



End-of-Service Benefits (ESB) in Saudi Arabia:

2025 Compliance &
Calculation Guide



WHITEPAPER

End-of-Service Benefits (ESB), also called the **end-of-service** award or **gratuity**, are a statutory right in Saudi Arabia. This whitepaper breaks down **who qualifies, how to calculate ESB correctly, what to include in the wage, and what changes in resignation, termination, force majeure, and special cases.**

It also includes **examples and templates** you can use immediately, plus a walkthrough of how **ZenHR** helps you automate compliant calculations.

Overview

- ESB is based on the **last wage** (final monthly wage) and **total service duration**, with partial years calculated proportionally.
- Formula: **½ month's wage per year for the first 5 years + 1 month's wage per year for each year after 5.**
- If the **employee resigns**: entitlement depends on service length (no ESB <2 years; 1/3 if 2–5; 2/3 if 5–10; full ≥10).
- **Special protections**: full ESB for force majeure; full ESB for women resigning **within 6 months of marriage** or **3 months of childbirth.**
- **Payout deadline**: when the employer ends the contract **within 1 week**; when the worker ends it, **within 2 weeks.**

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01 ESB 101: Definitions & Scope

End-of-Service Benefits (ESB) are lump-sum payments due at the end of employment in KSA. They apply to fixed-term and indefinite contracts and are calculated based on the last wage and total service time, including partial years.

KEY PRINCIPLES

- ESB is earned for any period actually worked, and fractions of a year are prorated.
- The trigger is employment ending, whether by expiry, resignation, termination, or force majeure.
- Probation: if a contract ends during probation, no ESB is due.

02 Who Qualifies, and When?

Everyone qualifies when the employment relationship ends, with **two major caveats**:

- **Resignation** reduces the award unless service is **≥10 years** (see section 4).
- **Dismissal for serious misconduct** (per contract or law) may **forfeit** the award.

Fixed-term contracts: Completing the term earns ESB normally. Multiple renewals can convert to an indefinite contract; **service remains continuous**.



03 The Core Formula

STANDARD ESB FORMULA

FIRST 5 YEARS:

$\frac{1}{2}$ month of last wage \times years

AFTER 5 YEARS:

1 month of last wage \times years beyond 5

PARTIAL YEARS:

pro-rated by months/days worked

QUICK REFERENCE TABLE

Service Length	Entitlement (if contract ends other than resignation)
0 – <2 years	Pro-rated ESB using the standard formula
2 – 5 years	$\frac{1}{2}$ month per year
5 – 10 years	$\frac{1}{2}$ month per year for first 5 + 1 month per year thereafter
≥ 10 years	Same as above (larger total due to service length)

04 Resignation vs. Employer Termination

WHEN THE EMPLOYEE RESIGNS:

<2 years:	2–<5 years:	5–<10 years:	≥ 10 years:
No ESB	$\frac{1}{3}$ of the calculated ESB	$\frac{2}{3}$ of the calculated ESB	Full calculated ESB

When the employer terminates (not for serious misconduct):

- ESB is due in full per the standard formula, from day one, pro-rated for partial years.

Misconduct / Article-80-type cases:

- In cases of serious misconduct as defined by law/contract, the employee may lose ESB. Always document the reason, follow due process, and give the employee the chance to respond.

05 What Counts as "Wage" for ESB?

- For ESB, **"wage"** means the **final monthly wage** used as the calculation base. **In KSA, wage = actual wage**, i.e., **basic salary + fixed allowances and due increments** (e.g., housing/transport if they are fixed components).
- **Variable components** (e.g., sales commissions/percentages) **can be excluded** if the contract/policy explicitly says so.
- **Best practice:** Use the **final payroll cycle's wage** (basic + fixed allowances), and apply any contractual exclusions for variable pay.



06 Special Cases & Edge Conditions



Female employees

If resigning within **6 months of marriage or within 3 months of childbirth**, they are entitled to full ESB, regardless of service length.



Force majeure

If the employee leaves work due to a force majeure **beyond their control**, they are entitled to full ESB.



Probation

If the contract ends during probation, no ESB is due (probation itself does not count towards service if the relationship ends at that stage).



Partial years

Always pro-rate **by months/days** (see examples on next page).

07 Step-by-Step Calculations

(WORKED EXAMPLES)

Wage assumptions: To illustrate correct practice, we treat **wage** as **basic salary + fixed allowances** (e.g., housing/transport) from the **final month**, unless your contract explicitly excludes certain variables. Replace numbers with your actual payroll figures.

EXAMPLE A: EMPLOYER TERMINATION (7 YEARS, FIXED ALLOWANCES)

Final wage	SAR 10,000 basic + SAR 3,000 fixed allowances = <u>SAR 13,000</u>
Service	7 years
ESB	First 5 years: $5 \times (13,000 \div 2) = \text{SAR } 32,500$ Next 2 years: $2 \times 13,000 = \text{SAR } 26,000$ Total ESB = <u>SAR 58,500</u>

EXAMPLE B: RESIGNATION AFTER 4 YEARS AND 6 MONTHS

Final wage	<u>SAR 9,500</u> (basic + fixed allowances)
Service	4.5 years
Gross ESB (before resignation fraction)	$4.5 \times (9,500 \div 2) = \text{SAR } 21,375$
Resignation Entitlement (2-<5 yrs = $\frac{1}{3}$)	$21,375 \times \frac{1}{3} = \text{SAR } 7,125$

EXAMPLE C: RESIGNATION AFTER 8 YEARS
(with variable commission excluded by policy)

Final wage	<u>SAR 12,000</u> (basic + fixed allowances). Commission excluded by contract.
Service	8 years
Gross ESB (before resignation fraction)	First 5 years: $5 \times (12,000 \div 2) = \underline{\text{SAR } 30,000}$ Next 3 years: $3 \times 12,000 = \underline{\text{SAR } 36,000}$ Subtotal: SAR 66,000
Resignation Entitlement (5-<10 yrs = $\frac{2}{3}$)	$66,000 \times \frac{2}{3} = \text{SAR } 44,000$

Note: For partial years, pro-rate by months/days. If service is 7 years and 3 months, add (3/12) of one month's wage to the "after-5-years" portion.



Payout Timelines, Documentation & Compliance

PAYOUT DEADLINES:

Employer ends the contract:
Pay within 7 days

Employee ends the contract (resigns)
Pay within 14 days

RECORDS TO KEEP



Employment contract(s) + any renewals/appendices



Payroll records and wage components (basic + allowances; any variable pay exclusions)



Leave balances, unpaid deductions, and settlements



Notice, investigation minutes (if any), handover forms, asset returns

PRACTICAL CHECKLIST:

- ☒ Confirm **final wage** (basic + fixed allowances)
- ☒ Confirm **service start/end dates** and pro-rate partial year
- ☒ Identify **scenario**: resignation / non-misconduct termination / misconduct / force majeure / special cases
- ☒ Apply the **standard formula + resignation fraction** if relevant
- ☒ Deduct/settle **loans/advances** per policy and law
- ☒ **Pay by the legal deadline** and issue a closing statement

Frequent Errors, and How to Avoid Them

- **Using basic salary only:** In KSA, wage means **actual wage** (basic + fixed allowances). Exclude variable pay only if your contract/policy says so.
- **Forgetting to pro-rate partial years:** ESB is due for fractions of a year.
- **Missing resignation fractions:** $\frac{1}{3}$ (2–<5 yrs), $\frac{2}{3}$ (5–<10 yrs), full at ≥ 10 yrs.
- **Ignoring special protections:** Marriage/childbirth windows for women; force majeure.
- **Late payment:** There are strict payout deadlines (7/14 days).



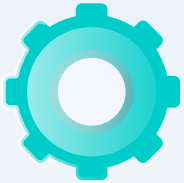
Automating ESB with zenHR (Enhanced Version)

Manually calculating End-of-Service Benefits (ESB) in Saudi Arabia can be time-consuming, error-prone, and fraught with compliance risks. With ZenHR, an award-winning HR software in Saudi Arabia tailored for KSA labor laws, you can transform this process into a fully automated, audit-ready workflow.



01 Precise ESB Calculator KSA

ZenHR's automated ESB calculator is designed in line with Saudi labor law. It automatically determines ESB based on the last wage (i.e., basic + fixed allowances), correct service duration (including prorated partial years), and resignation fraction rules ($\frac{1}{3}$, $\frac{2}{3}$, or full) where applicable. This ensures accuracy and minimizes manual mistakes.



02 End-to-End Payroll Integration

ZenHR integrates ESB calculations into its payroll module, which handles salary, deductions, overtime, and End-of-Service Benefits in seconds, ensuring consistency and compliance across all calculations.



03 Full KSA Compliance with Local Integrations

Compliance is seamless thanks to native integrations with government platforms:

- **GOSI (General Organization for Social Insurance):** Automatically syncs employee contributions, updates salaries, and manages compliance.
- **Mudad (WPS):** Submit salary batches, track transfers, cancel when needed, and fully comply with the Wages Protection System, all from within ZenHR.



04 Transparent ESB Statements for Employees

Generate detailed, easy-to-understand ESB breakdowns, giving employees full clarity on how their benefits are calculated, fostering transparency and trust.



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