

# Allsec SmartConnect

Stay updated. Stay connected.

November 2015



ALLSEC TECHNOLOGIES  
*Building Lasting Relationships*



# HR Through the Ages – Finding Order in Chaos

*“One machine can do the work of fifty ordinary men. No machine can do the work of one extraordinary man.” - Elbert Hubbard*

## The Machine Man

Today, the significance of a manager is to be a person of consequence. However, this was not always the case. During the Industrial Era, the term *'manager'* was looked upon with considerable suspicion. A manager's function during this time was routine clerical work that bordered on record keeping and retaining employee information.

The prevailing sentiment across management was to maximize productivity in a way that ultimately benefited them. Employment terms and conditions were in the hands of the businesses owners, as was the fate of the proletariat. To combat these blue collar issues, unions were formed for worker welfare and educate them of their employment rights.

### Did You Know ?

Long before its time, the first sparks of insubordination by distraught workers began in 1811 in the Ludd Riot in England. Workers took to destruction of certain machinery that had diminished manual labor and thrown many workers out of employment.

The first labor agitation in India began in Bombay in 1875 under the leadership of a renowned patriot Mr. S. S. Bengalee. It was the first protest of its kind against the appalling working conditions of laborers, especially women and children. The protest pushed for legislation to help improve working conditions.



# HR Through the Ages – Finding Order in Chaos

## The Transition

As noted in our previous edition, it took more than a couple of decades to turn the *Principles of Scientific Management* into a well-oiled practice. While the need for more employees rose with time, unionism grew at an unbridled pace, with employees appealing for basic welfare. It soon dawned on industrialists that employees were more than just replaceable parts in an engine. Time had come to modernize this precarious industrial economy to a more disciplined system.

This period saw a rise in numerous theories and studies that sought to understand human behavior, especially with respect to the workplace. The larger understanding, that people needed to be treated in the right way, set forth the order of things. Social order too changed remarkably - many reforms were underway and the common man now had a say and the right to speak out his opinions without second thought. Therefore, it is easy to deduce how modern forms of organizations began to shape, i.e. *based on new-found ideas like equality before law, equal opportunities, dignity of labor, etc.*

By taking cue from these philosophies, an entire barrage of laws came into place by the late 1950s after reports of fatal accidents, epidemic outbreaks and loss of lives. Child labor was the first to be targeted through legislation, with recommendations on limitation of children's working hours. In most countries, adequate stress was laid on contractual employment. Jurisdictions laid legislations on minimum wage paid per hour to be paid by employers. Many workers groups engaged in unionism and adhered to collective bargaining with employers.

With this shift, the idea of *Industrial Relations and Personnel Management* came into the framework of organizational function. This was an ideal backdrop to hire a specialized set of people - *Managers of Industrial Relations* - who dedicated themselves to the imperative function of managing people and their activities. These people now played a dominant role in bringing balance to the workplace by aligning employers' demands with employees' expectations. They oversaw unions with rigor, appeased the familiar employee outbursts and ensured that there was productive output despite organizational differences.



# HR Through the Ages – Finding Order in Chaos

The result was evident. In order for employers to maintain a clear handbook under the law, Personnel Departments saw a much wider role for themselves and sought to deliver monetary value to the incumbent role. They began to undertake activities such as measuring productivity vis-à-vis employee performance through systematic and scientific methods. Concepts of job-analysis, and data classification began to take shape, measuring and giving structure to occupations.

The emergence of the *Industrial Relations Theory* and later its practice was the result of these conditions. The movement also saw Elton Mayo's famous Hawthorne Studies whose basic premise was to move beyond economic concerns to fulfilling social needs and interests. Some scholars perceived *Human Relations Management (HRM)* as a response to the failure that *Scientific Management* was, while others labeled it as an extension of it. In reality, HRM became a save-face for managers across the world since the theory offered a helping hand to the worker rather than exploit him.

## Did You Know ?

Computer technology was expensive at the time and mostly only larger firms could afford it. Computers were largely used to maintain massive billing inventories and to automate the payroll function of organizations. Interestingly, the US defense personnel were the first to use software to accurately collect data and classify Air Force Jobs.



## The Human Side of Management

Since the era saw a paradigm increase in unionization, employee relations became the focus of personnel departments. This transformation from mere resource management to handling the breadth and depth of Industrial Relations was heavily induced by legal compliance and regulatory measures.

*How did this IR Department grow to become a strategic function - playing an intrinsic role in an organization's operations? Follow the upcoming edition of SmartConnect to read more.*



# Know Your Tax-Leave Encashment

## Introduction

Under companies' HR practices, an employee is liable to many kinds of leaves, such as *annual leave*, *casual leave*, *sick leave*, *privileged leave* etc. Casual Leave and Sick Leave are common terms - and function as their names suggest; Privileged Leave or Earned Leave is the leave accrued to the employee in proportion of the work done by him. This varies from employer to employer, although law mandates for a minimum criteria.

In certain cases, employees prefer to accumulate their leaves without actually using them. In such a case, leave tax computation comes to use.

Most companies have a system of paying an amount equivalent to the leave accumulated by the employee. This amount is computed based on the outstanding leave credit of the employee. It is either calculated annually or, the leaves are allowed to accumulate until an upper limit is reached, after which the amount can be recovered on resignation or retirement. Cashing such accumulated leaves is known as *Leave Encashment*.

It is important to note that the leave encashment that an employee receives is taxable. On hindsight, if this amount is received during retirement from service, is liable for exemption under Section 10(10AA) of Income Tax Act.

Following are the scenarios one needs to bear in mind:

<b>Status of employee</b>	<b>Leave encashment during continuity of employment</b>	<b>Leave Encashment at the time of retirement / leaving job</b>
Government	It is chargeable to tax. However relief can be taken under Section 89	It is fully exempt from tax under Section 10(10AA)(i)
Non-government		It is fully or partially exempt from tax in some cases under Section 10(10AA)(ii)



# Know Your Tax-Leave Encashment

## Taxability of leave encashment during employment:

Leave encashment during employment is fully taxable under the Income Tax Act, 1961. Should an employer facilitate payment of the leave balance, the total amount received by the employee would be taxable during the same financial year at regular tax rates.

In case of non-government employees that cash their leaves at the time of retirement or resignation, the least of the following amounts will be considered as the exempted leave salary -

- a) Cash equivalent of earned leave salary at the time of retirement
- b) 10 months' average salary
- c) INR 3 Lakh
- d) Leave encashment at the time of retirement

## Calculating (a)

- i. Duration of service in number of years (ignore any fraction of year). For example, 25 years and 6 months will be considered as 25 years.
- ii. Earned leave entitlement for each year of service (this cannot exceed 30 days for every year of actual service with that particular employer). For example, if earned leave is credited at the rate of 45 days leave for each year of service, calculation shall be made at the rate of 30 days leave for each year of service. If, however, earned leave is credited at the rate of 23 days leave for each year of service, calculation shall be made at the rate of 23 days leave for each year of service.
- iii. Leave actually taken or cashed.





# Know Your Tax-Leave Encashment

Earned leave salary =  $\{[i \times ii] - iii\} / 30 * \text{average monthly salary (i.e. 10 months' average salary)}$

## Calculating (b)

Here, *Average Salary* is to be calculated on the basis of average salary drawn during the period of 10 months immediately preceding retirement. Salary means last drawn salary and includes Basic Salary, Dearness Allowance (if terms of employment so provide) and Commission based on a fixed % of turnover.

## Some points to remember:

- In case the employee is deemed to receive unutilized earned leave encashment from more than 1 employer, the maximum amount exempt from tax should not exceed INR 3 Lakh.
- Salary with respect to privileged leave, paid to legal heirs of a deceased employee, is exempted from tax.
- Leave salary received by the family of deceased government employee is exempted from tax.
- In case of a non-government employee, leave salary that is received in lieu of resignation or retrenchment falls under taxable income.



# Frequently Asked Questions

## The Payment of Bonus Act, 1985

### What is the objective of the Act?

To provide Payment of Bonus to persons employed in certain establishments on the basis of profit earned during the year.

### What is the applicability of the Act?

This Act is applicable to all the establishments employing 20 or more persons.

### What is the minimum and maximum bonus prescribed by the Act?

The minimum bonus is 8.33 % and the maximum bonus payable is 20 %.

### Why does the Act specified the maximum and minimum limit of the bonus?

The principle behind fixing the maximum and minimum limit of the bonus is that the rate of bonus should not fluctuate from year to year.

### If the number of employees reduced to less than 20 over the period of time after applicability of the Act, will the Act till applicable?

Any establishment which has been covered under the Act once shall continue to be governed by the Act even if the number of persons employed therein at any time falls below 20.

### Who are entitled to be paid bonus?

Any employee who is drawing a salary or wages up to INR 10,000 per month and who has worked for a minimum period of 30 days in a year is entitled to bonus.

### Is a casual worker (whose job is not throughout the year but only for a few months) entitled to bonus?

The only criteria for being entitled to bonus is to complete minimum period of 30 days of work in a year to be eligible for bonus.

### For the purpose of this Act, what does the term “wages” include?

For the purpose of this Act wages means Basic salary + D. A. and does not include allowances, overtime salary, HRA, bonus, gratuity, employer's contribution to PF.

### What is the time limit for an employer to pay the bonus?

Bonus must be paid within a period of 8 months from the close of the accounting year. If an employee does not get the bonus due to him, he can apply to the Government.

### Can an employer hold or deduct the bonus payable to an employee?

Only in case the employee is found guilty of misconduct causing financial loss to the employer, then the employer can deduct the or hold the employee's bonus.

### In case there is a dispute regarding the payment of bonus then when is the bonus payable?

Bonus is payable to the employee within 30 days of settlement of such dispute.



# Frequently Asked Questions

## The Payment of Bonus Act, 1985

**Can the employer have an agreement with the employee for a different rate of payment of bonus?**

Yes, there can be an agreement between the employer and the employee for a different rate of payment of bonus. However, the prescribed minimum and maximum rates under the Act have to be followed.

**Which establishments are exempt from paying bonus to its employees?**

Any establishment which is newly set up is exempted from paying bonus to its employees in the first 5 years. If however the employer gains profits in the first 5 years, then payment of bonus to the employees is inevitable.

**In case there is a change in the ownership of the establishment then is the establishment exempt from paying bonus?**

No. Change in ownership of the establishment will not be equivalent to a newly set up establishment.

**When is the employee disqualified to receive bonus?**

Any employee who is dismissed from the services on account of fraud, riotous or violent behavior, theft, misappropriation, or causes damage to company properties, is disqualified to receive bonus.

**In case the employee is entitled to bonus for last year, but was dismissed on account of theft, fraud and dishonesty for the current year, then can the employer hold the employee's previous bonus?**

In such a case the employer cannot hold the due bonus of the previous year.

**If the employee is laid off and paid lay off wages then is the employee entitled to bonus for the period he/ she is laid off?**

In case of lay off the employee lay off wages then these wages would be considered as wages in the purview of this Act and the employer needs to pay bonus.

**In case the employer has a lot of branches/ departments which are spread over many places or states then will it considered as separate establishments or one single establishment?**

In such cases the establishment would be considered as one single establishment. unless a separate balance sheet and profit or loss account is prepared.

**What are the compliances to be done under this Act?**

- Register showing the computation of the allocable surplus in Form A;
- Register showing the set-on and set-off of the allocable surplus in Form B;
- Register showing the amount of bonus due to each of the employees and the amount actually disbursed in Form C Bonus shall be maintained and;
- Annual Return in Form D shall be filed with in 30 days from the date of payment of Bonus paid to the employees.



# Compliance Calendar - November 2015

States	5-Nov	10-Nov	15-Nov	20-Nov	21-Nov	30-Nov
All States			PF Remittance		ESIC Remittance	Payment of Bonus - Eligible Employees
Andhra Pradesh		Prof. Tax Act - Remittance/ Return				
Assam						Prof. Tax Act - Monthly Return & Remittance
Bihar			Prof. Tax Act - Remittance			Prof. Tax Act - Annual Return
Gujarat			Prof. Tax Act - Monthly Return & Remittance			
Jharkhand			Prof. Tax Act - Quarterly Return			
Karnataka				Prof. Tax Act - Remittance/ Statement		
Kerala	Workers Welfare Fund Act - Remittance					Submission of N&F Act - Holidays List
Maharashtra						Prof. Tax Act - Monthly Return & Remittance
Madhya Pradesh		Prof. Tax Act - Monthly Return & Remittance				
Orissa						Prof. Tax Act - Monthly Return & Remittance
Tripura						Prof. Tax Act - Monthly Return & Remittance
West Bengal					Prof. Tax Act - M. Remittance	

# In Other News – Major Updates

## EPFO goes the Mobile way

The EPFO has kept itself up to date with technology by becoming mobile-friendly and introducing three new mobile based services -

- Indigenous mobile application
- SMS-based Universal Account Number Activation
- Missed call service

Members will be able to activate their UAN accounts once they've downloaded the mobile application, and can also view monthly credits and other EPF details. Similarly, EPF pensioners can access their pension disbursement details and employers can also view remittance details through the app.

A new SMS-based UAN activation service has been launched, enabling members to activate their accounts by sending an SMS to 7738299899. Once the UAN is activated, the member becomes eligible for services such as credit alerts, passbooks, etc. This benefits especially those who may not have easy access to computers or smart phones. The EPFO already provides SMS services to retrieve EPF information.

As an extension to this service, a missed call at 011 22901406 - at zero cost - will fetch the user required details.

## EPF - Mandatory Deposit through Internet Banking

The Central PF Commissioner has allowed employers, who remit contributions of less than INR 1 lakh in a particular month, to make payments through banks' draft, bankers' cheques or cheques up to December 2015. From 1 January 2016, employers will have to make payments only electronically through internet banking.

## Due Date Extended for IT Returns

The last date to file Income Tax Returns was 31 August 2015, which was extended to 7 September 2015. Taxpayers who have still not filed their returns can relax, as the due date has been extended yet again to 31 March 2016. Returns can be filed without paying a penalty. However, one CANNOT do the following things -

- Carry forward any losses
- Modify or revise the returns in case of mistakes in filed returns
- Claim refunds



# In Other News – Major Updates

## Employers Can Claim 10% Refund Of Admin Charges

An employer can claim a refund of 10% of administrative charges paid during the quarter if the establishment provides Aadhar card details of 80% employees, bank details of all the employees and PAN card detail wherever applicable. This becomes operational from 1 October 2015, and is effective for one year from that date.

## EPFO Further Streamlines OLRE

With respect to Online Registration Of Establishment (OLRE), the Central Provident Fund Organization has clarified that the officers cannot insist on personal presence of the employer or on production of past records.

It has been further clarified that collection of physical copies of documents is a separate process and is not linked to registration and remittances. Employers will not be asked to visit the department and handover documents. Instead enforcement officers shall collect documents and educate establishments on further compliance.



## About Allsec

Allsec is a global company with vast expertise in providing Business Process Solutions across various industry verticals.

Founded in 1998, Allsec Technologies Limited began as an integrated contact centre for businesses intending to outsource their support processes. Gaining over 15 years of domain experience, the company has rapidly expanded with acquisitions across the globe and has extended its expertise to a wide gamut of processes that augment and support businesses.

Our solutions are testimony to the fact that we are a highly customer-centric, flexible and transparent service provider. By taking process responsibility, improving cost efficiencies, and adding value to client businesses through continuous process improvements and quality assurances, Allsec distinguishes and enhances business experience for its clients.



## Locations

Chennai, India  
Texas, US  
Manila, Philippines  
Delhi, India  
Mumbai, India  
Bangalore, India

## Learn more about us

Visit us at [www.allsectech.com](http://www.allsectech.com)



[@allsec](https://twitter.com/allsec)



[AllsecTechnologiesLimited](https://www.facebook.com/AllsecTechnologiesLimited)



[Allsec Technologies Limited](https://www.linkedin.com/company/allsec-technologies-limited)