**Salary Structures in India**

**S**tructuring Salaries is an inevitable task for every HR and Payroll professional. Despite the importance of the activity, professionals are often uninformed of the technical and best practices of a drafting a complete and efficient salary structure.

Being India’s leading payroll platform, our clients often quiz us on the how to frame the perfect salary. Hence, we thought it would be a good idea to create an informative guide on how to ideally structure a salary. Through this article, we’ll look at the various components of a salary, what they mean and how you can use them effectively.

***Note: The salary structures is updated effective FY 2019-2020.***

| **Fixed Salary Component** | **CTC Up to 5 Lakhs** | **CTC from 5 to 10 Lakhs** | **CTC Above 10 Lakhs** | **PF** | **PT** | **ESIC** | **LWF** |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Basic | 40% of CTC or Minimum Wage as complied by State | 40% of CTC | 40% of CTC | Yes | Yes | Yes | Yes |
| HRA | 50% of Basic | 50% of Basic | 50% of Basic | No | Yes | Yes | Yes |
| Education Allowance | 200 Fixed | 200 Fixed | 200 Fixed | Yes | Yes | Yes | Yes |
| LTA | 15% of Taxable | 15% of Taxable | 15% of Taxable | Yes | Yes | Yes | Yes |
| Special Allowance | Balancing Figure | Balancing Figure | Balancing Figure | Yes | Yes | Yes | Yes |
| Telephone & Internet Reimbursement | 1000 Fixed | 2000 Fixed | 3000 Fixed | No | No – But for unclaimed amount which is taxable, on this PT will be applicable | No | No |
| Car & Driver Reimbursement (Applicable to those who owns motor car) | Not Applicable | Not Applicable | Fuel – 10000 FixedDriver – 8000 Fixed | No | No – But for unclaimed amount which is taxable, on this PT will be applicable | No | No |
| Meal Coupon | Not Applicable | 2000 Fixed | 2000 Fixed | NA | NA | NA | NA |
| Books & Periodicals | Not Applicable | 1000 Fixed | 2000 Fixed | No | No – But for unclaimed amount which is taxable, on this PT will be applicable | No | No |
| PF Employer | Rs. 1800/- p.m. | Rs. 1800/- p.m. | Rs. 1800/- p.m. | NA | NA | NA | NA |
| ESIC Employer | 4.75% of Gross Salary | Not Applicable | Not Applicable | NA | NA | NA | NA |
| **Fixed Salary Components** | **Points to consider by Employee’s for getting tax benefit** | **When Should Employee declare the amount to get Tax benefit** | **When should Employee submit actual proof to HR** |
| Basic | Fully Taxable | Not Applicable | Not Applicable |
| HRA | 1. Original monthly rent receipts with revenue stamp affixed. 2. Copy of leave and license agreement, this agreement should be notarized or registered. Ensure to submit the agreement for the financial year. If the agreement period if for 11 months say from July’2019 to May’2020, then you will get HRA exemption benefit from July’2019 to March’2020. For getting tax benefit for April’2019 to June’2019 you need to submit the agreement for this period also. 3. Those paying rent amount more than Rs.8,333/- pm or Rs 1 lakh annually, need to furnish a copy of their landlord’s permanent account number (PAN), along with the rent receipts and agreement copy. Else if not provided will not be eligible to HRA exemption. 4. Copy of Address proof if available, like electricity bill, society maintenance copy. | At the beginning of new financial year along with your other tax saving plans (like LIC,PPF, Loan , etc), before 25th April’ 2019 employees will log in to Quikchex ESS portal and under ‘Tax Declaration’ tab enter the Tax Saving Plans for FY 2019-2020 New Joined Employee: Once the Quikchex Portal is activated, they can enter these details online. | Usually, by 15th January’ 2020 employees need to submit their tax saving documents with their concern HR. Resigned Employee: At the time of Exit employee should ensure to provide their actual tax saving proofs to concern HR before the FnF settlement gets finalized or else excess tax will be recovered from the settlement amount. |
| Education Allowance | 1. Education allowance is exempt to extent of Rs. 100 per month for a maximum of 2 children. 2. To avail tax benefit at the beginning of financial year you need to provide the details of children’s who are school going. 3. Proof of fees paid to school is required to submit when the company ask for actual tax saving proof at end of financial year. | Provide the count of children to your concern HR, for availing tax benefit on Education Allowance. | Based on child count setting this allowance will be exempted from Tax. |
| LTA | 1. The Leave Travel Allowance is an allowance given by the employers to their employees, which can be utilised when they go for a vacation with their family. Employee needs to submit the actual bills to the company for claiming tax benefit on LTA.2. The exemption is claimed for two journeys in a block of four years. Present block is 2018-2021.3. You can travel any place in India, no international trips are allowed.4. The family here refers to employee’s spouse, two children and wholly dependent parents.5. The travel cost is only taken into consideration for exemption. No other amounts is qualified for deduction.6. If you travels through air, an economy class fare of the Airlines is allowed as an exemption.7. If you does not travel through air and the places are connected through rail, AC First Class Rail fare is granted as an exemption.8. If you travel through road transport then an amount equivalent to Railway AC first-class fare can be claimed for exemption under LTA.9. Proof to submit for claiming LTA Exemption;a) Original air ticket or e-Ticket & original boarding pass if journey is by Air travel.b) Original rail tickets or e-Ticket , if journey is by rail.c) Original travel agent bill if journey is by Road.10. The travel Journey should be complete, you cannot claim only for single way journey. | At the beginning of new financial year along with your other tax saving plans (like LIC,PPF, Loan , etc), before 25th April’ 2019 employees will login to Quikchex ESS portal and under ‘Tax Declaration’ tab enter the Tax Saving Plans for FY 2019-2020New Joined Employee: Once the Quikchex Portal is activated, they can enter this details online | Usually by 15th January’ 2020 employees need to submit their tax saving documents with their concern HR. Resigned Employee : At the time of Exit employee should ensure to provide their actual tax saving proofs to concern HR before the FnF settlement gets finalised or else excess tax will be recovered from the settlement amount. |
| Special Allowance | Fully taxable | Not Applicable | Not Applicable |
| Telephone & Internet Reimbursement | 1. The mobile connection should be in name of the employee. 2. Employee should submit telephone original bill or e-bills while claiming telephone reimbursement. 3. Reimbursement should be claimed only for one mobile number. | Not Applicable | “In September’2019, submit original bills dated from 01.04.2019 to 15.09.2019 (The due date to submit the original documents with your concern HR will be 16th September’ 2019)andIn March’2020 submit original bills dated from 16.09.2019 to 31.03.2020 (The due date to submit the original documents with your concern HR will be 16th March’ 2020)Resigned Employee: At the time of Exit employee should ensure to provide their actual tax saving proofs to concern HR before the FnF settlement gets finalized or else excess tax will be recovered from the settlement amount. |
| Car & Driver Reimbursement (Applicable to those who own motor car) | “1. The vehicle should be in name of the employee. 2. Applicable only for 4 wheeler vehicle. Benefit cannot be claimed for 2 wheeler vehicle 3. Employee need to submit copy of RC book of vehicle. 4. Employee need to maintain vehicle logbook for all business and private travel. 5. Employee have to submit below listed original bill for claiming reimbursement; a) Petrol Bills, b) Toll Bills, c) Driver Salary receipt, affixed with revenue stamp. | Not Applicable |
| Meal Coupon | This can managed by any Food Wallet or coupons. But ensure to check if its eligible for Income Tax benefit | Not Applicable |
| Books & Periodic Tables | “1. Employees can submit newspapers, books, periodicals, journals original bills for reimbursement,2. The books purchased should relate to your nature of work.” | Not Applicable |
| PF Employer |  | Not Applicable | Not Applicable |
| ESIC Employer | Applicable for them, whose gross salary is unto Rs.21000/- | Not Applicable | Not Applicable |

Deductions, when applied to the CTC give you the actual take-home salary that an employee gets. Here are some of the most common deductions:

| **Deductions** | **How is it calculated?** | **Whom does it apply to?** |
| --- | --- | --- |
| Provident Fund | Employer and Employee each contribute Contribution 12% of Basic + DA + Special | Companies that have more than 20 or more employees. It is mandatory for employees whose Basic+DA + Special is less than Rs. 15,000 a month |
| ESIC | Employer Contribution is 4.75% of Gross Salary; Employee Contribution is 1.75% of Gross Salary | If a company has 20 or more employees who have a gross salary of less than Rs. 21,000 a month, then it is applicable to all those employees |
| Professional Tax | Varies from state to state | All employees of applicable states |
| Labour Welfare Fund | Varies from state to state | All employees of applicable states, that might depend on designation |

**Objectives of the perfect salary structure**

While creating the ideal salary structures, there are three things you should keep in mind

1. **It should be tax efficient**: This means that it should give employees the opportunity to save as much tax as possible.  Salary amounts should be divided into components giving the employee the opportunity to avail as much tax deduction as possible.
2. **Reduce the employer’s liability**: The salary structure should reduce the liability of the employer.  The employer’s contribution to PF, Gratuity etc. should be kept as low as possible.
3. **It should be compliant**: Compliance norms like minimum wages and PF laws should be kept in mind while drafting the salary structure.

Performance appraisals can be time consuming which also attaches a certain cost to it.  Hence, larger companies with a greater number of employees may not find shorter appraisal cycles very appealing.  When deciding your appraisal cycle, keep in mind the time and costs associated with it.

**A deeper look into each component**

Let’s take a deeper look into the various components that make a salary.  What do they mean and how are they calculated?

**1) Basic Salary + Dearness allowance**

The Basic component is the primary component and the core of the salary structure.  It is usually the largest component of the CTC making up for 40-45% of the total CTC.   The basic plays an important role in defining the salary as other components like Provident Fund, Gratuity and ESIC are dependent on it.

Dearness Allowance (DA) was introduced as part of the salary as a means to reduce the burden of inflation on salaried employees.  This amount is usually set to about 5% of the total CTC and like the Basic component it also has an effect on PF, ESIC etc.

You should keep the following in mind while setting the amounts for Basic and DA:

1. **If it’s too high**, it will increase the tax liability of the employee since this component is fully taxable. It also affects the liability of the employer since higher contributions would be required for PF, ESIC etc.
2. **If it’s too low**, then you may not be able to meet the minimum wage norms set by the respective state government. Since minimum wages are updated regularly, you would run the risk of falling below the recommended wage limit.

**2) House Rent Allowance (HRA)**

The House Rent Allowance, as the name suggests is a component that employees can leverage if they are living in rented accommodations.  The amount that you can claim as tax deduction under HRA cannot be more than 50% of your basic in a metro or 40% of your basic in a non-metro.  Hence, depending on where your workplace is located, this salary component will usually be set at 40% or 50% of the basic salary.

1. **When Should Employee declare the amount to get Tax benefit**
At the beginning of new financial year along with your other tax saving plans (like LIC,PPF, Loan , etc), before 25th April’ 2018 employees need to declare their details with their employer for FY 2018-2019
2. **When should Employee submit actual proof to HR**                                                          Usually by the end of the financial year employees need to submit their tax saving documents with their concern HR. Resigned Employee : At the time of Exit employee should ensure to provide their actual tax saving proofs to concern HR before the FnF settlement gets finalised or else excess tax will be recovered from the settlement amount.

**3) Leave travel allowance (LTA)**

Leave travel allowance (LTA) remunerates employees for their travel within the country.  This component is widely used by employers due to the tax benefits associated with it.  An employee can claim tax benefits for the fare expenses paid for his/her family when they take a holiday.  However, there are restrictions to what you can claim as tax benefits:

1. **Only fare expenses are covered:**Only the travel fare expenses can be claimed. Stay and food on your trip aren’t covered.
2. **Travel must be within India:**If you travel to a foreign country, the expenses aren’t tax deductible.  Only travel within the country is covered.
3. **What counts as family:**Immediate family that are mainly dependant on the employee are covered under LTA.
4. **When Should Employee declare the amount to get Tax benefit**
At the beginning of new financial year along with your other tax saving plans (like LIC,PPF, Loan , etc), before 25th April’ 2018 employees need to declare their details under ‘Tax Declaration’ tab enter the Tax Saving Plans for FY 2018-2019.
5. **When should Employee submit actual proof to HR**Usually by the end of the financial year employees need to submit their tax saving documents with their concern HR.Resigned Employee : At the time of Exit employee should ensure to provide their actual tax saving proofs to concern HR before the FnF settlement gets finalised or else excess tax will be recovered from the settlement amount.

**4) Conveyance Allowance**

**Note:**With the introduction of standard deduction, exemption on Conveyance allowance has been removed effective April 2018 onwards. Employees don’t need to collect or submit any Conveyance proof.

**5) Medical Allowance**

**Note:**With the introduction of standard deduction, exemption on Medical allowance has been removed effective April 2018 onwards. Employees don’t need to collect or submit any Medical proof.

**6) Child Education Allowance**

This component is paid out towards tuition fees of employees’ children and is tax deductible up to Rs. 100 every month for a maximum of two children. Hence, this amount is usually set to not more than Rs. 2,400 a year for an employee.

1. **When Should Employee declare the amount to get Tax benefit**
Provide the count of children to your concern HR, for availing tax benefit on Education Allowance.
2. **When should Employee submit actual proof to HR**
Usually by 15th January’ 2019 employees need to submit their tax saving documents with their concern HR.

**Resigned Employee :** At the time of Exit employee should ensure to provide their actual tax saving proofs to concern HR before the FnF settlement gets finalised or else excess tax will be recovered from the settlement amount.

**7) Special Allowance**

Special allowance is the balancing component of the salary structure.  It is usually used by organisation as the leftover of the CTC when the rest of the components have been paid out.  This component is fully taxable and is also taken into account for the calculation of Provident Fund.

**Deductions**

Deductions are elements of the salary that are part of the CTC but are deducted from the in-hand salary that employees receive. Let’s take a deeper look at some of the most common salary deductions and what they mean.

**1) Provident Fund**

Provident Fund (PF) is calculated at 12% of Basic + DA + Special Allowance.  The employer and the employee both make an equal contribution of 12% each.  This is applicable to companies who have 20 or more employees on their payroll.   If an employee’s Basic + DA + Special Allowance are less than Rs. 15,000 then it is mandatory for Provident Fund to be deducted.  Other employees can opt out by filling form 11 or can choose to have PF deducted on the ceiling of Rs. 15,000 which would be Rs. 1,800 monthly.

You can find all the information you need about [Provident Fund in our in-depth article](http://quikchex.in/provident-fund-india-guide/).

**2) Employees State Insurance Corporation (ESIC)**

Deductions towards ESIC are mandatory for employees whose gross salary is not more than Rs. 21,000.  It is only applicable in companies where there are 20 or more employees within the Rs.21,000 gross salary bracket.  Employees have to make a contribution of 1.75% of the gross salary and employers have to make a contribution of 4.75% of the gross salary.

**3) Professional Tax**

Professional tax is the tax levied by Governments of certain states on salaried employees. The states where professional tax is applicable are Karnataka, Bihar, West Bengal, Andhra Pradesh, Telangana, Maharashtra, Tamil Nadu, Gujarat, Assam, Chhattisgarh, Kerala, Meghalaya, Odisha, Tripura, Madhya Pradesh, and Sikkim.

The amount of profession Tax that is deducted varies from state to state where they are applicable.

**4) Labour Welfare Fund**

Labour Welfare Fund, as the name suggests, is a contribution made by salaried employees for the benefit of the labour class.  This contribution is applicable in the states of Karnataka, West Bengal, Maharashtra, Andhra Pradesh, Kerala, Goa, Delhi, Punjab, and Haryana & Madhya Pradesh.

The contribution amount varies from state to state and is relatively small. The employer and the employee both make contributions and the employer pays approximately twice the employee contribution. The payments are made semi-annually in the months of June and December.

Like Professional Tax, Labour Welfare Fund contributions also vary from state to state where they are applicable.

**What’s the ideal salary structure?**

So what’s the best way to draft salary structures?  To answer this, we’ve put together a table of the common components that make up a salary.  We’ve also added recommended amounts to each component that should assist you in drafting an ideal salary structure.

| **Component** | **Recommendation** |
| --- | --- |
| Basic | 40-50% of CTC |
| DA | 5% of CTC |
| HRA | 50% of Basic + DA if metro and 40% if non-metro |
| Conveyance | Rs. 1,600 a month |
| Medical | Rs. 1250 a month |
| LTA | No real benchmark, can even be used as a plug, but if not can set as 10% of Basic |
| ESIC (Employer Contribution) | 4.75% of Gross Salary |
| ESIC (Employee Contribution) | 1.75% of Gross Salary |
| Special | Usually used as a balancing component |
| Provident Fund (Employer)\* | 12% of Basic + DA |
| Provident Fund (Employee) | 12% of Basic + DA |
| Professional Tax | As per statewise slabs |
| Labour Welfare Fund | As per statewise slabs |

**\*Note 1:** The PF Employer Contribution also bears additional administrative charges
**\*Note 2:** Feel free to use components like Child Hostel and Child Education; since they are small, we have ignored in our structure

For higher income employees:

• You can use Mobile, Driver Salary, Books and Periodicals and Car Maintenance
• You can set these amounts based on what you think the expenses of that employee would be, keeping in mind the exemption limits for Driver’s Salary and Care Maintenance