

Media Coverage

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Government likely to lower threshold for gratuity payments to employees: Report

The Central Government is considering relaxing the minimum eligibility condition for gratuity payments to employees. The Centre is planning to lower the threshold from five years of continuous employment to between one and three years amid growing demand to make the gratuity eligibility criteria shorter.

The Parliamentary Standing Committee on Labour, in a recently tabled report, had recommended that the existing period of five years of continuous service for gratuity payment to employees should be reduced to one year.

Gratuity payments to staff are equivalent to 15 days of salary for each year an employee has spent at an organisation.

"There is demand from several quarters to lower the gratuity threshold. How to lower the five-year threshold is being discussed and it is likely to be lowered," a government official said as per a report by Mint, seeking anonymity.

Moneycontrol could not independently verify the report.

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Labour market experts have said that the five-year threshold is outdated.

"The five-year threshold was formulated decades ago to promote long-term work culture. The reality is different now. While gratuity threshold of one year may not be feasible, 2 to 3 years is a better option," said RP Yadav, chief executive of Genius Consulting, a staffing company.

The changing nature of jobs makes this a necessity, said another government official.

The government has two options — either reduce the threshold on a pro-rata basis or proportional change for a few sectors, or a reduction in the five-year threshold for all sectors," a government official said, adding that the second option is more preferred and has more levels.

The Parliamentary Standing Committee on Labour, in its report, also pointed out that the employers should provide an incentive to employees to terminate employees before the completion of the year.

Another recommendation made by the committee was that gratuity should be made payable to all employees — contract labourers, seasonal workers, piece rate workers, daily-wage workers.

The benefit of the pro-rata gratuity should be extended to the contract labour after the completion of the contract irrespective of the change of contractors. The principal employer should be liable to pay pro-rata gratuity for the term of the contract and it may be paid along with the last wages," the committee said.

The recommendations were part of the report on the Code of Social Security, 2019. It was submitted to the Union Minister on July 31, 2019.

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sectors," a government official said, adding that the second option is more preferred and has more takers.

The Parliamentary Standing Committee on Labour, in its report, also pointed out that this employment period provision also incentivises employers to terminate employees before the completion of five years.

Another recommendation made by the committee was that gratuity should be made payable to all employees -- contract labourers, seasonal workers, piece-rate workers, daily/monthly wage workers.

"The benefit of the pro-rata gratuity should be extended to the contract labour if they serve for the full period of the contract irrespective of the change of contractors. The principal employer should be liable to pay pro-rata gratuity for the term of the contract and it may be paid along with the last wages," the report noted.

The recommendations were part of the report on the Code of Social Security, 2019. It was submitted to Lok Sabha Speaker Om Birla on July 31, 2020.