

Decoding the Labour Codes

Knowledge Series

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❖ Introduction

India's labour law framework has undergone a historic transformation with the consolidation of 29 complex and overlapping labour laws into 4 simplified Labour Codes by the Government of India. This reform marks a decisive shift towards ease of compliance, stronger worker protection, and a modern regulatory environment aligned with today's dynamic economy. The Labour Codes aim to balance worker welfare with business efficiency, making India's employment ecosystem more structured, transparent, and future-ready.

❖ What is labour

Labour is a key driver of economic growth and development. Recognizing the need to modernize and simplify the complex framework governing workers' rights, the Government of India undertook a historic reform by consolidating **29 diverse and overlapping labour laws into 4 comprehensive Labour Codes**, namely:

- Code on Wages, 2019
- Industrial Relations Code, 2020
- Code on Social Security, 2020
- Occupational Safety, Health and Working Conditions Code, 2020

This major legislative reform aims to ensure that workers gain easier access to security, dignity, health, and welfare measures, while simultaneously improving ease of doing business. It reflects India's commitment towards building a fair, transparent, and future-ready labour market.

❖ What Exactly is a "Labour Code"?

In very simple terms, a Code is a single, well-structured master law that replaces multiple scattered and overlapping laws dealing with a similar subject.

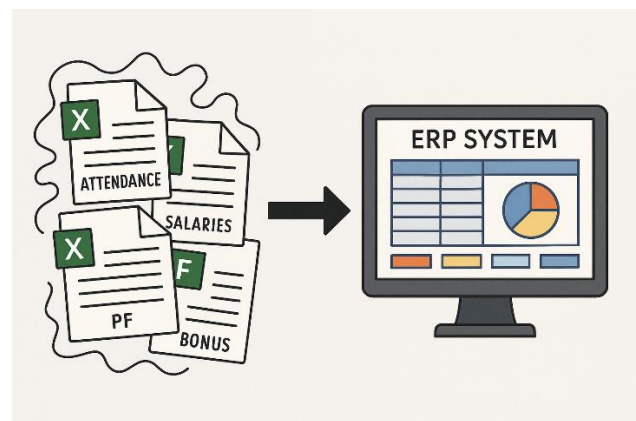
To understand this practically, imagine a business maintaining:

- One excel file for Attendance,
- One for Salaries,
- One for Provident Fund,
- One for Bonus,

- And each file follows different formats and definitions.

Reconciling and ensuring compliance under such a system becomes inefficient, time-consuming, and error prone.

Now imagine the same data flowing through one integrated ERP system with common definitions and a unified reporting structure. That is exactly what a **Code** does in the legal sense. It is single **excel macro** file consisting of a master code with all your favourite go to excel formulas



Earlier, there were **29 separate labour laws**, each with:

- Different definitions,
- Different authorities,
- Different returns,
- Different inspection processes.

Today, these have been reorganized into **four structured, simplified Labour Codes**. Therefore, the term "**Labour Code**" simply means:

A single, organized legal framework that governs labour-related matters in a streamlined and uniform manner.

❖ Rationale Behind Codification of the 29 Labour Laws

The consolidation was undertaken to address long-standing structural and practical challenges that businesses, professionals, and authorities faced for decades. The key reasons behind this reform are explained below with real-life relevance.

❖ Simplifying Compliance - From Fragmentation to Integration

Earlier Position:

A single establishment often required multiple registrations under different laws such as:

- Provident Funds and Miscellaneous Provisions Act, 1952
- Employees' State Insurance Act, 1948
- Factories Act, 1948
- Contract Labour (Regulation and Abolition) Act,
- Shops & Establishments Act
- Payment of Bonus Act, 1965
- Payment of Gratuity Act, 1972

Each registration involved:

- Separate forms,
- Separate portals,
- Separate authorities,
- Separate renewal timelines and returns.

This resulted in:

- High compliance cost,
- Repetitive data filing,
- Increased risk of procedural defaults,
- Heavy dependency on consultants.

For professionals, this was like handling GST, TDS, PF, ESIC and Professional Tax on five different portals with five different compliance calendars.

Under the Labour Codes:

The compliance framework has been rationalized through the concept of:

- **Single Registration**
- **Single License**
- **Single Return**

For professionals, this has direct implications on payroll audits, employee cost verification, and actuarial valuation of gratuity.

Now let us understand the 4 codes one-by-one:

❖ Code on Wages, 2019

What the Code on Wages consists of:

➤ Purpose and scope

The Code on Wages consolidates four older central laws -

Acts Subsumed

- The Minimum Wages Act
- The Payment of Wages Act
- The Payment of Bonus Act
- The Equal Remuneration Act

➤ Important Changes:

• Definition of "Wages"

Wages means all remuneration (salaries, allowances or otherwise), expressed in monetary terms or capable of being so expressed, payable for employment or work done, including:

- Basic pay
- Dearness allowance
- Retaining allowance (if any)

Excludes (subject to 50% cap):

- Bonus (not part of employment terms)
- House accommodation value/ light / water /medical amenities
- Employer PF/ pension contributions + interest
- Conveyance/ travel allowance
- Special expense reimbursements
- House rent allowance (HRA)
- Award/settlement/Tribunal remuneration
- Overtime allowance
- Commission
- Gratuity
- Retrenchment compensation/retirement benefits/ex-gratia

Key Provisos:

- Exclusions cannot exceed 50% of total remuneration; or else excess treated as wages for statutory benefit calculations (PF, gratuity, ESI), increasing employer contributions while reducing take-home pay.

Gratuity

Fixed-term employees are now eligible for proportionate gratuity even without completing

five years of service. Employers must pay gratuity within 30 days of an employee's exit or incur a penalty interest. To secure funding, the Code encourages a funded scheme: employers can set up a separate gratuity trust or fund and make regular contributions, building a dedicated corpus over time and reducing the risk of insufficient funds at payout.

Why funding gratuity matters:

Instead of waiting until employees exit to pay gratuity from company cash flows (non-funded liability), a funded scheme involves creating a separate gratuity trust or fund. Employers contribute to this fund at regular intervals (often based on actuarial valuation), ensuring a dedicated corpus is always available for gratuity payouts. This avoids sudden large cash outflows, reduces risk of inability to pay, and ensures timely gratuity disbursement.

- **Impact on Employers**

While the revised gratuity rules result in an ongoing cash outflow due to regular contributions, they also enable better financial planning and predictability for employers. This leads to smoother cash flow management and significantly reduces the risk of unexpected liabilities or legal disputes related to gratuity payments

- **Impact on Employees**

More security – gratuity is backed by a fund, so payout at exit or retirement is more reliable and less dependent on employer's immediate cash position.

1. Implementation of National Floor Minimum Wage

The Code requires minimum wages to be reviewed at fixed intervals (not more than five years) and allows the central government to notify a national floor; states will notify their own rates in line with this floor and with local factors. Employers should therefore monitor both central and state notifications to stay compliant.

- **Impact on Employers**

Employers face higher recurring payroll costs because employer contributions to PF and gratuity provisioning will increase, and actuarial liabilities

may rise for accounting purposes. Employers must rework salary structures and update HR/payroll systems, which imposes administrative costs. Some employers may adjust hiring; benefits mix or headcount decisions to manage the additional cost.

- **Impact on Employees**

Employees will generally receive stronger statutory protection and higher retirement/exit benefits because PF, gratuity and bonus are calculated on a larger wage base. Fixed-term and contract workers gain coverage and faster vesting in some cases, and clearer timelines help employees obtain dues more quickly. However, employees may see some shift from variable allowances to fixed basic pay, which can reduce some take-home flexibility even as long-term benefits increase.



❖ Industrial Relations Code

➤ Purpose and Scope

The **Industrial Relations Code, 2020 (IR Code)** is one of the four labour codes enacted by the Government of India to consolidate and modernize labour regulations. The IR Code recognises that the survival of workers depends on the survival of industry and hence aims to balance worker protection with industrial growth and economic efficiency. It introduces modern concepts such as digital compliance, direct tribunal access, and work-from-home arrangements.

Acts Subsumed

- Trade Unions Act, 1926
- Industrial Employment (Standing Orders) Act
- Industrial Disputes Act, 1947

➤ Recent and Important Changes:

1. Re-skilling Fund for Retrenched Workers

Every employer must contribute an amount equal to **15 days' wages** for each retrenched worker. Amount must be credited to worker's account within **45 days of retrenchment**. Helps workers acquire new skills and enhances employability

• Impact on Employers

There will be a one-time cash outflow at the time of retrenchment, but it ensures predictable exit costs, smoother workforce restructuring, better compliance planning, and reduced long-term industrial dispute risk.

• Impact on Employees

They receive direct financial support for re-skilling and job transition, leading to better employability, faster re-employment, and financial security during the job-loss period.

2. Work-From-Home Provision

Provides legal backing to Work-from-Home (WFH), especially for service-sector establishments. Applied through mutual agreement between employer and worker

• Impact on Employers

There is greater flexibility in workforce management, reduced office infrastructure and operating costs, and improved business continuity, while still requiring clear policies and monitoring.

• Impact on Employees

They gain better work-life balance, time and cost savings on travel, and greater flexibility in working

arrangements, with legal protection through formal agreement.

➤ Expanded Definition of Strike

Includes:

- Mass casual leave
- Coordinated casual leave by 50%+ workers
- Go-slow and sit-down strikes

Prevents flash strikes and illegal stoppage of work.

• Impact on Employers

This ensures better operational stability, advance visibility of labour actions, uninterrupted business continuity, and reduced risk of sudden production or service disruptions.

• Impact on Employees

While collective actions are now more regulated, it promotes responsible and lawful protest, ensures structured negotiation, and protects workers from the legal consequences of sudden or illegal strikes.

3. Digital Processes Enabled

- ✓ Registration, record-keeping, notices, communication allowed digitally.
- ✓ Ensures transparency, reduces administrative burden.

• Impact on Employers

There is a significant reduction in paperwork, faster compliance, lower administrative costs, and easier audit trail and record management.

• Impact on Employees

They benefit from greater transparency, quicker access to employment records and notices, and improved trust due to digitally traceable processes.

4. Hiring and Separation Policy

Under the Industrial Relations Code, 2020, only establishments with **300 or more workers** are required to obtain government permission for lay-

offs, retrenchment, or closure, giving smaller units greater operational flexibility

- **Impact on Employers**

For employers, the rule gives **smaller units (<300 workers) more flexibility** to lay off, retrench, or close without government approval, reducing compliance and speeding up workforce decisions. Larger units must follow due process and obtain approval, which may slow restructuring plans.

- **Impact on Employees**

Employees in **larger units (300+ workers)** have **greater job security**, as lay-offs or retrenchments require government approval. In **smaller units**, employees have **less legal protection** and rely mainly on company policies for job security.



- ❖ **The Social Security Code**

- **Purpose and Scope**

The Code defines social security as protective measures ensuring access to healthcare and income security for employees, unorganised workers, gig workers, and platform workers, specifically targeting old age, unemployment, sickness, invalidity, work injury, maternity, and loss of breadwinner through rights and schemes under the Code.

The Code amends and consolidates laws to extend provident fund, ESI, gratuity, maternity benefits, and injury compensation to all workers across organised, unorganised, gig, and platform

sectors through simplified and mandatory central portal registration.

Acts Subsumed

- Employees' Provident Funds and Miscellaneous Provisions Act, 1952
- Employees' State Insurance Act, 1948
- Employees' Compensation Act, 1923 (Chapter VII)
- Maternity Benefit Act, 1961
- Payment of Gratuity Act, 1972
- Building and Other Construction Workers Welfare Cess Act, 1996
- Unorganised Workers' Social Security Act, 2008
- Iron Ore Mines, Manganese Ore Mines and Chrome Ore Mines Labour Welfare Cess Act, 1976
- Cine Workers Welfare Fund Act, 1981

- **Recent and Important Changes:**

1. **EPF Contribution Rates**

The EPF contribution rate remains unchanged at **12% from the employer and 12% from the employee**, with the wage ceiling applicable, ensuring continued retirement security. Key reforms now allow voluntary opt-in for establishments with fewer than 20 employees (earlier mandatory only for 20 or more), introduce **digital administration**, impose a **5-year limit on inquiries** (earlier unlimited), and ensure that **EPF coverage continues even if employee strength falls below the threshold**.

- **Impact on Employers**

In an establishment with 20 employees drawing ₹20,000 (wage ceiling), the total EPF contribution at 12% each by employer and employee works out to ₹96,000 per month (₹4,800 per employee). Under voluntary opt-in where the employer bears both shares, this ₹96,000 becomes a regular monthly cash outflow, but it supports workforce stability, structured retirement benefits, and reduces future legal and compliance risks under the Code on Social Security, 2020.

- **Impact on Employees**

There is no deduction from salary, yet they receive full EPF retirement benefits, resulting in higher savings security, improved social protection, and assured long-term financial support.

2. ESI Contribution Rates

Under the Employees' State Insurance Act, 1948, the ESI contribution burden has reduced from a total of 6.5% to 4% (employer 4.75% → 3.25%, employee 1.75% → 0.75%), lowering overall costs and encouraging wider participation.

• Impact on Employers

Lower monthly compliance cost, voluntary coverage for establishments with fewer than 10 employees (earlier mandatory for 10 or more), but mandatory coverage for hazardous activities regardless of size, increasing worker safety accountability.

• Impact on Employees

Higher take-home salary due to lower deductions and expanded social security coverage, now also extending benefits to in-laws and siblings, strengthening family-level protection.

3. Gig & Platform Workers Coverage

Under the Code on Social Security, 2020, gig and platform workers now receive formal social security for the first time, with aggregators mandatorily contributing 1-2% of annual turnover (capped at 5% of payments to workers) to a dedicated Social Security Fund.

• Impact on Aggregators (e.g., Swiggy)

There will be a significant but predictable financial outflow (₹100-200 crore on a ₹10,000 crore turnover), along with strict compliance and a 1% monthly penalty for delays, increasing regulatory accountability.

• Impact on Gig & Platform Workers

They gain life and disability cover, health insurance, old-age protection, and maternity

benefits through Aadhaar-linked registration (age 16-60) with portable benefits across states, overseen by State Unorganised Workers' Boards, greatly strengthening long-term income and social security.

4. Maternity and Other Benefits

Under the Code on Social Security, 2020, paid maternity leave has increased to 26 weeks (maximum 8 weeks before delivery), with work-from-home options after leave, mandatory crèche facilities for establishments with 50+ women employees, and a ₹3,500 medical bonus where prenatal care is not provided. Fixed-term employees are now entitled to proportionate benefits at par with permanent staff.

• Impact on Employers

There is a higher wage cost during extended leave, along with infrastructure responsibility for crèche facilities, but it results in better employee retention, higher morale, and improved gender-inclusive workplace practices.

• Impact on Employees

The Code provides significantly stronger income and job security during maternity with higher financial support – for example, a woman drawing ₹15,000 basic salary now receives ₹1.05 lakh for 26 weeks (₹576.92 daily wage × 182 days), compared to ₹48,500 earlier for 12 weeks (₹576.92 daily wage × 84 days) under Maternity Benefit Act, 1961, more than doubling financial support (116% increase). Additional protections include work-from-home option post-leave, mandatory crèche facilities for establishments with 50+ women employees, and ₹3,500 medical bonus if no prenatal care provided. Fixed-term employees receive proportionate benefits similar to permanent staff.



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

The Occupational Safety, Health and Working Conditions (OSH) Code, 2020 aims to ensure safe, healthy, and human working conditions for all workers across industries. The Code focuses on workplace safety standards, welfare provisions, working hours, health measures, and protection from hazardous conditions, ensuring dignity and well-being for every worker.

Acts Subsumed

- Factories Act, 1948
- Mines Act, 1952
- Dock Workers (Safety, Health and Welfare) Act, 1986
- Building and Other Construction Workers (Regulation of Employment and Conditions of Service) Act, 1996
- Plantations Labour Act, 1951
- Contract Labour (Regulation and Abolition) Act, 1970
- Inter-State Migrant Workmen (Regulation of Employment and Conditions of Service) Act, 1979
- Working Journalists and Other Newspaper Employees (Conditions of Service) and Miscellaneous Provisions Act, 1955
- Working Journalists (Fixation of Rates of Wages) Act, 1958
- Motor Transport Workers Act, 1961
- Sales Promotion Employees (Conditions of Service) Act, 1976
- Cine Workers and Cinema Theatre Workers (Regulation of Employment) Act, 1981
- Beedi and Cigar Workers (Conditions of Employment) Act, 1966

Recent and Important Changes:

1. Mandatory free annual health check-ups for certain workers.

Under the Occupational Safety, Health and Working Conditions Code, 2020, **workers engaged in hazardous or high-risk jobs must be provided with free annual health check-ups for all employees aged 40 years and above, especially those exposed to dust, chemicals, noise, vibration, extreme temperatures, or heavy physical work.**

• Impact on Employers

There will be **recurring compliance and medical screening cost**, but it leads to **early detection of occupational diseases, lower long-term compensation claims, improved safety compliance, and reduced legal and insurance risk.**

• Impact on Employees

They receive free preventive health monitoring, ensuring early diagnosis of work-related illnesses, better long-term health protection, and increased workplace safety and confidence.

2. Mandatory Appointment Letters

Every employee must receive a written appointment letter, giving them official proof of employment and clarity on their job terms.

• Impact on Employers

There is an added documentation and compliance responsibility, but it brings greater transparency in employment relationships, reduces future disputes, strengthens legal defensibility, and improves HR governance.

• Impact on Employees

They receive official proof of employment, along with clarity on salary, role, working hours, and benefits, leading to better job security, easier access to loans or government benefits, and protection against unfair labour practices.

3. One registration, one license, one return.

Under the Occupational Safety, Health and Working Conditions Code, 2020, establishments now require only one unified registration, one license, and one annual return, instead of multiple filings under different labour laws.

- **Impact on Employers**

This results in a major reduction in paperwork, duplication, and compliance costs, along with simpler audits, faster approvals, better record management, and lower risk of penalties due to procedural lapses.

- **Impact on Employees**

It leads to better regulatory oversight, improved compliance by employers, and stronger protection of labour rights, as monitoring becomes more streamlined and effective.

4. Standard Working Hours & Overtime Regulation

Under the code, working hours are capped at 8 hours per day and 48 hours per week, with overtime allowed up to 4 hours per day at double-rate wages.

- **Impact on Employers**

There will be a higher wage cost for overtime, but it brings better workforce planning, controlled working hours, improved productivity, reduced burnout-related absenteeism, and lower legal risk from excessive working hours.

- **Impact on Employees**

They receive assured income protection through double overtime pay, better work-life balance, reduced exploitation from long working hours, and improved health and job satisfaction.

5. Digital access to safety information & reporting of danger.

Workers can use a tech-enabled system to view safety rules and report unsafe conditions. All accidents and hazardous incidents must be

reported online and acted upon by authorities (Inspector-cum-Facilitators).

- **Impact on Employers**

There is a need to adopt digital safety systems and ensure prompt reporting, but it results in faster incident response, lower accident-related liabilities, improved compliance tracking, stronger safety culture, and reduced regulatory risk.

- **Impact on Employees**

They gain real-time access to safety information, a direct and transparent channel to report hazards, faster corrective action by authorities, and greater confidence that workplace risks will be addressed promptly.



Occupational Safety, Health & Working Conditions (OSHC) Code

Earlier	Now (Under OSHWC Code)
Safety rules were different everywhere	Same safety rules for all companies
Workers did not always get annual health checkups	Regular health checkups are required
Migrant workers were often not registered or tracked	Mandatory registration ensures that migrant workers get benefits
Contract workers were not monitored well	Stricter rules for contractors & responsibility on employers benefits contract workers
Long hours without proper rest	Clear rules on maximum working hours & mandatory breaks

Industrial Relations (IR) Code

Earlier System	After IR Code
Different laws for unions, disputes & standing orders	Single law for industrial relations
Different worker definitions under each law	Broader and uniform definition of worker
Slow & complex dispute resolution	Faster, streamlined dispute mechanism
Limited provisions for fixed-term employment	Fixed-term employment recognized
Strikes could happen suddenly	Prior notice required for initiating strikes thus less disruption of work

Social Security Code

Earlier System	After Social Security Code
Multiple Acts for EPF, ESI, gratuity etc.	All social security laws merged into one code
Gratuity only after 5 years of employment for formal workers	Fixed term employees are also eligible for the Gratuity after one year of employment
Multiple registrations required	Single registration for employer and employees
Benefits delivered separately	Integrated delivery of benefits
Pension/EPF not easily transferable	Benefits follow the worker even if job changes

RRCO INSIGHTS

1. The New Labour Codes introduce a standard definition of “wages,” requiring Basic Salary + Dearness Allowance to be at least 50% of CTC. This increases the PF calculation base wherever companies earlier maintained lower Basic wages. As employers align salary structures to the new 50% rule, taxable allowances will reduce and PF contributions (a non-taxable component) will rise. This results in lower income tax liability for employees and higher long-term savings, although take-home pay may decrease if CTC remains unchanged.

For employers, the restructuring may raise statutory obligations such as PF, gratuity, and leave encashment. Companies must update CTC templates, revise employment contracts, and realign payroll systems to ensure compliance.

However, clarification is still pending on transitional rules for employees currently contributing PF on higher wages—specifically, whether they can be shifted back to the ₹15,000 statutory ceiling.

Due to it, the ₹15,000 ceiling helps employers reduce their statutory PF cost and maintain overall CTC budgets.

2. The implementation of the new Labour Codes is likely to increase the company's cash outflows due to higher mandatory employee benefits, revised minimum wages, gratuity, bonus payments, and social security contributions, necessitating careful cash flow planning and provisioning.

Mandatory electronic payroll and records may require investment in HR/payroll software.

3. A major unresolved area under the New Labour Codes is how transitional provisions will apply to existing employees and ongoing service benefits. The Codes introduce new rules for fixed-term employee gratuity, expanded social-security coverage, contractor eligibility, overtime limits, and working-hour reforms. However, it is still unclear whether these changes apply prospectively or retrospectively, and how establishments should revise current contracts, HR policies, and benefit calculations already in force. Clear guidance is required to avoid disputes related to continuity of benefits, recalculation of past entitlements, and realignment of current payroll structures during the transition from the old labour laws to the new framework.

4. Gratuity Calculation Impact: Wage Definition Change

Scenario 1: Old Wage Definition (No 50% Rule Applied)

Salary Structure (Total CTC ₹1,00,000/month):

Component	Amount
Basic Pay	₹20,000 (20%)
HRA	₹25,000
Special Allowance	₹30,000
Conveyance	₹10,000
Medical	₹5,000
Overtime	₹10,000
Total	₹1,00,000

Gratuity Wages (Old): Only Basic = ₹20,000
5 years' service: ₹20,000 × (15/26) × 5 = ₹57,692

Scenario 2: New Wage Definition (50% Rule Applied)

Same Salary Structure (Total ₹1,00,000):

- Exclusions (HRA+Special+Conveyance+Medical+)
- Overtime = ₹80,000 (80%)
- Excess over 50% = ₹80,000 - ₹50,000 = ₹30,000 added back

Gratuity Wages (New): ₹20,000 + ₹30,000 = ₹50,000
5 years' service: ₹50,000 × (15/26) × 5 = ₹1,44,231

Impact Analysis:

Metric	Old Rule	New Rule	% Increase
Wages Base	₹20,000	₹50,000	150% ↑
Gratuity Amount	₹57,692	₹1,44,231	150% ↑ (+₹86,539)
Employer Cost	Lower	2.5x higher	

Key Insight: The 50% wage rule forces restructuring - employers either increase basic pay upfront or face significantly higher gratuity/PF/ESI liabilities on exit, making salary planning more complex under the new Labour Codes.

But the employees will get benefit of higher terminal benefits, improved financial security, etc

6. For gig/platform economy workers: how is 'turnover' defined for purposes of contribution to social security fund (gross order value, net revenue)?
7. How will compliance costs (safety equipment, health-check camps, welfare facilities, insurance premiums) be treated for tax / accounting purposes – will any tax incentives or deductions be made for employers to encourage early compliance?
8. In case of contract labour or outsourced workforce, what due-diligence and record-keeping standards should be maintained by principal employer to ensure compliance – and how should contingent liability for

contractor default be reflected in financial statements?

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Special Mention

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RRCO Corner

On 14th November, RRCo celebrated its Annual Day, marking the completion of 13 successful years of dedication, growth, and consistency. The firm has remained strong and committed throughout these 13 years, reflecting its values and long-term vision.

The celebration witnessed active participation from all staff members, with a variety of cultural and creative performances. Each presentation was well-executed, highlighting teamwork, talent, and the positive spirit that defines RRCo.

The milestone also served as a moment to reflect on the collective efforts, perseverance, and contributions of every team member who has been a part of RRCo's journey. It reinforced the firm's culture of collaboration, professionalism, and continuous progress. Together we stand, **"Stronger than Yesterday"**

