

An Overview of New Labour Codes

The Central Government notified four new Labour Codes on 21.11.2025, consolidating 29 existing central labour laws into a single, modern framework aimed at simplifying regulations, enhancing worker protection and promoting ease of doing business.

- **Wages Code, 2019:**

Focuses on universal minimum wages, timely payment and a uniform definition of "wages" for benefits calculation.

- **Industrial Relations Code, 2020:**

Streamlines laws related to trade unions, working conditions and dispute resolution.

- **Social Security Code, 2020:**

Expands social security benefits to cover all workers, including unorganised, gig, and platform workers.

- **Occupational Safety, Health & Working Conditions Code, 2020:**

Establishes uniform standards for workplace safety, health and working hours.

Key Provisions & Impacts for Employers & Businesses

- **Ease of Compliance:**

The codes replace a complex web of 29 laws with a single, simplified framework, introducing provisions for a single registration, single license and single return.

- **Workforce Flexibility:**

The threshold for requiring government approval for lay-offs and retrenchment has been raised from 100 to 300 workers, providing businesses with more operational flexibility.

- **Wage Structure Changes:**

The definition of "wages" has been unified, mandating that basic pay and dearness allowance constitute at least 50% of an employee's total remuneration. This change typically increases employer contributions to PF and gratuity, potentially reducing an employee's take-home salary in the short term but increasing long-term savings.

- **Digitalization:**

The new rules encourage digital record-keeping and inspections, moving from an "Inspector Raj" system to an "Inspector-cum-Facilitator" model focused on guidance and compliance. The full implementation of the codes depends on the final rules notified by both the Central and State governments.

Key Provisions & Impacts for Employees

- **Wages & Payments:**

All workers are guaranteed a minimum wage, and salaries must be paid by the 7th of each month. Final settlement dues must be paid within two working days of termination or resignation.

- **Social Security:**

Coverage is expanded to include gig and platform workers for the first time, funded partly by contributions from aggregators. Benefits like PF, ESI and Gratuity are more universally accessible.

- **Gratuity:**

Fixed-term employees become eligible for gratuity after just one year of service, a change from the previous five-year requirement for permanent staff.

- **Working Conditions:**

The standard workday is limited to eight hours, with a maximum 48-hour work week. Overtime work requires employee consent and must be compensated at twice the normal wage rate. Women are permitted to work night shifts across all sectors with mandatory safety measures.

- **Formalization:**

Employers are required to issue mandatory appointment letters to all workers, ensuring transparency in employment terms and conditions.

Key Provisions for Gig & Platform Workers

- **Legal Recognition:**

Gig workers, platform workers, and aggregators are legally defined for the first time, bringing this vast workforce into the formal labour framework.

- **Social Security:**

Eligible for government-framed social security schemes covering benefits like life and disability cover, health benefits, and accident insurance.

- **Funding:**

Aggregator platforms (like Uber, Swiggy) must contribute 1-2% of their annual turnover (capped at 5% of payments to workers) to a dedicated Social Security Fund.

- **Database:**

A national database linked to Aadhaar is being created to ensure portability of benefits across states.

Key Provisions for IT & ITES Employees

- **Timely Wages:**

Salaries must be disbursed by the 7th of every month.

- **Equal Opportunity:**

Mandatory equal pay for equal work and women are permitted to work night shifts across all IT establishments with mandatory safety measures.

- **Formalization:**

Mandatory appointment letters ensure transparency in employment terms and access to statutory benefits.

- **Working Hours:**

Standard workday is capped at eight hours, with overtime at double the normal rate requiring employee consent.

Key Provisions for Contract Workers

- **Parity with Permanent Staff:**

Fixed-term employees (a category often used for contract work) will receive the same wages, benefits, and working conditions as permanent employees.

- **Quicker Gratuity:**

Fixed-term employees become eligible for gratuity after just one year of service, a significant reduction from the previous five-year requirement.

- **Principal Employer Liability:**

Principal employers are liable for unpaid wages and ensuring essential health and safety measures for contract workers if the contractor fails to provide them.

- **Safety & Health:**

Entitled to free annual health check-ups and mandatory workplace safety standards under the OSH Code.

New Wage Definition Impacts Take-Home Salary

The new wage definition mandates that at least 50% of your total remuneration (CTC) must be considered "wages" (basic pay + dearness allowance + retaining allowance), which directly impacts your take-home salary and long-term savings.

The Core Impact: Take-Home Pay vs. Retirement Corpus

Historically, many companies, especially in the IT and manufacturing sectors, kept the basic salary low (around 30-40% of CTC) and inflated allowances to reduce their statutory contributions to PF and gratuity, giving employees higher in-hand pay.

The new rule forces Employers to restructure

- **Take-Home Salary Decreases:**

A larger portion of your CTC is now classified as "wages," on which PF and gratuity are calculated. As these mandatory deductions increase, the flexible allowance portion of your salary decreases, resulting in a lower amount credited to your bank account each month.

- **Long-Term Savings Increase:**

The upside is significantly higher contributions to your PF and a larger gratuity payout upon leaving or retirement. This enhances your financial security in the long run.

Impact by Worker Categories

IT Employees

IT companies are among those most likely to be affected by the 50% basic pay rule.

Impact:

Employees may see a noticeable dip in their monthly take-home pay, as companies move to comply with the new wage structure.

Example: For an employee with a ₹10 lakh annual CTC, a shift from a 35% basic (old structure) to a 50% basic (new structure) could increase annual PF contributions by around ₹18,000, reducing the monthly take-home salary by about ₹1,500.

Contract Workers

The impact is generally positive for contract workers, particularly those on fixed-term contracts.

- **Impact:**

Fixed-term employees are now on par with permanent workers regarding wages and benefits. Crucially, they become eligible for pro-rated gratuity after just one year of service, a major improvement from the previous five-year requirement.

- **Take-Home:**

Their take-home salary may also decrease if their original contract structure was allowance-heavy, but the trade-off is access to formal social security benefits they previously might not have qualified for.

Gig & Platform Workers

For gig workers, the concept of "take-home salary" is less relevant as they are recognized for the first time.

- **Impact:**

They gain access to a dedicated Social Security Fund (funded by aggregator contributions), which provides a safety net like accident insurance and health benefits that did not exist before.

- **Earnings:**

The new codes do not directly restructure their "salary slip" in the same way as traditional employees but ensure a minimum level of social security is provided.

The change might look on a payslip for a specific CTC level, so you can better understand the numbers?

Here is a sample calculation for an employee with an annual Cost to Company (CTC) of ₹10,00,000, illustrating the difference between the old salary structure (where basic pay was 35%) and the new structure (with the mandatory 50% basic pay rule).

Salary Slip Comparison: Old vs. New Labour Codes (Annual Figures)

Particulars	Old Structure (Approx. 35% Basic)	New Structure (Mandatory 50% Basic)	Change
Basic Salary	₹3,50,000	₹5,00,000	+₹1,50,000
Allowances (HRA, Special, etc.)	₹5,50,000	₹2,50,000	- ₹3,00,000
Gross Salary (Total Taxable Income)	₹9,00,000	₹7,50,000	- ₹1,50,000
Employer PF Contribution (12% of Basic)	₹42,000	₹ 60,000	+₹ 18,000
Employer Gratuity Contribution (Approx)	₹13,468	₹ 16,835	+₹ 3,367
Total CTC	₹10,00,000	₹10,00,000	₹ 0
Employee PF Deduction (12% of Basic)	₹42,000	₹ 60,000	+₹ 18,000
Annual Take-Home Salary (before tax)	₹9,16,000	₹8,80,000	-₹ 36,000
Monthly Take-Home Salary (before tax)	₹76,333	₹ 73,333	-₹ 3,000

Note: Allowances are adjusted to keep the total CTC the same. Actual figures may vary based on company policy and specific tax calculations.

Summary of Impact

- **Immediate Impact:**

The monthly take-home (in-hand) salary will likely decrease by a noticeable amount (in this example, ₹3,000 per month). This is because more money is being redirected from flexible allowances into statutory deductions.

- **Long-Term Benefit:**

The increase in basic salary leads directly to higher PF and gratuity contributions from both employee and employer. This significantly strengthens the retirement corpus and provides greater financial security in the long run.

- **Employer Adjustments:**

To comply with the 50% rule while maintaining the same CTC, companies are reducing the quantum of various allowances, leading to the shift in take-home pay.

The change in salary structure due to the new labour codes has significant tax implications, which vary depending on whether you follow the old or new tax regime.

For taxpayers following the Old Tax Regime

- **Larger deductions:**

The mandatory increase in your PF contributions can help you maximize the tax deduction of up to ₹1.5 lakh under Section 80C, if you were not fully utilizing it before.

- **Higher tax-exempt gratuity:**

A higher basic pay will result in a larger gratuity payout, which is tax-exempt up to a limit of ₹20 lakh.

- **Potentially lower tax liability:**

The increased PF contributions directly reduce your taxable income, which could result in a lighter tax bill despite a lower monthly take-home salary.

For Taxpayers following New Tax Regime

- **No Section 80C benefit:**

The new tax regime offers lower tax slab rates but fewer exemptions and deductions. You cannot claim tax benefits under Section 80C for your employee PF contribution.

- **Employer's contribution remains tax-exempt:**

Contributions made by your employer to your PF and National Pension System (NPS) remain tax-exempt, subject to an overall annual cap of ₹7.5 lakh on all employer retiral contributions. With a higher basic pay, this tax-exempt portion will increase.

- **Lower overall tax:**

An increase in the tax-exempt employer contribution will lower your overall tax outgo. However, the extent of the tax benefit is less pronounced compared to the old regime due to fewer overall deductions.

Other potential tax impacts

- **Housing Rent Allowance (HRA):**

For employees who live in expensive rental markets and opt for the old tax regime, a higher basic salary might reduce the tax-exempt portion of their HRA, as HRA is calculated based on basic pay. This could increase their taxable income.

- **Tax on EPF interest:**

The interest earned on your employee contribution to EPF exceeding ₹2.5 lakh in a financial year is taxable. A higher mandatory contribution could cause some employees to cross this threshold, leading to tax on the interest earned.

Overall, while the lower take-home salary is an immediate reality for many, the revised structure builds a stronger, more tax-efficient retirement corpus over the long term, offering greater financial security.
