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Understanding labor laws is crucial for both employers and employees, especially when it comes to rights and benefits. In Saudi Arabia, the concept of gratuity, or End of Service Benefits (ESOB), is an integral part of the employment relationship. It reflects the acknowledgment and appreciation of an employee's contributions over their tenure. Whether you're an expatriate working in the Kingdom or a business owner navigating the Saudi labor landscape, understanding the details of ESOB can make a significant difference. In this guide, we'll break down the key aspects of Article 84 of the Saudi Labor Law, explain gratuity entitlement in various scenarios like resignation or termination, and provide examples to make the calculations simple and clear. Let's explore how gratuity works and ensure you're well-informed about this essential component of employment in KSA. Read Also: Guide on Employee Termination in Saudi Arabia What is Gratuity or End of Service Benefits (ESOB)? Gratuity or end of service benefits (ESOB) is a monetary token of acknowledgment paid to an employee by the company for their commitment, diligence, and efforts they have contributed during the tenure of service. This amount is usually paid after the employment ends - whether the employee resigns or gets terminated by the company. According to Saudi labor law, if an employee wishes to resign, he is entitled to receive gratuity from the company after completion of two years in the same company. However, if the employee is terminated, he is entitled to receive a full accumulation of gratuity in case of serving more than a year in the same company. Gratuity is considered a liability to the employer. Who is Eligible for End of Service Benefits? In Saudi Arabia, ESOB is applicable to all employees, regardless of their nationality. It applies to both expatriates and Saudi citizens. The law defines two types of contracts of employment - a fixed-term contract and an open-ended contract. The type of contract does not affect the amount of gratuity to be paid, however, the way an employment ends affects the gratuity amount i.e. Resignation or Termination. In Case of Resignation The Saudi labor law states: "If the work relation ends due to the worker's resignation, he shall, in this case, be entitled to one-third of the award after a service of not less than two consecutive years and not more than five years, to two thirds if his service is more than five successive years but less than ten years and to the full award if his service amounts to ten or more years." This means: Service Tenure Gratuity Entitlement Less than 2 years No gratuity shall be paid Between 2 and 5 years One-third of the gratuity shall be paid Between 5 and 10 years Two-thirds of the gratuity shall be paid More than 10 years Full gratuity shall be paid In Case of Termination The Saudi labor law states: "As an exception to the provisions of Article (85) of this Law, the worker shall be entitled to the full award if he leaves the work due to a force majeure beyond his control." This means: Service Tenure Gratuity Payment Less than 1 year No gratuity shall be paid Between 1 and 5 years Half-month salary per year of service More than 5 years Full gratuity shall be paid Example to Calculate the End of Service Benefits (Gratuity) in KSA Here is an example of a gratuity calculation chart for an employee with a last salary of SAR 10,000. In this chart, we have shown calculations for both cases - service tenure being under 5 years and above 5 years. 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thirds of the gratuity. After ten years of service, or if the contract ends due to reasons beyond your control, you are entitled to full gratuity. Factors Affecting Your Gratuity Calculation 1. Reason for Termination: As previously mentioned, the reason for your contract ending plays a significant role in determining your gratuity. Resignation might reduce the amount you receive compared to the completion of a contract term. 2. Service Duration: The length of your service directly correlates with the amount of gratuity. The longer you have been employed, the higher the gratuity, especially if you surpass significant milestones like five and ten years. 3. Salary Components: Ensure you use your basic salary (excluding allowances) unless otherwise stated in your employment contract. Misreporting your salary can lead to incorrect calculations. For expatriates, understanding end-of-service benefits is crucial not just for financial planning but also for ensuring that their rights are respected. Whether you're preparing to leave your job or simply planning for the future, being aware of your ESB entitlement can help you manage your finances more effectively. Moreover, it can prevent potential disputes with employers regarding final settlements. Calculating end-of-service benefits accurately ensures that you receive the compensation you're entitled to under Saudi Arabian law. Using the MHRSD's online calculator can provide a clear understanding of what you can expect at the end of your employment. Always keep abreast of the latest regulations and consult with HR professionals or legal advisors if you have any doubts or concerns regarding your gratuity. By staying informed, you can make well-informed decisions about your employment and future financial planning while working in Saudi Arabia. Further Reading: [How to Calculate Overtime in Saudi Arabia](#)