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Cos resume retirement fund payouts to retain talent

Move Triggered By FBT Exemption Granted In The Budget

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AHOST of companies in software, telecom, banking, FMCG and insurance sectors have decided to re-start contributions to their employees' superannuation fund from this fiscal to retain talent. Software major Infosys has already taken the lead.

Subsidiaries of foreign multi-national companies too are pro-actively looking at offering this benefit to existing and new employees.

The move follows the government's decision in the Budget to exempt contributions by an employer to an approved superannuation fund up to Rs 1 lakh (per employee) from FBT. Many companies had suspended contributions to employees' superannutation fund in FY06 to escape FBT.

Infosys, for instance, switched to cash compensation for employees in lieu of contributions to an approved superannuation fund. However, this fiscal, Infosys will contribute up to Rs 1 lakh towards the superannuation fund of each eligible employee.

Those who are entitled to amounts exceeding Rs 1 lakh will be paid the balance as an allowance, said V Balakrishnan, chief financial officer, Infosys. Nearly 40-50% of the company's staff are eligible for this perk.

Companies in the financial services and telecom space too are on course to contribute to their employees superannuation fund after a one-year gap. A superannuation fund is a pension plan

framed by companies for providing retirement benefits to their employees.

Post-Budget, many companies that had suspended contributions to superannuation funds are looking at restoring it, at least up to Rs 1 lakh, according to Rajiv Anand, associate director, PricewaterhouseCoopers.

A few old economy companies may even consider extending this perk to a larger segment of their employees. "The exemption from FBT on contributions up to Rs 1 lakh by the employer opens a window of opportunity for companies to redesign salary structures," said S Sreenivasan, chief financial officer, Bajaj Allianz General Insurance.

MNC subsidiaries — particularly software development companies — are now wooing employees with a combination of perks. "Post-FBT, there was a spurt of activity on the stock option front. Companies offered employees stock option plans, which are tax neutral, to attract talent. As all employees may not be eligible for ESOPs, these companies could also look at contributions to approved superannuation funds," said Daksha Baxi, senior associate and head (human resources law practice), Nishith Desai and Associates.

However, according to Amitabh Singh, tax partner Ernst & Young, while some companies will re-start contributions to pre-existing schemes, others may not want to provide the benefit till there is clarity on tax treatment at the time of withdrawals from the fund. The FBT blow has been softened on companies, with the base for valuation being lowered for expenses like travel and tour. "It is possible that certain benefits may be given to employees on which a lower amount of FBT will be payable by the employer and such benefits will not be taxed at the hands of the employees," reckons Sanjiv Chaudhary, Partner, RSM & Co.