



**N N V Satish & Co.,**  
Chartered Accountants, Hyderabad

# Complete Guide:

# Payroll Management Services in India

Prepared by: N N V Satish & Co.  
Your Trusted Partners in Tax & Compliance

## Further Information



**Website**  
[www.casatish.com](http://www.casatish.com)



**Phone Number**  
9440591400



**Email**  
[satish@casatish.com](mailto:satish@casatish.com)

## Introduction

Payroll is more than “paying salaries.” In India it’s a compliance-heavy, multi-step business process that combines salary calculation, statutory deductions, filings, reporting and record-keeping. For many companies, especially fast-growing startups, SMEs and foreign entities outsourcing payroll is a practical way to reduce risk, save time and stay compliant.

## What are Payroll Management Services?

Payroll management services are end-to-end services that handle:

- (a) Employee data onboarding and maintenance
- (b) Salary structure design and CTC breakdowns
- (c) Computation of monthly pay (earnings & deductions)
- (d) Statutory deductions (PF, ESI, Professional Tax, TDS etc.) and employer contributions
- (e) Salary disbursement (bank transfers / bulk payments)
- (f) Payslip generation and year-end forms (Form 16 / Form 24Q etc.)
- (g) Compliance filings and returns, audits and reports
- (h) Leave & attendance integration, expense reimbursements, and integrations with HRIS/accounting.

Well-run payroll management services allow HR teams to focus on effective resource management rather than repeatedly chasing regulatory updates and manual reconciliations.

## Key statutory components employers must manage

These are the most common statutory items that payroll must compute, file and deposit:

**1. Provident Fund (EPF):** Employer and employee contributions; employers must remit contributions and file returns with EPFO. EPF rules (including employer deduction responsibilities) are enforced by the Employees’ Provident Fund Organization.

**2. Employees’ State Insurance (ESI):** ESI provides social security/medical cover for eligible employees (income thresholds apply); employer & employee contributions differ by scheme rules.

**3. Tax Deducted at Source (TDS) on salary:** Employers must compute TDS based on employee declarations, investments, exemptions, and applicable income-tax slabs; file quarterly and provide Form 16 annually.

**4. Professional Tax (state-level):** Professional Tax varies by state, slabs vary and must be deducted where applicable.

**5. Gratuity, Bonus, Leave Encashment:** Statutory obligations under Payment of Gratuity Act and Payment of Bonus Act depending on eligibility and tenure.

**6. Other levies:** Labour Welfare Fund (state-specific), local levies, and adherence to Shops & Establishment rules for registers, working hours and leave rules.

Percentages, thresholds and reporting forms change periodically and payroll teams must track notifications from EPFO, ESIC, Income Tax Department and incorporate changes into payroll quickly.

## Typical payroll process (monthly cycle)

### 1. Collect attendance & variations:

Attendance punch/biometric data, overtime, leave, arrears and variable payouts.

**2. Apply salary rules/structure:** Map CTC to salary components (basic, HRA, allowances, reimbursements) and compute gross.

**3. Calculate statutory deductions:** PF, ESI, professional tax, TDS and any other deductions.

**4. Generate payslips:** Clear breakdown of earnings, deductions and net pay.

**5. Disburse salary:** Bank transfer/bulk payment and maintain proofs.

**6. Prepare and deposit statutory payments & returns:** PF/ESI deposits, TDS deposit and filings (monthly/quarterly), and statutory reports for auditors.

**7. Maintain records & year-end closure:** Form 16, reconciliations, and provisioning for gratuity/bonus.



## Benefits of outsourcing payroll

**1. Compliance expertise & lower risk:** Payroll vendors track statutory changes and reduce the risk of penalties.

**2. Cost & time savings:** Reduces administrative overhead so HR and finance can focus on strategic tasks.

**3. Scalability & accuracy:** Automated calculations, standardized payslips and audit trails reduce errors.

**4. Data & integrations:** Modern payroll platforms integrate with attendance systems, HRIS and accounting packages.

**5. Security & confidentiality:** Vendors use secure systems to safeguard payroll data.

## Pricing / commercial models you'll encounter

### (a) Per-employee per-month (PEPM)

Common for smaller firms; includes processing, payslips, statutory filings.

### (b) Fixed monthly retainer:

Used when scope is broader (includes HR admin or helpdesk).

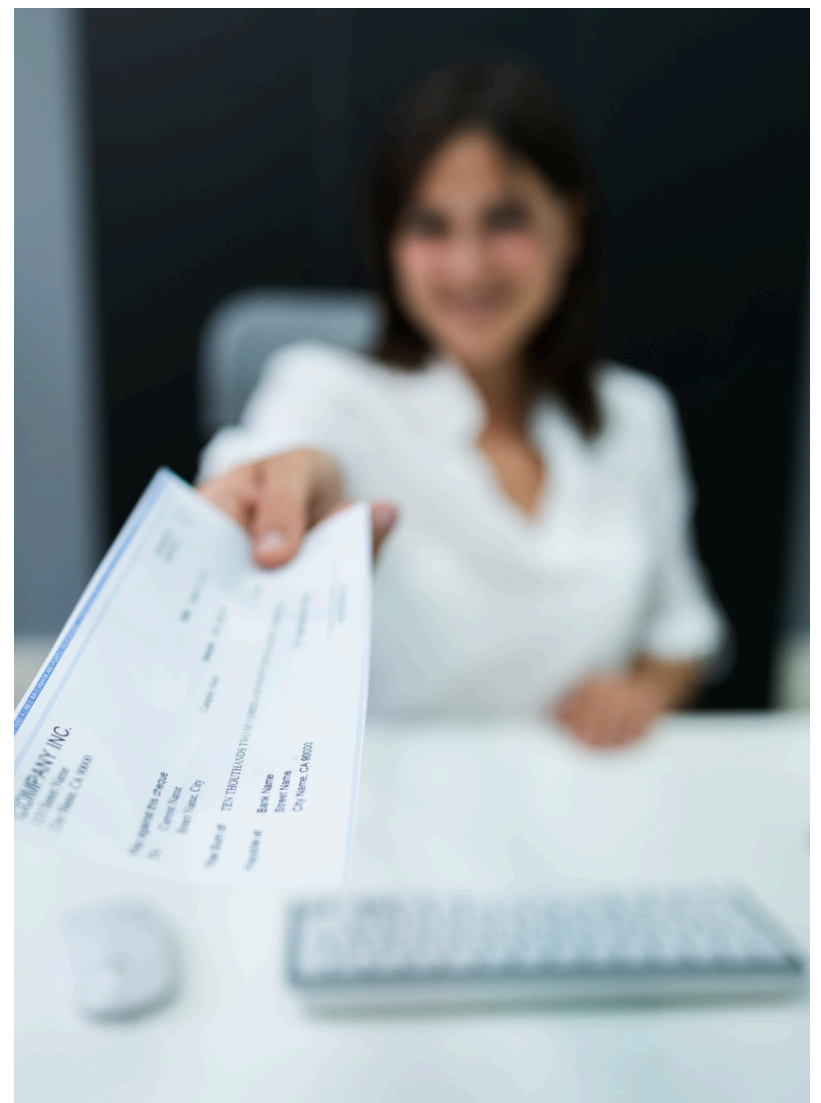
### (c) Implementation + SaaS subscription:

One-time setup + monthly license.

### (d) Transactional fees:

Extra charges for off-cycle payrolls, year-end documentation, statutory audits or integrations.

Negotiate clarity on what's included (e.g., statutory payments — vendor remits on behalf versus vendor only prepares challans)





## How to choose a payroll partner (checklist)

- (a) Compliance coverage:** do they support all statutory filings (PF/ESI/TDS/PT/LWF/Gratuity)? Ask for proof.
- (b) Technology & integrations:** attendance, HRIS and accounting connectors.
- (c) Data security & local presence:** data encryption, access controls, and local payroll expertise (for state taxes).
- (d) SLAs & support:** turnaround times, dispute resolution and payroll helpdesk availability.
- (e) References & track record:** clients in your industry and company size.
- (f) Transparent pricing:** avoid surprise charges for statutory updates or off-cycle runs.



## Common pitfalls & compliance traps

- (a) Wrong salary structure:** misclassifying allowances to avoid PF/ESI or tax can trigger audits and penalties.
- (b) Delayed deposits & filings:** late PF/ESI/TDS payments attract interest and penalties. EPFO/ESIC enforcement can be strict.
- (c) Inconsistent names/IDs:** mismatches between PAN/Aadhaar/EPF records cause reconciliation problems.
- (d) Not tracking state rules:** professional tax and Shops & Establishment compliance are state-specific and often overlooked.
- (e) Poor record retention:** statutory registers must be maintained and produced for inspections.

## Best practices for payroll management services

- (a) Keep a single source of truth for employee master data (PAN, Aadhaar, bank account, designation, joining/termination dates).
- (b) Reconcile payroll ledger with bank payments and statutory challans monthly.
- (c) Request periodic statutory reconciliation reports (EPF/ESIC/TDS).
- (d) Maintain audit trails for every change (salary revisions, arrears, manual adjustments).
- (e) Run a quarterly compliance health check with your vendor or internal audit.
- (f) Automate payslips (employee self-service) to reduce queries and manual distribution.

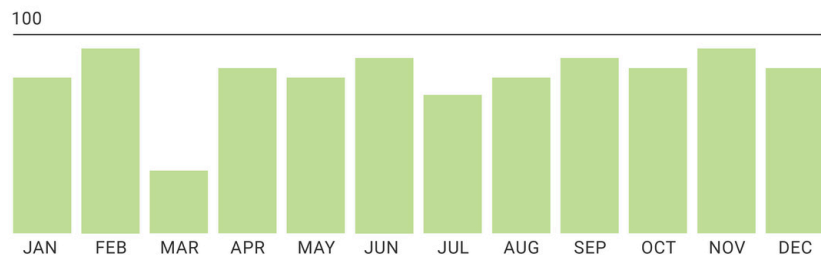
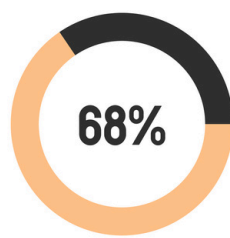
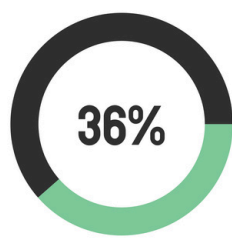
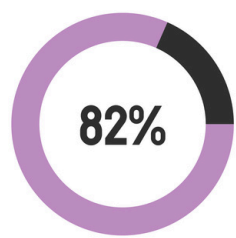
## Quick statutory snapshot (typical items employers must track)

- (a) EPF (Employee Provident Fund): employer & employee contributions; employer must upload ECR/return and remit contributions to EPFO.
- (b) ESI (Employee State Insurance): applicable up to a wage threshold (employer & employee contribution rates per ESI rules).
- (c) TDS (Tax Deducted at Source) : compute on salaries, deposit quarterly, provide Form 16 at year-end.
- (d) PT (Professional Tax): Employer must register under PT, deduct the tax monthly, and remit it to the state commercial tax department by the 10th of the following month.

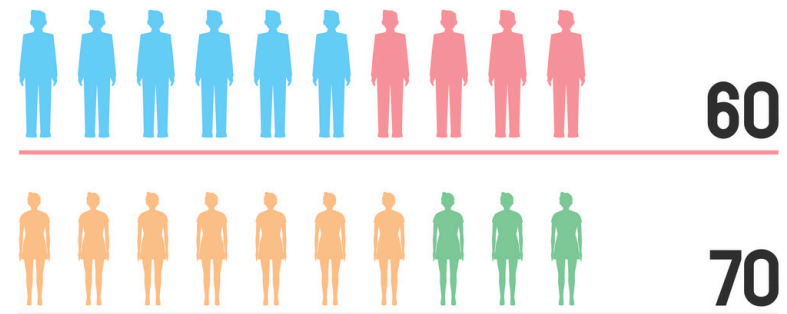
**Note:** Specific contribution percentages, wage ceilings, and slab thresholds under laws like the Employees' Provident Funds and Miscellaneous Provisions Act, 1952, Employees' State Insurance Act, 1948, Income Tax Act, 1961, and Professional Tax Act are subject to periodic revisions by the respective regulatory authorities. These changes may occur due to amendments in legislation, budget announcements, or policy updates aimed at aligning with economic conditions. Even a minor revision in thresholds or rates can directly impact the cost-to-company (CTC) calculations, payroll budgets, and compliance responsibilities of an organization.







# PAYROLL



## Payroll for international employers / global mobility

For foreign companies hiring in India, payroll must comply with Indian labour & tax laws. Outsourcing to a local payroll provider or using an Employer-of-Record (EoR) provider helps manage statutory compliance, onboarding and local payroll filings. Many foreign SMEs elect to outsource to avoid the complexity of local registrations and to ensure statutory remittances are correct.

## Technology trends & what's changing

- (a) Automation & AI: more vendors are using automation to reduce manual checks and accelerate reconciliations.
- (b) Employee self-service & mobile: payslips, tax declarations and leave requests are moving to apps.
- (c) Integrated HR + payroll platforms: single source of truth across recruitment, payroll, learning and performance.
- (d) Regulatory monitoring engines: vendors proactively push updates when EPFO/ESIC/IT rules change. Recent coverage shows the ongoing push for efficiency and automation in outsourcing and payroll services.

## Typical SLA checklist to include in a vendor contract

- (a) Payroll processing timeline (e.g., run by Xth of month)
- (b) Payslip distribution timeline
- (c) Statutory deposit timeline (e.g., EPF/ESI/TDS by statutory due dates)
- (d) Error correction windows & escalation matrix
- (e) Data security clauses (encryption, backups, breach notification)
- (f) Audit assistance & reconciliations

## Pricing Structure

- (a) Small firm (10–50 employees): Per employee/month (depending on scope)
- (b) Mid-sized (50–500): volume discounts apply; may be salaried retainer + per employee charges
- (c) Enterprise: custom pricing with SLA, integration & dedicated support

(Exact numbers vary widely by vendor and scope — ask for a detailed quote and list of inclusions/exclusions.)

## Frequently Asked Questions

### **Q: Should I outsource payroll or keep it in-house?**

A: If compliance, headcount growth, or cross-state operations are increasing, outsourcing reduces risk and admin load. If you have strong internal finance & HR systems and a compliance team, in-house may be feasible.

### **Q: How often do statutory rates change?**

A: Rates and thresholds change periodically; major changes are announced by EPFO/ESIC/Income-Tax — payroll teams should monitor official portals.

### **Q: What documents do employees need to submit for payroll?**

A: PAN, Aadhaar, bank details, cancelled cheque, nomination forms, proof of investments for TDS declarations, and other state-specific forms (for PT etc.)

### **Q: How does outsourcing payroll management benefit small and medium-sized businesses in India?**

A: Outsourcing payroll management helps small and medium-sized businesses save time and operational costs. It eliminates the need to maintain an in-house payroll team and reduces the chances of compliance errors. Professional payroll service providers also offer updated knowledge on changing tax laws and labor regulations, ensuring businesses stay compliant while focusing on their core operations.





## Recommended next steps for businessse

- (a) Map your current payroll process end-to-end and identify pain points (errors, delays, compliance gaps).
- (b) Decide scope: full outsourcing, co-managed, or SaaS payroll.
- (c) Request detailed RFPs from 2–3 vendors and evaluate on compliance coverage, integrations, security, SLAs and cost.
- (d) Run a pilot for 1–2 months before full cutover.
- (e) Schedule quarterly compliance reviews to keep pace with regulatory changes.

## For More Information



### Website

[www.casatish.com](http://www.casatish.com)



### Email

[satish@casatish.com](mailto:satish@casatish.com)



### Phone Number

9440591400



### Address

B-12, Second Floor, Indian Airlines  
Employees Colony, Begumpet,  
Secunderabad/Hyderabad,  
Telangana - 500003