PETPOOJA

CHECKLIST

Monthly Payroll Processing Checklist

A step-by-step checklist for processing payroll every month. Covers attendance, deductions, compliance filings, salary disbursement, and record-keeping for Indian businesses.

Updated June 2026 12 Pages FY 2025-26

What's Inside

01 Pre-Payroll Data Collection

02 Payroll Computation

03 Salary Disbursement

04 Statutory Payments & Filings

05 Monthly Reconciliation & Records

06 Quarterly & Annual Compliance

50+
Checklist Items
Pre-payroll to post-payroll

7th
TDS Deposit Deadline
Section 192, Income Tax Act

15th
PF/ESI Payment Due
Interest + damages if missed

6
Sections Covered
Full payroll cycle end-to-end

25+
Compliance Deadlines
Monthly, quarterly & annual

01 Pre-Payroll Data Collection

1st to 5th of every month: gather all inputs before computation

Attendance & Leave Data

- ✓ **Consolidate attendance records for the previous month** — Monthly
  Biometric/app data, manual registers, or HRMS reports. Verify total present days, absent days, and half-days for every employee.
- ✓ **Reconcile leave applications with attendance** — Monthly
  Match approved CL, EL, SL, and comp-off against actual absence. Flag unapproved absences as LOP.
- ✓ **Calculate Loss of Pay (LOP) days**
  Unapproved absences after leave balance is exhausted. LOP deduction = (gross salary / total working days) x LOP days.
- ✓ **Verify overtime hours (if applicable)**
  Overtime rate: 2x ordinary wages under Factories Act 1948, S.59. Cap at limits set in your state's Shops & Establishments Act.
  Factories Act 1948, S.59
- ✓ **Collect compensatory off records**
  Employees who worked on holidays/weekly offs and are owed comp-off days.

Employee Changes

- ✓ **Process new joiners for the month** — Critical
  Add to payroll with joining date, CTC breakup, PF/ESI registration status, bank account, PAN, and Aadhaar.
- ✓ **Process exits and final settlements**
  Calculate F&F: pending salary + leave encashment + gratuity (if eligible) - notice period recovery - pending advances.
  Payment of Gratuity Act 1972
- ✓ **Apply salary revisions or increments effective this month**
  Update basic, HRA, and allowance breakup. Recalculate PF/ESI on new basic.
- ✓ **Update department/location transfers**
  May affect Professional Tax slab (different states), HRA metro/non-metro classification, or ESI dispensary.
- ✓ **Collect advance salary recovery details**
  EMI deductions for salary advances given in prior months. Verify remaining balance before deducting.

Variable Inputs

- ✓ **Collect incentive and bonus data from managers**
  Performance bonuses, sales incentives, referral bonuses. These are added to gross before TDS calculation.
- ✓ **Collect reimbursement claims for the month**
  Fuel, mobile, internet, travel. Verify bills submitted. Tax-exempt only if supporting documents provided.
  Income Tax Act, S.10(14)
- ✓ **Verify arrear payments due**
  Backdated salary revisions or increments. Arrears are taxable and PF applies on basic arrears.
- ✓ **Check for any statutory bonus due**
  Minimum bonus: 8.33% of salary or Rs 100, whichever is higher. Maximum: 20%. Applies to employees earning up to Rs 21,000/month.
  Payment of Bonus Act 1965, S.10-11

02 Payroll Computation

5th to 10th of the month: calculate gross, deductions, and net pay

Gross Salary Calculation

- ✓ **Calculate basic salary (pro-rated for partial months)**
  New joiners and exits: (monthly basic / calendar days or working days) x days worked. Check your company policy on calendar vs working day basis.

- ✓ **Calculate HRA**
  Usually 40-50% of basic. Metro cities (Delhi, Mumbai, Kolkata, Chennai): up to 50%. Non-metro: up to 40%.
  Income Tax Act, S.10(13A)

- ✓ **Add fixed allowances (conveyance, special, etc.)**
  As per CTC breakup. Pro-rate for partial months.

- ✓ **Add variable pay: overtime, incentives, bonuses**
  These are part of gross salary. Include in TDS calculation and ESI (if applicable).

- ✓ **Deduct LOP from gross salary**
  LOP deduction reduces gross before statutory calculations.

Statutory Deductions

- ✓ **Calculate employee PF deduction: 12% of (basic + DA)** Critical
  NOT on gross. Only on basic + DA. Voluntary PF (VPF) if employee has opted for higher contribution.
  EPF & MP Act 1952, S.6

- ✓ **Calculate employer PF: 3.67% to EPF + 8.33% to EPS**
  EPS capped at Rs 15,000 basic. If basic > Rs 15,000, excess employer share goes to EPF.
  EPF Scheme 1952, Para 29

- ✓ **Calculate ESI: employee 0.75% + employer 3.25% of gross**
  Only for employees with gross wages up to Rs 21,000/month. ESI is on gross, not basic.
  ESI Act 1948, S.40

- ✓ **Calculate Professional Tax based on employee's state**
  Max Rs 2,500/year (Constitutional cap). Slabs vary by state. Maharashtra, Karnataka, West Bengal, Tamil Nadu, etc. all have different rates.
  Article 276(2), Constitution of India

- ✓ **Calculate TDS on salary (Section 192)** Critical
  Estimate annual income, apply tax slab (old/new regime as per employee declaration), deduct monthly TDS. Account for 80C, 80D, HRA exemption, etc.
  Income Tax Act, S.192

- ✓ **Deduct Labour Welfare Fund (LWF) if applicable**
  Varies by state. Some states collect monthly, some half-yearly. Check your state's LWF Act for rates and frequency.

- ✓ **Deduct salary advance recovery and loan EMIs**
  As per advance agreement. Deduction cannot exceed 50% of net salary in most cases.

Net Pay Calculation

- ✓ **Calculate net pay: gross - all deductions**
  Net = Gross - PF - ESI - PT - TDS - LWF - advance recovery - other deductions. This is the bank transfer amount.

- [ ] **Cross-verify net pay against previous month** — Critical
  Large variations (>10%) need investigation. Could be legitimate (bonus, increment) or error (wrong LOP, double deduction).

- [ ] **Get payroll approval from management**
  Send payroll summary to the authorised signatory. Include: total headcount, gross payout, total deductions, net disbursement, month-on-month comparison.

PF vs ESI: Different Wage Bases

PF is calculated on basic + DA only. ESI is calculated on gross wages (including overtime and allowances). Mixing these up is one of the most common payroll errors.

03 Salary Disbursement

7th to 10th: pay employees and generate payslips

Bank Transfer & Payslips

- ✓ **Prepare salary bank file (NEFT/RTGS/IMPS batch)** — Monthly
  Format as per your bank's bulk transfer template. Include: employee name, bank A/c number, IFSC, net amount.
- ✓ **Verify bank details for new joiners** — Critical
  Do a small test transfer or verify via cancelled cheque/passbook. Wrong IFSC or A/c number = failed transfer.
- ✓ **Upload salary file and initiate bank transfer**
  Use maker-checker workflow if available. Two-person authorisation prevents errors.
- ✓ **Confirm all transfers processed successfully**
  Check for rejected transactions: closed accounts, IFSC mismatch, name mismatch. Re-process failed ones immediately.
- ✓ **Generate and distribute payslips to all employees**
  Payslips must show: gross, all deductions (PF, ESI, PT, TDS), net pay, leave balance. Mandatory under Payment of Wages Act.
  Payment of Wages Act 1936, S.13A
- ✓ **Set up payslip delivery employees will actually open**
  Employee app, email, or HRMS portal. PDF format preferred. Pick one channel and stay with it so staff know where to look each month.

Salary Payment Timeline

Under the Payment of Wages Act, wages must be paid by the 7th (establishments with <1,000 employees) or 10th (establishments with 1,000+ employees) of the following month. Late payment attracts penalties.

04 Statutory Payments & Filings

7th to 15th: deposit all statutory dues with government

TDS on Salary (By 7th)

- ✓ **Deposit TDS collected on salary via Challan 281** — 7th
  Pay through tin-nsdl.com or your bank's tax payment portal. Use Section 192 code.
  Income Tax Act, S.192

- ✓ **File TDS return: Form 24Q (quarterly)** — Quarterly
  Q1: 31 July, Q2: 31 Oct, Q3: 31 Jan, Q4: 31 May. File on TRACES portal.
  Income Tax Rules, Rule 31A

PF Payment (By 15th)

- ✓ **Generate ECR on EPFO Unified Portal** — 15th
  Upload monthly wage data. Verify UANs and Aadhaar linkage before generating.
  EPFO Unified Portal

- ✓ **Pay PF challan via authorised bank**
  SBI or other banks linked to EPFO. Keep TRRN receipt.

- ✓ **Download and archive TRRN receipt**
  Store for minimum 5 years. Required during PF inspections.

ESI Payment (By 15th)

- ✓ **Generate ESI challan on ESIC portal** — 15th
  esic.nic.in. Select correct contribution period (month/year).
  ESI Act 1948

- ✓ **Pay ESI challan via SBI Collect or authorised bank**
  Download payment receipt and file with monthly records.

Professional Tax (State Deadline)

- ✓ **Deposit PT with state tax authority** — Varies
  Monthly or half-yearly depending on state. Maharashtra: monthly by end of month. Karnataka: monthly by 20th. Check your state.

- ✓ **File PT return as per state frequency**
  Some states require monthly returns, others quarterly or annual.

LWF Payment (If Applicable)

- ✓ **Deposit Labour Welfare Fund with state authority** — Half-Yearly
  Maharashtra: Rs 12/employee/half-year (employer Rs 18). Karnataka: Rs 20/employee/year. Rates and frequency vary by state.

Late Payment Penalties

PF: Interest under S.7Q + damages up to 25% under S.14B, EPF Act. ESI: 12% p.a. interest under S.85, ESI Act. TDS: 1.5% per month interest + Rs 200/day late filing fee (S.234E, Income Tax Act). These penalties are automatic, not discretionary.

05 Monthly Reconciliation & Records

15th to 20th: verify everything, file records

Reconciliation Tasks

- ✓ **Reconcile PF deducted in payroll with ECR filed** — Monthly
  Payroll PF deduction total must match ECR amount exactly. Any mismatch = compliance risk.
- ✓ **Reconcile ESI deducted with challan paid**
  Same principle. Employee + employer ESI in payroll should equal challan amount.
- ✓ **Reconcile TDS deducted with Challan 281 deposited**
  Monthly TDS in payroll should match TDS deposited with government. Quarterly filing aggregates these.
- ✓ **Reconcile total salary disbursed with bank statement**
  Total net pay in payroll = total bank transfers. Check for failed transactions.
- ✓ **Verify all new joiners registered on EPFO and ESIC portals** — Critical
  UAN generated within 7 days. ESIC registration within 10 days.

Record-Keeping (Mandatory Registers)

- ✓ **Update Wages Register (Form A / Form IV)**
  Mandatory under Payment of Wages Act. Records gross wages, deductions, net pay for every employee.
  Payment of Wages Act 1936, S.13A
- ✓ **Update Muster Roll / Attendance Register**
  Physical or digital. Must show daily attendance for all employees.
  Factories Act 1948 / Shops & Establishments Act
- ✓ **File payslips for the month**
  Keep copies of all payslips issued. Digital records acceptable if backed up.
- ✓ **Archive PF ECR receipt (TRRN)**
  Store for minimum 5 years.
- ✓ **Archive ESI challan receipt**
  Store for minimum 5 years.
- ✓ **Archive TDS payment receipt (Challan 281)**
  Required for quarterly Form 24Q filing and annual Form 16.
- ✓ **Update leave balance records for all employees**
  Carry-forward, lapsed, and encashed leaves. Required for year-end provisioning.

Pro Tip

Do reconciliation on the same day you make statutory payments. It takes 15-20 minutes and catches errors before they compound. Finding a Rs 500 mismatch in June is easier than finding it during a March audit.

06 Quarterly & Annual Compliance

Key deadlines beyond the monthly cycle

Filing / Payment	Due Date	Authority	Penalty for Delay
TDS Return (Form 24Q)	Q1: 31 Jul, Q2: 31 Oct, Q3: 31 Jan, Q4: 31 May	Income Tax Dept	Rs 200/day (S.234E) + late filing fee
Form 16 (TDS Certificate)	15 June (annually)	Income Tax Dept	Rs 100/day per certificate (S.272A)
ESI Half-Yearly Return	12 Nov (Apr-Sep), 12 May (Oct-Mar)	ESIC	Penalty + prosecution risk
PF Annual Return	25 April (Form 3A & 6A)	EPFO	Damages under S.14B
LWF Deposit	Varies by state (half-yearly)	State Labour Dept	Varies by state
Bonus Payment	Within 8 months of FY close (30 Nov)	Labour Dept	Imprisonment up to 6 months + fine
Gratuity (on exit)	Within 30 days of it becoming payable	Controlling Authority	Simple interest on delayed payment

Year-End Payroll Checklist (March)

Collect investment proofs (80C, 80D, HRA rent receipts) by January. Recalculate TDS based on actuals vs projections. Issue Form 16 by June 15. Close leave balances, process carry-forward/encashment. Provision for bonus and gratuity liabilities.

All dates are for FY 2025-26. Verify deadlines each year as CBDT/EPFO/ESIC may issue extensions or changes via circulars.

PETPOOJA

This checklist is provided by Petpooja for informational purposes. Verify all compliance details with official sources before acting.

www.petpooja.com

PETPOOJA

AUTOMATE PAYROLL

Stop processing payroll *on spreadsheets*

Attendo auto-calculates PF, ESI, PT, and TDS every month. Generates ECR files, bank salary files, and in-app payslips in one click. Biometric + face recognition attendance included. Trusted by 30,000+ businesses.

Book a Free Demo

+91-72280 34343 | getpayroll@petpooja.com | attendohr.com

Powered by Petpooja. Trusted by 1,50,000+ businesses.