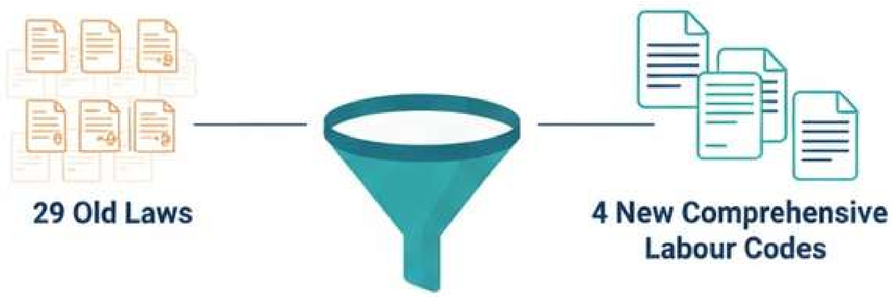
New Labour Codes

effective from 21st November 2025

India has undertaken a historic and transformative shift in its regulatory framework. Effective from 21st November 2025, the Government of India has implemented four comprehensive Labour Codes.

These reforms are designed to modernize the labour regulatory system, promoting greater ‘Ease of Doing Business’ through digitization and the removal of unnecessary criminal penalties. At the same time, they strengthen social security protections for the entire workforce, including those in the unorganised and gig sectors.



29 old laws streamlined into 4 new codes

This historic reform consolidates and simplifies India’s labour legislation.

The Code on Wages 2019
Replaces 4 acts
related to wages, bonuses and equal remuneration.

The Industrial Relations Code, 2020
Merges 3 acts
covering trade unions and dispute resolution.

The Code on Social Security, 2020
Subsumes 9 acts
concerning social security and employee welfare.

The OSHW, Code, 2020
Replaces 19 acts
regulation workplace safety, health and conditions.

Executive Overview of the Four Labour Codes

A major reform of India’s labour framework, bringing together 29 central labour laws into four simplified and streamlined codes for clearer and more efficient regulation.

1. Code on Wages, 2019, A fair and transparent wage framework for India's workforce

Code on wages summed up four acts namely,

The Payment of wages Act, 1936	Minimum Wages Act, 1948	Payment of Bonus Act, 1965	Equal Remuneration Act, 1976

CODE ON WAGES, 2019

The Code on Wages, 2019 is one of India's major labour reforms aimed at simplifying, modernizing, and consolidating wage-related laws.

1. **Universal Implementation of Minimum Wage Standards:** Minimum wages now apply to all employees across all sectors. This ensures basic income security and reduces exploitation of vulnerable workers.
2. **Floor Wage:** The Central Government will fix a national floor wage based on minimum living standards. States cannot set their minimum wages below this level, promoting wage uniformity across the country.
3. **Working Hours:** Normal working hours are capped at 48 hours per week. Daily shifts may extend to 12 hours including rest intervals. Beyond this, overtime rules apply.
4. **Gender Equality Measures:** Discrimination in recruitment, wages, transfers, promotion, or working conditions based on gender is strictly prohibited for the same or similar work. The Code also explicitly includes transgender employees, ensuring they are protected under these anti-discrimination rules and requiring organizations to update their internal policies accordingly.

Timely Payments and Smooth Employee Exit:

- Workers must receive their wages no later than 7 days into the next month.
- Organizations are now required to finalize Full and Final (F&F) settlements within two working days of an employee's separation whether due to resignation, removal, dismissal, retrenchment, or termination.

2. Industrial Relations Code, 2020- A Modern Framework for Workplace Growth and Harmony

Industrial Relations Code consolidates three major laws

Industrial Relations Code, 2020

This code simplifies compliance, reduces rules and forms, and balances worker protection with business flexibility. The law applies to most types of organizations- manufacturing units, IT and BPO companies, finance firms, logistics and retail businesses, MSMEs, start-ups, construction companies, public sector units, NGOs, and non-profit organizations

1. **Fixed-Term Employment:** Full-time fixed-term employees (FTEs) will get the same benefits as permanent employees. They can also get gratuity after just one year of service.
2. **Strikes, Lockouts, and Dispute Regulation:** If more than half the workers take casual leave together, it will be treated as a strike. Workers must give a 14-day advance notice before going on strike.
3. **Gender Equity:** Grievance committees must include women in proportion to how many women work in the company.

Retrenchment, Lay-Off & Closure

- Re-skilling fund: When a worker is laid off, the employer must contribute an amount equal to 15 days of that worker's wages to help the worker learn new skills.
- Threshold for Layoff and Closure Permissions: Companies now need government permission for layoffs or closures only if they have more than 300 workers (instead of the previous threshold limit of 100 employees). This lowers exit barriers for mid-sized companies, enabling them to scale with greater confidence and without the fear of rigid regulatory constraints.

3. Code on Social Security, 2020- Enhancing Workforce Protection

Code on Social Security, 2020- 9 social security acts converted into 1 code

Code on Social Security, 2020- Enhancing Workforce Protection

It aims to ensure inclusive social protection for all types of workers, including organized, unorganized, gig, and platform workers. The Code simplifies compliance, enhances transparency through digital systems, and promotes ease of doing business, while strengthening worker welfare and rights.

1. **Crèche Facilities:** Mandatory for establishments with more than 50 employees. If facilities are unavailable, an allowance must be provided. Access is gender-neutral, and employees are permitted up to four visits per day.
2. **Gratuity:** Fixed-term employees eligible after 1 year of continuous service; proportionate gratuity allowed. (a significant departure from the standard 5-year vesting period for permanent staff).
3. **EPF Coverage:** Applies to all establishments with 20+ employees; wider retirement coverage.
4. **ESIC Coverage:** Nationwide coverage; voluntary opt-in for small establishments; mandatory for hazardous work; portable benefits across India.
5. **Maternity Leave:** Provides 26 weeks of maternity leave, extends benefits to women who adopt or use surrogacy will be entitled to 12 weeks of leaves, and allows a work-from-home option after maternity leave post mutual discussion with the employer.

Formal Recognition of the Gig and Platform Economy:

Gig and platform workers like delivery partners, freelancers, and ride-share driversare now legally recognized for the first time.

- Aggregator Funding Requirements for Social Security- Aggregators (digital intermediaries) must contribute 1% to 2% of their annual turnover, (capped at 5% of amount paid to workers), to a social security fund that supports health, injury, and maternity benefits for gig and platform orkers.

4. Occupational Safety, Health and Working Conditions (OSH) Code, 2020- A New Era in Labour Regulation

Merging 13 existing labour laws for stronger worker safeguards and more business-friendly regulations.

Occupational Safety, Health and Working Conditions (OSH) Code, 2020

This code aims to ensure safe working environments, improve worker welfare, and promote uniformity in regulations across industries. This reduces confusion for employers and regulators. The main goal of the Code is to protect workers' rights and dignity by making sure every workplace is safe, clean, and has proper facilities, reasonable working hours, and protection from health and safety risks.

1. **Safety Provisions:** Workplaces that involve hazardous or dangerous processes must provide compulsory safety training to all worker.
2. **Provisions for Women Workers:** Women permitted to work in all establishments including night shifts (7 PM to 6 AM) with consent and safety arrangements.
3. **Contractual Labour:**
   - **One Nation, One License**: The Code simplifies registration by introducing a single electronic all-India license for contract labour providers, valid for five years. This replaces the need for multiple state-specific registrations and renewals, significantly reducing administrative effort.
   - **Contract Labour Threshold:** The threshold for applicability under the Contract Labour (Regulation and Abolition) Act has been increased from 20 to 50 workers. This reduces compliance requirements for smaller contractors and can lower overall vendor compliance costs.
4. **Working Hours, Leave and Overtime:**
   - Daily working hours are limited to a maximum of 8 hours.
   - Working hours can be extended only under specific conditions, with a total spread-over cap of 12 hours per day.
   - Workers are entitled to weekly rest and paid leave.
   - Overtime must be paid at twice the normal wage rate.
   - Women can work night shifts, provided the employer ensures proper safety, security, and transportation measures.

5. **Annual Health Check-up**
   - Annual Health Check-up: Employers are required to provide free annual medical examinations for employees above the prescribed age threshold (commonly 40 years and above), to promote preventive healthcare.

The Definition of "Wages"

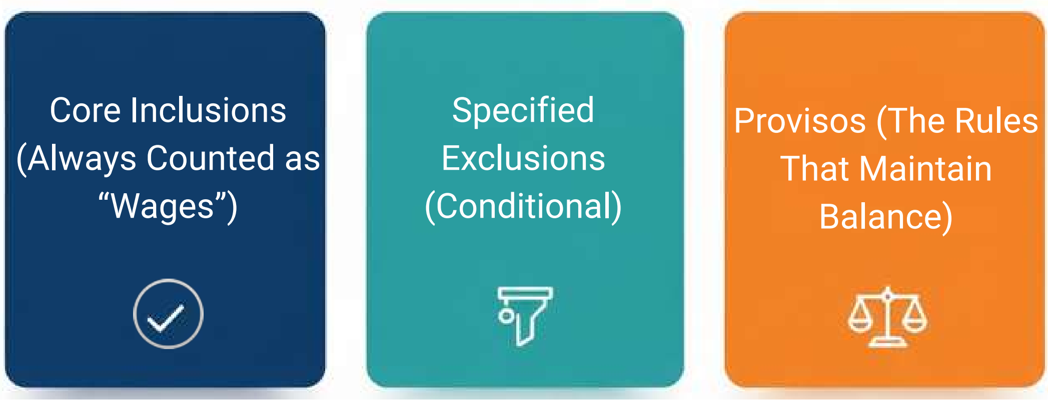
Key Impact Areas

Provident Fund (PF) contributions, gratuity calculation, leave encashment, and ESI obligations.

One of the major highlights of the new labour reforms is the introduction of a uniform and standard definition of "wages" across all four Labour Codes. Previously, different labour laws defined wages in varying ways, often resulting in legal disputes, payroll complexity, and salary structures designed to minimize statutory liabilities.

The new Code removes this ambiguity by classifying salary components under three clear categories—Inclusions, Specified Exclusions, and Provisos that place limits on the extent of exclusions. This creates transparency, simplifies compliance, and ensures consistency in payroll calculations across establishments.

The Three Categories of Remuneration



1. **Core Inclusions (Always Counted as "Wages")**

   These are the primary components that form the basis of the wage calculation and are always included in social security computations such as PF, Gratuity, and ESI.

   - Basic Pay: The fixed base salary.
   - Dearness Allowance (DA): Payment provided to help employees cope with rising living costs.

- Retaining Allowance: Amount paid to retain workers during periods when they are not actively employed, common in seasonal or factory-based work.

2. **Specified Exclusions (Conditional)***

The Code identifies certain components that may be excluded from the definition of wages, but only if these exclusions stay within the prescribed limit. If the exclusions exceed the threshold, the excess is added back into "wages."

3. **Provisos (The Rules That Maintain Balance)**

To prevent employers from manipulating salary structures by excessively reducing Basic Pay to cut down statutory contributions, the Code includes safeguard provisions. These rules ensure fair payroll practices and consistent wage calculation.

Specified Exclusions (Conditional)

The Code lists certain salary components that may be excluded from the definition of "wages," as long as the total value of these exclusions does not exceed the prescribed limit. These include:

(a) Statutory bonus paid under applicable laws

(b) Value of housing, utilities, medical services, or similar facilities provided

(c) Employer's contribution to pension or provident fund, including accrued interest

(d) Conveyance allowance or travel-related concessions

(e) Payments made to cover job-related expenses

(f) House Rent Allowance (HRA)

(g) Amounts paid under settlements or awards

(h) Overtime payments

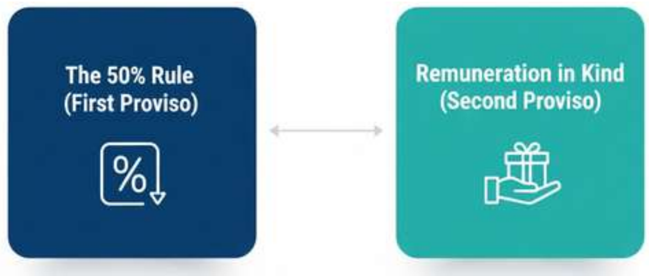
(i) Commissions

(j) Gratuity paid at the time of exit

(k) Retrenchment benefits or other retirement payouts

These exclusions ensure that only core salary components form the basis of statutory contributions, while still allowing flexibility in compensation structure within regulatory limits.

The Provisos: The 50% Rule



1. **The 50% Rule (First Proviso)**

   If the total value of the specified exclusions listed in items (a) to (i) exceeds 50% of the employee's total remuneration, the excess must be added back to "wages" and treated as part of the core wage components.

   Note: Payments like gratuity (j) and retrenchment compensation (k) are usually not included in this 50% calculation because they are terminal benefits and do not apply to regular monthly payroll.

2. **Remuneration in Kind (Second Proviso)**

   If an employer provides part of the employee's earnings in non-cash form (such as goods, food grains, or other items), their value will also be treated as "wages," but only up to a maximum of 15% of total wages.

Detailed Financial Illustration: Scenario 1

Employee Profile: Senior Manager
Total Monthly Gross (CTC): ₹1,00,000

Salary Breakdown

Component	Amount (₹)	Classification	% of Gross
Basic Pay	30,000	Core Wage	30%
HRA	20,000	Exclusion (f)	20%
Commission	20,000	Exclusion (i)	20%
Conveyance	15,000	Exclusion (d)	15%
Overtime	15,000	Exclusion (h)	15%

Total Exclusions: ₹70,000 (HRA + Commission + Conveyance + OT = 70% of Gross)

The Compliance Test

1. Maximum exclusions allowed under the Code are 50% of total gross salary:
2. 50% of ₹1,00,000 = ₹50,000
3. Actual exclusions taken: ₹70,000
4. This is higher than permitted by ₹20,000
5. Therefore, the extra ₹20,000 must be added back to wages as "Deemed Wages."

Impact on Liability: Scenario 1

Old Wage Base

- Wage considered: ₹30,000 (Basic Pay)

New Wage Base

- Basic Pay: ₹30,000
- Deemed Wage added due to 50% rule: ₹20,000
- New total wage for statutory calculations: ₹50,000

Financial Impact

- PF Contribution (12%)- Increases from ₹3,600 per month to ₹6,000 per month.
- Gratuity Liability- Will now be calculated on ₹50,000 instead of ₹30,000, resulting in a substantial rise in long-term employee benefit provisions.

Ease of Doing Business & Compliance Strategy

Although the new Codes may increase certain financial and compliance responsibilities, they also simplify procedures, helping businesses operate more efficiently and lowering the chances of legal disputes.

Immediate Action Items for Management

1. **Payroll & Finance**

   - **Wage Impact Analysis:** Review payroll to find employees whose Basic + DA is less than 50% of CTC and assess the financial impact.
   - **Gratuity Provisioning:** Work with actuaries to recalculate gratuity liabilities based on the new "Deemed Wage" rules.
   - **F&F Workflow:** Review the exit process to spot delays (such as IT clearance or asset returns) and digitize steps to enable settlement within two days.

2. **Legal & HR**

   - **Contract Review:** Amend employment agreements to incorporate the mandated two-day notice period for exits, updated leave policies, and provisions enabling optional four-day workweeks.
   - **Fixed-Term Employment (FTE) Implementation:** Identify roles appropriate for FTE arrangements and draft corresponding contracts that align benefits and terms with those applicable to permanent employees.
   - **Vendor Compliance**: Conduct audits of contract labour vendors to ensure they possess the required Single License and comply with minimum wage standards, thereby mitigating the Principal Employer's legal exposure.

3. **Communication**

   Employee Townhall: Launch proactive communication initiatives to explain the potential effects of revised tax and contribution structures on take-home pay. Emphasize the long-term advantages of higher provident fund accumulation to help alleviate employee concerns.