Sharp byTes
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Karnataka Compulsory Gratuity Insurance Rules, 2024

The Payment of Gratuity Act, 1972 ('the Act') specifies that every State Government will notify every employer to obtain insurance for payment of gratuity to the employees under the Act. Recently, the Karnataka Government notified the 'Karnataka Compulsory Gratuity Insurance Rules, 2024' ('Rules') that apply to employers in the State of Karnataka.

Legal provisions

Employer's obligations for obtaining a valid compulsory insurance

01

1. New employers: Within 30 days of the Rules becoming applicable
2. Existing employers: Within 60 days from the date of commencement of these Rules

02

Renewal to be made before the policy lapses and within 15 days of the renewal, the employer needs to intimate the controlling authority (C.A.).

03

- Form-I: For registering the establishment with the Controlling Authority (C.A.).
- Form IV: C.A. shall register the establishment vide Form-IV.
- Form-III: Employer to furnish the details of the insured employees at the time of registration of the establishment and thereafter whenever there is a change in the insured employees/policies/and any other pertinent information.
- Form II: To be furnished by the employer who
  - already has an approved gratuity fund
  - employs 500 or more persons and establishes an approved gratuity fund

and wishes to continue the same, provided the approved gratuity fund covers the entire liability of all the employees.

Key liabilities of the employer in a nutshell

Register the establishment with the controlling authority and comply with the following provisions

Make timely premium payments and renewals

File the necessary forms for furnishing the relevant information

Register the Gratuity Trust and ensure compliances under the relevant acts

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Gratuity trust ('GT')

An employer having an approved gratuity fund, employs 500 or more persons and wishes to continue the same, shall register the GT as below

- GT to be registered under the Indian Trust Act, 1882.
- GT to have 5 but not equal representatives of employer and employee.
- GT can be managed privately or by the insurer or jointly by the employer and the insurer.
- If managed privately, the investment of funds need to be in accordance with the Income-tax Act, 1961. In such a case the board of trustees are responsible for the investment, administration and actual valuation.
- Provisions of group gratuity schemes will apply wherever applicable.
- GT shall adhere to Indian Accounting Standards 15.
- The inflow of contributions to the gratuity fund shall be contributory from the employer while it will be non-contributory for the employees.
- The out-flow of the gratuity fund to be reserved only for eligible employees at the time of exit from service and shall not be withdrawn for any other purpose.

The C.A. is authorized to recover the amount of the gratuity from the insurance company:

- as is payable to an employee, as determined by the employer

OR

- in case of a dispute as decided by the C.A. under section 7(4) of the Payment of Gratuity Act, 1972.

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Therefore

The new rules make it compulsory for the existing employer in the State of Karnataka to obtain a valid insurance for all its employees within 60 days from the commencement of these Rules. This timeline is 30 days for the new employers. The Rules stipulate that the controlling authority has the power to recover the gratuity from the insurance company where it is legally payable or in cases where such gratuity is under a dispute, as determined by the controlling authority. This ensures that irrespective of the employer's capacity to pay, the employee is compensated by the gratuity, either as decided by the employer/decided by the controlling authority.