Gratuity amendment bill

Gs-Paper-2 Labour and Laws (PT-MAINS)

The Union Cabinet has given approval to the introduction of the Payment of Gratuity (Amendment) Bill, 2017 in the Parliament.

Gratuity is a sum of money paid to an employee at the end of a period of employment. The Payment of Gratuity Act, 1972 applies to establishments employing 10 or more persons.

It considers the inflation and wage increase even in case of employees engaged in private sector. With implementation of 7th Central Pay Commission, in case of Government servants, the ceiling now is Rs. 20 Lakh, where the present upper ceiling on gratuity amount under the Act is Rs. 10 Lakh.

There will also be an additional 1 per cent dearness allowance that is from 4 per cent to 5 per cent applicable from July 1, 2017, to all central government employees and pensioners. And it also seeks to double tax-free gratuity for private sector. The gratuity will be completely tax free if the bill approved by the cabinet gets passed in the parliament.

How this bill benefits workers?

Gratuity is not just paid to the employee on his retirement as commonly perceived. The gratuity rules are lenient, it can be paid at any of these cases if claimed:

- If employee has tendered his resignation after serving the organisation for continuous service five years,
- On his death, even if the employee hasn’t served the organization for five years.
- If employee becomes disabled due to accident or disease.

The main purpose for enacting this act is to provide social security to workmen after retirement. The amendment will increase the maximum limit of gratuity of employees, in the private sector and in Public Sector Undertakings/ Autonomous Organizations under Government who are not covered under CCS (Pension) Rules, at par with Central Government employees.

What will be the financial impacts?

- The combined impact on the exchequer on this account would be Rs.3,068.26 crore a year and Rs.2,045.50 crore in 2017-18.
- Earlier, employers could limit their liability to the statutory cap of Rs.10 lakh.
even if the calculation of gratuity for an eligible employee resulted in a higher figure but the limitation has been expanded.

- Many industries would be impacted if this proposal becomes the law, due to extra financial burden.

In News:

Parliamentary Committee on Labour has, in its latest report, recommended that the eligibility period for gratuity payable to an employee on termination of his employment should be **reduced to one year from the present provision of five years**.

- The Committee made this recommendation in its report on Social Security Code, which has been evolved subsuming nine Central Labour laws.
- This comes in the wake of extensive retrenchment in all sectors in COVID-19 pandemic-induced economic slowdown.

** The committee, which is headed by Biju Janta Dal MP Bharatruhari Mahtab, submitted the report to Speaker Om Birla.

“Keeping in view the nature of India’s Labour Market where most employees are employed for a short duration period only, making them ineligible for gratuity as per extant norms, the Committee desires that the time limit of five years as provided for in the Code for payment of gratuity be reduced to continuous service of one year,” the report says.

- It has further recommended that this facility be extended to all kinds of employees, including contract labourers, seasonal workers, piece rate workers and fixed term employees and daily/monthly wage workers.
- The committee has stressed that there should be a robust redressal mechanism in case an employer does not pay up the dues.
- The Labour Ministry had informed the committee that the employee can then approach the Competent Authority. “The Committee is of the considered opinion that such a provision is against the interest of the affected employees/workers who may have to run from pillar to post to get their legitimate dues,” the report notes.
- Instead, the panel has recommended that the Social Security Code should have provisions to hold the employer liable for payment of gratuity to the employees within a stipulated time frame.

“There should not be any leniency, as strong deterrent provisions would reduce wilful default and delinquent negligence on the part of employers in timely payment of gratuity to the needy and deserving employees,” the report stated.

On similar lines, the Committee also flagged the concern that the threshold
limit of 20 or more employees for EPFO registration can be used by the employers to exclude themselves from EPFO coverage. “The Committee desires that possibilities be explored to make the EPF Act applicable to all the workers, including self-employed,” the report has said.

The panel has recommended that the social security code should empower the Central government to reduce the employee’s contribution to EPF in exceptional circumstances like disasters in terms of the Disaster Management Act, including pandemics, because this would enable the Government to provide relief to the affected persons in COVID-19 like pandemics.