

Payment of Bonus Act

As per statutory laws, the Government of India mandates organisations to pay yearly bonuses to their employees. But - which organizations is it applicable to? When and how much bonus do you actually need to pay? And what if you don't?

The Payment of Bonus Act, 1965, in summary:

- 1. **Applicable** to any establishment with 20 or more employees or any factory with 10 or more employees.
- 2. **Eligible** for employees drawing ₹21000 per month or less (basic + DA, excluding other allowances). As per the 2015 amendment, when salary exceeds ₹7000 or the minimum wages fixed by the government, bonus is payable on whichever is higher.
- 3. **Bonus payable** will be at a min rate of 8.33%, and max at 20 %.

If you do not fit into the applicability criteria, you can stop worrying about paying any bonuses. greytHR customers can automatically calculate appropriate amount of bonuses compliant with all statutory laws, if they do fit into the criteria.

Further details of the act and rules for manual calculation for bonuses have been outlined below.

Payment of Bonus Act

Objective: The objective of the Payment of Bonus Act is to reward the employee of the organization by sharing the profits earned and is linked to productivity.

Applicable to: The Payment of Bonus Act is applicable to any establishment with 20 or more employees or any factory with 10 or more employees.

Eligibility: Employees drawing ₹21000 per month or less (basic + DA, excluding other allowances) and have completed 30 working days in that financial year are eligible for bonus payment.

Components of bonus: Please note, salary or wages include only basic and DA for bonus payment, and the rest of the allowances (e.g. HRA, overtime, etc.) are excluded.

Min/max and time limits on bonus payments: Bonus should be paid at a minimum rate of 8.33% and maximum rate of 20%. It needs to be paid within 8 months from the close of the accounting year.

Disqualification of bonus

Employees can be disqualified from bonus payments if they are dismissed on the basis of fraud, misconduct, or even absenteeism. Please ensure that on dismissal, the procedures of domestic enquiry, proper documentation and employee acceptance of the misconduct are all carried out as per the standing orders before disqualifying the bonus payment.

Calculation of bonus

As per the amendment on the Payment of Bonus Bill passed in 2015, when wages or salary exceeds ₹7000 or the minimum wages fixed by the government, bonus will be payable on ₹7000 or the minimum wages as fixed by govt., whichever is higher.

Examples:

- Salary (Basic + DA) = ₹6000, Min Wages = ₹8000, Bonus will be payable on ₹6000
- Salary (Basic + DA) = ₹6000, Min Wages = ₹6500, Bonus will be payable on ₹6000
- Salary (Basic + DA) = ₹7200, Min Wages = ₹6000, Bonus will be payable on ₹7200
- Salary (Basic + DA) = ₹7200, Min Wages = ₹8000, Bonus will be payable on ₹8000
- Salary (Basic + DA) = ₹10000, Min Wages = ₹8000, Bonus will be payable on 8000
- Salary (Basic + DA) = ₹18000, Min Wages = ₹8500, Bonus will be payable on ₹8500
- Note: This bonus payable will be at a min rate of 8.33%.

Compliance required by employers

Employers need to comply with the following:

- A register showing the computation of allocable surplus is maintained in [Form A](#)
- A register showing the set-on and set-off of the allocable surplus is maintained in [Form B](#)
- Details showing the amount of bonus due, deductions and actual bonus amount disbursed are maintained in [Form C](#)
- Annual returns to be filed in [Form D](#) before Feb 1st

Penalty: Any violation can lead to imprisonment for up to 6 months and may (or may not) include a fine amount.

To make sure you stay 100% compliant and avoid any penalties, use greythR to calculate you employee bonuses automatically!

Frequently Asked Questions (FAQ):

1. Should we pay bonus to contractual employees?

No, it is not the prerogative of the employer to pay bonus to the contractors working under him. The bonus liability lies with the vendor who has contracted out the employees.

Some employers pay out bonus to their contractors for their welfare on goodwill when the vendor is unable to pay out the bonus. This is considered ex-gratia and not bonus and is the discretion of the employer in this case and he is not legally bound to pay bonus to his contractors.

2. If I own a startup, should I pay out bonus for my employees in the first year?

For the first 5 years, organizations need not pay bonus if they have made losses. If they have made profits in any year in the first 5-year period, they will have to pay out bonus for that particular year. After the completion of 5 years, organizations are required to pay bonus as per Sec 16-1b, irrespective of whether they are making a profit or loss. Refer to section 16-1b for detailed clarifications on the calculation of bonus in the 6th accounting year and the 10th accounting year.

3. How do we settle bonus if an employee exits the organization before the completion of the financial year?

Bonus needs to be paid as part of the settlement to the employee, when he exits, on a pro-rata basis. If the bonus percentage is later increased due to increase in profits, then the difference in the bonus amount needs to be transferred to the employee or a cheque sent before Nov 30th of that year.

It is important to ensure that this is done as any amount due to be paid to any employee and not paid will appear on the liability side of the balance sheet of the employer and will be considered as non-compliance.

4. I have paid bonus, but have not maintained records for it. Would it cause a problem?

This will be deemed non-compliance and will be checked during labor inspection. It is mandatory to maintain Forms A, B, C and D as required.