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## India: Amendment to The Payment of Bonus Act, 1965

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The Payment of Bonus (Amendment) Act, 2015 received Presidential assent on December 31, 2015, thereby amending certain key aspects of the Payment of Bonus Act, 1965 ("PB Act").

The PB Act applies to factories and establishments which employ 20 or more persons. This law provides for payment of a statutory bonus to eligible employees, which bonus is determined on the basis of profits or on the basis of production or productivity of the establishment.

The eligibility limit of an "employee" has been amended under the PB Act, whereby an employee who now earns a salary or wages of Rs. 21,000 (approx. US\$ 323) per month will be eligible for payment of statutory bonus under the PB Act. This is a steep increase for the earlier salary/wage cap of Rs. 10,000 (approx. US\$ 153) per month, thereby widely increasing the extent of coverage of the PB Act. Thus, assuming that an employee's salary/wage is about 40% of his total compensation, this would cover all employees earning a total compensation of approximately Rs. 52,500 per month or less.

Under the PB Act, if an eligible employee's salary/wage exceeded Rs. 3,500 per month, the minimum or maximum statutory bonus payable was calculated as if the salary/wage were Rs. 3,500 (approx. US\$ 54) per month. The 2015 amendment has now increased this ceiling from Rs. 3,500 per month to Rs. 7,000 (approx. US\$ 107) per month (double the previous amount) or the minimum wage notified for the

concerned employment as fixed by the Government (as per the Minimum Wages Act, 1948), whichever is higher.

It may be noted that there is no change in definition of "salary" or "wage" under the PB Act and an employer will continue to factor in the same components which are currently being considered for eligibility and calculation of bonus.

The amendments will lead to a greater financial implication on an employer, as it will need to account for this greater pay-out amount for eligible employees. It is important to note that the amendments have retrospective effect from April 1, 2014. Thus, employers across all sectors will need to have the financial aspects of the amendments factored into their books of account for their employees from April 1, 2014.

*The content of this article is intended to provide a general guide to the subject matter. Specialist advice should be sought about your specific circumstances.*

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