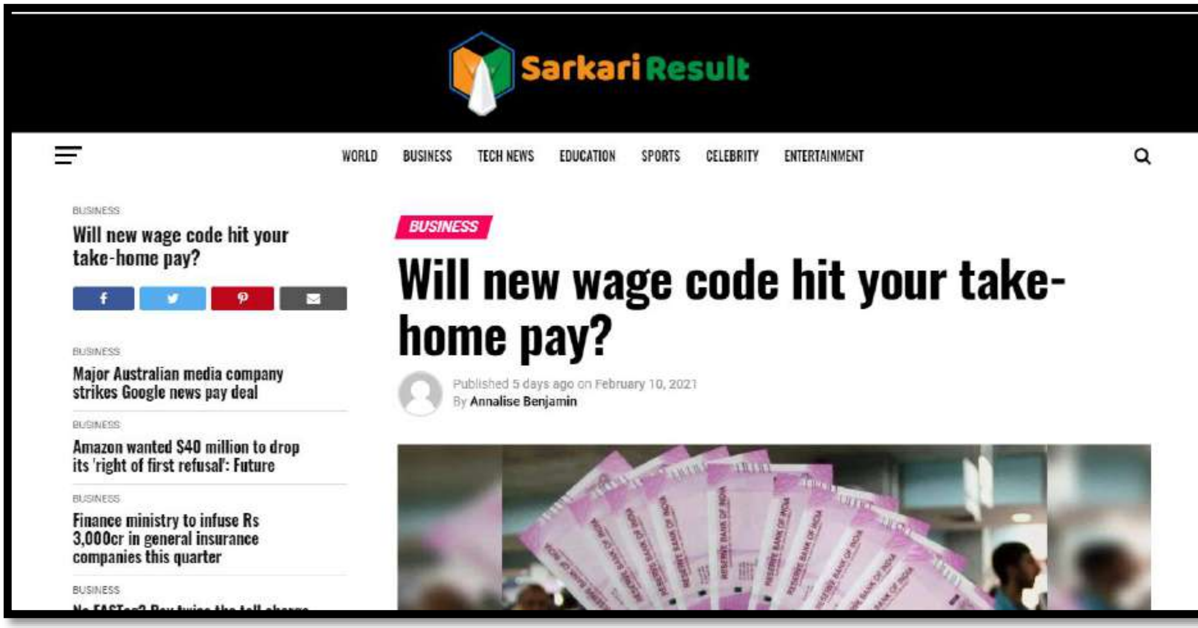

MUMBAI: Come April, you could see a restructuring of your salary package with a retrospective increase in gratuity and leave encashment provision impacting your take-home, and raising compensation costs for companies as the new wage code comes into effect.

Companies, reeling under the Covid impact, are reviewing potential changes in the salary structure by running various models to comply with the wage code and determine compensation costs. Big-ticket components under analysis include a retrospective increase in liabilities for benefit plans, such as gratuity and leave encashment, particularly for organisations where the employee base is long-tenured.

The retrospective increase in gratuity and leave encashment liabilities and additional provident fund (PF) contributions, for instance, may lead to a review of the salary increment budgets for 2021. Provident Fund contributions will increase if organisations adopt the expanded definition of wages as earlier PF was calculated only on 'basic pay' and dearness and other special allowances.

The government has consolidated 29 central labour laws into four codes, including those related to wages and social security. Nishith Desai Associates head (HR laws) Vikram Shroff said the labour codes have introduced some fresh concepts, but the most important change is the expanded definition of 'wages'. "This definition is consistent across all the four labour codes and will have considerable implications for both employers and workers, with the possibility of adversely affecting take-home pay," said Shroff.

The computation of 'wages' under the new codes includes components like basic pay, dearness, retaining and special allowances. Specified items like HRA, conveyance, statutory bonus, overtime allowance and commissions have been excluded for computing wages, which, under the code, should be at least 50% of the total remuneration.

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Accordingly, if these specified exclusions cross 50% of the remuneration, the excess amount will be considered to determine ‘wages’ under the codes. For instance, gratuity, which was earlier calculated on the basic salary, will now be computed on ‘wages’, which could result in higher pay for the employee and a larger outgo for the employer.

Typically, the compensation structure in India across industries comprises basic salary, which is in the range of 30% to 50% of the gross, while allowances make up the balance. Some companies, said experts, plan to take the basic pay to 50% of the remuneration so that the specified exclusions are capped at 50%.

Aon India CEO (performance & rewards) Nitin Sethi sees a rise of 6-10% in a company’s wage bill, in case it now provides basic salary at 20-30% of the total compensation. For those whose basic salary is already at 40% of the gross, the cost implication would be lower, at around 3-4%.

“If the basic pay to gross pay ratio is around 30% and it moves up to 60% after implementation of the ‘Code on Wages’, we would expect the liabilities on account of the above schemes to double,” said Aon India practice leader (retirement and benefits solutions) Vishal Grover. Additionally, gratuity will be payable to fixed-term employees, irrespective of whether they complete five years of employment. The new codes may also allow an employee to avail of leave encashment at the end of every year.

Most companies will recast their salary structure to comply with the wage code, said Genius Consultants CMD R P Yadav. “Expenses will increase for fixed-term employment where gratuity becomes mandatory. For the high salary & mid salary group, the cost implication will be lower. However, for the lower salary range group, the impact will be 25-30%,” said Yadav, adding increment this year may be impacted.

The labour codes, however, do not contain a provision requiring employers to change their CTC (cost to company) structure. “Whether it is still a good practice to do so needs to be considered by each employer based on the CTC structure, especially if the basic salary plus other included components is less than 50% of the total remuneration,” said Shroff.

He added that although the Budget made references to female workers’ participation, protection of migrant workers and social security coverage for gig workers, it fell short of providing clarity on the new labour codes and how the government proposes to implement them. “Employers need to be ready should any of the labour codes is made effective on April 1 to coincide with the beginning of new the financial year,” said Shroff.

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