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INDIA: PROVIDENT FUND CONTRIBUTIONS MUST INCLUDE ALLOWANCES

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Calculations for the amount of contributions that Indian employers pay to the Employees Provident Fund Organisation (EPFO) must include allowances and basic wages paid to employees, India's Supreme Court has [ruled](#). Previously, employers hadn't included all allowances in their EPF contribution calculations — a practice that the EPFO had challenged. The EPFO requires employers to pay contributions on wages up to INR 15,000 — contribution payments on salary exceeding that amount are voluntary.

The ruling says employers' EPF calculations must include:

- Allowances that don't vary in nature
- Allowances paid to all employees

Allowances that don't have to be included in contribution calculations include payments made to incentivize the employees' work output and allowances specifically excluded under the provisions of the Employees' Provident Fund Act, such as rental, overtime, bonus and commission allowances.

Depending on an organization's compensation philosophy, some employers may decide to reduce employees' salaries to compensate for the requirement to pay higher EPFO contributions. The EPFO is expected to strengthen its audit function to verify employers' compliance with the ruling.

RELATED RESOURCES

- [Text of judgment in *The Regional Provident Fund Commissioner \(II\), West Bengal v. Vivekananda Vidyamandir*](#) (Supreme Court, 28 Feb 2019)

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