

How to Calculate Gratuity for Private Sector Employees?

What is Gratuity?

Gratuity is the additional monetary compensation paid by the employer to the employee in return for the long term employment services offered by the employee. Employees who have been employed in the company for five years or more are paid gratuity. Gratuity and its rules and regulations are governed by the Payment of Gratuity Act 1972.

Eligibility for Gratuity

You are eligible for gratuity if you meet the following conditions:

- Your employer is covered under the Payment of Gratuity Act 1972
- You are eligible for superannuation
- You are eligible for retirement (attained 60 years of age)
- You are an employee for the past five/seven continuous years
- In case of your death, the gratuity will be paid to your family/dependents/nominee
- In case of disability/permanent sickness

How to Calculate Gratuity for Private Sector Employees?

You can calculate the gratuity with the help of the following formula:

Gratuity: $\frac{AB15}{26}$ Where,

- A is (number of years of service in a company)
- B is (last drawn salary) {Basic Salary + Dearness Allowance}
- 15 being wages for 15 days and 26 being the days of the month
- Last drawn salary means basic salary, dearness allowance and commission received on sales
- In case of retirement, the gratuity payable is 16 times the basic pay subject to a maximum of Rs. 20 lakhs
- In case of death of the employee, the gratuity is paid based on the length of service, where the maximum benefit is restricted to Rs. 20 lakhs In case of death, the gratuity payable will be:

YEARS OF EMPLOYMENT	RATE
Less than one year	2x Basic Pay
One year or more but less than 5 years	6x Basic Pay
5 years or more but less than 11 years	12x Basic Pay

YEARS OF EMPLOYMENT	RATE
11 years or more but less than 20 years	20x Basic Pay
20 years or more	Half of emoluments (salary) for every completed 6 monthly period subject to maximum of 33 times of emoluments

Example - Mr. X has worked for PNR Firm for 10 years and his last drawn salary (Basic + Dearness Allowance) is Rs 30,000. Therefore, Mr. X's gratuity amount would be - $10 \times 30,000 \times \frac{15}{26} = \text{Rs. } 1,73,076$ (Gratuity is dependent upon the total number of years served in the company and the last drawn salary)

Is Gratuity Tax Free?

The tax-exempted gratuity amount you can claim cannot exceed Rs. 20 lakhs currently in total from one or more employers.