



Gratuity Law in India: Understanding Statutory Provisions and Judicial Interpretation

Dr. Mahendra Soni

Associate Professor, National Law University, Jodhpur (India),

Email Id: advmahendrasoni@gmail.com, Orcid Id: 0009-0007-6154-0886

Abstract

Gratuity constitutes one of the most significant post-employment social security benefits in India, representing the legislature's acknowledgement of the worker's long-term contribution to an employer's enterprise. Starting as employer's generosity, over five decades of statutory amendments and judicial interpretation, it has transformed into an enforceable right rooted in the constitutional promise of socio-economic security. This paper traces the historical and conceptual foundations of gratuity, dissects important statutory provisions including eligibility criteria, rules of forfeiture and computation formula. It examines the idea of gratuity as a deferred wage, a form of retirement security, and a welfare-oriented post-employment labour entitlement. This paper critically analyses the Payment of Gratuity Act, 1972, and now its absorption into Chapter V of the Code on Social Security, 2020. The article highlights persistent doctrinal and administrative difficulties, including disputes over forfeiture, delayed disbursement and enforcement failures. It also rigorously examines the rich body of judicial interpretation that has grown around these provisions to demonstrate how courts have progressively expanded the protective ambit of the statute, resolved definitional ambiguities and reconciled conflicting claims between employers and employees. The paper also highlights contemporary challenges of inclusion of gig-economy workers, entitlement of contract labourers and the multiplicity of sectoral gratuity schemes, which need to be addressed by policy makers. The paper concludes by suggesting that gratuity law must continue to develop in a manner that preserves its central purpose of providing meaningful social security while responding to changing patterns of employment.

Keywords: Social Security, Gratuity, Continuous Service and Forfeiture of Gratuity.

1. Introduction

The term 'Gratuity' has derived from the word 'gratuitous', which means 'gift' or 'present'. Having being enacted as a social security form, it ceases to retain the concept of a gift but it has to be seen as a social obligation by an employer towards his employee.¹ In its broadest jurisprudential sense, gratuity is a statutory benefit and monetary reward paid by employers to employees who have completed a specified period of service and contributed to the growth and prosperity of the employer's enterprise.² Gratuity serves as a form of old-age social security, a deferred wage, and a reward for loyalty, all rolled into one statutory entitlement.³ Gratuity becomes payable to the employee upon cessation of service. Gratuity is one of the crucial components of the social security framework for an employee whose services are coming to an end in the organisation.⁴ It is a lump-sum payment and the primary purpose of gratuity is to provide financial security to employees upon their retirement, resignation, death, disablement, or termination after serving a long tenure. Thus, it is a sort of financial assistance to tide over post retiral hardships and inconveniences. Gratuity has also been judicially characterised as a 'deferred wage' and compensation for services rendered that is payable upon the termination of the relationship.⁵ This theory has been endorsed by Courts recognising gratuity to be part of wages that the employee has earned throughout his service but which are

deferred and payable at the end of the employment.⁶ In the constitutional scheme, Article 41 of the Directive Principles of State Policy enjoins the State to make effective provision for securing the right to work, to education and to public assistance in cases of unemployment, old age, sickness and disablement. The Payment of Gratuity Act (PGA), 1972 was a legislative realisation of this directive. The PGA, 1972 imposes a reasonable restriction on the employer in respect of the fundamental right under Article 19(1)(g).⁷

Different from Retrenchment Compensation. The retrenchment compensation payable under the Industrial Disputes Act, 1947/Industrial Relations Code, 2020 and gratuity are complementary, not mutually exclusive. The former addresses the immediate hardship of involuntary unemployment, while the latter represents an earned retiral benefit arising from length of service. Retrenchment compensation is payable upon termination of services (anytime) by employer whereas, gratuity is payable upon cessation of employment (voluntary/superannuation/otherwise) after five years of continuous service. In the case of *Indian Hume Pipe Co. Ltd. v. The Workmen*⁸, the Supreme Court emphatically held that these two benefits are distinct in their nature, purpose and legal basis. Retrenchment compensation is intended to provide immediate financial relief to a workman who is

involuntarily thrown into unemployment, whereas gratuity is a retiral benefit earned through length of service, intended to provide financial security after cessation of employment. Consequently, the statutory requirement to pay retrenchment compensation did not extinguish or exclude the employee's separate entitlement to gratuity, and the fact that the two payments could result in an apparent "double benefit" was not a valid ground for denying either benefit. Different from Provident Fund. Provident Fund and Gratuity are both 'efficiency devices' and are considered necessary for an orderly and humane relieving from industry. Provident fund involves compulsory employee contribution matched by the employer whereas, gratuity is funded entirely by the employer and accrues as of right upon eligibility. Gratuity is necessary in addition to provident fund because the latter may not be sufficient to meet the requirements in old age of workers or for their dependants during his life or after his death.⁹

Different from Pension. Pension is a periodic payment that typically involves a contributory scheme or employer commitment whereas, gratuity is a one-time lump sum benefit. In the case of *Allahabad Bank and Anr. v. All India Allahabad Bank Retired Employees Association*¹⁰, the Supreme Court ruled that a pension scheme was not comparable with the payment of gratuity, and the workers could not be denied gratuity just because they had opted for a pension scheme, as framing such an alternative for workers was incorrect. Gratuity is a statutory right of workers and they cannot be deprived of it.

EVOLUTION OF GRATUITY LAW IN INDIA

The history of gratuity in India predates the Payment of Gratuity Act, 1972 by several decades. In the colonial era, gratuity was neither statutory nor universal. It existed, if at all, as a term of the individual contract of employment, and was foreign to the common law tradition inherited from England, where no such statutory right existed. Some large plantations and mining companies, under pressure from labour unions and the colonial government, voluntarily introduced gratuity schemes limited to just few industries through collective agreements or awards by the courts. Various committees and conferences also recommended introducing gratuity as a social security benefit like the Bombay Textile Enquiry Committee 1937 and Cawnpore Labour Enquiry Committee 1937, still the operation of gratuity remained limited. The Working Journalists (Conditions of Service) and Miscellaneous Provisions Act, 1955, was the first national legislation to regulate the payment of gratuity. Several states also moved ahead of the Centre by enacting their own gratuity legislation. In 1971, the Government of Kerala enacted legislation providing gratuity to employees working in industries, plantations, shops, and other establishments. That same year, West

Bengal enacted the West Bengal Employees' Payment of Compulsory Gratuity Act. However, the multiplicity of these schemes varying in coverage, formula, and ceiling created confusion and inequity, and called for a Central enactment. The Payment of Gratuity Act, 1972 was enacted as social security enactment and came into force on 16 September 1972. This was originally the principal legislation governing gratuity entitlements in India. The Act consolidated and rationalised the fragmented pre-existing gratuity schemes and extended a uniform protective framework to workers across most organised-sector establishments.¹¹ The Act was amended several times in 1984, 1987, 1994, 1995, 1997, 2009, 2010, and most significantly in 2018, each amendment progressively expanding its coverage and enhancing the benefit quantum.¹² The Act was a self-contained code in the sense that it prescribed, inter alia, the eligibility for gratuity, the formula for computation, the procedure for making a claim, the adjudicatory mechanism, the appellate hierarchy, and the penal consequences for non-compliance. It did not, however, preclude more favourable contractual or regulatory arrangement which confers on an employee more beneficial gratuity rights. The foundational principle governing the interpretation of the PGA 1972 was that, as a piece of social welfare legislation, it must be construed liberally and in favour of the employee. However, despite the Act's well-intentioned objectives, its implementation in practice continued to reveal substantial shortcomings. Cases involving the denial, forfeiture, and delayed payment of gratuity remained prevalent due to factors such as employer-related disputes, financial constraints, inadequate awareness of legal rights, and employees' reluctance to pursue legal remedies because of the associated costs.

The Code on Social Security, 2020 marks a significant restructuring of Indian gratuity law by consolidating the earlier statutory framework under the Payment of Gratuity Act, 1972 into Chapter V of the Code. The Code was brought into force on 21 November 2025. The code substantially retains the existing five-year rule for gratuity upon superannuation, retirement or resignation, but introduces an important change by expressly recognising fixed-term employment moving away from the traditional model in which long-term continuity of service was the dominant basis for entitlement. The Code also retains the established principles relating to continuous service, calculation of gratuity, better terms under awards or agreements, and forfeiture for specified misconduct, while providing that gratuity for a fixed-term employee or a deceased employee is payable on a pro rata basis. Further, it empowers the Central Government to prescribe different rates for different classes of establishments, and it also provides for the establishment of a Gratuity Fund.

Application and Exemptions

Under the Code on Social Security, 2020 provisions of Chapter V (relating to Gratuity) applies to (a) every factory, mine, oilfield, plantation, port and railway company; and (b) every shop or establishment in which ten or more employees are employed, or were employed, on any day of the preceding twelve months; and such shops or establishments as may be notified by the appropriate Government from time to time. Regarding the application of the Payment of Gratuity Act, 1972, in the case of *Maniben Maganbhai Bhariya v. District Development Officer, Dahod*¹³, the Supreme Court considered whether Anganwadi Workers (AWWs) and Anganwadi Helpers (AWHs) were entitled to gratuity under the Payment of Gratuity Act, 1972. The Court held that Anganwadi Centres constituted establishments were covered by the Act and that AWWs and AWHs fell within the statutory definition of "employee," particularly as their remuneration/honorarium was covered within the definition of "wages."

However, the Payment of Gratuity Act, 1972 was held not applicable to employees of the Central and state governments who are governed by a different set of rules of gratuity. Most recently in February 2026, the Supreme Court in the case of *N. Manoharan v. Administrative Officer*¹⁴ held that employees of the Heavy Water Plant, Tuticorin, who held civil posts under the Central Government and were governed by the CCS (Pension) Rules, 1972, were expressly excluded from the definition of "employee" under Section 2(e) of the Payment of Gratuity Act, 1972. Since their service was governed by statutory pension rules providing for gratuity, the Court held that the Gratuity Act was inapplicable to them, and they could not claim gratuity under the Act. Also, in *Vimla Singh Ex PGT History v. Commissioner, Kendriya Vidyalaya Sangathan*¹⁵, the Court decided that where an employee's service conditions were governed by the CCSP Rules, which themselves provided for payment of gratuity, the employee was excluded from the ambit of the Gratuity Act under Section 2(e).

IBC

Gratuity dues do not form part of the liquidation estate under Section 36(4)(a)(iii) of the Insolvency and Bankruptcy Code (IBC), 2016 and consequently fall outside the waterfall mechanism under Section 53. Therefore, employee's accrued gratuity must be paid in full in accordance with the Payment of Gratuity Act, 1972/Code on Social Security 2020. In *M/s. Stesalit Limited v. Union of India & Ors.*¹⁶, Calcutta High Court held that gratuity dues are statutorily protected employee entitlements and do not form part of the liquidation estate as Section 36(4)(a)(iii) of the IBC expressly excludes sums due from the gratuity fund from the liquidation estate. Consequently, such gratuity cannot be subjected to Section 53 of IBC or diluted for distribution amongst

other creditors. Further, unpaid gratuity constitutes "operational debt" under the IBC and can, where the statutory requirements are satisfied, provide the basis for initiation of CIRP against the defaulting corporate employer. In the case of *Sashi Kanta Jha v. Devi Prasad*¹⁷, National Company Law Appellate Tribunal (NCLAT) held that gratuity payable to a workman is expressly recognised as part of "workmen's dues", particularly in view of the statutory inclusion of sums due from the gratuity fund in the definition of workmen's dues. Distinguishing cases where the principal gratuity had already been paid and only interest remained disputed, the NCLAT held that where the gratuity itself remains unpaid, the claim constitutes an operational debt and can form the basis of an application under Section 9 of the IBC, subject to fulfilment of the statutory requirements.

Curious case of Overseas Transfer/Posting

In case of overseas transfer/posting, determining whether 'continuous service' has been fulfilled in order for gratuity to be payable by the Indian entity, along with the method for computing gratuity, including the identification of 'last drawn wages', becomes substantially challenging. Based on the legal notion of 'continuous service' under the Payment of Gratuity Act, 1972 the period during which the employee is transferred to another country, may be regarded as 'continuous service' and may therefore be considered for determining employees' eligibility for gratuity payable by their employer. However, in such cases, "last drawn wages" for the computation of gratuity becomes quite disputed as to whether it should be: (i) the wages received from the Indian entity immediately before such foreign posting or (ii) the remuneration last drawn by the employee from the foreign entity at the time when such service comes to an end. Every Indian employer would argue that gratuity should be calculated with reference to the wages last drawn by the employee from the Indian employer immediately before the secondment whereas, by contrast, the employee may argue that the gratuity payable to him or her should be computed either on the actual remuneration last drawn. There exists no statutory provision/rule even in the Code on Social Security, 2020 to deal with this upcoming challenge.

'Employee'

Under section 2(26) of the Code on Social Security, 2020 the term 'employee' has been defined. The definition encompasses both full-time and part-time employees, and both permanent and temporary workers. The reference to 'implied' terms of employment extends the definition to situations where no formal contract exists. The provision also extend to contract workers employed through contractors. Even the Payment of Gratuity Act, 1972 did not treat permanent and regular employees differently. Consequently, temporary, casual and

daily-wage status, by itself, should not defeat gratuity entitlement. The Supreme Court, in the case of *Ahmedabad Textile Industry's Research Association v. State of Bombay*¹⁸, while considering part-time teachers employed in primary schools as 'employees' within the meaning of Section 2(e) of the Payment of Gratuity Act, 1972 held that the employment relationship is a question of fact and must be determined by examining the totality of the arrangement rather than its label. The Court rejected the contention that 'employee' connotes only a full-time worker, while ruling that the definition makes no such distinction.¹⁹ Decisive criterion is whether the alleged employer had the right to control not merely the result to be achieved but also the manner in which the work is to be done. Similarly, in the case of *Birla Institute of Technology v. The State of Jharkhand and Ors.*²⁰, Supreme Court held that the educators employed in any educational institution are qualified to claim gratuity under the Act of 1972 from their employers. Also, in *M C Chamaraju v. Hind Nippon Rural Industrial Private Limited*²¹, the Supreme Court decided that a worker who had been transferred between establishments owned by the same employer was eligible for payment of gratuity.

Contract Labourers

Engagement of contract labourers via contractor in establishments often causes trouble for the social security benefit of gratuity. Ordinarily, to safeguard the interests of contract labourers, most labour law statutes render the principal employer responsible for making payment of legally due amounts in the event of a contractor's default (the principal employer). And, the principal employer may reclaim the liability costs it incurs by cross-charging them against the contractor's bills. Nevertheless, a substantial amount of debate surrounds the issue of who bears responsibility for paying gratuity to these contractual labourers when the contractor does not pay it, the contractor or the principal employer. High Court of Bombay in *Cummins Limited v. Industrial Cleaning Services and Others*²², held that a principal employer lacking "ultimate control" over the 'establishment' where the contractor's workers were employed does not qualify as an employer under Section 2(f) of the Gratuity Act. Even the Calcutta High Court in *Sailen Seth v. Deputy Labour Commissioner and Others*²³ held that a principal employer cannot be compelled to pay gratuity to contractual workers. The same High Court in the case of *FS Payment Solutions and Services India Private Limited v. The Assistant Labour Commissioner Central Siliguri & Others*²⁴, reiterated that as per the provisions of the Gratuity Act, there must be a relationship between the employee and the employer which may be expressed or may implied for the provisions of the said Act to apply. Therefore, the liability to pay gratuity to contractual workers can only be fastened upon the contractor and not the principal employer.

However, Madras High Court has taken contrary views in cases namely, *Superintending Engineer, Mettur Thermal Power Station, Mettur v. Appellate Authority Joint Commissioner of Labour, Coimbatore*²⁵ and *Madras Fertilisers Limited v. Controlling Authority under Payment of Gratuity Act*²⁶. In these cases, the court held that gratuity is considered wages within the context of the Contract Labor Act, 1970 making the principal employer liable if the contractor fails to pay. Similarly, the Jharkhand High Court, in the case of *Heavy Engineering Corporation Limited, through its Chairman-cum-Managing Director, v. The Union of India & Others*²⁷, noted that Section 1(3) of the Payment of Gratuity Act, 1972 does not exclude contractor establishments, thereby extending the Gratuity Act's coverage to contract labourers. It further noted that the definition of 'worker' under Section 2(1) of the Factories Act, 1948, includes contract workers, making them subject to its provisions.

In certain instances, when the principal employer exercises direct control over wages and disciplinary control, the principal employer may itself be treated as the immediate employer. The inter se agreement, a mere facade or a sham or camouflage to deprive the contractual workers of the status and privileges of the regular employee may be lifted by Court. This lifting of veil can lead to the principal employer being held liable for gratuity payments. For example, in the case of *Indian Institute of Technology, Bombay v. Tanaji Babaji Lad*²⁸, the Bombay High Court considered the important question whether contract workers engaged through multiple contractors, but rendering long and continuous service at the same establishment, could claim gratuity from the principal employer.²⁹ The Court held that, for the limited purpose of gratuity, the workers were required to be treated as employees of IIT Bombay, notwithstanding their formal engagement through different contractors. Recently, in the case of *Sail Growth Works v. Sri Sasanka Maji & Ors.*³⁰, the Hon'ble Calcutta High Court has also categorically noted that the principal employer is liable to pay gratuity to contract workers if: (a) the contractors fail to pay contract workers; or (b) the contractor fails to make a short payment; or (c) if the contractor terminates the services of the contract employee; or (d) if the contractor employee works for multiple contractors.

Gig Workers: An Emerging Challenge

Gig workers are typically classified as 'independent contractors' by the platforms that engage them, and on this basis, platforms deny any gratuity liability. Courts in India have not yet squarely addressed this issue. The Code on Social Security, 2020, is the first Indian legislation to acknowledge the existence of 'gig workers' and 'platform workers' as distinct categories. Chapter IX of the Code provides for social security funds for gig and platform workers, but the

specific gratuity entitlement of these workers is not clearly articulated. Even the Rajasthan Platform Based Gig Workers (Registration and Welfare) Act, 2023 which was the first state legislation specifically governing gig workers, does not address the concern of gratuity for gig-workers or platform-based workers. Given the exponential growth of the gig economy and the Supreme Court's growing willingness to pierce the 'independent contractor' label in employment law, legislative intervention to extend gratuity protection to gig workers is both necessary and imminent.

Payment of Gratuity and Requirement of Continuous Service

Section 53 of the Code on Social Security, 2020 is the operative provision establishing the right to gratuity. According to this, gratuity shall be payable to an employee on the termination of his employment after he has rendered continuous service for not less than five years: (a) on his superannuation; or (b) on his retirement or resignation; or (c) on his death or disablement due to accident or disease; or (d) on termination of his contract period under fixed term employment; or (e) on happening of any such event as may be notified by the Central Government. In *State of Punjab v. Labour Court, Jullundur & Ors.*³¹, the Supreme Court was called upon to determine whether retrenchment of the employees upon completion of the project constituted "retirement" within Section 2(q) so as to attract gratuity under Section 4(1) of the Payment of Gratuity Act, 1972. The Court while interpreting "retirement" in Section 2(q) in its broad terms, held that any termination of service other than superannuation constitutes retirement for purposes of the Act. Interestingly, in *Bihar State Text Book Publishing Corporation v. State of Bihar*³² the Court also held that an employer cannot terminate the services of an employee just before the completion of five years of service with the motive of depriving him of gratuity. Such termination, if found to be colourable, may be set aside. Courts have also recognised resignation as a form of termination contemplated by Section 4(1)(b) of the Payment of Gratuity Act, 1972. Consequently, an employee completing five years of continuous service cannot be denied gratuity merely because the cessation of employment occurred through resignation. In *Rajasthan State Road Transport Corporation Ltd. v. Smt. Mohani Devi & Anr.*³³, the Supreme Court expressly held that "termination" for purposes of Section 4(1)(b) includes resignation, and therefore an employee who satisfies the five-year continuous-service requirement remains entitled to gratuity even though his employment ends by resignation rather than retirement. Recently, in the case of *Ashok Kumar Dabas (Dead through Legal Heirs) v. Delhi Transport Corporation*³⁴, the Supreme Court held, from the perspective of gratuity, resignation does not extinguish an employee's statutory entitlement to gratuity under Section 4(1)

of the Payment of Gratuity Act, 1972, provided the employee has completed the requisite five years of continuous service. The Court reaffirmed the principle that gratuity is a statutory and accrued employment benefit which cannot be denied merely because the employee leaves service by resignation.

Continuous Service

The concept of 'continuous service' is foundational to gratuity eligibility.³⁵ For the purpose of computing one year's continuous service³⁶, an employee³⁷ who has worked for not less than 190 days in an underground mine, or 240 days³⁸ in any other establishment, in the preceding twelve months, shall be deemed to have worked for the full year. Section 54 of the Code on Social Security, 2020 provides that an employee shall be said to be in 'continuous service' for a period if he has been in uninterrupted service³⁹ for that period, including service interrupted by sickness, accident, leave, absence from duty without leave (not exceeding his employment period in accordance with the rules or orders of the appropriate authority), lay-off, strike (not illegal), or lock-out.⁴⁰

Fixed-Term Employees

One of the most contested issues in recent labour law discourse has been the entitlement of fixed-term employees to gratuity. Fixed-term employment contracts were used extensively by employers in seasonal, project-based, and export-oriented industries. Under the Payment of Gratuity Act, 1972 where fixed-term or contractual employees whose service ended before five years received no gratuity at all, as they could not satisfy the five-year minimum service requirement, regardless of how long or how productively they had worked. The Industrial Employment (Standing Orders) (Central) Amendment Rules, 2018, introduced the concept of 'fixed-term employment' into the Central standing orders framework and provided that a fixed-term employee shall be eligible for gratuity on a pro-rata basis for the period of service rendered, even if the period of employment is less than five years. Under the Code on Social Security, 2020 the general five-year continuous-service requirement for gratuity is retained, but a significant exception has been created for fixed-term employees. Now, a fixed-term employee, who is hired under a written contract for a defined period, has also become eligible for gratuity after completing one year of service. Although, he receives the amount of gratuity on a proportionate basis only on a pro-rata basis. This one-year threshold seeks to prevent fixed-term workers from being excluded from gratuity merely because the nature of their employment is inherently short-term. However, the law should also specifically provide that where an employee is engaged by the same employer under two or more fixed term contracts with only a brief gap between them, the periods of service should be added together for the

one-year threshold, rather than treated as separate spells of employment. This would directly address the risk of employers using repeated eleven-month contracts to defeat the purpose of Section 53 of the Code on Social Security, 2020.

Computation of Gratuity

Under the Code on Social Security, 2020 eligible employees are entitled to gratuity at the rate of 15 days' wages for every completed year of service or part thereof in excess of six months. The formula is: Gratuity = (Last Drawn Monthly Wages × 15) ÷ 26 × Completed Years of Service. The ceiling on gratuity was originally fixed at Rs. 3.5 lakhs, subsequently raised to Rs. 10 lakhs by the Payment of Gratuity (Amendment) Act, 2010. The Payment of Gratuity (Amendment) Act, 2018, empowered the Central Government to raise the ceiling by notification. Pursuant to this, the ceiling on tax-exempt gratuity for employees covered by the Act was raised to Rs. 20 lakhs by notification. For government employees, the ceiling was also enhanced to Rs. 20 lakhs.⁴¹

In the case of *Delhi Transport Corporation v. Santosh Kumar*⁴², the Supreme Court held that for the purpose of computing gratuity, 'wages' must be understood to include all components that are regularly and invariably paid to the employee as part of the terms of employment. Allowances that are paid contingently or irregularly, such as overtime, are excluded, but those forming a regular part of the pay package, such as special allowances, must be included. The Bombay High Court has also decided that 'special allowance' forming a regular component of the employee's pay must be included in the definition of wages for gratuity purposes. The Court rejected the employer's contention that only basic pay and dearness allowance constitute wages.⁴³

Better Benefits

Like section 4(5) Payment of Gratuity Act, 1972, section 53(5) of the Code on Social Security, 2020 also provides that "Nothing in this section shall affect the right of an employee to receive better terms of gratuity under any award or agreement or contract with the employer". In the case of *Allahabad Bank v. All India Allahabad Bank Retired Employees' Association*⁴⁴, the Court also stipulated that the maximum limit as provided under Section 4 of the Payment of Gratuity Act, 1972 cannot be reduced by a mutual settlement and agreement. In a recent judicial pronouncement of *BCH Electric Limited v. Pradeep Mehra*⁴⁵, the Supreme Court noted: "For Section 4(5) of the Payment of Gratuity Act, to get attracted, there must be better terms of gratuity available and extendable to an employee under any award or agreement or contract with the employer as against what has been provided for under and in terms of the Act. Thus, when two choices are available, one under provisions of the Act and one under such arrangement with the employer and if

the latter offers better terms, the employee cannot be denied right to receive those higher benefits."

Interest on Delayed Payment of Gratuity

Section 56(4) of the Code also provides for simple interest at the rate prescribed by the Central Government (currently ten per cent per annum) on gratuity that is not paid within thirty days of the date on which it became payable. Even under the Payment of Gratuity Act, 1972 Courts had consistently ruled that this interest provision is mandatory and not discretionary. The Competent Authority is obliged to award interest if payment is delayed, regardless of the reason for the delay. In the case of *Bharat Heavy Electricals Ltd. v. B.B. Pathak*⁴⁶, the Supreme Court held that the right to interest under Section 7(3A) of the Payment of Gratuity Act, 1972 is automatic and statutory. It arises as of right upon delay in payment, without the need for any specific application by the employee. The Controlling Authority is bound to award interest, and the employer cannot escape liability by claiming that the delay was caused by a genuine dispute about the quantum of gratuity.

Forfeiture of Gratuity

The forfeiture of gratuity has been the subject of strict judicial scrutiny. The adjudication of gratuity forfeiture requires strict compliance with procedural fairness. Courts have established that forfeiture is a penal provision and must not be invoked as a punitive afterthought to a disciplinary proceeding. Courts have repeatedly affirmed that the forfeiture of gratuity does not occur automatically merely upon dismissal or termination. Employers are required to follow due process, which entails issuing a show-cause notice to the employee that sets out the grounds on which forfeiture may be considered, and providing the employee with a reasonable opportunity to present a hearing. This ensures that forfeiture decisions are not arbitrary or punitive without adequate justification. Section 53(6)⁴⁷ of the Code on Social Security permits the forfeiture of gratuity wholly or partially. However, judicial review of such measures also depends on whether the employer can establish that the sanction is proportionate to the seriousness of the proven misconduct and remains within the limits of the applicable statutory framework.

Employers must therefore maintain comprehensive evidentiary records capable of substantiating the disciplinary action, since the absence of a clear and adequately documented basis for forfeiture may result in rigorous judicial scrutiny under constitutional standards of fairness. Employees, too, should preserve relevant documentation to challenge potential instances of bad-faith withholding or unlawful retention of benefits. Such record-keeping constitutes an important evidentiary safeguard, helping ensure that statutory

entitlements under the law are not defeated by procedural irregularities or unilateral employer discretion. Prompt investigation and timely initiation of appropriate proceedings also help preserve evidence and ensure procedural fairness, while unnecessary delay may weaken the employer's case and, where gratuity is otherwise payable, may also result in liability arising from delayed payment.

Ambiguity of 'Moral Turpitude'. Under Section 4(6)(b)(ii) of the Payment of Gratuity Act, 1972, and the corresponding Section 53(6)(b)(ii) of the Social Security Code, 2020, an employee's gratuity may be forfeited for committing an offence involving moral turpitude as per the employer's discretion. However, neither legislation provides a definite explanation of the term moral turpitude, leaving it up to varied interpretations. Without a definite list of acts that constitute moral turpitude, it provides a leeway to the employer to misuse this provision to protect their interests, potentially infringing on employees' protection in the workplace.

Judicial Approach

In *Jaswant Singh Gill v. Bharat Coking Coal Ltd.*⁴⁸, the Supreme Court had to decide whether an employee's gratuity could be forfeited on the basis of disciplinary proceedings under the employer's Conduct, Discipline and Appeal Rules when the employee had already attained the age of superannuation and his services had not been terminated? Court was also called upon to examine whether such non-statutory service rules could override the conditions prescribed by Section 4(6) of the Payment of Gratuity Act, 1972? The Court held that gratuity is a statutory right and that the Payment of Gratuity Act constitutes a complete code governing both the entitlement to gratuity and the circumstances in which that entitlement may be forfeited. Since Section 4(6) specifically permits forfeiture only where the employee's service is terminated for the circumstances stipulated therein, the disciplinary authority could not forfeit gratuity merely by recording that dismissal would have been imposed but for the employee's superannuation. The Court further held that, in cases falling under Section 4(6)(a), forfeiture is restricted to the extent of the actual damage or loss caused to the employer and that such loss must be quantified; neither requirement had been satisfied in the case.

In *Union Bank of India v. C.G. Ajay Babu*⁴⁹, the Supreme Court was called upon to decide whether forfeiture of gratuity under Section 4(6) of the Payment of Gratuity Act, 1972 follows automatically upon dismissal from service for misconduct? Further, whether an employer could forfeit gratuity on the ground that the misconduct constituted an offence involving moral turpitude when there had been no conviction by a criminal court? The Court held that forfeiture of gratuity is not an automatic

consequence of dismissal and can be affected only when the statutory conditions prescribed under Section 4(6) are strictly satisfied. In relation to Section 4(6)(a), forfeiture is permissible only to the extent of the damage or loss caused to the employer, whereas Section 4(6)(b) permits partial or complete forfeiture in the specifically enumerated circumstances of riotous or disorderly conduct, violence, or an offence involving moral turpitude committed in the course of employment. The Court further held that mere characterization of proved misconduct as an act involving moral turpitude was insufficient under Section 4(6)(b)(ii) and the offence involving moral turpitude had to be "duly established in a court of law". On that basis, and in the absence of a criminal conviction, the forfeiture was held unsustainable. The court noted that in the present case, there is no conviction of the respondent for the misconduct which according to the Bank is an offence involving moral turpitude. Hence, there is no justification for the forfeiture of gratuity.

In *Jyotirmay Ray v. The Field General Manager, Punjab National Bank*⁵⁰, the Supreme Court considered whether an employee who had been compulsorily retired as a disciplinary penalty could be denied gratuity on the ground that the bank's service regulations did not expressly provide for forfeiture in cases of compulsory retirement. The Court held that while the bank's regulations provided for gratuity upon retirement, resignation and termination, they were silent regarding forfeiture of gratuity on compulsory retirement. Applying Section 4(6) of the Payment of Gratuity Act, 1972, the Court held that gratuity could be forfeited only in the circumstances specifically contemplated by the statute and compulsory retirement by itself does not constitute a statutory ground for forfeiture. However, in *Western Coal Fields Ltd. v. Manohar Govinda Fulzele*⁵¹, while rejecting the argument that criminal conviction was a prerequisite for forfeiture, the Court held that Section 4(6)(b)(ii) does not require the offence involving moral turpitude to be established by a criminal court. Distinguishing the observations in *Union Bank of India v. C.G. Ajay Babu*⁵², the Court held that the words "duly established in a Court of Law" could not be read into the statutory provision, particularly since the provision itself makes no reference to conviction in a criminal proceeding. The observation in *Union Bank of India v. C.G. Ajay Babu*, suggesting conviction as a prerequisite for forfeiture, was obiter dicta and not binding. The Court recognised the different standard of proof in disciplinary proceedings and criminal proceedings. The Court held that the competent disciplinary or appointing authority may determine whether the proved misconduct constitutes an offence involving moral turpitude and, having regard to its gravity, whether the gratuity should be forfeited wholly or partially. However, the employee

must be afforded notice and an opportunity to represent both on the character of the misconduct and the extent of forfeiture.

Forfeiture of gratuity on account of damage or loss caused by an employee's misconduct is compensatory and strictly limited to the extent of the actual loss proved by the employer. Therefore, an unsubstantiated or unilateral allegation of financial loss cannot justify forfeiture of earned gratuity. In *Prabhat Kumar Singh v. Accu Pack Engineering Pvt. Ltd.*⁵³, there had been no disciplinary inquiry before termination, no calculation or audit report substantiating the claimed ₹50 lakh loss, and the police investigation had in fact found no financial loss or misappropriation. The Supreme Court held that a mere allegation, show-cause notice, unilateral assessment, or admission allegedly made during proceedings is insufficient. The employer must establish the financial loss through independent evidence before the Controlling Authority.

Withholding Gratuity

In *Chairman-cum-Managing Director, Mahanadi Coalfields Ltd. v. Rabindranath Choubey*⁵⁴, the Supreme Court held that where the applicable statutory or validly framed service rules provide that disciplinary proceedings instituted during service may continue after superannuation and expressly permit the employee to be treated as continuing in service for that limited purpose, the employer may continue the proceedings and impose an appropriate penalty, including dismissal, even after superannuation. Consequently, the Court held that gratuity can be withheld during the pendency of such proceedings, since the eventual consequences under Section 4(6) of the Payment of Gratuity Act would depend upon the outcome of the disciplinary proceedings.

Recently, in *Suresh Kumar Sharma (Deceased) through LRs v. State of Haryana & Ors.*⁵⁵, Punjab & Haryana High Court had to examine whether gratuity and other retiral benefits can be withheld under Rule 2.2(b) of the Punjab Civil Services Rules merely because criminal proceedings are pending against the employee, particularly where the criminal case relates to an act unconnected with the employee's official duties. The Court held that the rule contemplates proceedings relating to grave misconduct or negligence during the period of service, and criminal proceedings wholly unrelated to official duty cannot be invoked as a basis for withholding gratuity. The Court considered the distinction between misconduct connected with official duties and a purely personal criminal offence.

In the case of *Chittiboyina Bharata Rao v. The Krishna District Cooperative Central Bank Ltd.*⁵⁶, the central legal issue before the Andhra Pradesh High Court

was whether the respondents could withhold the gratuity and other terminal benefits of retired employees merely because the former employer i.e., Primary Agricultural Cooperative Society (PACS), where the employees had earlier served, had not deposited its contributory share, including on the plea of financial incapacity. The Court held that withholding gratuity is impermissible in the absence of the forfeiture circumstances under Section 4(6) not being attracted. Importantly, the Court rejected the argument of financial incapacity and held both the previous and present employers (DCCB and PACS) jointly and severally liable for the terminal benefits.

The Supreme Court has also distinguished between unlawful deprivation of gratuity and lawful adjustment of gratuity against an ascertainable statutory or contractual liability, while emphasising that such recovery must have a proper legal basis under the applicable rules. Recently, in *Mgmt. of SAIL v. Shambhu Prasad Singh & Ors.*⁵⁷, the Supreme Court has recognised that where a retired employee continues to occupy employer-provided accommodation beyond the permissible period, the resulting penal rent is a lawful liability that may, where the applicable service/gratuity rules so provide, be withheld or adjusted against the gratuity payable. The Court treated penal rent as the natural consequence of unauthorised occupation and held that it can be recovered from gratuity.

Even an acquittal in the criminal case did not automatically create an immediate right to payment of gratuity while disciplinary proceedings remained pending. Most recently, in *Bikram Chand Rana v. Himachal Pradesh Road Transport Corporation*⁵⁸, the Supreme Court considered whether gratuity could be released after the employee was acquitted in the criminal proceedings when departmental proceedings concerning the same employee were still pending. The Court, while interpreting Rule 69(1)(c) of the CCS (Pension) Rules, 1972 and rejecting the employee's contention that conclusion of either proceeding would lift the embargo on gratuity, held that gratuity could lawfully be withheld until the conclusion of both the departmental or judicial proceedings and the issuance of final orders.

The Competent Authority

Section 58 of the Code on Social Security, 2020 empowers the appropriate government to appoint, by notification, a competent Authority for regulating the matters of Gratuity. The competent authority performs a crucial administrative and quasi-judicial function. It receives gratuity applications, investigates disputes between employer and employee regarding gratuity entitlement, and has the power to direct payment. Accordingly, civil courts or any other special authority shall have no

jurisdiction to entertain disputes concerning the payment of gratuity under the Code and the remedy lies exclusively before the competent Authority. In *State of Punjab v. Labour Court, Jullundur & Ors.*⁵⁹, the Supreme Court held that the Payment of Gratuity Act constitutes a complete and self-contained code providing the substantive right to gratuity, the conditions governing its accrual and quantification, recovery mechanisms, and a specialised Controlling Authority with appellate machinery. Consequently, a claim for gratuity under the Act could not be pursued through Section 33-C(2) of the Industrial Disputes Act, and the Labour Court lacked jurisdiction to entertain such an application. Also, the competent Authority is not merely an administrative functionary but exercises quasi-judicial powers.⁶⁰ Authority must act judicially and in conformity with the principles of natural justice. An order made without affording the employer an adequate opportunity of meeting the employee's claim is liable to be set aside in a writ petition under Article 226 of the Constitution.

CONCLUSION

The statutory framework reflects a carefully calibrated balance between the employee's claim to retirement security and the employer's legitimate employer interests. The judiciary has also played an indispensable role in giving life to the statute, filling its gaps, resolving its ambiguities, and ensuring that its protective ambit is not eroded by technical or narrow interpretations. Over five decades of judicial interpretation, the Payment of Gratuity Act, 1972 progressively expanded in its reach and deepened in its protection, with courts consistently applying the canon of liberal construction to advance the Act's remedial purpose. Issues relating to resignation, dismissal, pending disciplinary and criminal proceedings, retrenchment, contractual & fixed-term employment, and the interaction between pensionary rules and the Payment of Gratuity Act have significantly expanded the field of gratuity jurisprudence. The treatment of gratuity dues under insolvency law particularly, reflects how law seeks to protect accrued employee entitlements even when the employer is undergoing liquidation. The enactment of the Code on Social Security, 2020 represents another important stage in this development. By incorporating gratuity within a broader social security framework and expressly recognising entitlement for fixed-term employees, the Code responds, at least partly, to changes in contemporary employment.

On the question of entitlement, the courts have inclined firmly towards a liberal, welfare-oriented construction with a judicial reluctance to restrict this social security benefit against casual, part-time, contractual or fixed-term employment relationship. What is commendable is reading 'wages' to include allowances that form a regular part of remuneration

and treating the payment of interest on delayed gratuity as an automatic statutory consequence rather than a discretionary award. Dealing with forfeiture of gratuity also, courts have adopted an appreciably balanced approach requiring adherence to natural justice and requiring nexus between the alleged misconduct and the termination of service. At the same time, the jurisprudence shows that the right to gratuity, though strongly protected, is not absolute. The law permits withholding or forfeiture in clearly defined circumstances, and the recent decisions considered in this paper indicate that such power must remain within the limits prescribed by statute and the applicable service rules. The requirement of proof of actual loss, observance of natural justice and proportionality in cases of forfeiture assumes particular importance in this regard.

However, the unsettled treatment of 'moral turpitude' illustrates that this branch of the law, while broadly protective, still awaits a more definitive resolution, preferably through legislative clarification rather than continued judicial interpretation. Similarly, the treatment of contract labour continues to divide High Courts on the question of principal-employer liability. Although, the Code on Social Security, 2020 offers a genuine opportunity to address several of these concerns, but the one-year threshold introduced for fixed-term employees under the Code offers no express mechanism for aggregating successive short-term contracts with the same employer, leaving room for its circumvention through the very device it was meant to discourage. The gig and platform economy also remains almost entirely outside the gratuity protection net, notwithstanding the belated recognition of gig workers as a distinct category under the Code on Social Security, 2020. These gaps are not merely of academic interest rather each represents a category of workers for whom the promise of post-retirement security remains, in practice, illusory. Addressing them would require an active role of administrative machinery and contemporary welfare-oriented judicial interpretation of the law.

Speaking of possible improvements in law and policy: (1) an express aggregation rule for successive fixed-term contracts, (2) a clearer legislative or rule-based demarcation of gratuity liability as between principal employers and contractors, (3) a considered extension of gratuity coverage to domestic workers and platform-based workers and (4) development of a portable gratuity scheme that allows the accrual and transfer of gratuity across employers, should be the matters of first priority. Authorities also need to shift away from complaint-driven adjudication towards proactive verification of compliance during routine labour inspections. If these reforms are seriously pursued, gratuity law

can continue to serve its constitutional function as a meaningful guarantee of social security rather than a formal entitlement available only on paper. In essence, while the law of gratuity has admirably served its purpose of providing post-employment security and the judiciary's willingness to fill their gaps has kept the underlying promise of Article 41 meaningful in practice. However, its full realization requires targeted parliamentary intervention by addressing existing legislative gaps to ensure that gratuity remains an equitable and comprehensive social security benefit for all workers in India's dynamic labour market.

REFERENCES

1. A. Mishra, 'Fixed-Term Employment and Gratuity: Rethinking the Five-Year Threshold in the Context of the Labour Codes' (2021) 27(4) Journal of Indian Law and Society.
2. Anam Fatima, 'Reforming Gratuity Rights in India: A Critical Study of the One-Year Rule for Fixed-Term Workers under the Code on Social Security 2020' (2026) Jus Corpus Law Journal.
3. Bineesh P Chacko, 'Right to Service and the Role of Controlling Authorities: Evaluating the Effectiveness of Legal Mechanisms under The Payment of Gratuity Act, 1972' (2025) Lawfoyer International Journal of Doctrinal Legal Research [Vol. III Issue IV].
4. Chirag Mittal, 'The Jurisprudence of Gratuity: Deconstructing the Minimum "Continuous Service" Requirement for Payment of Gratuity', Indian Journal of Law and Legal Research Volume VII Issue III.
5. Jerome Joseph and Srinath Jagannathan, 'Employment Relations & Managerialist Undercurrents - The Case of Payment of Gratuity Act, 1972', (2011) Indian Journal of Industrial Relations, Vol. 47, No. 2.
6. K.D. Srivastava, Commentaries on Payment of Gratuity Act, 1972 Eastern Book Company, Lucknow, 5th edn., 2021.
7. P. Duggal, 'Gratuity Rights of Platform Workers: A Comparative Study of the Code on Social Security, 2020 and International Standards' (2023) 35(2) Indian Journal of Labour Economics.
8. S.C. Srivastava, 'Gratuity: The Approaches of Indian Judiciary', (1972) Indian Journal of Industrial Relations, Vol. 7 No. 3.
9. Sarah Pauly, 'A Brief Study on Payment of Gratuity Act, 1972', (2022) International Journal of Innovative Research in Engineering and Management (IJIREM) Vol.9, Special Issue-1.
1. Justice Gajendragadkar notes: "....At one time it was treated as a gratuitous payment made by the employer to the employee, but gratuity now has come to be regarded as a legitimate claim and which in a proper case can give rise to an industrial dispute." See *Indian Hume Pipe Co. Ltd. v. Workmen* 1960 AIR 251. Also, in the case of *Ahmedabad Private Primary Teachers' Association v. Administrative Officer* (2004) 1 SCC 755, the Supreme Court clarified that gratuity under the Payment of Gratuity Act, 1972 is not a gift or bounty but a statutory right that accrues upon the completion of the prescribed period of continuous service.
2. The Supreme Court has repeatedly highlighted that gratuity is not a mere bounty, but a reward earned by the employee through dedicated service. See *Express Newspapers (P) Ltd. v. Union of India* AIR 1958 SC 578.
3. The Supreme Court described gratuity as an "efficiency device," facilitating the orderly and humane exit of employees who have served the organization for a substantial period. See *Hindustan Antibiotics Ltd. v. Workmen* AIR 1967 SC 948.
4. The Supreme Court emphasized that retiral benefits, including gratuity, are essential for ensuring socio-economic justice to employees after retirement. It is equally significant in cases of death or disablement, where it provides immediate financial relief to dependents. See *Delhi Transport Corporation Retired Employees' Association v. DTC* AIR 2001 SC 1997.
5. Central to the legal understanding of gratuity is the concept of service i.e., its commencement, continuity, and completion. Unlike wages which are earned and payable periodically, gratuity is earned over the entire duration of employment. The law does not treat each working day in isolation, instead, it looks at the totality of the employment relationship and rewards duration. This longitudinal view of employment distinguishes gratuity from piece-rate wages and performance bonuses, situating it closer to seniority-based benefits.
6. The Supreme Court has noted: "...if one looks into the scheme in a holistic manner, gratuity is a reward for good, efficient and faithful service rendered for a considerable period ...". See *Maniben Maganbhai Bhariya v. District Development Officer* MANU/SC/0540/2022.
7. See *Bakshish Singh v. Darshan Engineering Works* 1994 SCC (1) 9.
8. 1960 AIR 251.

ENDNOTES:

9. See *Hindustan Antibiotics Ltd. v. Their Workmen & Ors.* (1967) 1 LLJ 114 SC.
10. 2009 AIR SCW 7667.
11. Even after the enactment of PGA 1972, certain sectors continued to be governed by their own gratuity schemes i.e., the Coal Mines Provident Fund and Miscellaneous Provisions Act, 1948, the Assam Tea Plantations Provident Fund and Pension Fund Scheme Act, 1955, and various plantation-specific gratuity regulations.
12. The Payment of Gratuity (Amendment) Act, 2018 is considered as the most significant development in gratuity law in India. The Amendment made two principal changes: first, it empowered the Central Government to raise the ceiling on tax-exempt gratuity by notification and second, it extended the benefit of increased gratuity ceiling to employees in the private sector on par with government employees.
13. 2022 LiveLaw (SC) 408.
14. 2026 SccOnline SC 189.
15. W.P.(C) 14081/2023 decided on 25.02.2026.
16. WPA No. 532 of 2025, decided by the Calcutta High Court on 21.02.2025.
17. No. 214 of 2024, decided on 30.04.2025.
18. 1961 AIR SC 484.
19. Also see *Janardan Sharma v. GNCT of Delhi*, 2021 SCC OnLine Del 3895 where, the Delhi High Court held that the Payment of Gratuity Act, 1972 does not distinguish between regular, ad hoc, casual, full-time or part-time employees. Once a person falls within the statutory definition of "employee" and satisfies the requisite conditions of service, the nature of appointment cannot by itself defeat the statutory entitlement to gratuity.
20. 2019 (4) SCC 513.
21. AIR 2007 SC 2946.
22. WP No.7867/2003 decided on 05.01.2017.
23. (2010) SCC OnLine Cal 1763.
24. WPA 2 of 2021 decided on 25.01.2021.
25. 2012 CID CLR 242.
26. (2003) (1) LLJ Madras 325.
27. WP (L) No. 5431 of 2019 decided on 04.09.2023.
28. WP No. 12746 of 2024 decided on 04.10.2024
29. It was contended by IIT Bombay that the contract workers were hired through external contractors and there was no employer-employee relationship between them. Consequently, the liability to pay gratuity to these contract workers lies with their contractor and not them, who are principal employer. On the other hand, it was contended by the contract workers that they had served IIT Bombay for decades, continuously, even though the contractors changed over time. It was further submitted by them the contractors only acted as intermediaries and only IIT Bombay controlled and directed the work. It was further observed by the Court that IIT Bombay exercised supervision and control over the contract workers.
30. WPA/388/2025 decided on 10.03.2025.
31. 1980 (1) SCC 4.
32. AIR 1997 Pat 45.
33. AIR 2020 SC 2118.
34. 2025 LiveLaw (SC) 1186.
35. In the case of *Lalappa Lingappa v. Laxmi Vishnu Textile Mills Ltd.* (1981) 2 SCC 238, the Supreme Court held that the statutory requirement of continuous service involves satisfaction of the prescribed 240 day threshold, and an employee cannot claim gratuity for a particular year merely because he remained on the establishment's rolls.
36. In *Jeewanlal Ltd. and Ors. v. Appellate Authority under the Payment of Gratuity Act and Ors.* MANU/SC/0276/1984, the Supreme Court held that the expression "continuous service" requires that the entire period of service of an employee, from the date of initial appointment until the date of termination, be taken into account for payment of gratuity.
37. The Supreme Court in *Indo-Tibetan Border Police Force v. Neha Singh* (2020) held that an apprentice who is subsequently absorbed as a regular employee does not count the apprenticeship period for gratuity purposes, since Section 2(e) of the Payment of Gratuity Act, 1972 explicitly excludes apprentices.
38. In the case of *Mettur Beardsell Ltd. v. Regional Labour Commissioner (Central)* 1998 LLR 920, the Supreme Court held that for the purpose of Section 4(1) of the Payment of Gratuity an employee who has worked for 240 days or more in each of five successive years has completed five years of continuous service.
39. In the case of *Workmen of American Express International Banking Corporation v. Management* (1985) 4 SCC 71, the Supreme Court held that the period of suspension pending a domestic enquiry must be counted toward 'continuous service' for the purpose of computing gratuity, since suspension does not terminate the employment relationship. Also, in the case of *Netram Sahu v. State of Chhattisgarh* (2018) 5 SCC 430, the employee had initially worked as a daily wage for 22 years and was subsequently regularised on a work-charge

- establishment for about three years before retirement. The Supreme Court held that, once the State had regularised his service, his entire period of service, including the earlier daily-wage service, had to be counted for determining gratuity, provided the statutory continuous-service requirement was satisfied.
40. In the case of *Surendra Kumar Verma v. Central Government Industrial Tribunal* (1980) 4 SCC 443, the Supreme Court held that the definition of 'continuous service' under Section 2A (Payment of Gratuity Act, 1972) must be liberally construed, and that breaks in service occasioned by circumstances beyond the employee's control including illness, leave, lay-off, and lock-out do not break the continuity of service. The Court emphasised that the Act is a piece of social welfare legislation and must be interpreted in light of its remedial purpose.
 41. A bare perusal of Section 53(3) of the Act indicates that the gratuity amount payable to an employee should not exceed the amount notified by the Central Government. In this regard, the Ministry of Labour and Employment vide its Notification No. S.O. 1420 (E) dated March 29, 2018 specified maximum ceiling of gratuity of Rs. 20,00,000/- payable to an employee under the Act.
 42. (1990) 1 SCC 48.
 43. See *Ispat Industries Ltd. v. Regional Provident Fund Commissioner*, 2005 Lab IC 3009 (Bom).
 44. (2010) 2 SCC 44.
 45. (2020) 15 SCC 262.
 46. (1996) 4 SCC 427.
 47. "Notwithstanding anything contained in sub-section (1),— (a) the gratuity of an employee, whose services have been terminated for any act, wilful omission or negligence causing any damage or loss to, or destruction of, property belonging to the employer, shall be forfeited to the extent of the damage or loss so caused; (b) the gratuity payable to an employee may be wholly or partially forfeited— (i) if the services of such employee have been terminated for his riotous or disorderly conduct or any other act of violence on his part, or (ii) if the services of such employee have been terminated for any act which constitutes an offence involving moral turpitude, provided such offence is committed by him in the course of his employment."
 48. (2007) 1 SCC 663.
 49. (2018) 9 SCC 529.
 50. 2023 INSC 979.
 51. 2025 INSC 233.
 52. (2018) 9 SCC 529.
 53. 2026 INSC 779.
 54. (2020) 18 SCC 71.
 55. 2025: PHHC:093236 (Neutral Citation).
 56. 2025 LiveLaw (AP) 163.
 57. 2026 LiveLaw (SC) 262.
 58. 2026 LiveLaw (SC) 344.
 59. 1980 (1) SCC 4.
 60. The courts have held that proceedings before the Controlling Authority must comply with the principles of natural justice i.e., both parties must be heard, and the order must be a reasoned one.