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Gratuity Rules Likely To Change Soon. What It Means For You

The Gratuity Amendment Bill seeks to make formal sector workers eligible for up to Rs. 20 lakh tax-free gratuity.

[All India](#) | Edited by [Surajit Dasgupta](#) | Updated: July 11, 2017 07:21 IST

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Gratuity amount depends on last drawn salary and number of completed years of service

The bill which seeks to double the tax-free gratuity limit to Rs. 20 lakh, from Rs. 10 lakh, is likely to be pushed for passage in the upcoming monsoon session of Parliament, beginning July 17, said Labour Minister Bandaru Dattatreya. "This is on our agenda. It may come in this session (monsoon). It will soon go to the Cabinet for approval," the labour minister told Press Trust of India. The draft bill, however, is yet to be scrutinised and approved by the Union Cabinet.

Here are 10 things to know:

1) Gratuity is a benefit received by an employee for services rendered to an organisation. For companies covered under

the Gratuity Act, this benefit is paid when an employee completes five or more years of service with the employer.

- 2) The Gratuity Amendment Bill seeks to make formal sector workers eligible for up to Rs. 20 lakh tax-free gratuity.
- 3) Earlier in February, the central trade unions had agreed on the proposal in a tripartite consultation with the labour ministry.
- 4) The unions had also demanded the removal of the condition of minimum five years of service for payment of gratuity.
- 5) Trade unions had also demanded that the amended provision regarding maximum amount should be made effective from January 1, 2016, as done in the case of central government employees.
- 6) The move to amend gratuity rules for formal sector workers comes after limit for central government employees was hiked to Rs. 20 lakh, according to 7th pay commission's recommendations.
- 7) The relevant amendment for central government employees was notified on July 25, 2016 and the enhanced ceiling amount was made effective from January 1, 2016.
- 8) The unions had also demanded that rate of 15 days wages for each completed year of service be raised to 30 days wages.
- 9) According to the current formula for formal sector workers, the gratuity amount depends upon the tenure of service and last drawn salary. It is calculated according to this formula: Last drawn salary (basic salary plus dearness allowance) X number of completed years of service X 15/26. According to this formula, the time period of over six months or more is considered as one year. This means if you have completed five years and seven months of service, the number of years would be considered as six years for calculation of gratuity benefit. On the other hand, if the service period is five years and five months, for gratuity calculation it will be considered as five years.

10) An employer can however give higher gratuity than the amount under the prescribed formula.

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