

## How will Wages Code Benefit Employees?

Earlier, the Finance Minister confirmed that the Code of Wages passed in December 2019 would be implemented from 1st April 2021. This is a major change in the past 7 decades. With this implementation, the government would successfully merge the Minimum Wages Act 1948, Payment of Wages Act 1936, and Payment of Bonus Act 1965 while redefining their finer details.

Thus moving forward to facilitate administrative, eGovernance, and legislative changes to influence Ease of doing business in India. Government's intention to implement this bill alongside three other codes viz. Industrial Relations, Social Security and Occupational Health Safety is the reason for the delay in its implementation.

Through this implementation, the government aims to reform labour laws and draw parity between employees and employers. Nevertheless, one can expect their salary slips to witness quite a few changes. One of the major changes herein is the 'renewed' definition of 'Wages' which will include Basic pay, Dearness allowance, and retaining allowance while excluding employee bonus, PF, pension, gratuity, etc. Let us look at some of the big-ticket changes:

### Salary Slip 2.0:

The wage code is set to directly impact the salaries of central government employees as well as the private sector workforce. Over the years, private organizations would pay a greater share of the salary through 'allowances'. The range for Basic pay within the private sector is between 25-40 percent of the Cost to the Company (CTC). However, from 1st April 2021 employees' minimum basic pay will have to be 50 percent of their CTC. The remainder will be constituted by various allowances like Leave travel, HRA, Conveyance, etc. This single change will directly initiate a greater saving towards Provident Fund & Gratuity. Inversely, in-hand salaries will become dearer.

Example: For simplicity's sake, let us consider an employee earning a salary of Rs 20000 monthly with a Basic pay of Rs 8000 while the remaining is covered by allowances before 1st April 2021. In this case, the employee's PF contribution would be at 12 percent Basic pay i.e. 960. However, post 1st April; the basic pay would rise to Rs 10000. Allowances would have a reduced share of Rs 10000. But employee's PF contribution, in this case, shall rise from Rs 960 to Rs1200.

### Gratuity:

Similarly, we will see a rise in the gratuity component as well. Up until now, any employee who works in an organization for five continuous years would be eligible to receive gratuity payments. Now, even a fixed-term employee will be eligible for gratuity on completion of one-year at an organization.

### Retrospective Changes:

Companies where the basic pay to gross pay ratio is said 25 percent will experience a doubling up of the liabilities. Furthermore, companies will have to take into consideration a 'retrospective' increase in other liabilities for benefits like leave encashment, gratuity, etc. Those companies with a higher than average employee tenure will be affected more. There could be a review of salary increments for 2021, although the Covid impact could still keep away companies from offering hefty increments to their employees.

Finally, we are still awaiting clarity on the protection of rights of migrant workers, social security for gig-workers, and female employees' participation as announced during the Budget presentation. Companies must be prepared to take into consideration these changes upon introduction.