

Shaping Future of Work - Implementing Labour Codes for Industry Readiness

This sweeping regulatory reset aims to balance worker welfare with the ease of doing business. Below is an overview of the critical operational shifts and compliance strategies discussed for modern organizations. With the Labour Codes coming into effect from 21st November, 2025, the reform agenda has now entered a critical phase-ensuring effective compliance and seamless execution. Organisations across sectors are required to realign their policies, systems, and workforce practices in line with the new regulatory framework. Bringing together industry leaders, practitioners and policymakers to deliberate on compliance strategies, share early experiences and identify practical solutions for smooth adoption of the Labour Codes.

4 Labour Codes at a Glance

Rather than navigating dozens of fragmented pre-independence and post-independence laws, businesses now operate under an integrated four-part framework:

1. Wages Code, 2019:

Regulates universal minimum wages, statutory bonuses, timely wage payouts.

2. Industrial Relations Code, 2020:

Governs trade unions, industrial dispute resolutions and employment formalization.

3. Social Security Code, 2020:

Extends safety nets like PF, insurance and gratuity to traditional and non-traditional workforces.

4. Occupational Safety, Health & Working Conditions Code (2020):

Focuses on mandatory health audits, workplace safety parameters and working-hour regulations.

✂ Key Structural Impacts on Businesses

The transition to the Codes fundamentally reshapes payroll, HR architecture and legal compliance:

- **50% Wage Rule:**

"Wages" have been standardized across all codes. An employee's **Basic Pay + Dearness Allowance must comprise at least 50% of their total Cost-to-Company (CTC)**. Companies with allowance-heavy salary structures must redesign their payroll, which will likely increase statutory contributions like Provident Fund (PF) and gratuity.

- **Expanded Social Security Coverage:**

For the first time, the law formally recognizes gig workers, platform employees, and fixed-term contract workers. Digital aggregators may be required to contribute 1–2% of their annual turnover toward dedicated social security funds.

- **Revised Gratuity Thresholds:**

Fixed-term contract employees are now entitled to statutory gratuity after just one year of continuous service, a sharp reduction from the traditional five-year milestone.

- **Strict Timelines for Exit Settlements:**

When an employee resigns, is dismissed, or is retrenched, full and final wage settlements must be fully processed within two working days.

- **Workplace Diversity & Well-being:**

The Codes expand permissions for women to work night shifts across all sectors (provided strict safety protocols are met) and mandate employer-funded annual health check-ups for workers aged 40 and above.

Industry Readiness: The 90-Day Transformation Roadmap

To transition smoothly into full operational compliance, legal and HR experts recommend a structured, phased approach:

[Days 0–30]
Financial Impact &
Salary Audit

[Days 31–60]
HR Policy Redesign &
HRMS Adjustments

[Days 61–90]
Leadership Training &
Digital Filing Rollout

- **Days 0–30 (Impact Assessment):**

Review existing salary structures to check compliance with the 50% basic wage rule. Calculate potential increases in liability for PF, gratuity, and overtime.

- **Days 31–60 (Systemic Realignment):**

Re-engineer your HR Management Systems (HRMS) and payroll software. Mandate structured appointment letters for all tiers of employment and restructure outsourcing or vendor-contractor models.

- **Days 61–90 (Execution & Training):**

Train operational managers, supervisors, and HR leaders on the new guidelines. Shift compliance tracking onto central tech-enabled platforms to prepare for digital inspections and reporting.

The Labour Codes reshape the manufacturing sector by raising the threshold for government-approved layoffs from 100 to 300 workers, introducing flexible fixed-term employment and streamlining plant licensing into a single digital process, balanced by stricter safety and wage-calculation rules. The transition introduces several operational and compliance adjustments specifically tailored to production floors and factory environments:

Key Structural Shifts for Manufacturing Units

- **Higher Lay-off & Retrenchment Threshold:**

Under the Industrial Relations Code, 2020, manufacturing plants employing between 100 and 299 workers no longer need prior government permission for layoffs, retrenchments, or closures, providing mid-to-large facilities greater operational flexibility.

- **Formalization of Fixed-Term Employment (FTE):**

Plants can hire contract-style or seasonal labor directly on fixed terms without relying entirely on third-party manpower contractors. FTE workers are legally entitled to the same wages, working hours, and social security benefits as permanent employees, including eligibility for gratuity after just one year.

- **Standing Orders Adjustments:**

The threshold for mandatory certified service rules (Standing Orders) is raised from 100 to 300 workers. Mid-sized factories (100–299 workers) follow simplified model guidelines instead of navigating lengthy local certification processes.

- **Unified Digital Licensing:**

Manufacturers with multi-state operations replace fragmented paperwork with a single unified online registration system for factory licenses and compliance filings.

- **Safety Committees & Health Audits:**

Factories employing 500 or more workers must establish structured Safety Committees with equal worker and employer representation. Employers must also fund annual medical checkups for mature workforce brackets to reduce long-term occupational risks.

- **Overtime & Wage Base Expansion:**

The universal 50% basic wage rule increases the calculation base for overtime (payable at twice the ordinary rate) and statutory contributions like Provident Fund and gratuity, raising variable costs for plants that relied heavily on allowances.

To manage the financial transition under the Labour Codes, organisations must thoroughly evaluate their payroll frameworks and model the long-term cost impacts.

Financial Impact under Labour Codes

What Should Organisations Do?

To mitigate sudden financial spikes, HR and finance leadership should immediately execute a 4-step compliance framework:

- **Conduct a Comprehensive Payroll Audit:**

Review the exact components of your existing employee Cost-to-Company (CTC) sheets. Group allowances into "included" vs. "excluded" categories to find out if your Basic Pay meets the 50% statutory threshold.

- **Update HRMS & Payroll Software:**

Re-configure automated payroll logic, leave encashment algorithms, and full-and-final settlement systems to match the strict 2-day payout deadline upon termination.

- **Re-evaluate Contractual Vendor Agreements:**

Audit your third-party staffing agencies. Ensure they comply with the new social security frameworks, as principal employers can be held secondary liable for compliance gaps.

- **Provision for Gratuity Liabilities:**

Work with actuaries to recalculate future gratuity liabilities. This is critical for Fixed-Term Employees (FTEs) who now qualify for gratuity after just 1 year of continuous service instead of 5 years.

Wage Restructuring & Cost Implications

The central pillar of the financial impact is the standardised definition of "Wages", which caps total allowances at 50% of the overall CTC. Many Indian companies historically structured payrolls with a low Basic Salary (e.g., 30–40%) and high allowances (House Rent, Travel, Special Allowance) to minimize statutory taxes and retirement fund contributions. Under the new codes, if allowances exceed 50%, the excess amount is automatically pulled back into the wage base for calculation.

Sample Payroll Restructuring Scenario (Monthly Employee CTC: ₹1,00,000)

Salary Component	Pre-Labour Structure (Allowance-Heavy)	Code Post-Labour Structure (Compliant)	Code Impact Change
Basic Salary + DA	₹35,000 (35%)	₹50,000 (50%)	↑ Increased by ₹15,000
Allowances (HRA, Special, etc.)	₹65,000 (65%)	₹50,000 (50%)	↓ Reduced to meet cap
Employer PF Contribution (12%)	₹4,200	₹6,000	↑ Out-of-pocket cost up by 43%
Gratuity Provision (~4.81%)	₹1,683	₹2,405	↑ Future liability up by 43%
Net Take-Home Pay (Approx.)	Higher	Lower	↓ Employee cash-in-hand drops

- **The Bottom-Line Corporate Impact:**

For companies with allowance-heavy models, **overall employee-related costs (CTC) could jump by 3% to 9%** unless gross packages are selectively renegotiated downwards.

Impact on Social Security Contributions

The expansion of the wage base directly translates to enhanced financial safety nets for employees, paid for by adjusted corporate margins:

- **Provident Fund (PF):**

Because the 12% statutory employer and employee matches are calculated on the expanded "Wage" base, both contributions will rise for employees earning above the baseline thresholds.

- **Gratuity & Leave Encashment:**

Gratuity is calculated using the formula: Last Drawn Wage $\times$ (15/26) $\times$ Years of Service. An increased wage base automatically triggers a higher terminal payout liability for retiring or departing staff.

- **Extended Gig & Platform Levies:**

Tech-driven digital platforms, logistics aggregators, and gig marketplaces must budget for an additional welfare levy of 1% to 2% of their annual turnover (capped at 5% of total payments made to gig workers) to fund centralized social security boards.

Analyze a specific employee salary tier to see how their exact take-home pay changes, or need assistance drafted an internal presentation outline regarding these financial impacts for your executive board? Managing compliance costs for contract labour & flexi-hiring is one of the most critical operational challenges under the new Labour Codes framework. While the Codes offer employers greater operational flexibility, they strictly enforce financial accountability. Outsourcing workforce needs no longer means outsourcing legal and financial risks.

Managing Compliance Costs & Financial Planning

1. Changes in Thresholds & Applicability

The regulatory framework raises baseline thresholds to reduce bureaucratic overhead for smaller units, but intensifies compliance for mid-to-large enterprises:

- **Contract Labour Licensing:**

The applicability threshold for the contract labor framework has been raised from 20 workers to 50 or more contract workers. Contractors employing fewer than 50 workers do not require a formal license.

- **Establishment Registration:**

A Principal Employer must register their establishment under the Occupational Safety, Health and Working Conditions Code, 2020 if they engage 50 or more contract workers on any single day in the preceding 12 months.

- **"Core Activity" Restriction:**

Contract labour is now legally prohibited from being engaged in the "core activities" of an establishment. Exceptions are tightly restricted to intermittent work, sudden spikes in volume, or specialized non-core support tasks.

2. The Employer's Obligations (Principal Employer Liability)

Under the OSH Code, 2020, the Principal Employer is placed at the center of operational accountability. Statutory duties cannot be bypassed through contract clauses.

- **Primary Welfare Mandate:**

The principal employer is solely responsible for providing prescribed on-premise facilities, including restrooms, drinking water, first-aid, canteens (if >100 workers), and creches (if >50 workers).

- **The Wage Default Guarantee:**

If a contractor fails to pay their workers or short-pays them, the Principal Employer must step in and pay the contract workers directly.

- **Mandatory Appointment Letters:**

Principal employers must ensure that *all* contract workers receive written appointment letters specifying their roles, wages, and entitlements before starting work.

3. Compliance for Contractors & Gig Workforce

The Code on Social Security, 2020, introduces a distinct architecture for digital intermediaries and platform-based flexi-hiring:

- **Aggregator Registration:**

Under the Social Security (Central) Rules, digital platforms and aggregators must register on the government's Shram Suvidha portal and upload data for all active gig workers. Onboarding and exits must be reported through automated APIs.

- **Turnover Levy (Fund Inflow):**

Aggregators are legally required to contribute 1% to 2% of their annual turnover to a centralized Social Security Fund, capped at 5% of the total amount payable to gig workers.

- **90-Day Eligibility Rule:**

To prevent system inflation, gig workers must log a minimum of 90 days of work with a single aggregator (or 120 days across multiple platforms) within a financial year to unlock statutory welfare distributions.

4. Risk Mitigation & Governance Frameworks

To protect corporate margins from sudden contractor defaults or statutory penalties, organisations must update their vendor governance:

[Contractor Audit] → [Escrow / Retainage] → [Indemnity Clauses] → [Gate Integration]
Verify EPF/ESIC Withhold Final Isolate Corporate Cross-Reference
Direct Payouts Vendor Payments Legal Liability Gate vs Payroll

- **Implement "Split-Payment" Escrows:**

Do not disburse full monthly commercial payments to a contractor until they provide independent, digital cross-verification of EPF, ESIC, and wage payments specifically matching the workers on your floor.

- **Overhaul Commercial Indemnities:**

Redraft master service agreements (MSAs) to include aggressive financial indemnities. Ensure you retain the explicit legal right to withhold vendor payouts to offset any direct wage corrections you are forced to make under Section 55 of the OSH Code.

- **Automated Gate-to-Payroll Integration:**

Align your physical factory gate biometric access trackers directly with your vendor compliance portals. This stops contractors from inflating headcounts or underreporting overtime hours, which are paid at double the ordinary rate.

- **Document Core vs. Non-Core Work:**

Create an internal corporate governance paper justifying why specific roles utilize contract labor. This protects the organization during regulatory audits by proving contract staff are only used for non-core, specialized, or temporary tasks.

Review specific wording for a contract compliance clause to add to your vendor agreements, or do you need a self-assessment template to check your plant's readiness for upcoming digital inspections? The transition to the unified Labour Codes requires a complete operational overhaul of an organization's internal workflows. HR and payroll departments must move away from legacy structures and adopt tech-driven, highly standardized processes.

HR & Payroll Policies & Processes

1. Alignment of HR Policies with New Definitions

Organizations must audit and rewrite their employment contracts, handbooks, and internal policies to align with updated statutory definitions:

- **50% Wage Alignment:**

Review the definition of "Wages" across all employment tiers. Ensure that Basic Pay + Dearness Allowance comprises a minimum of 50% of the total Gross remuneration package. Any allowance-heavy structures must be flattened.

- **Overhaul of Leave Encashment Rules:**

Standardize annual leave accumulation rules. Under the OSH Code, employees can carry forward a maximum of 30 days of annual leave to the next calendar year. Any excess leave above this 30-day cap must be automatically encashed at the end of the year.

- **Gender-Neutral Night Shift Policies:**

Update diversity policies to permit women to work night shifts (between 7 PM and 6 AM) across all sectors, including manufacturing. This requires updating company policies to guarantee mandatory transport, workplace CCTV monitoring, secure infrastructure, and express written consent.

- **Redefining Working Hours & Breaks:**

Ensure employment terms strictly match the standard 8-hour workday and 48-hour workweek. Policy documents must mandate a rest interval of at least 30 minutes after 5 consecutive hours of continuous work.

2. Payroll Restructuring & Systems Readiness

Legacy payroll software and HR Management Systems (HRMS) require code-level reconfiguration to handle the new calculation logic:

- **Automated Allowance Capping (The Pull-Back Mechanism):**

Program the payroll engine to dynamically track the sum of excluded allowances (HRA, travel, commissions). If these allowances exceed 50% of total compensation, the system must automatically treat the excess amount as part of the wage base for PF and gratuity calculations.

- **48-Hour Full-and-Final (F&F) Settlement Rule:**

Re-engineer the off-boarding workflow. When an employee resigns, is terminated, or is retrenched, the system must process, approve, and disburse all statutory dues within two working days of their final day on the payroll.

- **Overtime Automated Calculators:**

Re-configure time and attendance systems. Overtime calculations must be triggered if an employee works beyond 8 hours a day or 48 hours a week. Overtime hours must be automatically paid at twice the normal wage rate, with fractional hours rounded up systematically (e.g., 15–30 minutes rounded to a half-hour).

- **Fixed-Term Gratuity Pro-Rata Engine:**

Adjust gratuity modules to track fixed-term contract employees separately. Ensure the system flags them for statutory gratuity eligibility upon completion of 1 year of continuous service, rather than the standard 5-year lock-in period applied to permanent staff.

3. Documentation, Filings & Digital Compliance

The new codes shift compliance from fragmented, localized paperwork to a unified, digital inspection framework:

- **Unified Shram Suvidha Online Portal:**

All web-based registrations, annual compliance returns, and license renewals are consolidated into online accounts. Organizations must migrate historical compliance records onto central government portals to handle paperless, web-notice audits.

- **Standardized Electronic Registers:**

Replace outdated physical ledger files with five core digitized registers covering:

Form A: Employee Register (Onboarding details, UAN, Aadhaar data)

Form B: Wage & Payroll Register (Deductions, overtime, basic splits)

Form C: Attendance, Leave, and Rest-Interval Tracker

Form D: Accident, Safety Audit, and Industrial Injury Records

- **Transition to Digital Inspections:**

The traditional "Inspector Raj" is replaced by a randomized, tech-driven Web-based Inspection Scheme. Compliance violations or data discrepancies flag automated web notices. HR teams must establish secure digital documentation vaults to respond to virtual queries within tight statutory windows.
