

How to Calculate Gratuity?

Calculating your end-of-service (gratuity) pay is an important task. Before attempting the calculation, it is advised that you read the UAE Labour Law by the Ministry of Labour.

Gratuity Calculation is based on various factors like:

- Contract Type (Limited / Unlimited)
- Termination or Resignation
- Service period of employee
- Most Recent Paid Salary (Basic Salary)

Note: Calculations for gratuity pay may differ depending on whether you're on a Limited (Fixed Term) contract or Unlimited (Undefined) contract.

If employee is terminated from his/her job, unless he/she violates the rules as stated in Article 139 of the Labour Law, the employee is still entitled to gratuity pay. If the employee resigns by himself before completing one year, then they will not be entitled to any gratuity pay.

Calculations for **Limited Contract** Gratuity Pay:

Less than 1 year of service

Leaving job before completing one year of service means employee is not entitled to any gratuity pay.

Between 1 year and 5 years of service

Employee is entitled to full gratuity pay based on 21 days salary for each year of work.

5 or more years of service

Employee is entitled to full gratuity pay based on 30 days salary for each year of work.

Gratuity Calculation Example:

Basic salary: AED 10,000/-

- 10,000 ÷ 30 days = 333.30. Your daily wage is AED 330.30
- 330.30 x 21 days = 6,936.30. So 21 days salary is AED 6,936.30 in gratuity entitlement for each year of service. Multiply this amount to number of years of service up to 5 years.

Example continues on next page...

Another 30 days calculation for those exceeding 5 years of service

- c. $330.30 \times 30 \text{ days} = \text{AED } 9,909$. So 30-days salary is AED 9,909 in gratuity entitlement for each year of service. As long as the total figure does not exceed two years total salary amount.

Calculations for Unlimited Contract Gratuity Pay:

Less than 1 year of service

Leaving job before completing one year of service means employee is not entitled to any gratuity pay.

Between 1 year and 3 years of service

Employee is entitled to one third (1/3) of the 21-days gratuity pay.

Between 3 years and 5 years of service

Employee is entitled to two third (2/3) of the 21-days gratuity pay.

5 or more years of service

Employee is entitled to full 21-days gratuity pay.

Gratuity Calculation Example:

Basic salary: AED 10,000/-

- a. $10,000 \div 30 \text{ days} = 333.30$. Your daily wage is AED 330.30
- b. $330.30 \times 21 \text{ days} = 6,936.30$. So 21-days salary is AED 6,936.30

On this figure of AED 6,936.30, only 1/3 is payable if employee has worked between 1 and 3 years. So the total gratuity pay would be AED 2,312.10.

Only 2/3 is payable if employee has worked between 3 and 5 years, so the total gratuity pay would be AED 4,624.20.

The total AED 6,936.30 is payable if an employee has completed 5 years.

Important Note: *Above calculations are not to be treated as law, they are for your reference only. This article may only be used as a guide. We are not responsible for any amendments made to the UAE Labour Law.*