

## **Gratuity Calculation & Compliance Checklist**

### Important Instructions

- This checklist ensures 100% compliance with Payment of Gratuity Act, 1972
- Complete all sections before processing gratuity payment
- Maintain proper documentation for audit and legal purposes
- Follow statutory timelines to avoid penalties and interest charges
- Maximum gratuity limit: ₹20,00,000 (Twenty Lakhs) as of 2025



	Employee Type Verification
	Confirm employee category eligible for gratuity
	Includes permanent, contract, and fixed-term employees (excludes apprentices)
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	Minimum Service Period Check
	Verify completion of 5 years continuous service
	Exception: Death or disablement during service waives 5-year requirement
	Service Continuity Verification
	Ensure no break in service that affects eligibility
	Consider company changes, transfers, and leave periods
	Reason for Separation
	Verify valid reason for gratuity payment
	Resignation, retirement, death, disablement, or termination (not for misconduct)

Section 2: Service Period Calculation
Joining Date Verification  Confirm exact date of joining from appointment letter  Cross-verify with HR records and employee file
Last Working Day Confirmation  Document the actual last working day  For resignation: last day worked; For death: date of death
Total Service Calculation  Calculate years, months, and days of service  From joining date to last working day/date of death
Fractional Year Rounding  Apply rounding rules for fractional years  6 months and above = round up to next year; Less than 6 months = ignore

#### **Service Period Calculation Example**

Joining Date: 15th March 2015

Commission/Variable Pay Exclusion

Verify exclusion of variable components

Only fixed basic salary + DA to be considered

Last Working Day: 10th November 2024

Total Service: 9 years, 7 months, 26 days

Eligible Years: 10 years (7+ months rounded up)

<u>\$</u>	Section 3: Salary Components for Calculation
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	Last Drawn Basic Salary  Determine basic salary for the last month of service  Use basic salary as on last working day
	Dearness Allowance (DA) Component  Include DA if forming part of salary structure  DA is included only if it's part of basic pay calculation
	Excluded Components Verification  Ensure other allowances are not included in calculation  Exclude: HRA, conveyance, medical, bonus, overtime, incentives

Salary Component	Include in Gratuity	Remarks
Basic Salary	✓ Yes	Primary component for calculation
Dearness Allowance (DA)	✓ Yes	If forms part of basic pay

House Rent Allowance (HRA)	<b>X</b> No	Excluded from calculation
Conveyance Allowance	<b>X</b> No	Excluded from calculation
Medical Allowance	<b>X</b> No	Excluded from calculation
Bonus/Incentives	<b>X</b> No	Variable components excluded
Overtime Payments	<b>X</b> No	Additional payments excluded

Section 4: Gratuity Calculation  Organization Type Identification  Determine if covered under Factories Act or not  Different denominators: 26 for factories, 30 for others		
Gratuity Calculation Formulas  For Factories/Manufacturing (Covered under Factories Act):		
Gratuity = (Basic + DA) × 15 × Years of Service ÷ 26  For Other Organizations (Not covered under Factories Act):  Gratuity = (Basic + DA) × 15 × Years of Service ÷ 30		
Maximum Ceiling: ₹20,00,000 (Twenty Lakhs)		
Apply Correct Formula  Use appropriate denominator based on organization type  26 days for factories, 30 days for other establishments		

**Calculate Gross Gratuity Amount** 

Apply formula to get preliminary gratuity amount

Before applying maximum limit and tax considerations

### Apply Maximum Limit

Check if calculated amount exceeds ₹20 lakh limit

If exceeds, cap at ₹20,00,000 maximum

#### **Sample Calculation**

#### Employee Details:

Basic Salary: ₹60,000, DA: ₹6,000, Service: 12 years

Organization: IT Company (Non-factory)

#### Calculation:

Gratuity =  $(60,000 + 6,000) \times 15 \times 12 \div 30$ 

Gratuity =  $66,000 \times 15 \times 12 \div 30$ 

Gratuity =  $11,880,000 \div 30 = ₹3,96,000$ 

## **Section 5: Tax Implications**

Tax Exemption Limit Check

Verify if gratuity amount is within tax-free limit

Up to ₹20 lakhs is tax-exempt for eligible employees

Employee Category for Tax

Determine tax exemption based on employee category

Government vs. Private sector vs. Non-Act covered employees

Employee Category	Tax Exemption Limit	Remarks
Government Employees	Full Amount	Entire gratuity is tax- free

25, 12:07 PM	Gratuity Calculation & Compliance Checklist 2025 - JZ Payroll Outsourcing		
Private (Covered under Act)	₹20,00,000	Tax-free up to limit	
Private (Not covered under Act)	Least of calculated/ ₹20L/eligible amount	Complex calculation required	
Tax Liability Calculation  Calculate tax on amount exceeding exempt limit (if any)  Apply applicable income tax rates on excess amount			
TDS Compliance  Deduct TDS if required on taxable portion  Issue TDS certificate for deducted amount			

Ê	Section 6: Documentation Requirements
	Employee Application  Obtain proper application from employee/nominee  Use Form A for gratuity application
	Service Certificate  Prepare service certificate with complete service details  Include joining date, last working day, and designation history
	Salary Records  Maintain salary records for calculation verification  Last 12 months salary slips and increment records
	Death/Disability Documents (if applicable)  Collect medical certificates and death certificates  Required for cases where 5-year service not completed
	Nomination Details  Verify nomination records in employee file  Required for payment to legal heirs in case of death
	Bank Account Verification  Confirm active bank account details for payment  Verify account number, IFSC, and account holder name

# Section 7: Payment Timeline & Compliance

3	0-Day Payment Timeline
Е	nsure payment within 30 days of eligibility
Fi	rom date of resignation/retirement/death or application submission
	nterest Calculation (if delayed)
	alculate simple interest at 10% p.a. for delayed payments
	rom due date to actual payment date
<u> </u>	enalty for Delayed Payment
Inter	est Rate: 10% per annum (simple interest)
Calcu	<b>lation:</b> (Gratuity Amount × 10 × Delay Days) ÷ (100 × 365)
Legal	Consequence: Employee can file complaint with labor authorities
P	ayment Mode Compliance
U	se approved payment methods (bank transfer/cheque)
M	laintain proper payment vouchers and receipts
R	lecord Maintenance
N	laintain all records as per statutory requirements
K	eep records for minimum 3 years from payment date
<b>/</b>	Section 8: Final Verification & Approval
	alculation Double-Check
V	erify all calculations with another team member

Signature: \_

**HR Manager Approval** 

Cross-verify service period, salary, and formula application

Obtain HR Manager's approval on calculation and eligibility

Finance Head Approval  Get Finance Head's approval for payment processing  Signature: Date:
Management Authorization  Obtain final authorization from authorized signatory  Signature: Date:
Payment Execution  Process payment through approved banking channel  UTR/Reference Number:
Employee/Nominee Acknowledgment  Obtain written acknowledgment of payment received  Employee/Nominee Signature: Date:

# **Gratuity Calculation Worksheet**

Particulars	Details
<b>Employee Name</b>	
Employee ID	
Department	
Designation	
Date of Joining	