

THE CODE ON WAGES, 2019

What Every HR and Finance Leader Must Do Now

An EXM Perspective



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India's wage law just changed. Most organisations are treating it as a payroll project. The ones that get it right will treat it as a workforce trust moment.

The Code on Wages, 2019 consolidates four decades of fragmented wage legislation into one unified framework. It redefines what 'wages' means - and in doing so, it touches every payslip in your organisation. For senior HR and Finance leaders, the question is not whether to comply. It is how to comply in a way that strengthens, rather than strains, your relationship with your people.

4

Laws consolidated into one

50%

Minimum basic wage as % of CTC

100%

Employee coverage (no ceiling)

Day 1

Compliance required from notification

The Change That Hits Hardest: The 50% Basic Wage Rule

The most disruptive provision is simple in law, complex in practice: Basic Pay must constitute at least 50% of an employee's total CTC. For most Indian organisations - especially in tech and services - this directly conflicts with existing salary structures designed to maximise take-home by inflating allowances and minimising the basic component.

The Real-World Impact

An employee on Rs. 1,00,000 CTC with Rs. 25,000 basic must be restructured to Rs. 50,000 basic. This increases PF deductions, gratuity accrual, and leave encashment liabilities - for both employee and employer. Take-home pay goes down. Employer cost goes up. Neither side benefits unless it is handled well.

What is often missed in early reactions to the 50% basic wage shift is that the broader labour code framework is designed to strengthen long-term workforce security. A more standardised wage definition increases Provident Fund accumulation, improves gratuity outcomes, and expands social security coverage for employees.

For employers, it brings greater clarity, flexibility, and more consistent compliance through uniform rules and digitised processes. While this does increase the payroll cost base in the short term, it represents a necessary shift from allowance-driven structuring to a more transparent and sustainable compensation framework.

The Three Decisions Finance Leaders Must Make

Before any communication or system change, Finance and HR leadership must align on one fundamental question: how will your organisation absorb the cost impact?

Model	What It Means in Practice
Absorb the cost	Increase CTC so take-home remains the same. Highest employer cost but strongest signal of care. Recommended for bands below Rs. 8 LPA.
Neutral restructure	Restructure components; take-home changes marginally. Viable for mid-to-senior bands with strong communication.
Pass it through	Let take-home reduce with no CTC adjustment. Lowest cost, highest risk. Expect disengagement and attrition, particularly among top performers.

There is no universally right answer - but there is a wrong one: making this decision in isolation, without considering the employee experience consequences. The cost of replacing a disengaged employee far exceeds the cost of absorbing a payroll adjustment.

The HR Imperative: Communication Before the Payslip

Research is unambiguous - compensation changes are among the top three triggers for voluntary attrition. When employees see an unexplained change on their payslip, they do not call HR. They call a recruiter.

The window to get ahead of this is short. A trust-first communication approach must cover three things:

- **Explain the 'why' before the 'what'** - employees who understand the law accept the change more readily than those who see it as a company decision
- **Personalise the impact** - every employee's situation is different; simulated payslip comparisons (old vs. new) eliminate confusion and speculation
- **Equip managers first** - people managers will absorb the anxiety of their teams; if they cannot answer basic questions confidently, trust erodes fast

The Bottom Line for HR Leaders

You have a narrow window - roughly 6 to 8 weeks before implementation - to turn this from a compliance event into a cultural one. Organisations that use this window well will emerge with stronger employee trust. Those that do not will spend the next 12 months managing attrition they could have avoided.

How Alldigi Tech Helps You Get This Right

Alldigi Tech brings together payroll compliance expertise and Employee Experience Management capability in one integrated approach - so you are not managing a legal project and a people project separately.

What We Deliver	How It Helps
Compensation Audit	Full gap analysis of your current pay structures against the 50% rule, with cost modelling across restructuring scenarios
Payroll Reconfiguration	HRMS and payroll system updates for new wage components, PF/ESIC recalculation, and audit-ready documentation
Employee Pay Simulations	Personalised old-vs-new payslip previews for every employee, delivered via self-service portal before the change goes live
Manager Communication Toolkits	Ready-to-use guides, FAQs, and talking points so your people managers can handle conversations with confidence
State Compliance Monitoring	Automated tracking of state-level rule notifications across all locations, with alerts as new rules are published
Financial Wellness Integration	Retirement corpus and gratuity projection tools that help employees see the long-term benefit of the restructure

The Wage Code is not just a compliance deadline. It is a signal to your workforce about how you treat them when the rules change.

Let's make sure that signal is the right one.

Connect with Alldigi Tech for a complimentary Wage Code Readiness Assessment