

How Will The New Wage Code Impact Your Take Home Pay?

Coming April 2021, the beginning of the new financial year, the salary structure for most of us will be changing due to the new wage code. The new wage code mandates that your basic pay should be at least 50% of the total cost to the company (CTC). However, how will this change affect your take-home pay, the amount that ends up in your bank account?

What is the new wage code?

The definition of wages has been changed in the new wage code, triggering a change in your salary structure. Upon implementation, “wages” will include components like basic pay, dearness allowance (DA), and other special allowances while excluding items like House Rent Allowance, bonus, overtime allowance, conveyance, and commissions.

The new wage code says that these excluded items cannot be more than 50% of the total remuneration. If these exclusions cross 50% of the total remuneration, they will be added to the “wages” component. Your basic pay, DA and other special allowances (‘wage’) should be 50% of the CTC. This is your net monthly Cost to the Company (CTC).

What is CTC?

CTC or Cost to Company is the gross salary before the deductions to income tax are made. A CTC package details the basic salary with the house rent allowance, medical allowance, transport allowance, and other such allowances.

What is changing for you under the new wage code?

Basic Pay

Earlier, the compensation structure ranged from 30%-40% of the gross salary and the allowances made up the balance gets altered. Now, the basic pay has to be capped at about 50% of the employee’s CTC so that the allowances can be utmost 50% of the gross pay.

Provident Fund

It was earlier calculated on an employee’s basic pay, considering the dearness allowance and other allowances offered by the organisation. Employer and employee contribution will now be calculated on 50% of the CTC. This will increase your PF contribution but decrease your take-home pay.

Gratuity

Similarly, gratuity was earlier calculated as a % of your basic salary but will also now be calculated on “wages”. The amount of money paid to you at the end of a final and permanent employment period is popularly called gratuity. The employee will be entitled to receive gratuity even after a year of service.

How will the new wage code impact your take-home pay after-tax?

Your take-home pay might reduce, and the quantum will depend on the salary bracket you fall under. The impact is expected to be higher in lower salary brackets than the mid-and high-salary brackets.

For lower-salaried persons, the basic is not a significant component of the total remuneration which is not the case for those who earn more. In that case, there will be a higher rejig and reduction in take-home pay for those with a lesser salary.

Those with higher salary may already have high basic pay, close to 50% of the total remuneration. However, you will receive a higher payout on retirement, which is the government’s motive behind this move.

Why is the government implementing this?

The new wage code aims at bringing security and assurance to the employees in these uncertain times. The government wanted to secure the retirement plans of millions of employees. Hence, the new wage code came to light.

Things to look out for in your salary break up after the new wage code:

If you are looking for a new job and are unsure of the money you will be earning, take a closer look at the gross salary. Then ask for the breakup on the gross wage, look closely at your basic pay, the allowances the company is providing you with, and whether it complies with the new wage code of 2021.

Analyse if you get paid leaves from the company and if you can cash your leaves. Also, look into the employer's contribution to your Provident Fund and pensionary schemes under the company and whether you get remissions on any loan interest.

The new wage code will be implemented soon from the new financial year of April 2021 & Indians hope that it will bring them security in the workplace and assure their future.

Key Takeaways:

The take-home salary of employees may decrease for lower-income employees and will not change drastically for higher-income employees. The allowances offered to employees cannot be lesser than 50% of the gross salary.

After the new wage code, the Gratuity and monthly Provident Fund is deemed to alter. Companies need to alter their policies to comply with the new wage code of 2021.

The labour codes would provide social security to organised sector employees and informal sector workers like gig and platform workers (not on the rolls of an organisation).

Will the take-home salary increase or decrease?

It is deemed to change after the implementation of the new wage code in April 2021. Employees' take-home salary may decrease for lower-income employees and will not change drastically for higher-income employees.

How will it affect the CTC of an employee?

The CTC won't change, but the dearness allowance, house rent allowance, gratuity and Provident Fund will vary.

What is the benefit of the new wage code?

It aims to secure the employee's future by securing their gratuity, Provident Fund and pensionary schemes.

What are the added benefits of the new wage code?

The new wage code allows for leave encashment. The new wage code also increases the employer's contribution to Provident Fund, gratuity and allowances.

When will gratuity be payable?

Gratuity will be payable to fixed-term employees irrespective of whether they complete five years of employment in the company or not,