

# INDIA'S NEW LABOUR CODES

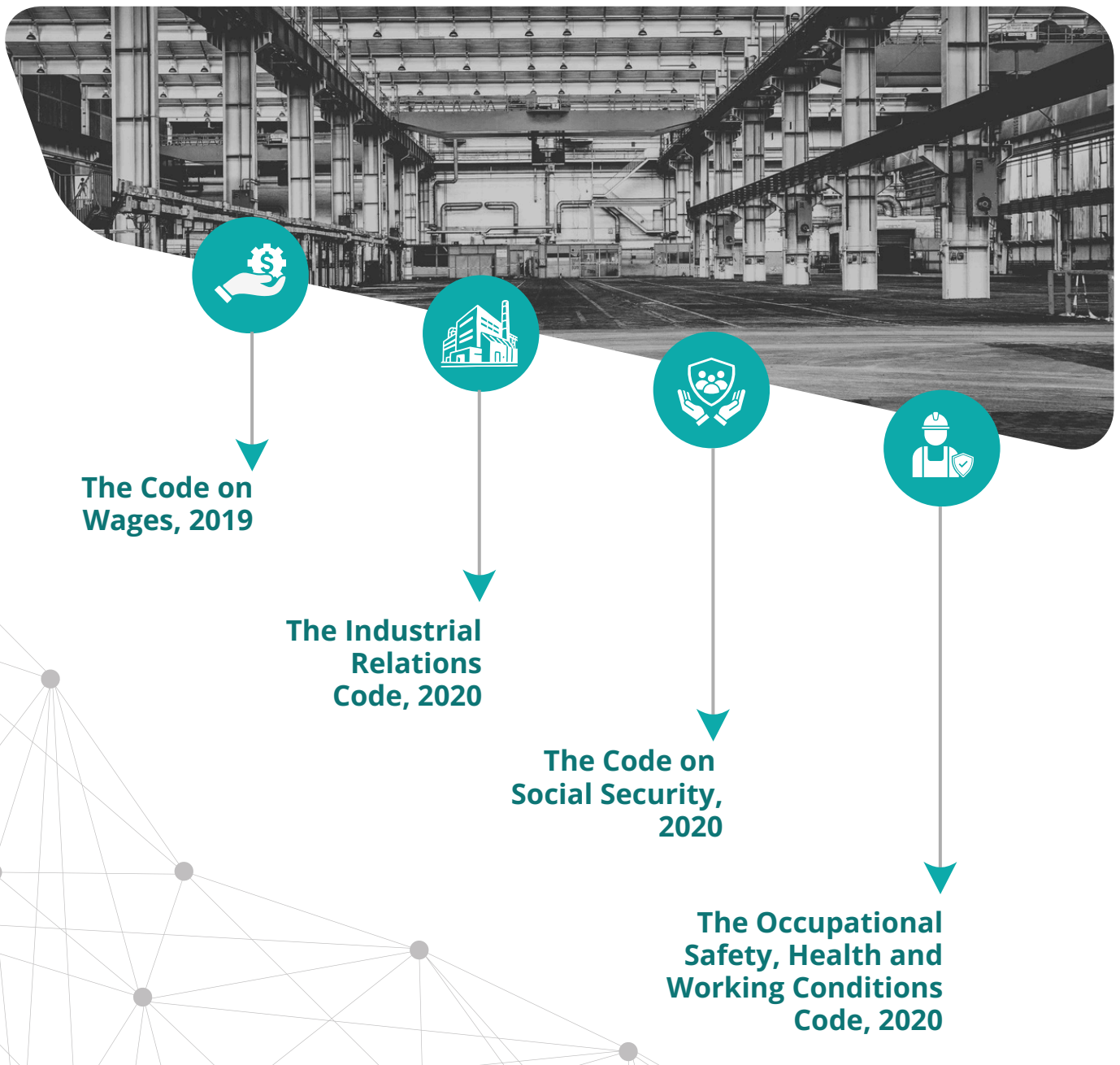
(FROM THE STAKEHOLDERS AND  
FINANCIAL LENS)

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## OPENING SNAPSHOT:

In pursuit of its ease of doing business agenda, the Central Government has been undertaking a series of legal, regulatory and policy reforms. One such reform has culminated into the promulgation and eventual implementation of the four Labour Codes (The Code on Wages, 2019, The Industrial Relations Code, 2020, The Code on Social Security, 2020 and The Occupational Safety, Health and Working Conditions Code, 2020) w.e.f. 21st November 2025, replacing the 29 existing central labour laws and thus bringing multiple labour laws under a unified statutory framework. Between 2019 and 2020, Parliament enacted four sweeping Labour Codes that promised to replace a complicated set of rusty statutes with a simpler, more coherent framework, however, it was only in late 2025 that the Codes finally crossed the bridge from legislation to implementation.

### A BRIEF PRIMER ON THE FOUR CODES



# 01 | THE CODE ON WAGES, 2019<sup>1</sup>

## I BROADENED APPLICABILITY:

The provisions relating to wages are applicable to all employments covering both organised as well as un-organised sectors.

## II UNIFORM DEFINITION OF 'WAGES':

A single, standard definition of wages to apply across all the four codes, thereby reducing disputes and ensuring uniform statutory calculations.

## III NATIONAL FLOOR WAGE:

The concept of a national floor wage is introduced to ensure uniform minimum income standards across states, taking into account minimum living standards of a worker for different geographical areas.

The Floor Wage or the already notified state minimum wages, whichever is higher, will set the bar for the minimum quantum of wages payable to employees.

## IV THE 50% RULE FOR ALLOWANCES:

If the allowances and benefits together (except gratuity and retrenchment compensation) exceed 50% of all remuneration, the excess amount shall be added back to wages. Such added amount shall be treated as wages for statutory purposes

## V MANDATORY, TIMELY PAYMENT OF WAGES:

Employers must pay wages within a fixed time. Weekly basis, on the last working day of the week, that is to say, before the weekly holiday; Fortnightly basis, before the end of the second day after the end of the fortnight; and Monthly basis, before the expiry of the seventh day of the succeeding month.

## VI RESTRICTIONS ON PERMISSIBLE DEDUCTIONS:

The provisions relating to timely payment of wages and authorised deductions from wages, which were applicable only in respect of employees drawing wages of INR 24,000 p.m., are now applicable to all employees irrespective of wage ceiling. The appropriate Government may extend the coverage of such provisions to the Government establishments also.



<sup>1</sup>Subsumed the following Central labour enactments: (i) The Payment of Wages Act, 1936; (ii) The Minimum Wages Act, 1948; (iii) The Payment of Bonus Act, 1965; and (iv) The Equal Remuneration Act, 1976.

# 02 | THE INDUSTRIAL RELATIONS CODE, 2020<sup>2</sup>

## I FIXED-TERM EMPLOYMENT FORMALISED:

Fixed-term employee receives the same wages and benefits as permanent workers (including gratuity on completion of one year of service), except for notice period after conclusion of a fixed period, and retrenchment compensation.

## II DISPUTE RESOLUTION SIMPLIFIED:

It provides for setting up of Industrial Tribunals in the place of existing multiple adjudicating bodies like the Court of Inquiry, Board of Conciliation and Labour Courts.

## III RECOGNITION OF NEGOTIATING UNION AND NEGOTIATING COUNCIL:

For the purpose of negotiations the employers too now recognise the concept of negotiating union and negotiating council. The criterion for recognition of negotiating union has been fixed at 51% or more workers on a muster roll of that industrial establishment. As regards negotiating council, a Trade Union having support of every 20% of workers will get one seat in the negotiating council and the fraction above 21% shall be disregarded. This rightly acknowledges the power of collective bargaining.

## IV INCREASED OPERATIONAL FLEXIBILITY:

The Code revises thresholds for prior government approval in cases of layoffs, retrenchment, and closure to 300 or more workers, meaning establishments with fewer than 300 employees will not need prior government approval.

## V STATE GOVERNMENTS TO SET-UP A RE-SKILLING FUND FOR TRAINING OF RETRENCHED WORKERS:

The fund shall, consist of the contribution of the employer of an amount equal to 15 days wages last drawn by the worker immediately before the retrenchment or such other number of days, as may be notified by the Central Government, in case of retrenchment only. The fund shall be utilised by crediting 15 days wages last drawn by the worker to his account who is retrenched, within 45 days of the retrenchment as may be provided by rules.



<sup>2</sup>Subsumed the following Central labour enactments: (i) The Trade Unions Act, 1926; (ii) The Industrial Employment (Standing Orders) Act, 1946; and (iii) The Industrial Disputes Act, 1947.

# 03 | THE CODE ON SOCIAL SECURITY, 2020<sup>3</sup>

## I PF, PENSION, ESIC INCLUDED IN ONE SIMPLIFIED FRAMEWORK:

All social security schemes such as PF, ESIC, Maternity benefits, Gratuity, etc., come under a unified structure.

## II INCLUSION OF GIG AND PLATFORM WORKERS WITHIN THE SOCIAL SECURITY FRAMEWORK:

The Code extends social security benefits to unorganised, gig, and platform workers under Sections 113 and 114.

## III ESTABLISHMENT OF A DEDICATED SOCIAL SECURITY FUND:

A Social Security Fund is envisaged under the Code, to be supported by contributions from the Central and State Governments, amounts received through Corporate Social Responsibility initiatives, and sums collected from compounding of offences etc. The Fund is intended to finance benefits such as life insurance, disability coverage, health and maternity benefits, and provident fund schemes for unorganised workers, gig workers and platform workers.

## IV NATIONAL REGISTRATION & UNIQUE IDENTIFICATION:

The Government to build a National Database of Unorganized Workers. All unorganized, gig, and platform workers will have to register themselves on a National Portal, post which each worker will receive a Unique Identification Number, which will be valid across the entire country. This will ensure that workers, especially migrant workers, can carry their benefits with them even if they move to another place for work.

## V EXTENSION OF ESIC COVERAGE:

Earlier, ESIC coverage was limited only to certain notified areas which has now been extended across India by removing this restriction. Additionally, Voluntary ESIC membership is also allowed for establishments with fewer than 10 employees, if both the employer and employees agree to join. For hazardous or life-threatening occupations, the minimum limit of 10 workers has been removed and is now mandatory even for a single worker engaged in such work.

<sup>3</sup>Subsided the following Central labour enactments: The Employees' Compensation Act, 1923; (ii) The Employees' State Insurance Act, 1948; (iii) The Employees' Provident Funds and Miscellaneous Provisions Act, 1952; (iv) The Employment Exchanges (Compulsory Notification of Vacancies) Act, 1959; (v) The Maternity Benefit Act, 1961; (vi) The Payment of Gratuity Act, 1972; (vii) The Cine Workers Welfare Fund Act, 1981; (viii) The Building and Other Construction Workers Welfare Cess Act, 1996; and (ix) The Unorganised Workers' Social Security Act, 2008.

## VI COMMUTING ACCIDENTS COVERED UNDER EMPLOYEE'S COMPENSATION:

Earlier, accidents that occurred while an employee was travelling between home and the workplace were not treated as work-related. The Code recognises such accident as having occurred "in the course of employment." Thus, benefiting the affected employees and their families who can receive compensation or ESIC benefits in such cases.

## VII CRECHE FACILITY:

Establishments with 50 or more employees must provide access to a gender-neutral creche facility within a prescribed distance, allowing women employees four visits per day including rest intervals. The requirement may be met through a common crèche arrangement with government, private, or other establishments, failing which a crèche allowance of not less than INR 500 per month per child (up to two children) must be paid.

# 04 | THE OCCUPATIONAL SAFETY, HEALTH AND WORKING CONDITIONS CODE, 2020<sup>4</sup>

## I APPLICABILITY BASED ON ESTABLISHMENT SIZE:

The provisions of the Code apply to all establishments employing ten or more workers, except mines and docks. For factories, while registration applies at the ten-worker threshold, other provisions apply only where twenty or more workers are employed with power, and forty or more workers without power.

## II ONE-REGISTRATION FOR ESTABLISHMENTS:

A system of single registration has been introduced for all establishments employing ten or more workers to simplify compliance.

## III MANDATORY ISSUANCE OF APPOINTMENT LETTERS:

Employers are required to issue appointment letters to employees as a measure to promote formalisation of employment relationships.

## IV ANNUAL HEALTH CHECK-UPS FOR EMPLOYEES:

Provision is made for free annual health check-ups for employees above a specified age in certain classes of establishments (as may be prescribed by the appropriate Government) to facilitate early detection and treatment of illnesses.

<sup>4</sup>Subsumed the following Central labour enactments: (i) The Factories Act, 1948; (ii) The Plantations Labour Act, 1951; (iii) The Mines Act, 1952; (iv) The Working Journalists and other Newspaper Employees (Conditions of Service and Miscellaneous Provisions) Act, 1955; (v) The Working Journalists (Fixation of Rates of Wages) Act, 1958; (vi) The Motor Transport Workers Act, 1961; (vii) The Beedi and Cigar Workers (Conditions of Employment) Act, 1966; (viii) The Contract Labour (Regulation and Abolition) Act, 1970; (ix) The Sales Promotion Employees (Condition of Service) Act, 1976; (x) The Inter-State Migrant workmen (Regulation of Employment and Conditions of Service) Act, 1979; (xi) The Cine Workers and Cinema Theatre Workers Act, 1981; (xii) The Dock Workers (Safety, Health and Welfare) Act, 1986; and (xiii) The Building and Other Construction Workers (Regulation of Employment and Conditions of Service) Act, 1996.

## **V PORTABILITY OF BENEFITS FOR MIGRANT WORKERS:**

Inter-State migrant workers working for building or other construction work are entitled to portability of benefits, including access to ration supplies and welfare benefits under building and construction worker cess schemes in the destination State.

## **VI NATIONAL OCCUPATIONAL SAFETY AND HEALTH ADVISORY BOARD:**

A National Occupational Safety and Health Advisory Board is constituted to advise the Central Government on policy matters relating to occupational safety, health, and working conditions.

## **VII STATE OCCUPATIONAL SAFETY AND HEALTH ADVISORY BOARDS:**

State-level Occupational Safety and Health Advisory Boards are established to advise State Governments on matters arising from the administration of the Code.

## **VIII CONSTITUTION OF SAFETY COMMITTEES:**

The appropriate Government is empowered to require the constitution of Safety Committees in specified establishments or classes of establishments.

## **IX EMPLOYMENT OF WOMEN IN ALL ESTABLISHMENTS:**

Women are permitted to be employed in all types of establishments and for all categories of work, including night shifts beyond 7 p.m. and before 6 a.m., subject to prescribed safety conditions, working hours, holidays, and consent.

## **X EMERGENCY POWERS DURING EPIDEMICS AND DISASTERS-SECTION 140:**

The Central Government is vested with overriding powers to regulate general safety and health across the country in the event of an epidemic, pandemic, or disaster.



## PRIMA FACIE IMPLICATIONS:

While the real impact would only be ascertained once the Codes are fully implemented and over the course of next few years, but prima facie implications on the employers and the workforce across the nation can be somewhat ascertained which should result into the following:

REDUCED COMPLIANCE

	RULES	RETURN	FORMS	REGISTERS	REGISTRATION	LICENSE	COMPOUNDING	IMPROVEMENT NOTICE
ERSTWHILE 29 LAWS	1436	31	181	84	8*	4	-	-
NEWLY INTRODUCED 4 CODES	351	Single (Electronic)	73	8	Single	Single	Introduced First time	Introduced First time

\*Factories, BoCW, Contract Labour, Plantation, Motor Transport, ISMW, ESI & EPF

ON STAKEHOLDERS



### EMPLOYEES

- GIG WORKER RECOGNITION:**  
 Delivery partners and platform workers finally get legal recognition and social security benefits.
- INCREASED SCOPE OF GRATUITY:**  
 Fixed-Term Employees get gratuity after 1 year of service.
- UNIVERSAL MINIMUM WAGE:**  
 Every worker, regardless of sector or salary limit, is entitled to a statutory minimum wage.
- LOWER TAKE-HOME PAY:**  
 Higher mandatory PF deductions (due to the 50% Basic Pay rule) mean less cash in hand monthly.
- REDUCED JOB SECURITY:**  
 The raised threshold (300 workers) makes it easier for medium-sized companies to lay off staff.
- RESTRICTED STRIKES:**  
 Trade unions must now give a mandatory 14-day notice before any strike, limiting collective bargaining power



### EMPLOYERS

- CASH FLOW PRESSURE:**  
 Full & Final (FnF) settlements must be cleared within 2 working days of an employee's exit.
- NO MORE INSPECTOR:**  
 Shifts to web-based, randomized inspections with "Facilitators" instead of policing inspectors.
- DECRIMINALIZATION:**  
 Minor technical offenses now attract monetary penalties instead of imprisonment.
- HIRING FLEXIBILITY:**  
 Establishments with up to 300 workers can now retrench staff or close without prior government approval (limit raised from 100).
- HIGHER WAGE BILL:**  
 The "50% Basic Pay" rule increases the employer's mandatory contribution to PF and Gratuity.
- AGGREGATOR LEVY:**  
 E-commerce/Gig platforms must pay 1-2% of annual turnover towards the Social Security Fund.

## GRATUITY



Gratuity is now required to be calculated for all employees based on their last drawn wages and these wages must make up at least 50% of the employee's total remuneration. Fixed term employees, including contractual staff, are now entitled to receive gratuity upon completing one year of service. The increase in gratuity Liability due to Labour Codes will be recognised immediately as an expense in the Statement of Profit and Loss as "Past Service Cost."

## LEAVE OBLIGATION

Any change in Leave obligation arising due to salary restructuring pursuant to the Labour Codes will be recognised immediately as an expense in the Statement of Profit and Loss as "Past Service Cost."



## BONUS



The threshold for applicability of statutory bonus was INR 21,000 per month in the erstwhile act, however, similar threshold is yet to be notified by the Government under the Labour Codes. Until such notification, the limits under erstwhile Act shall persist.

## CURRENT TAX / DEFERRED TAX

The Income Tax Act 1961/ The Income Tax Act 2025 (as amended) does not provide any special deduction for obligation arising out of the Labour Codes adjustments. Thus, the adjustment is governed with same provisions of The Income Tax Act 1961/ The Income Tax Act 2025 (as amended). Increase in Gratuity Liability and Leave obligation will result in increase in DTA as deductible difference arises.



## EXCEPTIONAL ITEM



If increase in Gratuity expense and Leave obligation due to the Labour Codes meet the test of "materiality" in size and nature and test of "incidence" (as per Ind AS 1) then it should be disclosed as exceptional item. However, irrespective of the treatment of expense, disclosure with respect to enactment of Labour Codes should be given.

## CONCLUSION

In essence, the Labour Codes represent a structural reset of India's labour jurisprudence. They replace a fragmented and outdated framework, much of it conceived in a different industrial era with a streamlined regulatory system designed for present and emerging times. By consolidating numerous laws into four comprehensive codes, the reform seeks to introduce clarity, uniformity, and administrative simplicity. This rationalisation is not merely procedural; it reflects an effort to modernise labour governance itself. With the rise of gig work, contractual arrangements, and diversified enterprises, the traditional factory centric model of regulation required changes. The new framework attempts to align legal protections with these evolving economic structures while expanding social security, wage safeguards, and safety standards to a broader segment of the workforce particularly those previously outside formal protection.

Undisputedly, these labour reforms mark a transformational step, however, the effectiveness of the labour codes depends less on their text and more on how they are operationalised. India being a combination of socialist and federal nation – the implementation is subject to the states rolling out their own rules. It remains to be seen how these reforms play out once the Rules are rolled out leading to complete on-ground implementation.

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