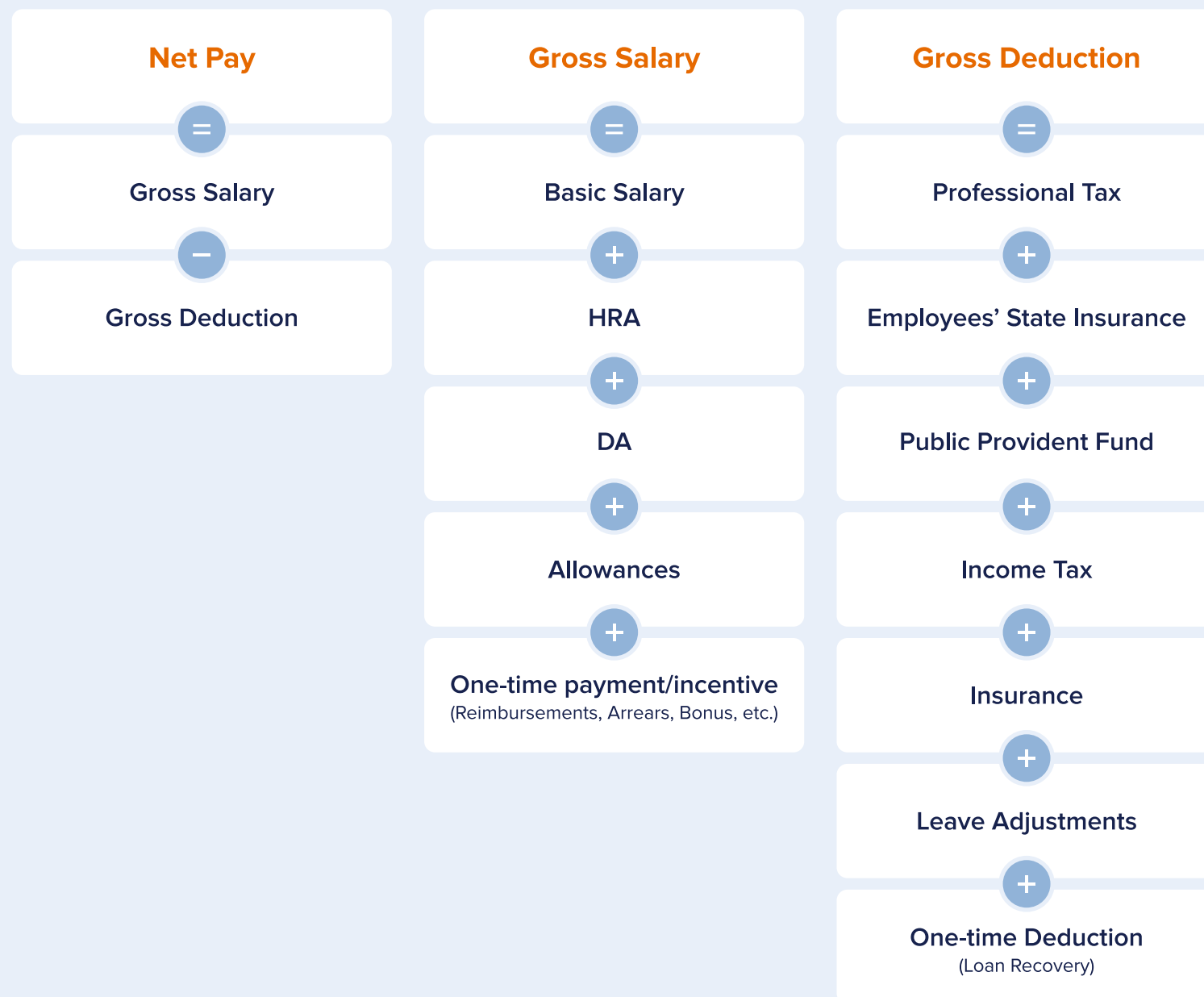There are many steps to be performed in the backend that require different departments to work in sync to do the salary calculations. Mistakes in any steps due to their complexity may introduce errors and delays in the entire process. However, with proper process standardization and an automated system you can streamline your entire operations to eliminate all mistakes and reduce completion time.

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How is Payroll Calculated in India?

Employees often get confused about amount of salary organization has commited vs amount they receive in bank. Generally, companies offers a CTC amount to an employee, which different from what you receive in your bank account.

The payroll in India can be calculated using the following formula.

Net Pay

=

Gross Salary

−

Gross Deduction

Gross Salary

=

Basic Salary

+

HRA

+

DA

+

Allowances

+

One-time payment/incentive
(Reimbursements, Arrears, Bonus, etc.)

Gross Deduction

=

Professional Tax

+

Employees' State Insurance

+

Public Provident Fund

+

Income Tax

+

Insurance

+

Leave Adjustments

+

One-time Deduction
(Loan Recovery)

To learn in-depth about CTC various salary components, read our blog on
How to Calculate the CTC Structure. →

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What are the different stages in the Payroll Process?

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Stages of Payroll Process

Calculating the payroll of employees is definitely one of the challenging tasks for any organization due to the number of steps and components involved in it. While some steps are repeated in every cycle, some are only one time. Therefore, you must pay undivided attention to these steps to ensure the correctness and accuracy of the outcome. In addition, you must keep yourself updated with the latest statutory and tax laws to ensure 100% payroll compliance.

Broadly, the payroll process can be divided into 3 stages — Pre-payroll, Actual payroll calculation, and Post-payroll. Let's understand each step one by one.

Pre-Payroll Process

- **Defining Policy**
- **Collecting Data Input**
- **Verifying Data Input**

Actual Payroll Process
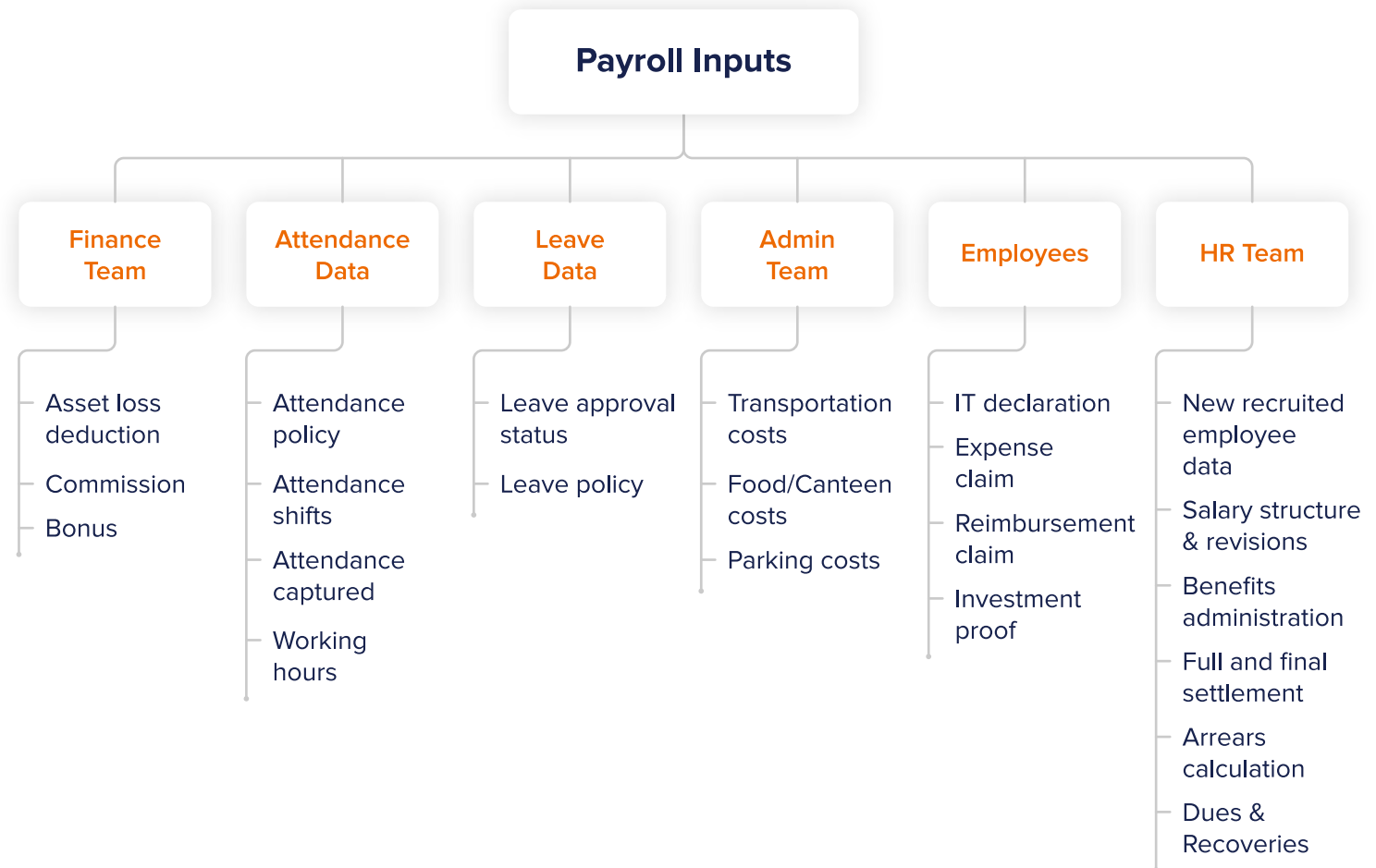
- **Payroll Calculation**
- **Statutory Compliance**

Post-Payroll Process

- **Reconciliation**
- **Payout**
- **Accounting**
- **Reporting**

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Pre-Payroll Process

The first and foremost thing in any payroll process is to define various policies for attendance, leave, benefits, and payroll policy. These include all the elements and factors that monitor to decide an employee's salary. To standardize the payroll process, the policies should be pre-approved by the management.

In the first stage, you usually configure policy, define components, and gather payroll inputs from all sources. It is further divided into the following steps.

Payroll Inputs

Finance Team
- Asset loss deduction
- Commission
- Bonus

Attendance Data
- Attendance policy
- Attendance shifts
- Attendance captured
- Working hours

Leave Data
- Leave approval status
- Leave policy

Admin Team
- Transportation costs
- Food/Canteen costs
- Parking costs

Employees
- IT declaration
- Expense claim
- Reimbursement claim
- Investment proof

HR Team
- New recruited employee data
- Salary structure & revisions
- Benefits administration
- Full and final settlement
- Arrears calculation
- Dues & Recoveries

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Actual Payroll Process

After all the data inputs are collected and validated, the actual payroll process begins.

In this process, salary of an employee is calculated based on income and deduction components, deduction components can be either statutory or non-statutory.

To make this article short, we have avoided describing the above mentioned laws in depth here. You can easily go and explore more about these laws in our Complete Statutory Compliance Guide → Blog.

Payroll Calculation

In this step, you have to feed all the data collected in previous steps into the payroll system or excel sheet. The final output of this process is addition and deduction components for each employee based on attendance, leave, statutory laws and many other factors.

Statutory Compliance

Statutory compliance in HR means adherence to the regulatory laws formed by the government. During payroll calculation itself, you need to ensure that all statutory deductions are made as per the laws and amount submitted to authorities.

The most important laws that Indian companies follow to get their payroll right are,

- ✓ Employees' State Insurance Fund (ESI)
- ✓ Provident Fund (PF)
- ✓ Tax Deducted at Source (TDS)
- ✓ Professional Tax (PT)
- ✓ Gratuity

Post-Payroll Process

Without reconciliation, payment, accounting and reporting the process of salary payment can not be concluded for any organization.

Reconciliation

In this step, you need to reconcile the current month's payroll data with previous month's payroll data to verify its accuracy.

- Past employee count vs Current employee count
- Past working hours vs Current working hours
- Past vs current statutory & non-statutory deductions
- Past Salary Amount vs Current Salary Amount
- Past Over time hours vs Current Over time hours
- Past Employee leaves vs Current Employee Leaves

Payout

Once the salary is calculated and reconciliation is done, you have to make payments to the employees.

Accounting

This is the process of recording transactions of company's expenses, like employee's earnings, deduction of taxes, etc.

Reporting

Reporting is to track & analyze underlying trends in any HR process in order to identify business risks & improve decision-making.

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What are the various methods to Run Payroll?

Payroll can be calculated using different methods like Manual, Outsourcing, and using Software.

Manual Payroll Management

The manual method of computing salaries comprises two types itself, Pen-paper and Excel-based payroll management.

Outsourcing

Outsourcing is providing an external firm to manage all your payroll requirements.

Payroll System

A payroll system is a cloud-based software that helps organizations automate their entire employee payroll process and ensure statutory compliance.

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What are the challenges of Payroll Management?

As a payroll officer, you may find the process very tiresome and time-consuming.

Regardless of the organization's size, here are some of the major challenges.

Ensuring Compliance

Organizations in India are mandated to follow certain statutory laws like PF, TDS, ESIC, PT, etc., during their payroll processing.

Coordination between Multiple Teams

As a payroll professional, you need to rush around and get the right information from different teams to pay salaries on time.

Habit of Legacy Methods

Old methods feel more familiar and comfortable to use. Thus many organizations tend to use these methods in their initial steps of business

Lack of Data Security

To process salaries, organizations require confidential information of the employee, and there is a risk that information can be compromised or misused.

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What are the Benefits of a Payroll Management Software?

The payroll processing steps mentioned above help organizations understand and perform the process in an efficient way.

Improved Efficiency

The payroll team in any organization spends endless hours processing accurate salaries and thus ends up reducing their overall efficiency. But with software like factoHR, organizations can perform the whole process in a few minutes to improve their overall process efficiency.

Seamless Integration

Compared to the conventional methods, a modern payroll management system offers you integration with internal modules like attendance, leave, travel, and performance. Due to this, data from these modules flow seamlessly to simplify the salary calculation.

Effortless Scalability

As organizations experience business growth over time, managing people and processes becomes a challenge. An e-payroll system is capable of scaling whenever your business expands, making your organization future-ready.

Ensured Compliance

The software helps you stay compliant with all the statutory laws like PF, ESIC, LWF, PT, TDS, etc., and is regularly updated, so you never have to worry about any frequent changes happening in the laws. Moreover, it also helps you generate required forms and documents to ensure proper statutory filing.

Self-Service Model

With the intuitive mobile app and self-service approach offered by payroll providers, you can empower employees to submit their IT declaration proofs, download payslips, submit reimbursements, regularize attendance, and much more anytime, anywhere.

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