Gratuity

Provisions related to taxability of gratuity

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PROVISIONS OF GRATUITY

Gratuity is a payment made by the employer to an employee in appreciation of the past service rendered by the employees.

For taxability purpose, there are 3 kinds of employees:

Employees covered under Gratuity Act. ⟺ Employees not covered under Gratuity Act. ⟺ Govt Employees.

❖ **Provision for Employees covered under Gratuity Act:-**

Minimum of the following is exempt:-

- Actual gratuity received.
- Rs. 350000
- Half month's average salary# for every completed year of service.

Gratuity received in excess of above exempt amount shall be included in gross salary.

❖ **Provisions for Employees Not covered under Gratuity Act:-**

Minimum of the following is exempt:-

- Actual Gratuity received.
- *Rs. 350000*
- 15 days salary for every completed year or part of the year in excess of six months.

Gratuity received in excess of above exempt amount shall be included in gross salary.

❖ **Provisions for employees employed with Government authorities or local authorities:-**

Fully Exempt.

Important:-

- Salary means basic salary & includes dearness allowance to the extent it is a part of retirement benefit. It also includes commission or bonus if it is a fixed percentage of turnovers.
- Average salary #means salary of last ten months immediately preceding the month of receipt of gratuity.
- Where an employee had received gratuity in any of the previous years and had claimed exemptions also, his limit of Rs. 350000 shall be reduced by the exemption already availed.
- If gratuity is received from more than one employer in the same previous year, by an employee, the limit of Rs. 350000 shall apply to aggregate of gratuity received from one or more employers.
- Gratuity is eligible for exemption as per above limits only if it is received on superannuation/retirement/resignation/death/disablement due to accident/any disease.

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