

3.7 THE PAYMENT OF BONUS ACT, 1965

1. APPLICABILITY OF THE ACT (Sec. 1)

➤ **Factories**

The Act applies to every factory

➤ **Establishment employing 20 or more persons**

The Act applies to every establishment in which 20 or more persons are employed on any day of the AY.

➤ **Establishment employing less than 20 persons**

The Act applies to every other establishment or class of establishments if –

- It employs to 10 or more persons (i.e. it employs persons between 10 and 19 in number);
- The provisions of the Act are made applicable to it by way of a Notification in the Official Gazette by AG; and
- Before issuing such notification, at least 2 months' notice was given to the establishment by AG.

➤ **Once applicable forever applicable**

- If the Act becomes applicable to an establishment in any AY.
- It shall continue to be applicable to the establishment
- Even if the number of persons employed by it falls below the minimum number of person as required for the applicability of the Act.

2. NON – APPLICABILITY OF THE ACT Sec.32

1. Employees employed by -
 - (a) General insurance companies
 - (b) LIC
2. Seamen as defined under merchant shipping Act, 1958
3. Employees registered under any scheme made under the Dock Workers (Regulation of Employment) Act, 1948 and employed by registered or listed employers.
4. Employees employed by Inland Water Transport Establishments operating on routes passing through any other country.
5. Employees employed by RBI, CG, SG or a local authority.
6. Employees employed by Indian Red Cross Society, universities or other educational institutions, institutions established not for purpose of profit.
7. Employees employed by SFC, NHB, NABARD, IFCI, IDBI, SIDBI, UTI.
8. Any other financial institution notified in the Official Gazette.

3. ACCOUNTING YEAR [(Sec.2(1))]

➤ **In relation to a corporation**

The year ending on the day on which the books and accounts of the corporation are to be closed and balanced.

➤ **In relation to a company**

The period in respect of which P & L Account of the company is prepared.

➤ **In any other case**

- (a) The year commencing on the 1st April and ending on following 31st March;

(b) However, the employer has an option to close and balance the accounts of the establishment on any day other 31st day of March. In such a case, AY shall end on the day on which the accounts are so closed and balanced.

In other words, the employer may exercise the option to close and balance the accounts on any particular day every year. But such option can be exercised only once.

(c) Further exercise of option shall require the previous permission in writing of the prescribed authority and compliance of conditions as specified by the prescribed authority.

4. MEANING OF ESTABLISHMENT

Any unit, undertaking or place of business in which –

- Any commercial activity or business is carried on; or
- Services are rendered,

Under any form of business organization.

5. ESTABLISHMENTS TO INCLUDE DEPARTMENTS, UNDERTAKINGS, AND BRANCHES (Sec. 3)

➤ General rule

For the purpose of computation of bonus, an establishment shall include department, undertakings, and branches.

➤ Exception

A branch, department or undertaking shall not be treated as part of an establishment if the following 2 conditions are satisfied.

- (a) A separate B/S and P & L A/c has been prepared for such branch, department or undertaking.
- (b) Such branch, department or undertaking has never been treated as part of the establishment for the purpose of computation of bonus.

6. EMPLOYEE [Sec .2(13)]

➤ Meaning of employee

- any person employed (other than an apprentice)
- on a salary or wage not exceeding Rs.10,000 per month
- in any industry
- to do any work (i.e. skilled, unskilled, manual, supervisory, managerial, administrative, technical or clerical)
- for hire or reward
- Whether the terms of employment are express or implied.

➤ Illustrative list of employees entitled to bonus

- Probationer
- Dismissed employee (provided Sec.9 is not attracted) or suspended employee.
- Retrenched employee
- Temporary employee
- Part time employee
- Employee of a seasonal factory – proportional Bonus according to number of days work.
- Piece rated employee

7. “EMPLOYER” **[(Sec. 2(14)]**

- **If establishment is a factory**
 - (a) Owner
 - (b) Occupier (Occupier means the person who has ultimate control over the affairs of the establishment)
 - (c) Agent of owner or occupier
 - (d) Legal representative of deceased owner or occupier
 - (e) The person named as a manager of the factory under the Factories Act.
- **If it is any other establishment**
 - (a) The person having ultimate control over the affairs of the establishment
 - (b) The manager or the managing director to whom the affairs of the establishment are entrusted.

8. ‘SALARY OR WAGE’ **[(Sec. 2(21)]**

- **‘Salary or wage’ means**
 - remuneration in respect of work done
 - which would become payable to an employee
 - if the terms of employment (whether expressed or implied) were fulfilled.
- **‘Salary or wage’ includes**
 - (a) Dearness allowance (i.e. all cash payments by whatever name called, paid to an employee on account of a rise in the cost of living)
 - (b) Food allowance or the value of free food given by the employer in lieu of salary)
- **‘Salary or wage’ does not include**
 - (a) Allowances
 - (b) Commission
 - (c) Bonus (including incentive, production and attendance Bonus)
 - (d) Traveling concession
 - (e) Ex-grata payment
 - (f) Retrenchment compensation, gratuity or other retirement benefits
 - (g) Any amenity, service, or concessional supply of food grains or other articles
 - (h) Employer’s contribution to PF or pension fund
 - (i) Remuneration in respect of overtime work.

9. ELIGIBILITY FOR BONUS **(Sec. 8)**

Every employee is eligible for bonus if he has worked in the establishment ≥ 30 working days in a AY.

10. DISQUALIFICATION FOR BONUS **(Sec. 9)**

- **Conditions for applicability of Sec.9**
An employee is disqualified for bonus (and is therefore not eligible to receive bonus) if –
 - he has been dismissed from service; and
 - the reason for his dismissal was –

- (a) fraud; or
- (b) riotous or violent behavior while on the premises of the establishment; or
- (c) theft, misappropriation or sabotage of any property of the establishment.

➤ **Effects of Sec.9**

An employee who becomes disqualified u/s 9 shall not be eligible to receive any bonus (whether for current AY or for any previous AY) under the Act.

11. PAYMENT OF MINIMUM BONUS (Sec.10, 11, 12, 13 and 14)

➤ **Computation of Allocable surplus (Sec.11)**

Amount set on/set off u/s 15 shall be taken into account while computing the allocable surplus for any AY.

➤ **Amount of minimum bonus (Sec. 10)**

Whether or not the employer has allocable surplus in an AY, every employer is bound to pay to every employee (eligible as per Sec. 8) in respect of every AY, minimum bonus, as follows.

Employee aged \geq 15 years	Higher of -	8.33% of salary or wage	or Rs.100
Employee aged $<$ 15 years	Higher of -	8.33% of salary or wage	or Rs.60

➤ **Proportionate reduction in minimum bonus (Sec. 13)**

The minimum bonus of Rs.100/60 shall be proportionately reduced if the employee has not worked on all the working days in the AY.

- **computation of number of working days (Sec. 14)**

It shall be deemed that the employee had worked on the days on which the employee was –

- (a) laid off;
- (b) on leave with salary or wages;
- (c) on maternity leave with salary or wages;
- (d) Absent due to temporary disablement caused arising out of and in the course of his employment.

➤ **Ceiling on salary or wage (Sec.12)**

If the salary or wage of an employee exceeds Rs.3,500 per month, the salary or wage for the purpose of computation of bonus shall be taken as Rs.3,500 per month.

12. PAYMENT OF MAXIMUM BONUS (Sec.11 and 12)

➤ **Computation of Allocable surplus (Sec.11)**

Amount set on/set off u/s 15 shall be taken into account while computing the allocable surplus for any AY.

➤ **Amount of maximum bonus (Sec.11)**

If, in an AY, allocable surplus exceeds the amount of minimum bonus, the employer shall pay to every employee, in lieu of minimum bonus, which shall be an amount in proportion to the salary or wage earned by the employee during the AY subject to a maximum of 20% of such salary or wage (Sec.11). Following conclusions may be drawn;

- Sec, 11 applies if, in an AY, allocable surplus exceeds the amount of minimum bonus;

- If Sec, 11 applies, the whole of the allocable surplus shall be divided (i.e. payment shall be made in the form of bonus) amongst the employees in proportion of their salary or wage.
- However, if division of whole of the allocable surplus amongst the employees in proportion of their salary or wage exceeds 20% of salary or wage of the employees, then –
 - (a) Such excess shall be carried forward for being set on in the 4 succeeding AY(s);
 - (b) Every employee shall be paid bonus equal to 20% of his salary or wage (this payment of maximum of 20% is termed as ‘maximum bonus’).

➤ **Ceiling on salary or wage (Sec. 12)**

If the salary or wage of an employee exceeds Rs.3,500 per month, the salary or wage for the purpose of computation of bonus shall be taken as Rs.3,500 per month.

13. SET ON AND SET OFF OF ALLOCABLE SURPLUS (Sec.15)

➤ **Allocable surplus > maximum bonus**

If, in any AY, allocable surplus (after taking into account the amount set on / set off u/s 15) exceeds maximum bonus, such exceeds (subject to a limit of 20% of salary or wage of the employees) shall be –

- Carried forward
- For being set on in the 4 succeeding AY(s) in the manner illustrated in Fourth Schedule.

➤ **Allocable surplus < minimum bonus**

If, in any AY, allocable surplus (after taking into account the amount set on/set off u/s 15) is less than the minimum bonus, such deficiency shall be –

- Carried forward
- For being set off in the 4 succeeding AY(s) in the manner illustrated in Fourth Schedule.

➤ **Utilization of amount carried forward**

- While calculating bonus for any succeeding AY.
- The amount of set off carried forward from the earliest AY.
- Shall first be taken into account.

14. DEDUCTIONS FROM BONUS (Sec. 17 and 18)

➤ **Adjustment of bonus (Sec.17)**

The employer is entitled to deduct from bonus payable to an employee –

- (a) the amount paid as customary bonus (e.g. puja bonus);
- (b) the amount paid as interim bonus (i.e. bonus paid before it became payable)

➤ **Deductions from bonus (Sec.18)**

Conditions

- (a) An employee is found guilty of misconduct
- (b) Financial loss is actually caused to the employer.

Effects

- The loss caused to the employer may be recovered from the bonus payable to the employee.

- Such deduction can be made only from the amount of bonus payable in respect of same AY in which the employee has caused financial loss to the employer.

15. TIME LIMIT FOR PAYMENT OF BONUS (Sec. 19)

➤ If there is a dispute regarding payment of bonus

The bonus shall be paid within 1 month of-

- award becoming enforceable ;or
- settlement coming into operation

➤ In any other case

Time limit – the bonus shall be paid within 8 months from the end of AY.

Extension of period.

- AG may extent the time limit for payment of bonus.
- Conditions for extension of time are as follows:
 - (a) An application shall be made by the employer to AG.
 - (b) AG must be satisfied that there are sufficient reasons to grant extension of time for payment of bonus.
 - (c) Total period including the period of extension shall not exceed 2 years.

16. PAYMENT OF BONUS LINKED WITH PRODUCTION OR PRODUCTIVITY (Sec.31A)

➤ Applicability of Sec.31A

- Sec. 31A applies only if there is an agreement or settlement between the employer and employers to pay annual bonus linked with production or productivity.
- Sec. 31A overrides the entire Act.

➤ Terms of the agreement

The agreement or settlement may provide that –

- the bonus shall be paid annually to employees;
- such bonus shall be linked production or productivity;.
- Such bonus shall be paid in lieu of bonus based on profits.

➤ Agreement to be void

The agreement or settlement shall be null and void in so far as it purports to deprive an employee of his right to minimum bonus. In other words, every employee shall have a right to receive the minimum bonus even though bonus calculated as per the provision of the agreement or settlement is less than the amount of minimum bonus.

➤ Ceiling on bonus

The bonus linked with production or productivity calculated as per the agreement or settlement shall not exceed 20% of salary or wages earned in the relevant AY.

17. RECOVERY OF BONUS DUE FROM AN EMPLOYER (Sec. 21)

➤ Application by whom?

- (a) Employee (including an employee who is no longer in employment)
- (b) Any person authorized by the employee in writing
- (c) Legal heirs of the employee.

➤ Time limit

- Application shall be made within 1 year of bonus becoming due for payment
 - Time limit for making application may be extended by AG if sufficient cause is shown.
- **Application to whom?**
The application shall be made to AG.
 - **Issue of recovery certificate**
If AG is satisfied that bonus is due. It shall issue a recovery certificate.
 - **Recovery by collector**
The bonus shall be recovered by the collector in the same manner as if it were arrears of land revenue.
 - **Delegation of powers**
The powers u/s 21 may be delegated by AG to such authority as may be specified by AG.

18. SPECIAL PROVISIONS APPLICABLE TO NEW ESTABLISHMENTS (Sec. 16)

- **First 5 years**
 - (a) Bonus is payable only in respect of an AY in which the employer derives profit.
 - (b) Bonus shall be calculated in accordance with the provision of the Act.
 - (c) The Provisions of Sec. 15 (Set on/set off of allocable surplus) shall not apply.
- **6th year**
Set on / set off shall be made
Taking into account the excess/deficiency of the allocable surplus
In respect of 5th and 6th AY.
- **7th year**
Set on/set off shall be made
Taking into account the excess / deficiency of the allocable surplus
In respect of 5th, 6th, and 7th AY.
- **8th year onwards**
Sec. 15 (set on or set off) shall apply as it applies to any other establishment
- **Meaning of newly set up establishment**
An establishment shall not be deemed to be newly set up merely by reason of a change in its location, management, name or ownership
- **Meaning of employer deriving profit**
An employer shall not be deemed to have derived profit in any AY, unless –
 - (a) depreciation for such AY has been provided; and
 - (b) the arrears of depreciation and losses incurred during earlier AY(s) have been fully set off against the profits.
- **Manner of reckoning first five, 6th, 7th and 8th AY.**
First AY means the AY following the AY in which the employer sells the goods manufactured by him or renders services, as the case may be, from such establishment. Similarly, other AY(s) shall be construed.

➤ **Meaning of 'sale of goods'**

Sale of goods manufactured during the trial running of any factory or of the prospecting stage of any mine or an oil field shall not be taken into consideration.

19. PRESUMPTION ABOUT ACCURACY OF B/S AND P&L A/C OF CORPORATIONS AND COMPANIES (Sec.23)

➤ **Applicability of Sec. 23 – Conditions**

- (a) There is dispute relating to –
 - payment of bonus; or
 - Applicability of Payment of Bonus Act, 1965.
- (b) The dispute is filled with any Court, Tribunal or Arbitrator (hereinafter referred to as the 'said authority').
- (c) The employer is a corporation or a company.
- (d) During the course of proceedings, the B/S and P & L A/c of such corporation or company are produced before the said authority.
- (e) The B/S and P&L A/c have been audited –
 - In case of a company - by an auditor qualified u/s 226.
 - In case of a corporation - by CAG.

➤ **Presumptions about**

- (a) The said authority may presume that the particulars contained in such B/S and P & L A/c are accurate.
- (b) It shall not be necessary for the corporation or company to –
 - Prove the accuracy of such B/S and P & L A/c; or
 - Produce any affidavit for establishing such accuracy.

20. AUDITED ACCOUNTS OF BANKING COMPANIES NOT TO BE QUESTIONED (Sec. 24)

➤ **Applicability of Sec.24 – Conditions**

- (a) There is a dispute relating to -
 - Payment of bonus; or
 - Applicability of Payment of Bonus Act. 1965
- (c) The dispute is filled with any Court, Tribunal or Arbitrator (hereinafter referred to as the 'said authority').
- (d) The employer is a banking company.
- (e) During the course of proceedings, the accounts of banking company are produced before the said authority.
- (f) The accounts have been duly audited.

➤ **Presumptions about the accounts**

- (a) The said authority may presume that the accounts are accurate.
- (b) No trade union or employee shall be allowed to question the correctness of such accounts.

21. AUDIT OF ACCOUNTS OF EMPLOYERS, NOT BEING CORPORATIONS OR COMPANIES (Sec. 25)

➤ **Applicability of Sec. 25 – Conditions**

- (a) There is a dispute relating to
 - payment of bonus; or
 - applicability of payment of Bonus Act, 1965
- (b) The dispute is filled with any court. Tribunal or Arbitrator (hereinafter referred to as the 'said authority').
- (c) The employer is any person other than a corporation or a company.
- (d) During the course of proceedings, the accounts of such employer are produced before the said authority.
- (e) The accounts of the employer have been duly audited by an auditor who is duly qualified to act as an auditor of a company (u/s 226 of the companies Act, 1965).

➤ **Presumptions about the accounts**

- (a) The said authority may presume that the accounts are accurate.
- (b) It shall not be necessary for the employer to –
 - prove the accuracy of such accounts; or
 - Produce any affidavit for establishing such accuracy.

➤ **Order for audit of accounts**

Nature of order

The said authority may order the employer to get his accounts audited –

- within such time as may be specified in the order; and
- by such auditor as may be specified in the order.

Conditions for making order

The said authority may make such an order, if –

- the accounts of the employer are not audited by an auditor qualified u/s 226; and
- it is of the opinion that audit of accounts is necessary for deciding the dispute.

Consequences of default by employer

If the employer fails to get his accounts audited –

- the said authority may get the accounts audited by such auditor as it thinks fit;
- the remuneration paid to the auditor and other incidental expenses shall be paid by the employer.

Presumption of accuracy

The accounts so audited shall be presumed to be accurate.

22. Provisions As To Maintenance Of Records And Registers

[Sec.26]

1. **Maintenance of Registers, Records etc. [Sec.26]:** Every Employer shall prepare and maintain such registers, records and other documents in such form and in such manner as may be prescribed.
2. **Duty of Employers:** Maintenance of records and registers is an obligation, and a duty imposed on the Employers for due discharge of their duties regarding payment of Bonus.
3. **Production of Records:** The Employer is legally bound to produce the registers and accounts when called upon by an Inspector.
4. **Offence:** Non – maintenance and non – production of records and registers is an offence.
5. **Registers to be maintained :** Rule 4 of Payment of Bonus Rules, 1965 prescribes the following registers to be maintained by the Employers, viz. –

Register in -	Register to contain –
Form A	Computation of Allocable Surplus referred to in Sec.2(4)
Form B	Set – on and Set – off of Allocable Surplus u/s 15.
Form C	➤ Details of amount of Bonus due to each of the

	Employees, ➤ Deductions under Sec.17 and 18, and ➤ Amount Actually disbursed to the Employees.
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23. INSPECTORS (Sec. 27)

- **Manner of appointment**
The inspectors shall be appointed by AG by Notification in the Official Gazette.
- **Numbers and jurisdiction**
 - Such number of inspectors may be appointed as AG may deem fit.
 - AG may define the limits within which the inspectors shall exercise jurisdiction.
- **Powers of inspector**
 - (a) To call such information from the employer as he considers necessary
 - (b) To enter into any establishment and require production of any books, registers and documents.
 - (c) To examine the employer, his agent or servants.
 - (d) To make copies and take extracts of any book, register or other document
 - (e) To exercise such other powers as may be prescribed.
- **Purpose of appointment**
To ascertain whether or not the provisions of the Act have been complied with by an employer.
- **Duties of owners etc.**
Any person required to produce any accounts, books, register or other documents or to give information by an Inspector shall be legally bound to –
 - (a) Produce accounts, books, register or other documents required by the Inspector.
 - (b) Give information required by the Inspector.

24. EXEMPTION FROM PROVISIONS OF THE ACT (Sec. 36)

- **Grounds for exemption**
Before granting exemption, AG shall consider financial position and other relevant circumstances.
- **Opinion of AG**
The exemption shall be given only if AG is satisfied that it is not in public interest to apply all or any of the provisions of this Act to an establishment or class of establishments.
- **Publication of order**
The order of exemption shall be published by way of a notification in the Official Gazette.
- **Contents of order of exemption**
The order of exemption shall specify –
 - conditions, subject to which exemption is given, and
 - period of exemption

25. ESTABLISHMENT IN PUBLIC SECTOR (Sec. 2(16) and (20)]

➤ **Meaning [Sec., 2(16)]**

Establishment in public sector means an establishment owned, controlled or managed by

–

(a) a Government company; or as defined u/s 617 of the companies Act, 1965.

(b) a corporation in which 40% or more capital is held by –

- CG, SG, RBI or a corporation owned by CG, SG, or RBI.

➤ **Applicability of Act (Sec. 20)**

General rule

The Act does not apply to an establishment in public sector.

Exception

The Act shall apply if the following 2 conditions are satisfied;

(a) In an AY, it sells any goods or renders any services, in competition with an establishment in private sector.

(b) The income from such or services or bo is 20% or more of its gross total income of the establishment in public sectors for that accounting year.

26. Procedure for Settlement of Disputes

[Sec.22]

1. Area of dispute: Disputes may arise between the employer and employee with respect to –

(a) Bonus payable under this Act, or

(b) Applicability of the provisions of this Act to establishment in Public Section

2. Settlement: Any such dispute shall be deemed to be an Industrial Dispute within the meaning of –

(a) the industrial Dispute Act, or

(b) Any corresponding law relating to investigation & Settlement of industrial dispute in force in the State.

Hence, the provisions of the Industrial Disputes Act or of such law in force shall apply to the settlement of disputes, unless otherwise expressly provided.

27 Some Other Definitions

1. Appropriate Government [Sec.2(5)]

Situation	Appropriate Government
An establishment in respect of which the Appropriate Government under the Industrial Disputes Act, 1947 is the Central Government.	Central Government
Any other Establishment	Government of the State in which the Establishment is situated.

2. Award [Sec.2(7)]: Award means:

(a) An interim or a final determination,

(b) of any industrial dispute or of any question relation thereto,

(c) By – (i) any labour court, Industrial Tribunal or National Tribunal constituted under the Industrial Dispute Act, 1947 or (ii) any other authority constituted under any corresponding law relation to investigation and settlement of industrial dispute in force in the State, and includes an Arbitration Award made u/s 10 A of that Act.

3. Co- Operative Society [Sec.2(10)]: A Society registered or deemed to be registered under the Co – Operative Society Act, 1912, or under any other law for the time being in force in any State relating to Co – operative Societies.

4. **Corporation [Sec.2(11)]:** Corporation means any Body Corporate established by or under any Central, Provincial or State Act, Corporation does not include a Company or a Co – Operative Society.
5. **Company [Sec.2(9)]:** Company means as defined u/s 3 of the Companies Act, 1956, and includes a Foreign Company within the meaning of Sec. 591 of that Act.
6. **Allocable Surplus [Sec.2(4)]: Most Imp.**

In relation to	Allocable surplus
An Employer being a company other than a banking company which has not made the arrangements prescribed under the Income Tax Act, for the declaration and payment within India, of dividends payable out of its profits in accordance with Sec.194 of the said Act	67% of the Available surplus in an Accounting Year.
In any other case	60% of the Available surplus in an Accounting Year.

7. **Available Surplus [Sec.2(6)]: RTP, N 83, N 02**
Available surplus means the Available Surplus as computed u/s 5.
8. **Establishment in Private Sector [Sec.2(15)]:**
It means any Establishment other than an establishment in Public Sector

Offences by Companies [Sec.29]

1. **Definitions :** For the purpose of this Section -
 - (a) “Company” means any Body Corporate and includes a Firm or other – Association of Individual, and
 - (b) “Director”, in relation to a Firm, means a Partner in the Firm.
2. **Liability of Company and Person In charge:** Where an offence has been committed by a company, every person who, at any time when the offence was committed, was in charge of and was responsible to, the Company for the conduct of the business of the Company as well as the Company, shall be deemed to be guilty of the offence, and shall be liable to be proceeded against and punishable accordingly.
3. **Due Diligence:** if the person who is liable to any punishment under this Act proves that the offence was committed without his knowledge or that he exercised all due diligence to prevent the commission of such offence, then such person is not liable.
4. **Liability of officers/ Directors etc:** Where an offence has been committed by a Company and it is proved that the offence has been committed with the consent or connivance of, or is attributable to any gross negligence on the part of any Director, Manager, Secretary or other of the Company, such Director, Manager, Secretary or other officer of the company shall also be deemed to be guilty of the offence and shall be liable to be proceeded against and punished accordingly.

SUMMARISED PROCEDURE FOR COMPUTATION OF BONUS

- Step 1. Computer gross profit
- Step 2. Deduct prior charges from gross profits
- Step 3. Compute available surplus
- Step 4. Compute allocable surplus
- Step 5. Compute bonus

Step 1. Computation of gross profit
Net profit as shown in P & L Account after making usual and necessary provision
Add:

1. Provision for bonus, depreciation and reserves.
2. Bonus paid to employees in respect of previous accounting years.
3. Gratuity paid or payable to employees in excess of the aggregate of –
 - (a) the provision made for approved gratuity fund; and
 - (b) the amount actually paid to employees on their retirement or on termination of their employment.
4. Donations in excess of the amount admissible for income tax.
5. Capital expenditure
6. Losses and expenditure of any business situated outside India.
7. Income directly credited to reserves

Less:

1. Capital receipts and capital profits.
2. Profits of any business situated outside India.
3. Refund of any excess direct tax paid for previous AY.
4. Cash subsidy received from the Government

Gross profit

Step 2. Deduct prior charges from gross profit

Gross profit

Less:

1. Development Rebate
2. Development Allowance
3. Investment Allowance
4. Depreciation admissible under Income Tax Act.
5. Direct tax which the employer is liable to pay for the AY.
6. Sums referred to in the Third Schedule, viz –
 - (a) 8.5% of equity share capital (at the beginning of the AY)
 - (b) 6% of Reserve (at the beginning of the AY)
 - (c) Dividend paid on preference shares at actual rate.

Gross profit after charges

Step 3. Computation of available surplus [Sec. 2(6) read with Sec. 5]

Gross profits after prior charges

Add: Tax saved in respect of bonus paid during the preceding AY [Tax on Gross Profit less Tax on (Gross Profits Bonus paid)]

Available surplus

Step 4. Computation of allocable surplus [Sec.2(4)]

- (a) If an employer is a company, which has not made prescribed arrangements for declaration and payment of dividend as per Sec.194 of Income Tax Act 1961, then the allocable surplus shall be 67% of the available surplus.
- (b) In any other case, the allocable surplus shall be 60% of available surplus.

Step 5. Compute bonus

Bonus shall be calculated as per the provisions contained in Sec.10, 11, 12, 15 and other applicable provision of the Act.