



What is Gratuity Policy?

Gratuity is the wholesome amount paid by the company to their employees for the services rendered by them upon completion of minimum 5 years of service.

The Gratuity rules are mandated under Payment of Gratuity Act, 1972. The act came into force on 16 September 1972.

All central and state government bodies are covered under this act. Private organizations come under this act after fulfilling certain conditions.

Rule of Gratuity Policy

Gratuity is provided after fulfilling certain conditions-

1. Employee count

When employee count of organization on a single day in preceding 12 months is more than 10 they are liable to pay gratuity amount. They still have to pay if the number of employees becomes less than 10 under the gratuity act.

2. Eligibility criteria

To meet the criteria an employee has to work for a minimum of 5 years. In a single year 240 working days are eligible for gratuity. This amount varies for people working in mines.

The 5 years of continuous service also include interruptions caused by strikes, lockouts, accidents, leaves, layoffs, absence from duty without leave, and termination of service not on the part of an employee.

3. Circumstances under which gratuity can be paid

Gratuity can be paid not only upon retirement but also under following circumstances:

- Demise
- Resignation
- Disablement
- Termination
- Lay offs

4. Based upon last year salary fetched and years of service

Gratuity is calculated upon last year salary fetched and years completed in the particular organization.

Gratuity formula - $15 \times \text{Last year salary} \times \text{Number of years completed} / 26$

- Here salary only includes basic salary and dearness allowance. Other components of salary are not included.
- A completed service year means an employee has worked more than 6 months.

5. Forfeiture of Gratuity

Gratuity can be forfeited under certain circumstances where employees have terminated due to following reasons

- Committing an offense
- Disorderly acts or violence

Tax on gratuity

1. Gratuity is a part of salary. So tax on gratuity is different for every individual.
2. As per Article 10 of Income Tax, the tax on gratuity for a government employee is completely exempted.
3. In case of death/retirement of an employee gratuity charged is exempted under following criteria:
 - Rs 20 lakh
 - Actual amount of gratuity received
 - Eligible Gratuity
4. Gratuity paid to a legal heir or widow is completely exempted from tax.

To better understand the concept of gratuity let's take an example. Suppose Mr X working in ABC Corporation Ltd receives a monthly salary of 1,30,000 including basic salary and dearness allowance and has been working for about 19 years 2 months gratuity amount received would be

$$1,30,000 \times 19 \times \frac{15}{26} = 14,25,000$$

This amount is exempted from Income Tax as it is under 20 lakh.

Gratuity Policy Template

Gratuity Request Form

To
The ABC Ltd
Mumbai

Sir,

I request to apply for payment of gratuity to which I am entitled under Section (1) of Section 4 of Payment of Gratuity Act 1972, on account of my retirement/ resignation/ disablement after completion of six years of service from 6/06/2017. Necessary details required are mentioned below.

Statement

- | | |
|---|---------------------|
| 1. Name in full | Mr X |
| 2. Address in Full | Andhra Road, Mumbai |
| 3. Department/ Branch/ Section | Marketing |
| 4. Date of Appointment | 06/06/2017 |
| 5. Cause of Termination (Resignation/ Disability/ Retirement) | Disablement |
| 6. Total years of service | 6 |
| 7. Amount of wages last drawn | 15000 |
| 8. Amount of Gratuity claimed | |
| 9 . I was rendered total disability due to a car accident. | |
| 10. The evidence in support of disablement is attached. | |
| 11. Payment may be made in cash/ cheque. | |

Place: Mumbai
Date: 10/06/2023

Yours faithfully
Mr X

Gratuity Approval Form

Form 'L'

Notice for payment of gratuity

To Mr X

(Name of the employee/ legal hire receiving gratuity amount)

You are hereby informed as required under clause (1) of sub rule 1 of rule 8 of the Payment of Gratuity Act 1972 that a sum of(Rupees) is payable to you as your share of gratuity as an employee of ABC Ltd.

2. Please call at(policy) on(date) for collecting your payment in cash/ cheque.

3. Amount will be sent to you by cheque by Indian Postal Service at your address.

Brief Statement of Calculation

1. Total period of service Years Months.
2. Wages last drawn.
3. Amount payable.

Place: Mumbai

Date- 15/06/2023

Signature of signing officer