

## Gratuity Rules 2025

Gratuity is the amount paid to employees in recognition of their continuous service, honouring their hard work and contributions. Gratuity is one component that the government has placed on par with pension and provident fund (PF).

The Gratuity Act applies to factories, mines, oil fields, plantations, ports, railways, motor transport undertakings, companies, and shops or establishments employing 10 or more workers. It mandates gratuity payment at 15 days' wages for each completed year of service, up to a maximum of Rs 10 lakh for non-government employees. For seasonal establishments, gratuity is calculated at seven days' wages per season.

For central government employees, the gratuity ceiling was enhanced to Rs 25 lakh last year considering the [Dearness Allowance](#) (DA) touching 50% of their basic salary.

The Gratuity Act ensures employees retain the right to better gratuity terms under any agreement or contract. For establishments under the central government's control or those operating across multiple states, the Centre acts as the regulatory authority.

Let's understand the rules of gratuity, the method of its calculation, and how it benefits employees.

### Formula for calculating gratuity:

A simple formula for gratuity calculation is:

$(\text{Last salary}) \times (\text{years of service}) \times (15/26)$

Final salary: It includes basic salary, dearness allowance (DA), and commission.

Working days: 26 working days are considered in a month.

15-day average: The calculation is done on the basis of 15 days' salary.

Example: Determining gratuity amount (Assuming final salary of Rs 30,000)

On 5 years of service

Last Salary: Rs 30,000

Calculation:  $\text{Rs } 30,000 \times 5 \times (15/26)$

Total Gratuity Amount: Rs 86,538.46

On 7 years of service:

Last salary: Rs 30,000

Calculation:  $\text{Rs } 30,000 \times 7 \times (15/26)$   
Total Gratuity Amount: Rs 1,21,153.84

On 10 years of service:  
Last salary: Rs 30,000  
Calculation:  $\text{Rs } 30,000 \times 10 \times (15/26)$   
Total Gratuity Amount: Rs 1,73,076.92

When an organisation is not covered under the Gratuity Act, it can also pay gratuity to its workers, but the calculation changes in this case.

For employees not covered under the Gratuity Act, the formula used is:  
 $\text{Gratuity Amount} = (15 \times \text{last drawn salary amount} \times \text{period of service}) / 30$

**Benefits of gratuity:**

Future Security: Benefit in the form of a large sum at the end of the job.  
Compliance with government rules: Like PF, gratuity is also protected and recognised by the government.

**Tax benefits:** The amount of gratuity is tax free.

Under what circumstances do the rules change?  
If the company is not registered under the Gratuity Payment Act, the rules may change.

**Method of calculation:** An amount equal to half the month's salary is given every year. Working days: The month is considered to be of 30 days.

**Conclusion:**

The benefit of gratuity can be availed by every employee who has served in an institution for 5 years or more continuously. This benefit is especially useful for salaried persons, government employees and those working in the organized sector.

Ensure the benefit of gratuity based on your service years and last salary. This is not only a recognition of your hard work but also provides financial security for the future of you and your family.