

**Media Coverage**

Publication	Date	Edition	Link	Headline
India Tv News	14 Aug 2020	Online	<a href="https://www.indiatvnews.com/business/news-gratuity-payments-eligibility-salaried-employees-gratuity-calculator-formula-central-government-640956">https://www.indiatvnews.com/business/news-gratuity-payments-eligibility-salaried-employees-gratuity-calculator-formula-central-government-640956</a>	Big news for salaried employees: Govt likely to reduce gratuity payments eligibility. Deets inside



The Central government is considering reducing the minimum eligibility condition for gratuity payments to employees. The Centre may reduce the threshold from five years of continuous employment to between one and three years amid growing demand to make the gratuity eligibility criteria shorter.

In a recently tabled report, the Parliamentary Standing Committee on Labour had recommended that the existing period of five years of continuous service for gratuity payment to employees should be reduced to one year.

Gratuity payments to staff are equivalent to 15 days of salary for each year an employee has spent at an organisation.

"There is demand from several quarters to lower the gratuity threshold. How to take it forward and lower the five-year threshold is a subject on the table; it is likely to be lowered," a government official said as per a report by Mint, seeking anonymity.

"There are two options-pro-rata basis or proportional change for a few sectors, or a reduction in the five-year threshold for all sectors. Demand for the second option has more takers in the normal discourse with experts and economists. The standing committee has suggested to lower it to 1-3 years from the current five years," the report also quoted the official as saying.

However, Indiatvnews could not independently verify the report.

Labour market experts have said that the five-year threshold is outdated. "The five-year threshold was formulated decades ago to promote long-term work culture. The reality is different now. While gratuity threshold of one year may not be feasible, 2 to 3 years is a better option," said RP Yadav, CMD Genius Consultants Ltd, a staffing company.

The Parliamentary Standing Committee on Labour, in its report, also pointed out that this employment period provision also incentivises employers to terminate employees before the completion of five years.

Another recommendation made by the committee was that gratuity should be made payable to all employees -- contract labourers, seasonal workers, piece-rate workers, daily/monthly wage workers.

"The benefit of the pro-rata gratuity should be extended to the contract labour if they serve for the full period of the contract irrespective of the change of contractors. The principal employer should be liable to pay pro-rata gratuity for the term of the contract and it may be paid along with the last wages," the report noted.

The recommendations were part of the report on the Code of Social Security, 2019. It was submitted to Lok Sabha Speaker Om Birla on July 31, 2020.

How to calculate gratuity:

To calculate how much gratuity is payable, the Payment of Gratuity Act, 1972 has divided non-government employees into two categories:

a) Employees covered under the Act

b) Employees not covered under the Act

Category 1: Employees covered under the Act

Using the two important parameters – number of years of service and last salary drawn, you can calculate the gratuity as follows –

Gratuity = Last drawn salary x (15/26\*) x Number of years of service

\*the number of working days per month is taken as 26 days.

\*\* gratuity calculation is done at the rate of 15 days wages

Last drawn salary should be carefully calculated to account for the following components –

Basic

Dearness Allowance – for government employees

Commission received on sales

Example: If you had been drawing Rs 80,000 as your last basic salary with 10 years 4 months of employment tenure, then the gratuity amount you will receive as per the formula is:

Gratuity = Rs 80,000 x (15/26) x 10 = Rs 4.62 lakhs

The 4 months is below 5, so is rounded off to 10. Months more than 5 are rounded off to the next year.

Category 2: Employees not covered under the Act

You can be paid a gratuity even if the organization is not covered under the Act. If that is the case, the number of working days in a month changes to 30 days instead of 26 days.

Gratuity = Last drawn salary x (15/30) x Number of years of service

In the above example, if your organization is not covered under the Act, then the calculation will be as follows –

Gratuity = Rs 80,000 x (15/30) x 10 = Rs 4.00 lakhs

For employees covered under the Act, the benefit of a lower denomination is given. Hence, working days in a month are taken as 26 days instead of 30 days.