

## INCOME FROM SALARY(RETIEMENT)XI

### (B) GRATUITY.

Gratuity is a lump-sum payment, which is made by an employer to his employee for his past service during his service period. It is also known as Death-cum-retirement gratuity.

Some part of the gratuity is exempt and remaining part shall be taxable. The amount of gratuity received by employee is taxable under the head 'Salaries' while the amount of gratuity received by the heirs of the employee is taxable under the head 'Income from other sources'.

Employee for the purpose has been divided in two categories.

(1) Government, semi-government, local authority and corporation employee.

(2) Non-Government employee.

#### (1) GOVERNMENT EMPLOYEE.

If lump-sum payment is given by the central government, local authority or life Insurance corporation, financial corporation or Bank to an employee on his retirement or in case of his death to his successor, then the entire amount shall be exempt from tax.

#### (2) NON-GOVERNMENT EMPLOYEE.

The gratuity received by non-government employee shall be exempt under a limit. It has been further divided in two group.

(a) Non-government employee who comes under the payment of gratuity Act 1972.

LEAST OF THE FOLLOWING WILL BE EXEMPT:

- 1) Actual amount of gratuity received.
- 2) 15 days salary on the basis of salary last drawn for each completed year of service (salary last drawn x 15/26)
- 3) Maximum limit of Rs.20,00,000 (w.e.f. 29.02.2018.)

Note: Salary means: Basic salary +D.A or D.P

(b) Employees not covered by the payment of gratuity Act 1972.

LEAST OF THE FOLLOWING WILL BE EXEMPT.

- 1) Actual amount of gratuity received.
- 2) 1/2 months' average salary for each completed year of service
- 3) Maximum limit. Rs. 10,00,000.

Average salary means the average salary of 10 months immediately preceding the month of retirement or death.

Salary means: Basic salary+D.P.+D.A(under the term of employment)+Commission(given at fixed rate).