Introduction To The New Labour Codes

The Government of India has consolidated 29 existing labour laws into **four comprehensive Labour Codes** with the objective of simplifying, modernising, and strengthening the country's labour regulations.

These Codes, **the Code on Wages, 2019, the Industrial Relations Code, 2020, the Social Security Code, 2020,** and **the Occupational Safety, Health & Working Conditions (OSHWC) Code, 2020,** aim to create a unified, transparent, and technology-driven framework for both employers and employees.

The new labour code regime focuses on **ease of compliance, improved worker welfare, and greater flexibility for businesses,** while ensuring that employee rights are protected. By introducing uniform definitions, digital-first compliance, easier registrations, reduced paperwork, and better social-security coverage, the Codes are designed to bring India's labour ecosystem in line with global standards.

When fully implemented, the new Labour Codes are expected to streamline employment practices, enhance workplace safety, and ensure more predictable and compliant HR operations across industries.

The Code on Wages, 2019

This is one of India's major labour reforms, enacted to simplify and consolidate multiple wage related laws into a single, uniform framework. It merges four earlier legislations—the Minimum Wages Act, Payment of Wages Act, Payment of Bonus Act, and Equal Remuneration Act, making wage regulation more transparent and accessible for both employers and workers.

A key feature of the Code is the introduction of a universal minimum wage, applicable across all sectors. It also provides for a national floor wage, which acts as a benchmark below which no state can set its minimum wage. This ensures better protection for workers, especially those in unorganised sectors.

The Code also mandates timely payment of wages and reinforces non-discrimination in wages based on gender for the same or similar work. It also introduces a uniform definition of "wages", consisting mainly of **Basic pay, Dearness Allowance and Retaining Allowance.**

To prevent manipulation through excessive allowances, all other allowances are termed as **excluded allowance** and the Code stipulates that if such excluded allowances exceed 50% of total remuneration, the excess amount will be counted as wages.

Overall, the Code on Wages, 2019 aims to simplify compliance, promote fairness, and ensure that all workers receive equitable and transparent wage protection.

Industrial Relations Code, 2020

This is a key labour reform aimed at modernising and streamlining India's industrial relations framework. It consolidates and replaces three major laws—the Trade Unions Act, the Industrial Employment (Standing Orders) Act, and the Industrial Disputes Act—bringing together provisions related to trade unions, standing orders, layoffs, retrenchment, and dispute resolution under a single structure.

One of the significant changes introduced by the Code is the increase in the threshold for prior government approval for **layoffs, retrenchment, and closure.** While earlier laws required approval for establishments with 100 or more workers, the Code raises this limit to **300 or more employees,** giving medium-sized industries greater operational flexibility while still maintaining safeguards for larger workforces.

The Code also introduces a **re-skilling fund** – 15 days wage to support employees who are retrenched. This fund aims to help affected workers upgrade their skills and improve their employment prospects, reflecting a more worker-centric approach to industrial transitions.

To strengthen labour representation and simplify compliance, the Code streamlines procedures for **trade union registration** and promotes a more structured system for grievance redressal within establishments. It also seeks to reduce disputes by ensuring clarity in standing orders and workplace rules.

Additionally, the Code regulates **strike procedures,** especially in essential services. It mandates advance notice before going on strike, ensuring continuity of critical services while balancing the right to protest.

Overall, the Industrial Relations Code, 2020 aims to create a more balanced and efficient industrial environment by promoting flexibility for employers, protection for workers, and smoother mechanisms for resolving disputes.

Code on Social Security, 2020

This is a comprehensive reform aimed at expanding and modernising India's social security framework. It consolidates several existing laws related to employee benefits, including provisions for **EPF, ESI, bonus, gratuity, leave encashment, maternity benefits, employee compensation,** and welfare schemes for **unorganised, gig, and platform workers.**

A major highlight of the Code is its effort to extend social security coverage beyond traditional employees. For the first time, **gig workers, platform workers, and migrant workers** are formally recognised and brought within the social security system. Digital platforms and aggregators are required to contribute to a social security fund earmarked for these workers, marking a significant step toward inclusive welfare in the evolving labour market.

Additionally, the Code allows **voluntary coverage under EPF and ESI** for smaller establishments that do not meet the mandatory thresholds, provided the employer and majority of employees agree. This flexibility encourages wider adoption of social security schemes, especially among small and medium enterprises.

Overall, the **Code on Social Security, 2020** aims to create a more inclusive and uniform system of welfare benefits, expanding protection to diverse categories of workers while ensuring transparency and flexibility for employers.

Occupational Safety, Health & Working Conditions (OSHWC) Code, 2020

This is a major labour reform that consolidates 13 existing laws related to safety, health, and welfare of workers into a single, streamlined framework. Its primary objective is to simplify compliance, improve workplace safety standards, and enhance worker protection.

A significant benefit of the Code is the sharp reduction in regulatory complexity, cutting down nearly 620 sections to 143 and merging 868 rules into about 175. This results in fewer licences, returns, and registrations, making it much easier for employers to comply while ensuring transparency in labour governance.

For workers, the Code mandates issuance of formal appointment letters clearly specifying job terms, duties, and employment conditions, strengthening job security and reducing ambiguity. It also enhances leave benefits by making employees eligible for paid annual leave after 180 days of work instead of the earlier threshold of 240 days.

Additionally, the Code standardizes working hours across establishments—limiting them to 8 hours per day and 48 hours per week. It also introduces structured overtime provisions where extended working hours require both employee consent and adherence to safety norms.

Overall, the OSHWC Code, 2020 aims to balance ease of doing business for employers with strengthened safety and welfare protections for workers.

Common Reforms Across All Labour Codes – Brief Overview

The new labour codes introduce several unified reforms that simplify compliance and modernise workforce governance across India. A major shift is the move toward **digital-first compliance,** enabling establishments to operate with a single registration, single licence, and a single annual return nationwide. This significantly reduces administrative burdens and promotes ease of doing business.

To ensure smoother enforcement, the codes establish an **Inspector-cum-Facilitator** framework. Instead of the traditional inspection-driven approach, this model emphasises guidance and support, helping employers meet compliance requirements while still enabling regulatory oversight.

Another important reform is the **standardisation of key definitions** across all codes. Terms such as **"employee," "worker," "gig worker," "platform worker," and "inter-state migrant worker"** have been uniformly defined to remove ambiguity and bring clarity in applicability. This uniformity helps organisations interpret compliance obligations consistently and ensures better protection and accountability for all categories of workers.

Overall, these common reforms create a simplified, transparent, and modern regulatory structure that benefits both employers and the workforce.

Employee vs. Worker

Since **"GIG Workers", "Platform Workers" and "Inter-state migrant workers"** are out of scope, we will discuss on the **definition of Employee & Worker**

The new labour codes introduce new definitions for **"employee"** and **"worker", with certain benefits specifically applicable only to workers** viz. Overtime, Leave Encashment etc. The definition of a **"worker"** is largely aligned with the term **"workman"** under the Industrial Disputes Act, 1947.

Worker:

Any employee performing duties as an **individual contributor** and doesn't have any members reporting (irrespective of his or her position and Salary), including manual, unskilled, skilled, technical, operational, or clerical tasks.

In other words, this category **excludes** those in managerial or supervisory roles or anyone who has members reporting to them.

Employee:

Includes all individuals employed in supervisory or managerial roles, particularly those who have other employees reporting to them.

Note: *Need to relook or create a new attribute "Category" and map all the employees as "Worker" or "employee" as defined above*

1. Redefined "Wages" & Payroll Structure

- The **Code on Wages** introduces a uniform definition: **basic pay, dearness allowance, and retaining allowance** form at least 50% of total gross remuneration. Any excess of special allowances (HRA, Travel Allowance, Bonuses, LTA, Car Allowance, Fuel Reimbursement, Telephone reimbursement etc. which are termed as excluded allowances) above this threshold must be classified as wages.
- This 50% rule prevents organizations from structuring components with inflated allowances to reduce statutory pay outs.

Example – I : Emp : A

Basic	**20,000**
HRA	10,000
Conveyance	1,000
Statutory Bonus	2,000
Retaining Allowance	7,000
Gross (Total Remuneration)	**40,000**

The total remuneration is Rs.40,000 and the Wage is Rs. 27,000 (which is more than 50% of the total remuneration) and all Statutory computation viz. PF, ESI (not applicable as the wage is > 21,000), Leave Encashment, Gratuity, Overtime, Statutory Bonus has to be calculated based on this wage.

Example – II : Emp : B

Basic	**20,000**
HRA	10,000
Conveyance	3,000
Statutory Bonus	2,000
Retaining Allowance	**500**
High Altitude Allowance	2,000
Car Allowance	8,000
Driver Allowance	3,000
Special Allowance	5,500
LTA	2,000
Fuel Reimbursement	2,500
Medical Allowance	1,500
Gross (Total Remuneration)	**60,000**

The total remuneration is Rs. 60,000 and the Wage as defined is Rs. 20,500 (which is less than 50% of the total remuneration). Whereas the value of exclusion components is Rs. 39,500.

Since the excluded components value exceed 50% of Gross (Rs. 30,000) the excess amount of Rs. 9,500 must be added back to wages (Rs. 20,500 plus Rs. 9,500 = Rs. 30,000).

ESI Applicable :

Wage is < 21,000 and the ESI Gross will be Rs.60,000/-
Employee Contribution : 0.75% of 60,000 = Rs.450
Employer Contribution : 3.25% of 60,000 = Rs.1,950

Note: *Request to rename the balancing component "Special Allowance or Other Allowance or Misc Allowance" to* ***Retaining Allowance*** *and revisit your employees salary structure*

This change directly influences statutory contributions (PF, ESI, Gratuity, Leave Encashment), triggering recalibration of CTC structures to avoid cost leakage.

(or)

Alldigi can take up this activity which will be on a minimal chargeable basis

2. Increased Social Security Contributions

- When the basic wage (the core part of an employee's salary) increases, it also raises the amount that must be contributed to social security schemes such as **Provident Fund (PF)** and **Employee State Insurance (ESI).**
- Both **employers and employees** pay a percentage of the basic wage into these schemes. So, if the basic wage goes up, the amount each party contributes also goes up.

Changes to Employee State Insurance (ESI)

- **Nationwide Mandatory Coverage:**

  ESI has now been expanded across India, moving from selective applicability to pan-India coverage. Establishments with fewer than 10 employees may enrol voluntarily, while units involving hazardous processes must register even if they employ just one worker.

- **Inclusion of Informal Workforce:**

  Coverage has been widened to include contract labour, migrant workers, gig workers, and platform workers, ensuring broader social security access under the ESIC framework.

- **Greater Accountability for Principal Employers:**

  In contractor-driven operations, the principal employer is now fully responsible for verifying and ensuring timely ESIC (and EPF) contributions for all workers deployed through contractors.

- **Enhanced Health Benefits for Older Workers:**

  Employees aged 40 and above are eligible for free annual health check-ups through ESIC, as aligned with requirements under the OSHWC Code.

In short: ***Higher basic pay = higher PF and ESI contributions for both employer and employee.***

- Under new rules, **fixed-term employees** (those hired for a specific, limited period) are now eligible for PF, ESI, and gratuity **on a proportional basis.**
- Previously, an employee needed **5 years** of continuous service to qualify for **gratuity.** Now, fixed-term employees can receive gratuity **after just 1 year of service,** calculated proportionally to the length of their contract.

In short: ***Fixed-term workers now receive PF, ESI, and gratuity benefits similar to permanent workers, but gratuity is given proportionately and after only 1 year.***

No change in Gratuity for regular employees.

3. Faster Full & Final (Exit) Settlements

- Final settlements must be completed within two working days of an employee's exit.
- Payroll systems must be reconfigured to meet this tight deadline and support accurate, on-time final calculations.
- This requirement applies **only to regular monthly salary components and does not include additional payments such as leave encashment, gratuity, etc.**

Note: *Employees must submit investment proofs and reimbursement bills in advance. Investment proofs require validation by a separate audit team before they can be considered for final settlement and tax calculations.*

4. Revised HR Policies & Payroll Processes — Expanded Version

- **Strengthen Employment Contracts:**

  Update contracts to clearly define roles, tenure, and conditions for fixed-term, contract, and regular employees, ensuring alignment with new labour codes.

- **Update Working Hours & Leave Policies:**

  Revise policies on working hours, weekly offs, overtime, and leave to comply with the OSHWC Code, including proper consent for extended hours and accurate digital attendance records.

- **Enhance Grievance Mechanisms:**

  Implement a structured grievance process with clear timelines and escalation paths, as required under the Industrial Relations Code.

- **Improve Payroll & Record-Keeping:**

  Modernize payroll systems to automate leave, overtime, and statutory registers, ensuring accurate wage calculations and full compliance with updated legal requirements.

5. Internal Controls & Audit Readiness

- **Strengthen Internal Controls:**

  Establish robust controls across HR, payroll, finance, statutory compliance, and legal functions to ensure accuracy, consistency, and transparent compliance with the new labour codes.

- **Support Periodic Audits:**

  Be audit-ready across all domains—workforce management, wage processing, social security, contract labour, and documentation—to minimise non-compliance risks and build client/regulator confidence.

- **Maintain Logs & Audit Trails:**

  Implement systems that record detailed, retrievable logs for key activities such as wage payments, overtime, leave encashment, attendance, contract renewals, and statutory filings.

- **Improve Documentation Management:**

  Maintain updated and well-organized records (contracts, registers, filings, challans, inspection reports) to provide clear evidence during audits and strengthen compliance governance.