



# M/S. K.A. Pandit

*Consultants and Actuaries*

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**Topic to be covered:**

**Cabinet Approval for  
Gratuity Ceiling and DA  
Increase**

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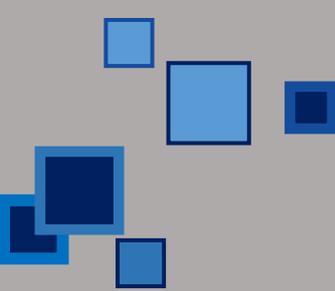
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## Background

- Gratuity Ceiling for Private sector, Public Sector, Autonomous Organizations under Government who are not covered under CCS (Pension) Rules; is currently 10 lakhs as per payment of gratuity act, 1972.
- By 7th pay commission, Gratuity limit was increased to 20 lakhs for central government employees w.e.f. 01.01.2016.
- Dearness Allowance and Dearness Relief to Central Government employees and pensioners is currently 4%.

## Changes

- Now, Cabinet has approved the Payment of Gratuity (Amendment) Bill, 2017 which will be tabled in parliament very soon for final approval.
- Gratuity Ceiling is increased from existing 10 lakhs to 20 lakhs.
- Increase in Gratuity Ceiling will apply once amendment bill is passed by parliament and get presidential approval.
- The Cabinet has approved increase in Dearness Allowance and Dearness Relief to 5% from 4% respectively for Central Government employees and pensioners.
- This increase is effective from 01-07-2017.

## Comments

### Increase in Gratuity Ceiling

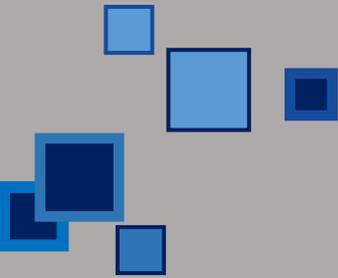
- This will increase retirement benefit received as Gratuity and bring private sector employees at par with central government employees.
- Employees will receive higher Gratuity amount, effect will be for employees having higher service and/or higher pay. *For example* if employee salary (Basic + DA) is ₹100,000 p.m. and service is more than 17 years, than Gratuity payment will be higher than earlier limit of 10 lakhs.
- Company's expense will increase as change in ceiling impact has to be recognised in Profit and Loss immediately in case of Ind AS 19.
- In case of AS 15 also it will be recognised immediately if benefit is vested, which is most likely.
- Major impact will be on PSUs where employees have very high service.
- Impact will be higher for companies where salary escalation is higher.
- Increase in Gratuity Ceiling will apply once amendment bill is passed by parliament and get presidential approval.
- Once this is approved, Income tax act is also likely to amend to allow Tax exemption till 20 lakhs.

### Increase in Dearness Allowance/ Relief

- Central Government Employees salary pay-out will increase, due to this all types of retirement benefits will also increase, Gratuity, Leave, Pension liability is expected to increase.
- Central Government Pensioners receive Dearness Relief due to increase in DR rate from 4% to 5%, pensioners pay-out hence pension provision will increase.

In current period Discount rate is also low as compare to March 2017, this will result into Actuarial loss on obligation due to change in financial assumption. In case of companies following Ind AS it will be charged to OCI whereas as per AS 15 it will be charged to Profit and Loss.

**Reference:** <http://pib.nic.in/newsite/pmreleases.aspx?minicode=61> (12 September 2017)



# M/S. K. A. Pandit

Consultants & Actuaries

## HEAD OFFICE (MUMBAI)

2nd Floor, Churchgate House,  
32-34 Veer Nariman Road,  
Fort, Mumbai - 400001.  
Tel .: +91-22-42922250

## BRANCH OFFICE (MUMBAI)

C/201 Remi Bizcourt,  
Off. Veera Desai Road,  
Andheri (W), Mumbai – 400058.  
Tel .: +91-22-42922231

## BRANCH OFFICE (AHMEDABAD)

509, Golden Triangle,  
Near Sardar Patel Stadium,  
Navrangpura, Ahmedabad - 380014.  
Tel .: +91-79-26460734

Website: [www.ka-pandit.com](http://www.ka-pandit.com) Email: [kap@ka-pandit.com](mailto:kap@ka-pandit.com)

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