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Payment of Bonus Act, 1965: Objectives, Eligibility, Bonus Calculation, Amendments and Legal Analysis in India

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Abstract

The Payment of Bonus Act, 1965 is one of the key labour welfare legislations in India, enacted to ensure the equitable distribution of profits between employers and employees. The Act recognises bonuses as a statutory right rather than a voluntary payment and aims to promote social justice, industrial peace, and improved employer-employee relations. This research paper examines the legal framework governing the payment of bonuses in India, with particular emphasis on the objectives, scope, eligibility criteria, methods of calculation, and the concepts of minimum bonus, maximum bonus, set-on, and set-off. It also analyses the role of bonuses as an incentive for improving employee morale, productivity, and organisational efficiency. The study adopts a doctrinal research methodology based on the analysis of statutory provisions, judicial decisions, government reports, and scholarly literature. It explores the evolution of bonus legislation and highlights significant amendments that have expanded employee protections while balancing employers' interests. The paper further discusses the practical challenges faced in implementing the Act, including disputes relating to eligibility, computation, and compliance, especially in the context of changing employment patterns and economic conditions. The research concludes that the Payment of Bonus Act, 1965, has made a significant contribution to labour welfare by ensuring a fair share of organisational profits for employees and reducing industrial conflicts. However, the changing nature of employment, technological advancements, and the growth of the unorganised and gig sectors call for periodic reforms to make the legislation more inclusive and effective. The paper recommends strengthening enforcement mechanisms, increasing awareness among employers and employees, and revising statutory provisions to meet contemporary labour market requirements. Overall, the Act remains an important instrument for achieving economic justice, promoting industrial harmony, and protecting the rights and interests of workers in India.

Keywords: Payment of Bonus Act 1965, Payment of Bonus Act, Bonus Act India, Labour Law India, Employee Bonus, Minimum Bonus, Maximum Bonus, Bonus Calculation, Set On and Set Off, Labour Welfare Laws

Introduction

When Parliament passed the Payment of Bonus Act in 1965, it was a big step towards recognising that employees deserve a real share in the success of the places where they work. Before this law, bonuses were uncertain, sometimes handed out, often not, and prone to sparking disputes and negotiations that went nowhere. The Act set out to fix that with clear rules, spelling out who qualifies for a bonus, how much they should get, and how to figure it all out. The law insists on a minimum bonus of 8.33% of wages or salary even if the company isn't making profits that year. If profits are high enough, they can go up to a maximum of 20%. The idea is to protect workers but also keep things fair for businesses.[1]

This law isn't just red tape; it reflects broader social and economic ideals written into the Indian Constitution. Over time, Parliament and the courts have tweaked and clarified the law to keep up with changing times.[2] This paper explores how all those details and developments play out in practice. Are workers actually better off? Has the Act improved relationships at work, or are disputes still common?[3]

Objectives of the Payment of Bonus Act, 1965

So why was the Act introduced? Here's what it's supposed to do:

1. Make sure employees actually get a decent share of profits, as a recognition of their real contribution.

2. Close the gap between employers and workers, supporting fairness and social justice.

3. Settle bonus issues with clear rules to prevent the kind of arguments that used to disrupt industries.

4. Give workers a real incentive to work better and harder, knowing their effort translates into rewards.

5. Standardise rules for everyone, so confusion and random policies don't derail the process.

[1] Constitution of India 1950, arts 38, 39, 43.
[2] *Jalan Trading Co (P) Ltd v Mill Mazdoor Sabha* AIR 1967 SC 691.
[3] *Muir Mills Co Ltd v Suti Mills Mazdoor Union* AIR 1955 SC 170.

6. Guarantee that the bonus isn't just a thing in good years—workers get the minimum, even in lean times.

7. Find a middle ground that doesn't ruin the company while still being fair to workers.

8. Build trust and long-term stability by making workers actual stakeholders in a company's success.

Scope and Applicability

The Act isn't for every single workplace. It covers factories and any establishment with 20 or more employees on any single day during an accounting year. Once the law kicks in, it remains even if the workforce drops below 20 later. Employees need to have worked at least 30 working days that year to qualify. The actual bonus ranges from the minimum (8.33% of salary/wages) up to 20%, depending on the profits and surplus available.[4]

It applies throughout India and treats all qualifying businesses the same. There are exceptions, though; some institutions like the Reserve Bank of India, LIC, or people working directly for the government don't come under this law.

Eligibility

You qualify for a bonus if you've worked at least 30 days at an establishment covered by the Act and your salary or wage is below the current ceiling set by the central government. Even if the company hasn't done well, you're still in for at least 8.33% of your annual earnings (unless you're disqualified for misconduct). If the business had a great year, the bonus could go up to 20%. But if someone's fired for serious reasons fraud, theft, violence- they lose this right, as the Act lays out. So, it's designed to reward good work but also to maintain discipline at the workplace.[5]

Disqualification

Section 9 makes this clear: get dismissed for theft, fraud, violence, or deliberate harm to company property, and you lose your bonus. This isn't meant for minor slip-ups—it's reserved for real breaches. And even then, the decision must follow the rules—no one can be unfairly denied without a proper process.[6]

How is the Bonus Calculated?

[4] Payment of Bonus Act 1965, s 1.
[5] Payment of Bonus Act 1965, s 2(13).
[6] Payment of Bonus Act 1965, s 9.

The method's detailed, but at heart, it looks at an employee's eligible salary or wages and the profits available for sharing (the "allocable surplus").[7]

1. Minimum Bonus

Every covered employee gets at least 8.33% of their salary or ₹100 (₹60 for teens under 15)—whichever is higher. This is owed even if the company didn't make money that year.

2. Maximum Bonus

If profits allow, the business must pay up to 20% of the salary as a bonus.

3. Allocable Surplus

This is the pot from which bonuses are paid, calculated after various statutory deductions. Typically, 60% of the leftover profits are set aside for bonuses (or 67% in certain cases).

4. Set-on and Set-off

If there's excess surplus one year, it can be "carried over" and used in less profitable years. If the surplus isn't enough, the shortfall can be "set off" against future profits; both options can roll forward for up to four years, trying to make the process smoother in the long run.[8]

What Needs to Change?

The world of work has shifted, but the law sometimes feels stuck in the past. Here's what should happen:

1. Update wage eligibility and calculation ceilings regularly, so real earnings don't get shrunken by inflation.

2. Start including gig workers, platform workers, and other modern workers who currently miss out.

3. Move compliance and payment systems online to cut red tape and endless paperwork.

4. Make all those complex calculations simpler, so that especially small businesses can actually follow them.

5. Step up enforcement, make inspections routine and increase penalties for those who dodge the law.

6. Spread awareness through campaigns so both employers and workers know where they stand.

7. Create special tribunals or fast-track processes to resolve bonus disputes quickly.

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[7] Payment of Bonus Act 1965, ss 10–13.
[8] Payment of Bonus Act 1965, ss 15–16.

8. Every few years, take a serious look at the law and revamp it where the workplace reality has changed.

The Act has done a lot of good, but it can't work on autopilot forever. If it's going to keep protecting workers and supporting healthy businesses, reform and regular updates are non-negotiable.

Practical Guidance and Recommendations

The Payment of Bonus Act, 1965, only works well when employers, employees, and the government all pitch in. These practical suggestions help everyone stay compliant and let the Act serve its real purpose.[9]

1. Keep Records Straight: Employers need to track wages, attendance, profits, and how bonuses are figured out. Good records mean fewer headaches and no surprises during audits.

2. Pay On Time: Bonuses have a deadline. Stick to it, and you avoid trouble and extra costs down the road.

3. Make Sure Employees Know Their Rights: Regular info sessions or simple memos help employees understand how bonuses work, who's eligible, and how the numbers add up.

4. Stay Updated on the Law: Laws change. Companies should check their bonus rules often and stay on top of new amendments or court rulings.

5. Transparent Calculations: This isn't just for show. Clearly document how you arrive at each employee's bonus. People will trust a system they can see.

6. Handle Disputes Early: If an issue comes up, try to settle it directly or get help from a mediator before it blows up.

7. Update the Law When Needed: The government should keep reviewing wage ceilings and other rules so they make sense in today's economy.

Employer Obligations and Payment Timeline

Every year, employers under this Act have to figure out who's eligible for a bonus, work out the exact numbers, and pay it within eight months after the financial year ends. The calculations must stick to the bonus rates, wage ceilings, and set-on or set-off rules in the Act.

Records and Returns

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[9] S.C. Srivastava, *Industrial Relations and Labour Laws* (Vikas Publishing, latest edn).

Employers should keep all the records required, like registers with the bonus calculations, set-on/set-off entries, payment slips, and annual returns. Keep these accurate and easy to access. Usually, you have to hold on to them for several years just in case someone checks.

Inspections and Enforcement

Labour inspectors can show up, examine your records, ask questions, and issue notices if something looks off. If they find serious problems, you could face recovery orders, formal adjudication, or even prosecution, depending on what's found.

Dispute Resolution

Issues about bonus eligibility or payment usually go through a set adjudication process under the Act, or you might land in front of a labour court. Employees can file claims, and adjudicating officers will check their records and calculations before deciding.

Penalties for Non-Compliance

Miss a bonus payment, doctor records, delay beyond the statutory period, or refuse an inspection, and you risk fines or even jail for those responsible. You could also be ordered to pay unpaid bonuses, interest, and costs. Repeat offenders get hit harder.

Inspection Checklist

- Confirm if the Act applies to your workplace.
- List of all employees who worked at least 30 days in the year and earned below the wage ceiling.
- Actual bonus calculation sheets showing allocable surplus and set-on/set-off adjustments.
- Proof of bonus payments (payroll, bank statements, pay slips).
- Statutory registers (Forms A, B, C, annual return).

Employer Best Practices

- Set up an annual compliance schedule, sort out profits, crunch the numbers, pay within eight months.
- Use a calculation sheet that ties your audited accounts to your bonus calculations.
- Give employees written statements showing their bonus amount, and keep their acknowledgements on file.

- Store all your documentation in one place, and hold on to it as long as the rules say.
- Do an internal check before any inspection so you catch issues early.
- If you're unsure about complicated bonus situations, get it in writing from your legal or payroll team.

Handling Notices or Inspections

- Hand over the requested records fast, and point inspectors to one contact person.
- Keep original documents safe; only share certified copies.
- If you have to go before an adjudicating officer, prepare a clear summary showing how your bonus numbers match company accounts.
- Settle genuine employee claims quickly and get them in writing to avoid ongoing disputes, interest, and penalties.

How Employees Can Claim Unpaid Bonus

- Start by writing to your employer, with numbers to back up your claim.
- If that doesn't work, contact the labour office or apply to the adjudicating authority under the Act.
- Keep all supporting paperwork, pay slips, appointment letters, and bank statements just in case.

Major Amendments in the Payment of Bonus Act, 1965

1. Increased Employee Eligibility Limit

Before: Only employees earning up to ₹10,000 a month qualified.

After 2015: Now, anyone earning up to ₹21,000 a month is included.

2. Salary Ceiling for Bonus Calculation Raised

Before: Bonus capped at ₹3,500 a month.

After: Now it's calculated on ₹7,000 a month or the minimum wage, whichever is higher.

3. Retrospective Application

The 2015 amendment took effect on April 1, 2014, which led to plenty of legal challenges from employers.

4. Why the Change?

- To cover more employees,
- Strengthen social security for workers,
- And better reflect rising wages and minimum pay norms.

Conclusion

The 2015 amendment made the Payment of Bonus Act cover a lot more ground. It raised the income ceiling from ₹10,000 to ₹21,000, doubled the salary cap for calculating bonus, and brought many more employees into the fold. The only catch? Since the changes were applied retroactively from 2014, they also triggered a wave of litigation. Even so, it's a major step in making sure more workers get what they're owned.

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