

## **Quadrant II - Notes**

**Paper Code: COG 146**

**Module Name: Bonus Act and Payment of Gratuity Act**

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### **Payment of Bonus Act**

#### **Payment of Bonus Act**

- The payment of Bonus Act, 1965 aims to regulate the amount of bonus to be paid to the persons employed in establishments based on its profit and productivity.
- A sum of money added to a person's wages as a reward for good performance.

#### **Objectives of the Act**

- To impose a legal responsibility upon the employer of every establishment covered by the Act to pay the bonus to employees.
- To designate the minimum and maximum percentage of bonus.
- To prescribe the formula for calculating bonus.

#### **Eligibility for Bonus**

- The employee receiving salary or wages up to Rs.21,000 per month
- The employee engaged in any work whether skilled, unskilled, managerial, supervisory etc.
- The employee who have worked not less than 30 working days in the same year.

#### **Applicability of the Act**

The Payment of Bonus Act implements to the establishments which fall under any of the below listed:

- It applies to any factory or establishment which had twenty or more workers employed on any day during the year.
- The act does not apply to the non-profit making organisations.
- It is not applicable to establishments such as LIC, hospitals which are excluded under Section 32.
- It is not applicable to establishments where employees have signed an agreement with the employer.
- It is not applicable to establishments exempted by the appropriate government like sick units.

#### **Eligibility for Bonus**

Any employee is eligible for availing bonus if the following conditions are satisfied:

- The employee receiving salary or wages up to Rs.21,000 per month

- The employee engaged in any work whether skilled, unskilled, managerial, supervisory etc.
- The employee who have worked not less than 30 working days in the same year.

### **Payment of Minimum and Maximum Bonus**

- The minimum bonus will be 8.33% of the salary during the year, or
  - 100 rupees will be given in case of employees above 15 years and sixty rupees in the case of employees below 15 years, whichever is higher.
- The maximum bonus is 20% of the salary during the accounting year.

### **Payment of Gratuity Act, 1972**

- Is defined as a benefit plan given by the employer to the employee for rendering services continuously for five years or more.
- It is a monetary benefit usually given at the time of retirement.

### **Applicability**

The act applies to all factories, mines, oilfields, plantations, ports and railway companies. But in the case of shops or establishments other than those stated before, it applies to those organizations with 10 or more persons are employed on any day of the preceding 12 months.

### **Payment of gratuity: eligibility and calculation**

Payment of gratuity is mandatory. Gratuity shall be payable to an employee on termination of employment after he has rendered continuous service for not less than 5 years in a single organization.

The termination can be due to: Retirement or resignation, and Death or disablement due to accident or disease. The completion of continuous service of 5 years is not required where termination of employment is due to death or disablement. In such case mandatory gratuity is payable.

Gratuity is paid at a rate of 15 days' wages for every completed year of service or part thereof in excess of six months. The wages here means wages last drawn by the

employee. The "15 days' wages" will be calculated by dividing the last drawn wages by 26 and multiplying the result with 15.

Maximum gratuity that is payable is fixed at Rupees 20,00,000.

Gratuity amount is taxable if it more than Rupees 20,00,000.