

# THE POWER OF BEING UNDERSTOOD

[www.rsmindia.in](http://www.rsmindia.in)

**NEWSFLASH: SIGNIFICANT CHANGES EFFECTED  
UNDER THE PAYMENT OF BONUS (AMENDMENT) ACT,  
2015**

The Payment of Bonus (Amendment bill), 2015 received the assent of the President of India on 31 December, 2015 and now has been gazetted as the Payment of Bonus Amendment Act, 2015 ('Amendment Act') that seeks to make more workers eligible for bonus by raising the monthly maximum pay limit for being classified as an employee eligible for bonus.

The Amendment Act also increases the amount of bonus that would be received by the eligible employee as against the earlier Act which provided that the bonus payable to an employee will be in proportion to his or her salary or wage. However, if an employee's salary is more than Rs. 3,500 per month, for the purposes of calculation of bonus, *the salary will be assumed to be Rs. 3,500 per month.*

*After the amendment this limit has been enhanced to Rs. 7,000 per month or the minimum wage notified for the employment under the Minimum Wages Act, 1948 (whichever is higher).*

### **Following are a few take aways from the Payment of Bonus (Amendment) Act, 2015:**

#### ■ **Eligibility to pay bonus**

The Payment of Bonus Act provides for the annual payment of bonus to employees of factories with 10 or more persons and establishments employing 20 or more persons and such other establishments that may be notified by the appropriate government.

#### ■ **Employees eligible for bonus**

Earlier, the Act mandated payment of bonus only to those employees whose salary or wage was up to Rs. 10,000 per month. However, the amendment Act has now increased this eligibility limit to Rs. **21,000 per month.**

By increasing this eligibility limit, all the employees (other than an apprentice) who are employed on a salary or wage not exceeding Rs. 21,000 per mensem in any industry to do any skilled or unskilled manual, supervisory, managerial, administrative, technical or clerical work for hire or reward whether the terms of employment be express or implied shall be now eligible to receive annual bonus.

#### ■ **Calculation of bonus**

The old act provided that the bonus payable to an employee shall be in proportion to his or her salary or wage. However, if an employee's salary was more than Rs. 3,500 per month, for the purposes of calculation of bonus, the salary would be assumed to be Rs. 3,500 per month. The Amendment Act has raised this calculation ceiling to Rs. 7,000 per month or the minimum wage notified for the employment under the Minimum Wages Act, 1948 (**whichever is higher**).

For the first time the government has linked the bonus calculations to Minimum Wages because of which there will be no uniformity in bonus ceilings and calculations across the country and industries as all the States have different Minimum wages for different category of workers (skilled, semi-skilled, unskilled) notified for the factories and establishments operating in that particular State. *There would be no uniformity in payment of bonus even to employees working for the same Company having multi-state establishments.*

Further, this linkage has indirectly made section 12 of the Payment of Bonus Act 1965 redundant (which dealt with the calculations of the amount of bonus) as going forward the changes in the minimum wages notified by the appropriate government will affect the calculation of the amount of Bonus.

#### ■ **Retrospective effect**

The amendments shall be deemed to have come into force on the **1st day of April, 2014**. Hence, employees, who have already been paid bonus for the financial year 2014-15, would now be eligible for arrears. Those with salaries between Rs. 10,000 and Rs. 21,000 per month will also be eligible for bonus starting from the financial year 2014-15.

This retrospective nature of the amendment would entail significant impact on labour intensive industries / establishments both in the manufacturing and services sectors. The said differential amount for FY 2014-15 may have to be provided for in the current year financials and paid to the employees, although no specific date for payment has been provided in the amendment.

For further information please contact:

RSM Astute Consulting Pvt. Ltd.

13th Floor, Bakhtawar, 229, Nariman Point, Mumbai - 400 021.

T: (91-22) 6108 5555 / 6121 4444

F: (91-22) 6108 5556 / 2287 5771

E: [emails@rsmindia.in](mailto:emails@rsmindia.in)

W: [www.rsmindia.in](http://www.rsmindia.in)

Offices: Mumbai, New Delhi - NCR, Chennai, Kolkata, Bengaluru (Bangalore), Surat, Hyderabad, Ahmedabad, Pune, Gandhidham, Indore and Jaipur.



[facebook.com/RSMInIndia](https://facebook.com/RSMInIndia)



[twitter.com/RSM\\_India](https://twitter.com/RSM_India)



[linkedin.com/company/rsm-india](https://linkedin.com/company/rsm-india)

RSM Astute Consulting Pvt. Ltd. (Including its affiliates) is a member of the RSM network and trades as RSM. RSM is the trading name used by the members of the RSM network.

Each member of the RSM network is an independent accounting and consulting firm each of which practices in its own right. The RSM network is not itself a separate legal entity of any description in any jurisdiction.

The RSM network is administered by RSM International Limited, a company registered in England and Wales (company number 4040598) whose registered office is at 11 Old Jewry, London EC2R 8DU.

The brand and trademark RSM and other intellectual property rights used by members of the network are owned by RSM International Association, an association governed by article 60 et seq of the Civil Code of Switzerland whose seat is in Zug.

This newsflash is general in nature. In this newsflash, we have summarised significant changes brought out by the Payment of Bonus (Amendment bill), 2015 which received the assent of the President of India on 31 December 2015. It may be noted that nothing contained in this newsflash should be regarded as our opinion and facts of each case will need to be analyzed to ascertain applicability or otherwise of the respective circulars and notifications and appropriate professional advice should be sought for applicability of legal provisions based on specific facts. We are not responsible for any liability arising from any statements or errors contained in this newsflash.

5 January 2016

© RSM International Association, 2016