



Karnataka Compulsory Gratuity Insurance Rules, 2024

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Introduction

Gratuity insurance has been recognized as a crucial element in ensuring the financial well-being of employees, particularly during retirement or upon termination of employment. In a landmark move, on January 10, 2024, the Government of Karnataka issued a notification introducing the Karnataka Compulsory Gratuity Insurance Rules, 2024. These rules are formulated under the authority granted by the Payment of Gratuity Act, of 1972, with a primary focus on ensuring compulsory insurance for the payment of gratuity to eligible employees.

Key Provisions of the Rules

1. INSURANCE REQUIREMENT:

- Existing establishments must obtain insurance within 60 days from the commencement of the rules i.e. before March 10th, 2024.
- Existing Employers with an approved gratuity trust or Employers with 500 or more employees may opt to establish an approved Gratuity Trust which covers the entire liability of the employees as per the Indian Accounting Standard (AS 15 R or IND AS 19)
- Every New employer shall get his establishment registered with the Controlling Authority within thirty days from the date of obtaining insurance along with the list of its employees insured.
- Employers with insurance policies must make premium payments on time and renew policies periodically prior to lapse and intimate the same to the Controlling Authority within fifteen days from the date of renewal of the policy
- Insurance can be obtained from Life Insurance corporation of India or any other insurance company.

2. RECOVERY OF GRATUITY AMOUNT:

- The Controlling Authority is authorized to recover gratuity amounts from the insurance company in case of disputes or as determined by the employer.

3. REGISTRATION OF THE ESTABLISHMENT:

- Employers must submit Form-I for registration of their establishment within thirty days of obtaining insurance. Alongside Form-I, a list of insured employees is to be furnished (Form-III) to the Controlling Authority or a designated officer.
- The Controlling Authority, upon receiving the Form-I application, is obligated to take immediate action for the registration of the establishment using Form-IV.
- Timely submission of Form-I is crucial for compliance, and regular updates using Form-III are necessary to reflect any changes in the insured workforce or policies.

4. NEW/CONTINUATION OF APPROVED GRATUITY FUND:

- Existing Employers with an approved gratuity trust or Employers with 500 or more employees may opt to establish an approved Gratuity Trust which covers the entire liability of the employees as per the Indian Accounting Standard (AS15 R or INDAS 19)

5. INCORPORATION OF GRATUITY TRUST:

- Employers establishing or continuing approved gratuity funds must register for the Gratuity Trust with representatives from both employers and employees.
- Specifies management options for the gratuity trust, including private management or joint management with an insurance company.

6. CONDITIONS FOR GRATUITY TRUST TO BE AN APPROVED TRUST

- Employers are required to maintain the Gratuity Trust as an irrevocable trust.
- Gratuity Trust should be registered with 5 but not equal number of representatives of the employer and employees.
- Gratuity Trust should be registered under Indian Trusts Act, 1882 or any other applicable law and ensure compliance with provisions of Income Tax Act, 1961 and any other applicable law.
- Gratuity Trust shall be managed by any insurance company or privately or together by paying the calculated amount to the approved Gratuity Trust fund periodically.
- Where an employer has obtained a group gratuity scheme from an insurance company, the same should be approved under Part C of the Fourth Schedule to the Income-tax Act.
- In the case of privately managed Gratuity Trust, investment of funds by the Gratuity Trust shall be in accordance with the Investment Pattern prescribed in the Income-tax Act.
- Money shall not be withdrawn by employer or by the Gratuity Trust for any purpose other than the payment of gratuity to eligible employees.
- Gratuity Trust is required to adhere to Indian accounting standard on Employee Benefits.
- The Gratuity Trust and the insurance company are jointly and severally responsible for fulfilment of liabilities under the Act.

7. COMPLIANCE WITH PAYMENT OF GRATUITY ACT 1972:

- Employers are obligated to take all measures to fulfill their obligations under the provisions of the Payment of Gratuity Act, 1972.

SUMMARY ON ACTIONABLES

S No	CURRENT STATUS	ACTION REQUIRED
1	Existing Employer with Gratuity Trust in existence	No need to obtain insurance, however the Gratuity fund needs to be fully funded as per AS 15/IND AS 19
2	Existing Employer with less than 500 employees and not funded	Obtain insurance cover by March 10, 2024.
3	Existing Employer with more than 500 employees and not funded	Option 1: Obtain insurance cover by March 10, 2024. Option 2 Set up self-managed Trust
4	New Employer with less than 500 employees	Obtain insurance cover for gratuity within 30 days of the Rules becoming applicable.
5	New Employer with more than 500 employees	Option 1: Set up Insurance cover within 30 days of the Rules being applicable. Option 2 Set up self-managed Trust

Conclusion

The Karnataka Compulsory Gratuity Insurance Rules, 2024 provide a comprehensive framework for employers to ensure the payment of gratuity to eligible employees through mandatory insurance. The rules emphasize timely compliance, registration procedures, and options for existing gratuity funds, demonstrating the government's commitment to enhancing social security for the workforce in Karnataka.