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A CRITICAL EXAMINATION OF AUTHORIZED DEDUCTIONS FROM WAGES UNDER THE PAYMENT OF WAGES ACT, 1936

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ABSTRACT

The Payment of Wages Act, 1936 provides a structured legal framework to regulate when and how deductions may be made from an employee's wages. Sections 7 to 13A form the central pillar of this framework, specifying the permissible grounds for deductions, the procedural requirements that must be followed, and the limits placed on the total amount that can be deducted. Section 7 lists the various situations in which employers may lawfully deduct wages including fines, absence from duty, loss or damage caused by the employee, recovery of loans or advances, contributions to provident funds and insurance schemes, and payments to cooperative societies while also imposing caps on the maximum allowable deductions in a given wage period. The subsequent sections, from 8 to 12, lay down detailed processes that ensure fairness, such as giving employees an opportunity to respond before certain deductions are made, maintaining proportionality between the deduction and the cause, and adhering to conditions set by the appropriate government. Section 13 further clarifies the method of carrying out such deductions, and Section 13A requires employers to maintain proper registers and wage records for at least three years to ensure transparency and accountability. Collectively, these provisions are designed to prevent misuse of the employer's power to deduct wages, protect workers from arbitrary financial loss, and promote equity in wage management.

Key words: Wage Deductions, Payment of Wages Act, 1936, Employee Protection, Authorized Deductions, Labour Welfare

INTRODUCTION

With the rapid growth of industries in India, several problems began to surface, particularly related to the timely and proper payment of wages. Many factories failed to pay their workers on schedule, and wage rates often differed unfairly. Such practices caused

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significant dissatisfaction among industrial labourers, eventually leading to protests. In 1925, a private proposal known as the Weekly Payment Bill was placed before the Legislative Assembly for the first time. However, it was later withdrawn after the government assured that it was already examining the issue. During this period, it was common for employers to impose heavy fines on workers and even deduct double the amount of wages for periods of absence. Recognizing the need to regulate fines and wage deductions, the government began considering legislative measures in 1926.

The Royal Commission on Labour in India later put forward several important recommendations, which became the foundation of the Payment of Wages Act. The Commission emphasized that clear laws on wage deductions and fines were necessary. Some of its key suggestions included:

- Children should not be subjected to fines.
- Total deductions in a month should not exceed half an anna per rupee of wages.
- Money collected through fines must be used for purposes that benefit workers and must be approved by an authority.
- A notice listing all fines must be displayed; any fine not mentioned should be considered unlawful.
- Deductions for damaged goods should not be higher than their wholesale price.
- Deductions may be allowed for housing facilities, tools, or raw materials provided to employees.
- Any fine or deduction not authorized by law should be treated as a punishable offence.

These recommendations were presented in the Legislative Assembly in 1933. Eventually, the Payment of Wages Act was enacted in 1936 and came into effect on 21 March 1937. The preamble of the Act states that its purpose is “to regulate the payment of wages to certain classes of employed persons.” The Bombay high Court in *Arvind Mills Ltd. v. K.R. Gadgil*², observed that the overall aim of the Act is to ensure that employees receive their wages in a proper manner, at regular intervals, and without any unauthorized deductions.

CONCEPT OF WAGES

Wages refer to the monetary compensation that a worker receives in return for the labour or services they perform. Generally, workers are paid wages, while employees in higher

² AIR 1941 Bom 26

positions are paid salaries; however, both are forms of financial compensation for services rendered. As defined in Black's Law Dictionary, a wage is "a payment given as security for the performance of a task." Wages³ refer to all forms of monetary compensation whether described as salary, allowance, or any other payment—that are expressed in money or can be valued in monetary terms. These amounts are payable to an employee once the conditions of employment, whether stated or implied, are met and relate to the work performed or the employment itself.

The term wages includes:

- Any amount due under an award, settlement, or court order.
- Payments an employee is entitled to for overtime, holidays, or any period of leave.
- Any extra remuneration payable under the terms of employment, whether called a bonus or designated by another term.
- Any sum payable upon termination of employment under any law, contract, or document, even if the payment time is not specified.
- Any amount an employee is entitled to under a scheme created by any law currently in force.

In *D.P. Kelkar v. Ambadas*⁴, the court clarified that the term *wages* is not confined only to payments specified in an agreement or contract. The expanded definition covers every form of remuneration that stems from the employment relationship, regardless of how it arises.

LEGAL LIMITS ON WAGE DEDUCTIONS

An employee is entitled to receive their wages in full, and no amount may be cut from it unless the deduction is specifically permitted under the Payment of Wages Act. Any deduction not authorized by the Act is prohibited. If an employee makes any payment to the employer, it is regarded as a deduction from wages. *Example:* If a worker pays ₹500 back to the employer for any reason, that amount is treated as a deduction. The following actions are not considered deductions, as long as they are imposed according to government-approved rules:

1. Withholding an increment or promotion
2. Lowering an employee to a lower post or reducing their pay scale
3. Suspension from duty

These are disciplinary measures, not wage deductions, provided they comply with the

³ Payment of Wages act, 1936 (Act 4 of 1936), s. 2(vi)

⁴ AIR 1971 Bom 124

prescribed rules⁵.

TYPES OF ALLOWED DEDUCTIONS

This Act specifies the various kinds of deductions that an employer is legally allowed to make from an employee's wages. Any deduction outside this list is considered unlawful. Under section 7(2), wages may be reduced for reasons such as fines imposed according to the rules, absence from duty, or damage caused to the employer's property through negligence. Deductions are also permitted for house accommodation, approved amenities or services provided by the employer, recovery of loans or advances, and any excess payments made by mistake. Amounts required to be withheld by law such as income tax, provident fund, or insurance contributions may also be deducted. Additionally, payments towards co-operative societies or insurance schemes can be made from wages if the employee has given consent. Overall, the purpose of Section⁶ is to ensure that wage deductions are made only for legitimate and authorized reasons, protecting workers from unfair or arbitrary reductions.

DEDUCTION OF FINES

Section 7(2)(a) allows an employer to deduct fines from an employee's wages, but this provision must be understood together with Section 8 of the Act, which lays down the detailed procedure and conditions for imposing and recovering such fines. Section 8 contains eight specific clauses, each outlining a requirement or guideline that must be followed when a fine is charged and deducted from an employee's wages. Under the Act, fines can only be imposed on an employee for specific acts or omissions that the employer has identified in advance and that have received prior approval from the appropriate government or prescribed authority.

These acts must be listed in a notice that is displayed at the workplace in the manner required by law. Before any fine is levied, the employee must be given an opportunity to explain their side, and the procedure for imposing fines must follow the rules laid down under the Act. The total fine that may be charged in a single wage period cannot exceed three percent of the employee's wages for that period, and no fine may be imposed on a worker under fifteen years of age. A fine must be recovered within ninety days of the date of the misconduct and cannot be collected in instalments. Every fine is considered imposed on the date the relevant

⁵ Payment of Wages act, 1936 (Act 4 of 1936), s. 7(1)

⁶ Payment of Wages act, 1936 (Act 4 of 1936), s. 7(2)

act or omission occurred. All fines and collections must be recorded in a prescribed register maintained by the person responsible for wage payments, and the money collected can only be used for purposes that benefit the employees and that are approved by the prescribed authority. When the workers of a factory, railway, industrial establishment, or similar organization form only part of a larger workforce under the same management, the amounts collected may be credited to a common staff fund, provided that the fund is used only for purposes authorized by the prescribed authority.

In *K.P. Mushran, General Manager, B.B. & C.I. Railway v. B.C. Patil and Another*⁷, the Supreme Court reaffirmed that an employer's authority to impose fines or deduct wages is restricted strictly to what is permitted under Section 8 of the Payment of Wages Act. The Court made it clear that any deduction not expressly authorized by the Act is unlawful. It further held that an employer cannot withhold an employee's wages without a valid legal basis—for example, withholding pay during suspension without proper authority amounts to an illegal deduction, and the employee remains entitled to receive full wages for that period.

DEDUCTION FOR ABSENCE FROM DUTY

Section 7(2)(b) permits employers to deduct wages for an employee's absence from duty, but this provision must be interpreted alongside Section 9 of the Act, which explains the specific rules and conditions governing such deductions. Section 9 sets out the detailed procedure for determining and deducting wages in cases of absence from work. This allows deductions from wages when an employee is absent from the place where they are required to work, whether for the entire period or only part of the time they were supposed to be on duty. The deduction made must be proportionate to the period of absence in relation to the total working time the employee was expected to complete during that wage period. The proviso states that if ten or more employees, acting together, stay away from work without giving the required notice under their employment contract and without a valid reason, the employer may deduct an additional amount from each of them up to a maximum of eight days' wages if such deduction is permitted under the terms of employment in place of the notice period. The explanation further clarifies that an employee will be considered absent even if physically present at the workplace but refusing to perform duties, for example during a stay-in strike or for any other unjustifiable reason.

⁷ AIR 1952 Bom 235

*Bank of India, Bombay and Anr. v. T.S. Kelawala, Bombay & Ors*⁸. the employees of the bank decided to protest by going on a four-hour strike each day until their demand for wage revision was met. In response, the bank issued a circular stating that the full day's wages would be deducted for anyone participating in the strike. The Supreme Court, however, held that the strike in question was lawful and clarified that Sections 7(2)(b) and 9 of the Payment of Wages Act allow employers to deduct wages only for the period of actual absence, and any deduction beyond that proportion is not permitted. The Court further observed that unless the law specifically grants an employer the authority to make such a deduction, the employer cannot exercise it.

In *Surendranath Nair and Others v. Senior Divisional Personnel Officer (Railways)*⁹, railway employees had applied for casual leave, which the administration denied. Despite this refusal, the employees took part in an agitation, and the railway authorities treated this period as unauthorized absence, deducting wages accordingly. Unlike the earlier case, the court ruled that such absence for the purpose of agitation against the management was not justified. Therefore, employees who stay away from duty without authorization cannot claim wages for the period during which they were absent.

In *Mineral Miner's Union v. Kudremukh Iron Ore Co. Ltd.*,¹⁰ the court held that wage deductions for the period of an illegal strike were valid and justified. However, in *Kothari (Madras) Ltd. v. Second A.J. cum Appellate Authority and Others*¹¹, it was clarified that when employees are unable to attend work due to reasons beyond their control such as a bandh the employer cannot lawfully deduct their wages, as the employees are not at fault for their absence.

In *French Motor Car Co. Ltd. Workers' Union v. French Motor Car Co. Ltd.*,¹² the court dealt with three important issues. Some employees had adopted a "go-slow" strategy and later went on a three-day strike. After the strike, 29 workers were prevented from resuming duty unless they signed a guarantee bond. The court held that, based on the principle of "no work, no pay," the management was justified in deducting wages for the three days during which the

⁸ (1988) II LLJ 246 (Bom.)

⁹ (1988) I LLJ 227 (Kerala).

¹⁰ (1989) I LLJ 227 (Karn.).

¹¹ (1991) II LLJ 604 (Andhra Pradesh).

¹² (1991) I L.L.J. 107 (Gauhati).

strike took place. It also clarified that the authority under the Payment of Wages Act does not have the jurisdiction to decide whether a strike is legal or illegal. The deduction of wages for the strike period was permissible under Section 7(2)(b), which allows deductions for absence from duty. However, such absence must be voluntary. If workers are unable to work because of conditions imposed by the employer, their absence cannot be treated as voluntary. Consequently, no wage deduction could be imposed on the 29 employees who were prevented from returning to work due to the employer's insistence on a guarantee bond. The third issue involved the non-payment of variable allowances.

In *V. Rama Chandran Vs. Indian Bank*,¹³ it was held that, if the employee is absent from his duty at the time of work, the employer can deduct individual salary exactly proportionate to the time he is absence from work.

DEDUCTION FOR DAMAGE OR LOSS

Section 7(2)(c) permits employers to deduct wages when an employee causes damage or loss to the employer's property. This includes situations where goods have been specifically entrusted to the employee for safekeeping, where the employee is responsible for accounting for sums of money, or where the damage or loss results directly from the employee's negligence or default. Section 10 outlines the procedure for such deductions and provides that any deduction under Section 7(2)(c) cannot exceed the actual amount of damage or loss suffered by the employer. Additionally, it specifies that no deduction may be made without first giving the employee an opportunity to explain or contest the proposed deduction¹⁴. All deductions made under these provisions, along with the amounts recovered, must be entered into a register maintained by the person responsible for wage payments under Section 3, in the manner prescribed by the rules¹⁵.

DEDUCTION FOR SERVICES RENDERED

This act permits wage deductions for house accommodation¹⁶, whether provided directly by the employer, through a housing board established by the government, or through subsidized housing notified in the official gazette and allows deductions for amenities and

¹³ (1979) ILLJ 182

¹⁴ Payment of Wages act, 1936 (Act 4 of 1936), s.10(1A)

¹⁵ Ibid, s.10(2)

¹⁶ Ibid, s.7(2)d

services¹⁷ supplied by the employer, as long as such facilities have been authorized by the appropriate government or a designated officer through a general or special order. Employer can deduct wages for these only if the employee as accepted the facilities. If the employee not agreed, no deduction can be made. The procedural requirements for both these clauses are laid out in Section 11, which deals with deductions for services rendered. It specifies that such deductions cannot exceed the actual value of the accommodation, amenity, or service provided, and in the case of deductions under clause (e), they must comply with any conditions imposed by the appropriate government.

In *Rampur Engineering Co. Ltd. v. City Magistrate and Others*,¹⁸ the issue concerned whether the employer was justified in deducting wages for damage caused to items such as an electric bulb and work tools provided to employees. The employees had approached the City Magistrate, claiming that the deductions were illegal, and the Magistrate agreed, holding that the items were meant for use rather than custody and therefore did not fall within Section 7(2)(c) of the Payment of Wages Act. On writ petition, however, the Allahabad High Court set aside this decision, explaining that the term *goods* should be interpreted broadly, consistent with the Sale of Goods Act, to cover any movable property, and that *custody* includes not only safe-keeping but also having the items in one's charge while using them for work. Since the tools and bulb had been entrusted to the employees for their tasks, and the damage resulted from their neglect or default, the Court held that the deductions were valid under Section 7(2)(c). Consequently, the High Court quashed the Magistrate's order and upheld the wage deductions made by the company.

In *State of Madras v. K. Ramaswami*,¹⁹ the Madras High Court examined whether the Transport Department was entitled to recover the cost of damage to buses from the wages of its drivers. The Court observed that mere operation of a vehicle does not automatically amount to legal custody unless there is an express entrustment as contemplated under Section 7(2)(c) of the Payment of Wages Act. In the absence of such express entrustment, deductions from wages were held to be impermissible. The Court further emphasized that the State had failed to establish that the damage occurred due to any negligence or misconduct on the part of the drivers. It was held that recovery of damage costs from wages is permissible only when the

¹⁷ Ibid, s.7(2)e

¹⁸ AIR 1966 All 544

¹⁹ AIR 1958 Mad 630

employee is expressly entrusted with the property, the loss is attributable to the employee's fault, and the procedural safeguards under Section 10, including an opportunity of being heard, are strictly complied with. In the case *M. Balasundaram v. Financial Adviser S. Rly*²⁰ it was held that there must be a requisition in writing by local authority calling upon employer to make such deductions from the salary under sec.11.

DEDUCTION FOR RECOVERY OF LOANS AND ADVANCES

Section 7(2)(f) permits deductions from wages for the recovery of advances, including travelling or conveyance advances, as well as any interest due on them, and for adjusting wages that were overpaid. Section 7(2)(ff) similarly authorizes deductions for the recovery of loans taken from any welfare fund established for employees, along with the applicable interest, provided the fund operates under rules approved by the appropriate government. While these clauses recognize the employer's right to recover advances and loans, Section 12 sets out the manner in which such recoveries must be made. Advances granted before an employee joins service may be recovered from the first wage payment for a complete wage period, although advances given specifically for travelling expenses cannot be recovered. Advances provided after employment has commenced may be recovered only in accordance with the conditions laid down by the appropriate government²¹. Furthermore, any recovery from wages that the employee has not yet earned must follow government-framed rules that prescribe the permissible limits and instalments for such deductions.

DEDUCTION FOR RECOVERY OF HOUSE-BUILDING LOANS

Section 7(2)(fff) empowers the employer to make deductions from an employee's wages for the recovery of loans granted for house-building purposes or for any other purpose approved by the appropriate government, along with the interest payable on such loans. The procedural framework for these deductions is provided²² under this act, which states that the recovery must comply with the rules framed by the appropriate government. These rules govern important aspects such as the maximum amount of loan that may be sanctioned and the rate of interest chargeable. This ensures that deductions for house-building or similar loans are made fairly and within regulated limits.

²⁰ (1981) I LLJ 414 (Mad.)

²¹ Payment of Wages act, 1936 (Act 4 of 1936), s.12(aa)

²² Payment of Wages act, 1936 (Act 4 of 1936), s.12 A

DEDUCTION FOR INCOME TAX

Section 7(2)(g) permits deductions from an employee's wages for the income tax that the employee is legally required to pay. These deductions are lawful as they relate to statutory tax liabilities and must be made in accordance with the applicable tax laws.

DEDUCTION AUTHORIZED BY COURT ORDER

Section 7(2)(h) permits employers to make wage deductions when such deductions are mandated by an order of a court or another competent authority. This provision was examined in *Municipal Corporation v. N.L. Abhyankar*²³, where union representatives asked the employer to collect a levy from employees and remit it to the union. The employer refused, leading the union to approach the Labour Court, which directed the employer to comply with the employees' request. On appeal, the employer argued that deductions other than those listed under Section 7(2) were not allowed; however, it was clarified that clause (h) expressly authorizes deductions based on court orders. A similar issue arose in *Manager, Rajapalayam Mills Ltd. v. Labour Court, Madurai and Another*,²⁴ where an employee who had taken a house-building loan resigned from service. The employer adjusted the outstanding loan amount against the wages due to the employee at the time of resignation. When the employee challenged this adjustment, the court held that once he had ceased to be an employee, he could not invoke the provisions of the Payment of Wages Act to claim unpaid salary. The court further observed that under Section 7(4), the employer was within its rights to adjust the entire amount due towards repayment of the loan.

DEDUCTION FOR PROVIDENT FUND

Section 7(2)(i) permits employers to deduct amounts from an employee's wages towards subscriptions to provident funds that fall under the Provident Funds Act, 1925, or any recognised provident fund as defined under the Income-tax Act, 1961. It also covers deductions for repayments of advances taken from such funds, as long as the provident fund has been approved by the appropriate government and that approval remains in force. Further, Section 7(2)(ii) allows deductions for contributions to the National Defence Fund or any Defence Savings Scheme, but only when such deductions are made with the written consent of the employee or with the authorisation of the president or secretary of the registered trade union to

²³ (1979) vII LLJ 258 (Bom.)

²⁴ (1987) II L.L.J. 59 (Mad)

which the employee belongs, subject to prescribed conditions. These provisions ensure that deductions for provident fund and defence-related contributions are made lawfully, transparently, and only with proper authorization.

DEDUCTION TO CO-OPERATIVE SOCIETY/ GOVERNMENT INSURANCE POLICY

Employers can deduct amounts from wages for payments to cooperative societies that have been approved by the appropriate government or a designated authority, as well as for contributions to insurance schemes operated by the Indian Post Office²⁵. Deductions can be made with the employee's written consent for payment of life insurance premiums under the LIC Act, 1956, or for deposits in post office savings accounts under government savings schemes²⁶. Additionally, the employer can deduct for insurance premiums payable under schemes introduced by the Central Government²⁷. The procedure for making deductions under clauses (j) and (k) is outlined in Section 13, which states that such deductions are subject to conditions prescribed by the State Government. Although deductions under Section 7(2)(q) also fall within this framework, they specifically require the employee's written authorization.

DEDUCTION FOR WELFARE FUND

Section 7(2)(kk) permits employers to create welfare funds for the benefit of employees and their families, or for trade union-related purposes, provided such funds are approved by the appropriate government or a designated authority and remain valid only as long as that approval continues.

DEDUCTION FOR TRADE UNION MEMBERSHIP FEES

Section 7(2)(kkk) further allows deductions from wages for trade union membership fees or subscriptions, ensuring that such contributions are made lawfully and in accordance with the employee's association with the union.

DEDUCTION OF WAGES FOR FIDELITY BOND INSURANCE PREMIUM

Section 7(2)(l) permits employers to deduct amounts from an employee's wages for

²⁵ Payment of Wages act, 1936 (Act 4 of 1936), s. 7(2)(j)

²⁶ Ibid, s.7(2)(k)

²⁷ Ibid, s.7(2)(q)

payment of insurance premiums on Fidelity Guarantee Bonds. This policy protects the employer from loss caused by employee dishonesty, theft, fraud, misuse of money.

DEDUCTIONS FOR RAILWAY-RELATED LOSSES

Clause (m) allows deductions from wages when a railway administration suffers financial loss because an employee has accepted counterfeit, base, mutilated, or forged coins or currency notes. Under clause (n), deductions may be made if the railway incurs losses due to an employee's failure to properly invoice, bill, collect, or account for the correct charges, whether these relate to fares, freight, demurrage, wharfage, carriage, or the sale of goods such as food in catering units or commodities in grain shops. Clause (o) further authorizes deductions when losses arise from rebates or refunds that were wrongly granted by an employee, provided that such loss is directly attributable to the employee's negligence or default.

DEDUCTIONS FOR CONTRIBUTIONS TO NATIONAL RELIEF FUNDS

Clause (p) enables deductions made with the employee's written consent for contributions to the Prime Minister's National Relief Fund or any other fund notified by the Central Government in the Official Gazette.

DEDUCTIONS FOR CENTRAL GOVERNMENT INSURANCE SCHEMES

Clause (q) authorizes deductions from wages for contributions to any insurance scheme introduced by the Central Government for the benefit of employees.

LIMITS ON TOTAL WAGE DEDUCTIONS

This act places a limit on the total deductions that can be made from an employee's wages in any wage period. When deductions relate wholly or partly to payments made to co-operative societies under Section 7(2)(j), the maximum permissible deduction is 75% of the employee's wages. In all other situations, deductions cannot exceed 50% of the wages for that period²⁸. If the deductions authorized under Section 7(2) go beyond these limits, the excess

²⁸ Payment of Wages act, 1936 (Act 4 of 1936), s. 7(3)

amount must be recovered in the manner prescribed by the rules. Further, it also clarifies that these limits do not prevent an employer from recovering any amount that an employee is legally required to pay under any other applicable law, except the Railways Act, 1989²⁹.

MAINTENANCE OF REGISTER AND RECORDS

Section 13A requires every employer to maintain proper registers and records containing detailed information about the employees working under them. These records must include particulars such as the names of employees, the nature of work performed, the wages paid, any deductions made from those wages, receipts issued to employees, and any other details prescribed by the rules. The section also mandates that all such registers and records must be kept in the prescribed format and retained for at least three years from the date of the last entry. This requirement ensures transparency, facilitates inspections, and helps resolve any disputes related to wages or deductions by providing an authentic record of employment and payment details.

CONCLUSION

The need to safeguard workers' wages has been recognized since the early stages of industrial development, as employees have historically faced various forms of exploitation. Even today, issues regarding timely and fair payment of wages continue to be a major source of conflict between employers and employees. Wage deductions, in particular, often become a point of dispute, with employees frequently viewing them as unfair or excessive. The Payment of Wages Act, 1936 addresses this concern by clearly outlining the circumstances under which deductions may be lawfully made, ensuring that employers cannot arbitrarily reduce wages and that any recovery is carried out in a regulated and justified manner. These provisions aim to strike a balance between protecting workers' earnings and allowing employers to recover legitimate dues, thereby promoting fairness and reducing friction in the employer–employee relationship.

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