

Parliament passes bill that lets govt double tax-free gratuity to Rs 20 lakh

The Parliament today passed the Payment of Gratuity (Amendment) Bill which will increase the ceiling of tax-free gratuity amount to Rs 20 lakh from Rs 10 lakh. Further, this will allow the government to increase the gratuity ceiling from time to time without amending the law. It also allows the government to fix the period of maternity leave for female employees as deemed to be in continuous service in place of the existing 12 weeks.

The amendment to the payment of gratuity law comes in the backdrop of Maternity Benefit (Amendment) Act, 2017 enhancing the maximum maternity leave period to 26 weeks.

Here is what it means for you.

How much gratuity is tax exempt

The maximum gratuity amount that is tax exempt is applicable to a person's entire career. What this means is that during your entire working life, the tax-exempted gratuity amount you can claim cannot exceed Rs 10 lakh currently in total from one or more employers. The employers can pay more than what the gratuity formula says if they feel so. The Payment of Gratuity Act, 1972 does not prevent them from doing so. The Act only prescribes the minimum limit which is exempted from tax.

Who will benefit

It appears that the proposed increase in tax-exempt gratuity limit will immediately benefit mostly those with high salaries as not many people would be earning a basic salary of over Rs 70,000 a month at present. However, if there are years to go for your retirement or you just started working, this increase will benefit most employees.

At present, formal sector workers with five or more years of service are eligible for Rs 10 lakh tax-free gratuity after leaving job or at time of superannuation. With the passage of the bill, the tax-free gratuity of Rs 20 lakh to organised sector workers will now be at par with the central government employees. After implementation of the seventh Central Pay Commission, the ceiling of gratuity amount for central government employees was increased from Rs 10 lakh to Rs 20 lakh.

The Payment of Gratuity Act, 1972, was enacted to provide for gratuity payment to employees engaged in factories, mines, oilfields, plantations, ports, railway companies, shops or other establishments.

The law is applicable to employees, who have completed at least five years of continuous service in an establishment that has 10 or more persons.

(Economic Times)

