

# New Labour Codes: Implementation Implementation and Industry Preparedness

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# The New Labour Codes

## Reforms Agenda of the Government

As we all know by now – **the induction of New Labour Codes is an overdue bold beginning.**

The Four Labour Codes are:

### **New Wage Code, 2019**

Subsumed **4 labour laws**

### **Industrial Relations Code, 2020**

Subsumed **3 labour laws**

### **Occupational Safety and Health Code, 2020**

Subsumed **13 labour laws**

### **Social Security Code, 2020**

Subsumed **9 labour laws**

📄 The Codes are a dawn of a new era in employment laws and working conditions in the industry and commerce in India.



# Implementation and Industry Preparedness

## The New Code on Labour Laws Have Brought About

### 1 Consolidation and Consonance

Consolidation and consonance of concepts and construct of the law on each of the subjects mostly based on case law from the courts.

### 2 Convergence and Direction

Convergence and direction to the entire meaning of labour laws in each of the codes to secure the rights of the employees and employers.

### 3 Conjunction of Operational Aspects

Conjunction of operational aspects for simplification of compliance – for the employers, the employees and the enforcement machinery.

### Online & Transparent Compliance

The compliance has been essentially provided to be on-line and transparent, then the enforcement would also become faceless and non-invasive.

### Elimination of Inspector Raj

In each of these Labour Codes the Inspector is now called the **Inspector cum Facilitator** and the enforcement must provide time for regular compliance and not a prosecution in the first instance. So you don't need to be apprehensive.



# Challenges and Opportunities for Business

## The New Focus



### Induction of Technologies

Induction of technologies and advanced work-systems in the establishment.



### Human Resource Competencies

Competencies, capabilities, and commitment of human resource by modern management methods.



### Training and Retraining

Training and retraining of manpower and flexible HR structuring and restructuring for best performance.



### Compliance Management

Compliance management (on-line) – as per the new labour codes.



### Value Addition

Value addition – per operational unit and per unit manpower – to be in focus.

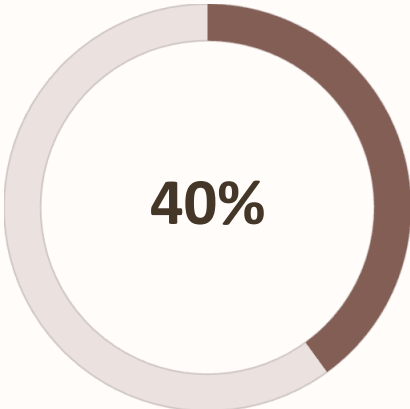
 **OPTIMIZE AND IMPROVE RETURN ON INVESTMENT.....???**



# Industry Readiness: The Gap

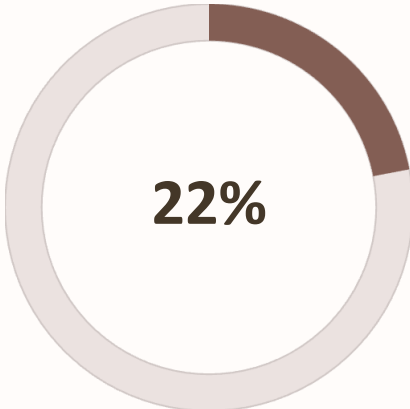
Based on a survey of nearly 1,500 companies conducted in January 2026

The industry shows a significant **readiness GAP** with just over a month to go before the codes are fully implemented with effect from **1st April 2026**.



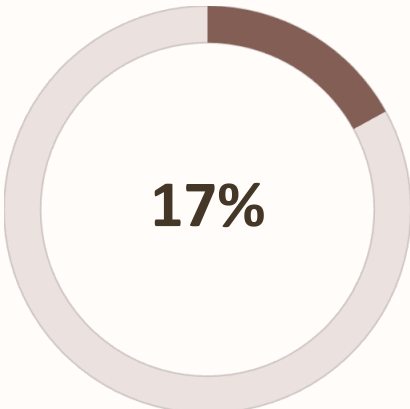
**Fully Ready**

Only 40% of companies reported being fully ready.



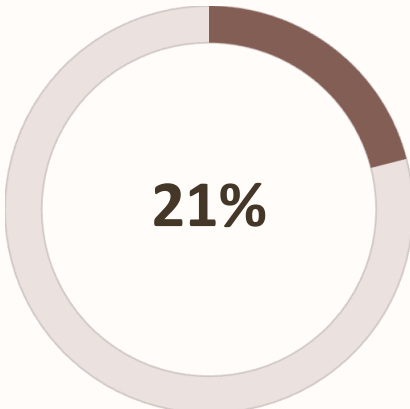
**Partially Ready**

22% are partially ready.



**Early Preparation**

17% are still in the early preparation stage.



**Not Yet Initiated**

21% have not yet initiated any implementation efforts.

□ This lack of preparedness is underscored by the fact that **46%** of organisations have **not even conducted a structured gap analysis** of their HR, payroll, and compliance systems.



# Conceptual Changes Under the New Codes

## Universal Applicability

Applicable to all establishments where any industry, trade, business, manufacture or occupation is carried on.

## Definition of Employer

An employer is who employs, directly or through any person or on his behalf or another's behalf, one or more persons in his establishment **and includes Contractor.**

## All Paid Employees Covered

All paid employees are covered irrespective of nomenclature of hierarchical status or wage levels.

## Wages: HRA & Conveyance Excluded

Wages now specifically exclude HRA and conveyance allowance. However, if (PF+bonus+OT+reimbursements without bills+incentives+commissions) **exceeds 50% of wages, the excess to be considered as wage!**

## Online Wages & Records

Wages to be paid online and records to be maintained online. Date of payment of wages **universally to be 7th of every month.**

❏ OPPORTUNITY - AUTOMATE & REDUCE COST OF ESTABLISHMENT



# Code on Wages: Unbooked Liabilities

Liabilities – due to rationalisation of definition of wage

If basic wages cannot be less than 50% of total wages.....

## PF

PF on additional amounts up to ₹15,000/-

## Bonus

Bonus for so far exempted employees.

## OT Calculations

OT calculations complexities.

## Gratuity

Gratuity at a higher rate of wages (basic).

## Leave Encashment

Leave encashment at higher wage. Cannot accumulate voluntarily beyond limits.

## Terminal Dues

Notice Pay. Retrenchment and terminal dues.

❏ **CHALLENGE AND OPPORTUNITY???** – rationalise pay structures and cost of HR



# Industrial Relations Code 2020

## Very Significant Concepts Introduced



### Definition of Worker/Employee

Exhaustive definition of worker/employee hitherto confused and dependent on case law.



### Definition of Industry

Structured definition of Industry – excludes charitable institutions.



### Standing Orders

No requirement of certification of standing orders as the Standard Model Standing Orders would be applicable to all industries upto 300 workers; and even beyond if stated in writing for adoption of Model Rules.



### Bipartite Mechanism

Promotion of bipartite mechanism of resolution of disputes.



### Time Limit for Disputes

Time limit for raising an industrial dispute fixed at 2 years (Sec. 53).



### Industrial Tribunals

Clarity in structure and functional procedure of Industrial Tribunals. Provision for arbitration of industrial disputes has become more structured for functionality.



### Worker Re-skilling Fund

Worker re-skilling fund to be constituted – (Sec 83).

**CHALLENGE AND OPPORTUNITY – review the policy of handling disputes and improve compliance.**



# Industrial Relations Code 2020

## Significant Concepts on Trade Unions

1

### Formation & Registration

Formation and registration of a trade union has been more clearly defined as per latest case law of the Apex Court; to discourage road-side unions.

2

### Code of Discipline

Code of discipline for trade unions.

3

### Political Fund

A political fund of union will be separate from General funds of the union; a member cannot be compelled to contribute to a political fund – transparency is mandatory in record of accounts.

4


### Negotiating Union/Council

New concept of negotiating union or a negotiating council (Sec 14).  
Registration only if a minimum number of workers of the industry are members.

5

### Recognition of Trade Union

Recognition of trade union at state level or by central level (Sec 27) provides status and responsibility.

 **CHALLENGE AND OPPORTUNITY – review industrial relations strategies.**



# Industrial Relations Code 2020

## Promoting Responsible Collective Bargaining – is a Hallmark

- **Promotion of Bipartism**  
Works Committee, Grievance Redressal Committee.
- **Time Limit for Industrial Disputes**  
Time limit for raising an industrial dispute fixed at 2 years (Sec. 53).
- **Negotiating Union or Council**  
New concept of negotiating union or a negotiating council (Sec 14).
- **14 Days Notice for Strike**  
14 days notice to go on strike which is not open ended – so the strike cannot be resorted to after 60 days of such notice.
- **Wide Definition of Strike**  
50% workers on concerted casual leave – **deemed to be strike** – in line with judgements of Apex Court.
- **Pro-active Conciliation Officer**  
The Conciliation Officer is bound to be pro-active and cannot sit over cases of disputes effecting the industry and commerce.

Provisions converge to insist upon responsible collective bargaining.

❑ **CHALLENGE AND OPPORTUNITY – improve employee engagement for better productivity.**



# Industrial Relations Code 2020

## Important Provisions on HR Structuring

### Contract Labour & Core Functions

Defining of non-core functions for contract labour and no provision for contract labour in core areas but stringent conditions for seeking deployment in core functions; but the procedure for registration and license is under the **Occupational Safety Health and Welfare Code 2020 (Section 2(p))**.

### Fixed Term Employment

Provision for Fixed Term Employment to support flexible working and restructuring – **on better terms and similar conditions** of regular/permanent employees.

### Unfair Labour Practice

Provisions to prevent Unfair Labour practice is intact (Sec. 84) and Schedule of acts of unfair labour practice (Schedule 2 **point 10**).

### Threshold of 300 Workers

Industries employing less than 300 workers do not need permission of the Govt for lay off, retrenchment or closure.

❏ **CHALLENGE AND OPPORTUNITY – strategic review and restructuring of HR and its costing.**



# OSHWC Code, 2020

## Definition of Factory Amended

Definition of factory amended under the new code.

## Women Employees

Women employees permitted to work beyond 7:00 PM and before 6:00 AM with prior consent.

## Daily Working Hours

Fixation of daily working hours to 8 hours per day.

## Interstate Migrant Workmen

Extension of benefits to Interstate Migrant Workmen in destination state.

## Contractor & Contract Labour

Various provisions of 'contractor' and 'contract labour' which includes **work specific licence** and **experience certificate** to contract labour.

## Safety Committee

Constitution of Safety Committee consisting equal representatives of employers and employees.

## National Advisory Boards

Constitution of National Occupational Safety and Health Advisory Boards as a replacement for multiple committees.

❏ **CHALLENGE AND OPPORTUNITY - renew special focus on occupational safety for better employee trust and discipline and to prevent losses.**



# OSHWC Code 2020: Key Highlights

## Exhaustive Provisions

Code contains exhaustive provisions relating to occupation, safety, health, and working conditions of workers across industries/commerce – **SERVICE SECTOR IS ALSO COVERED NOW.**

## Single Registration

**One Registration of an Establishment instead of multiple registrations.** Currently there are 6 Labour Laws out of 13 which provide for separate registration.

## Applicability

The Code is **applicable to all establishments employing 10 or more workers.**

- ❏ **CHALLENGE AND OPPORTUNITY – reduce paper-work and improve compliance.**



# Major Highlights of the Code on Social Security

Social Security to Unorganised Sector, Home-Based Workers, Gig Workers and Platform Workers



## Gig Worker

Example: Freelancers



## Home Based Worker

Person working simply on assignment basis and producing goods/services in his home/other place of his choice (not being the employer's workplace).



## Platform Worker

Example: Ola, Uber Drivers, People associated with Urbanclap, Housejoy etc.



## Unorganised Worker

Home based worker, self employed worker or a wage worker in the unorganised sector.



Under the Code, the Central Government has been empowered to extend benefits under various schemes to the above categories of workers.



# What is Common Across All Codes?



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## Broader Coverage

Broader coverage to include unorganised sector.



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## Gender Neutrality

Gender neutrality of concepts.



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## Common Definition of Wages

Definition of Wages is common. Minimum wage is a universal right and **not restricted to Scheduled employments.**



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## Universal Safety & Health

Occupational safety and health is a universal concept **including service sector and unorganised sector.**



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## Ease of Compliance

Primary approach is ease of compliance rather than focus on prosecution. Compliance is online, therefore faceless and paperless.



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## Inspector as Facilitator

The Inspector would also be a facilitator. Concept of compounding of offences. Prosecutions not for violation but for non-compliance.



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## Stringent Penalties

Penalties are very stringent in case of prosecution.



# Strategic Restructuring of HR and Costing

1

## Contract Labour in Core Competencies

What is the percentage of contract labour presently engaged in performing work on core competencies and what is the alternative plans for engagement of regular workers to ensure uninterrupted working?

2

## Fixed Term Employees

What is the requirement of fixed term employees that may have to be recruited as per the new provisions and what would be the legal format to describe their engagement without attracting clauses of unfair labour practice?

3

## Threshold of 300 Workers

Whether the strength of workers after the regularisation/restructuring process will increase to the threshold of 300 or more and if so whether the standing orders have been certified or not; what action is needed for compliance?

4

## Cost & Administrative Impact

What would be the impact on the cost and administrative implication if it is decided to restructure with engagement of regular workers or other categories after restructuring?

5

## Cost of HR & Unbooked Liabilities

What would be the cost of HR and change in Unbooked Liabilities as per Wage Code?

6

## Business Process Reengineering

What would be the business process reengineering in the new environment after advent of new labour codes whereby the focus will be on hiring highly skilled workforce and excellent management practices?



# Challenges and Opportunities for Business

Business establishments deploy **20 to 70% manpower through outsourcing**; whereas the practice is severely restricted in the new labour codes (Section 2(p) OS&H Code 2020 defines core functions whereby contract labour is not permitted..) – so the challenge is what would be the new organisational structure to meet the challenges of the future business heavily dependent on technology and skills.....?

**What are your plans..?**

**ARE YOU PREPARED FOR THE OPPORTUNITY...??**



# Challenges and Opportunities for Business

As per the definition of wages in the **New Wage Code, 2019** the component of basic wage has been fixed at not less than 50%; similarly, the structure of wage was ruled upon by the Hon'ble Supreme Court for Provident Fund deductions; What would be the resultant change in costing of manpower in general and in the high pay bracket amongst supervisors and managers.....?

**What are your financial restructuring plans for the costing of HR...?**

**ARE YOU PREPARED FOR THE COMPLIANCE OF THE NEW THE NEW LAW...???**



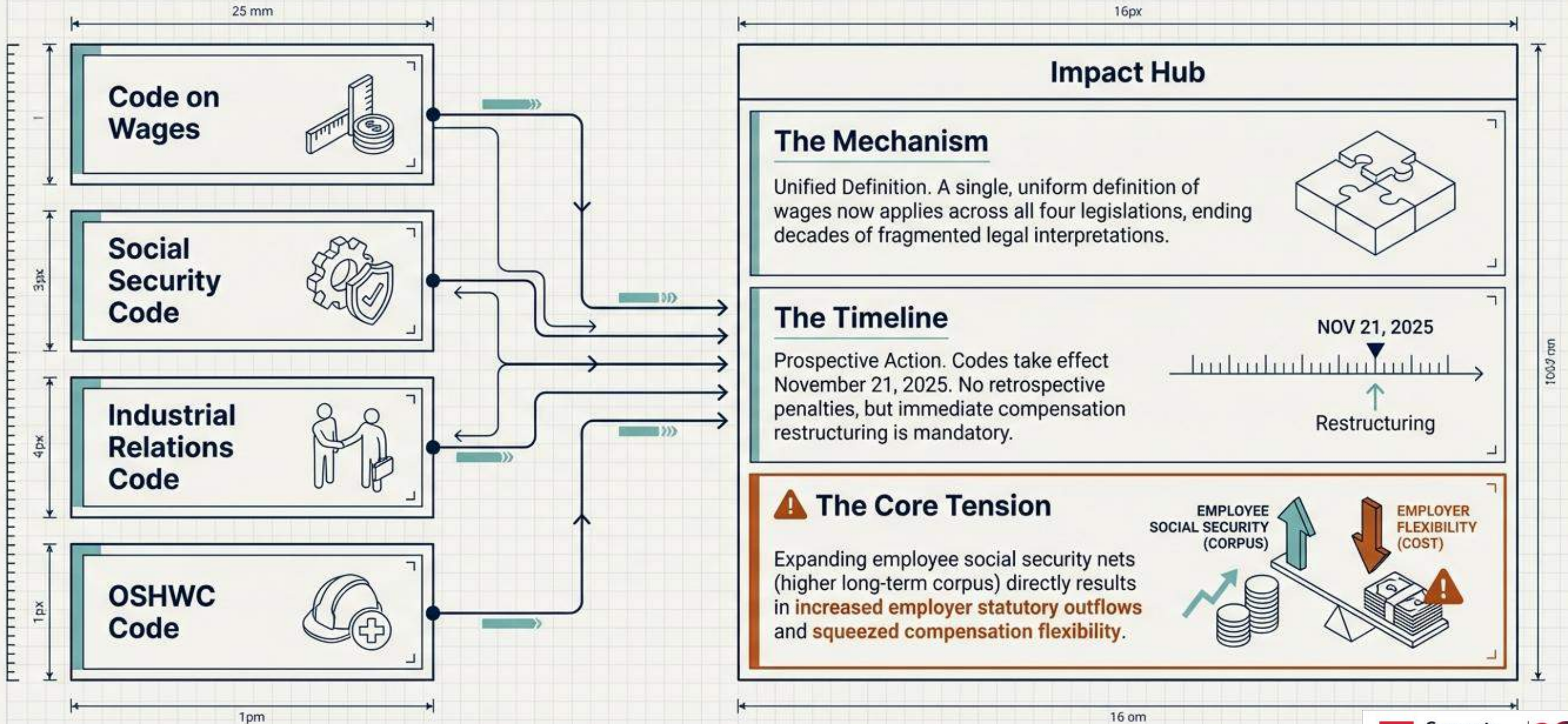
# Challenges and Opportunities for Business

The new business working requires ever-changing technologies and specialised skills but the manpower needs are extremely variable as per availability of business.....?

- ❏ **What are your plans for flexible manpower structuring without conflict with the law..?**



# The Macro Shift: Uniformity vs. Liability



# The Foundation: Redefining Wages Under Section 2(y)

## The Statutory Core (Included)

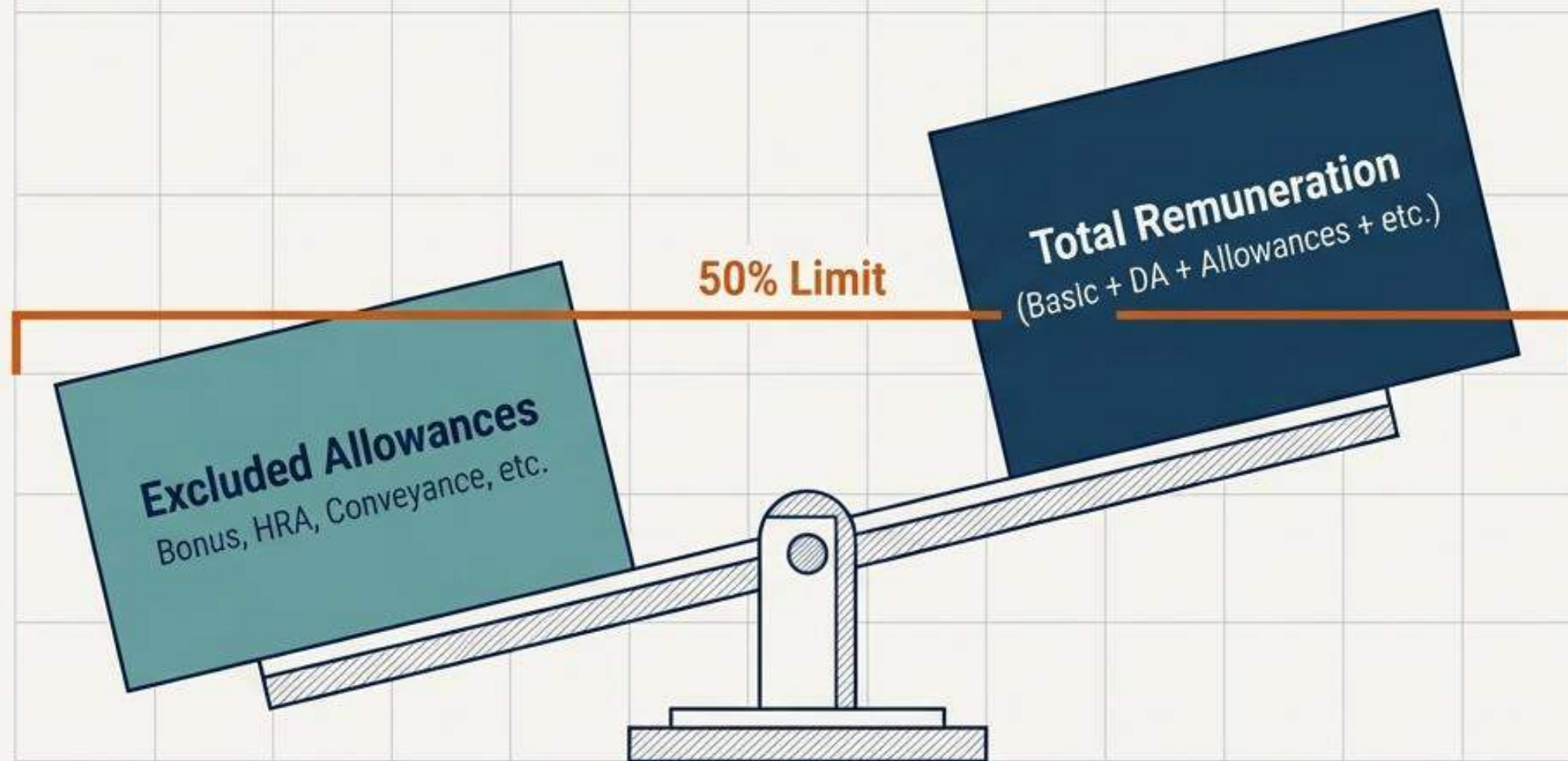
- Basic Pay
- Dearness Allowance (DA)
- Retaining Allowance

## The Battleground (Excluded Components)

- Bonus & Commission
- HRA & Conveyance/Travel
- Employer PF/Pension Contributions
- Overtime Wages
- Gratuity & Retrenchment Compensation
- ESOPs & Variable/Performance Pay

Insight: These specific exclusions are the primary levers for salary restructuring and statutory contribution planning.

# The Core Mechanism: The 50% Threshold Test



## THE RULE

Excluded components (Allowances, HRA, etc.) cannot exceed 50% of total remuneration.

## THE TRIGGER

If exclusions exceed 50%, the entire excess amount is forcibly re-categorized and added back into the Wages bucket (Basic + DA).

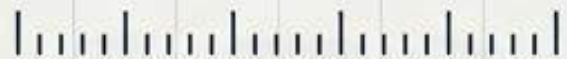
## THE LEGISLATIVE INTENT

To prevent employers from artificially deflating basic pay to avoid statutory Provident Fund (PF) and Gratuity contributions.

# The Math in Action: A Practical CTC Walkthrough

## Step 1: The Initial Breakdown (₹76,000 CTC)

- Basic + DA: ₹20,000
- Relevant Allowances: ₹40,000
- Excluded by Definition: ₹16,000



## Step 2: The 50% Test

- 50% of Total Remuneration = ₹38,000
- Actual Relevant Allowances = ₹40,000

## Step 3: The Excess Calculation

- ₹40,000 (Actual)
- ₹38,000 (Limit)
- = ₹2,000 Excess



## Step 4: The Statutory Recalibration

- Original Base (₹20,000)
- + Excess (₹2,000)
- = ₹22,000 New Statutory Base



**Bottom-line:** Statutory liabilities (PF, Gratuity, Bonus) are now legally calculated on the ₹22,000 base, not the original ₹20,000

# The Ripple Effect: Financial Impact Profiles

## Employee Ledger

### Card A - Short-Term Impact

Slightly lower in-hand (take-home) salary due to higher statutory deductions.

### Card B - Long-Term Impact

Higher Provident Fund corpus and Gratuity payouts upon exit.

## Employer Ledger

### Card A - Direct Costs

Higher PF Contribution (12% applied to the newly expanded Basic + DA base).

### Card B - Long-Term Liabilities

Increased Gratuity liability provisions based on higher wage definition.

### Card C - Ancillary Costs

Wage-linked benefits (bonus, leave encashment) scale up with the higher base.

**Conclusion: Even if the headline CTC remains neutral, total statutory outflows will increase, compressing employer margins and compensation flexibility.**

# Overtime Dynamics & The 8 vs. 12 Conflict



## The Overtime Baseline

Under Section 14, overtime must be paid at 2x the normal wage rate.



## The 50% Trap

OT wages are included in the 50% threshold test.

High OT can trigger a higher statutory wage base, compounding employer costs.



## The Practical Conflict

State Rules allow daily spread-overs up to 12 hours for operational flexibility, but standard hours remain 8.

Work in hours 9-12 legally triggers 2x OT.

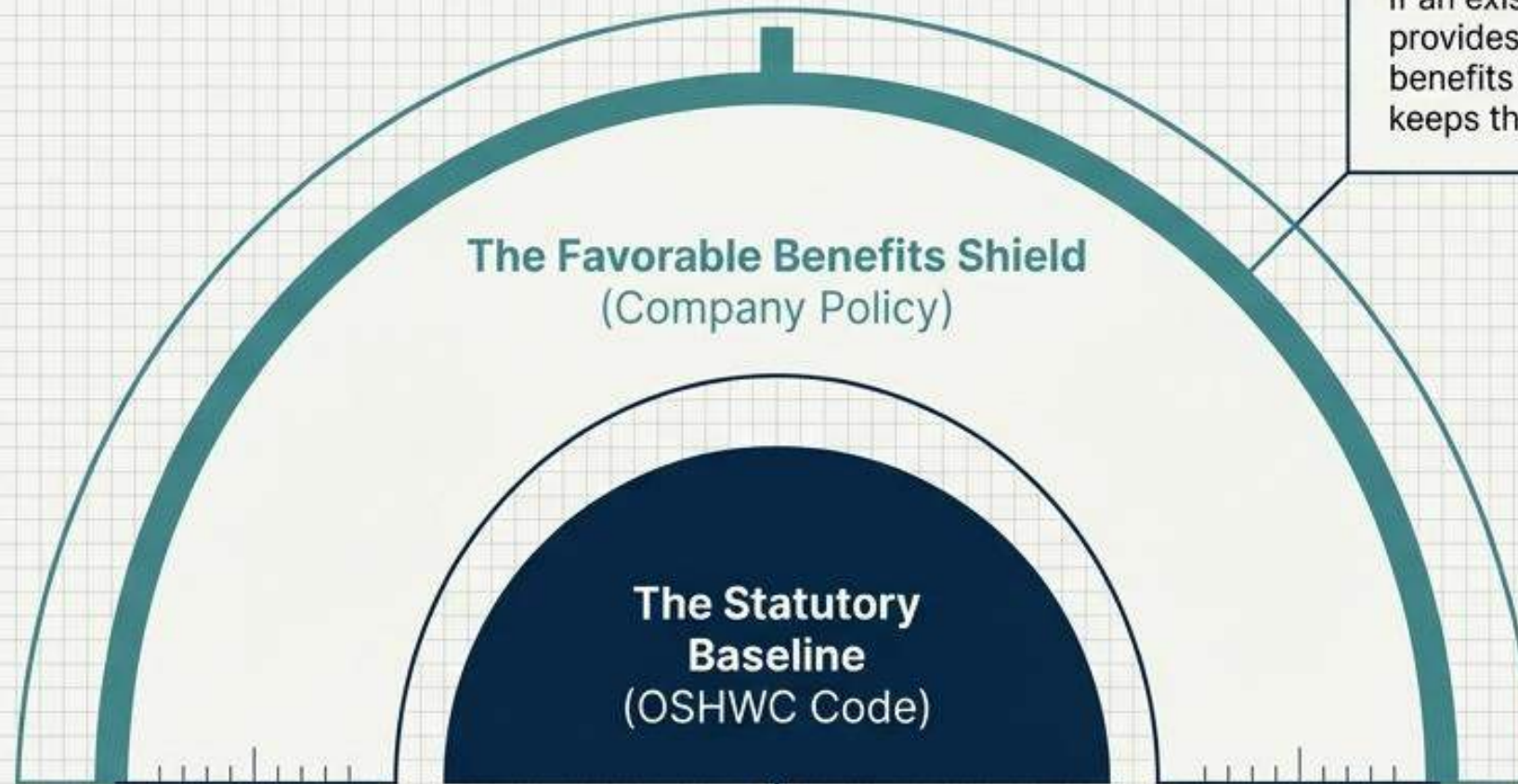


**Advisory:** Adopt a conservative approach: Treat any work beyond 8 hours as overtime, regardless of extended daily spread-over permissions.

# Leave Policy & The Favorable Benefits Shield

## Section 120 (Overriding Effect)

The Codes override any inconsistent older laws, awards, or agreements.



The Favorable Benefits Shield  
(Company Policy)

The Statutory  
Baseline  
(OSHWC Code)

If an existing company contract or policy provides better or more favorable leave benefits than the Code, the employee keeps them.

## HR Action Item

Conduct a line-by-line audit of existing policies to ensure compliance with the 30-day cap without inadvertently diluting protected, highly favorable employee benefits.

- Earned leave triggers after 180 days worked.
- Maximum carry-forward capped at 30 days.

# Gratuity Restructured: Regular vs. Fixed-Term Employees

## Universal Baselines

Applies prospectively (Nov 21, 2025). Calculated at 15 days' wages per year of service. Maximum ceiling ₹20 Lakhs.

## Regular Employees

- ✓ Subject to the standard 5-year continuous service rule.
- ✓ Standard exceptions apply for death or disablement.

## Fixed-Term Employees (FTEs)

- ✓ No 5-year wait period required.
- ✓ Eligible on a pro-rata basis if they complete a 1-year contract.



### Grey Area Alert

Ambiguity remains around anti-avoidance measures. If an employer uses 11-month contracts with renewals, or terminates early, pro-rata gratuity liabilities may still trigger.

# The Expanding Net: Gig, Platform & Fixed-Term Workers

## Fixed-Term Employees (FTE)

Entitled to PF/ESI based purely on establishment coverage and wage thresholds—not on the tenure of their employment. Direct employee status.

## Gig Workers

Legally recognized under the Social Security Code. Aggregators are legally mandated to contribute to their social security.

## Platform Workers

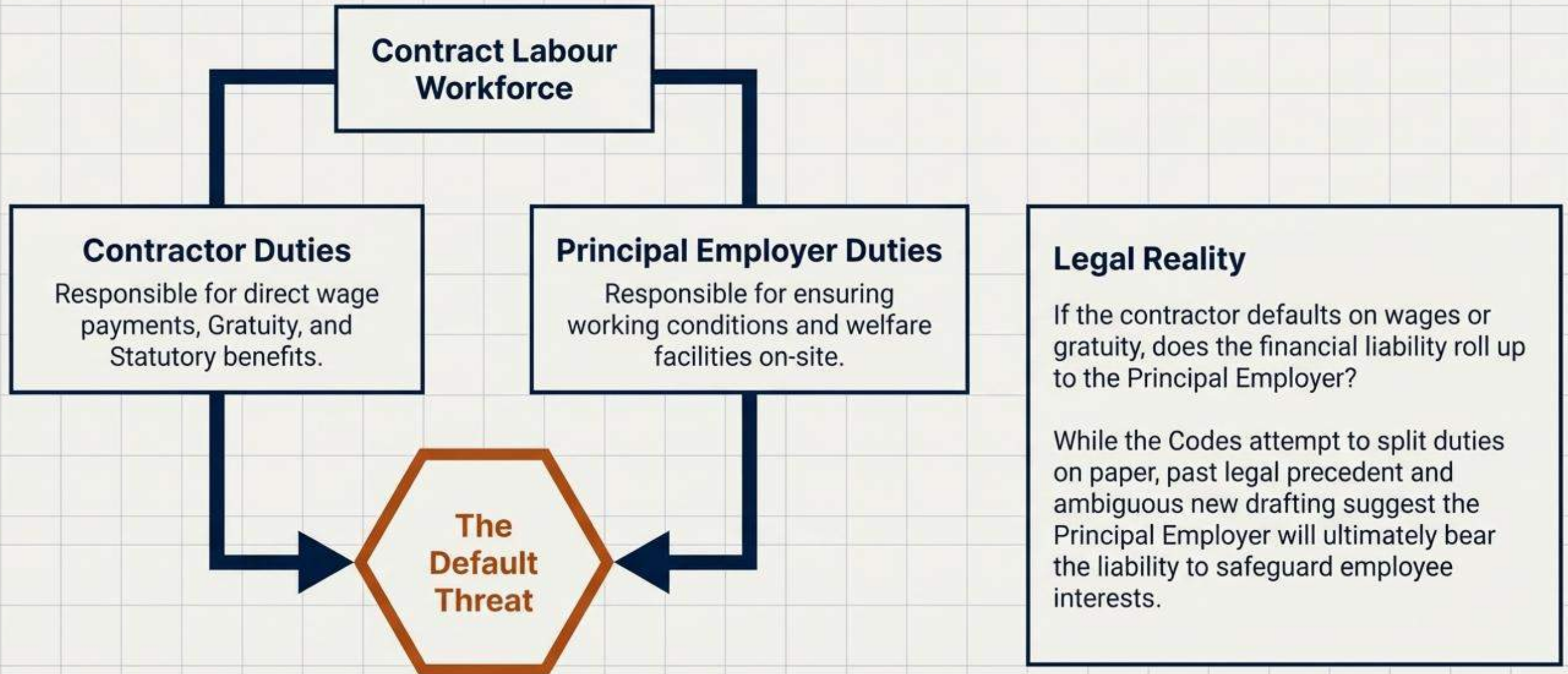
Included alongside Gig workers. Expands employer liability beyond traditional full-time employment contracts.

## The Execution Gap

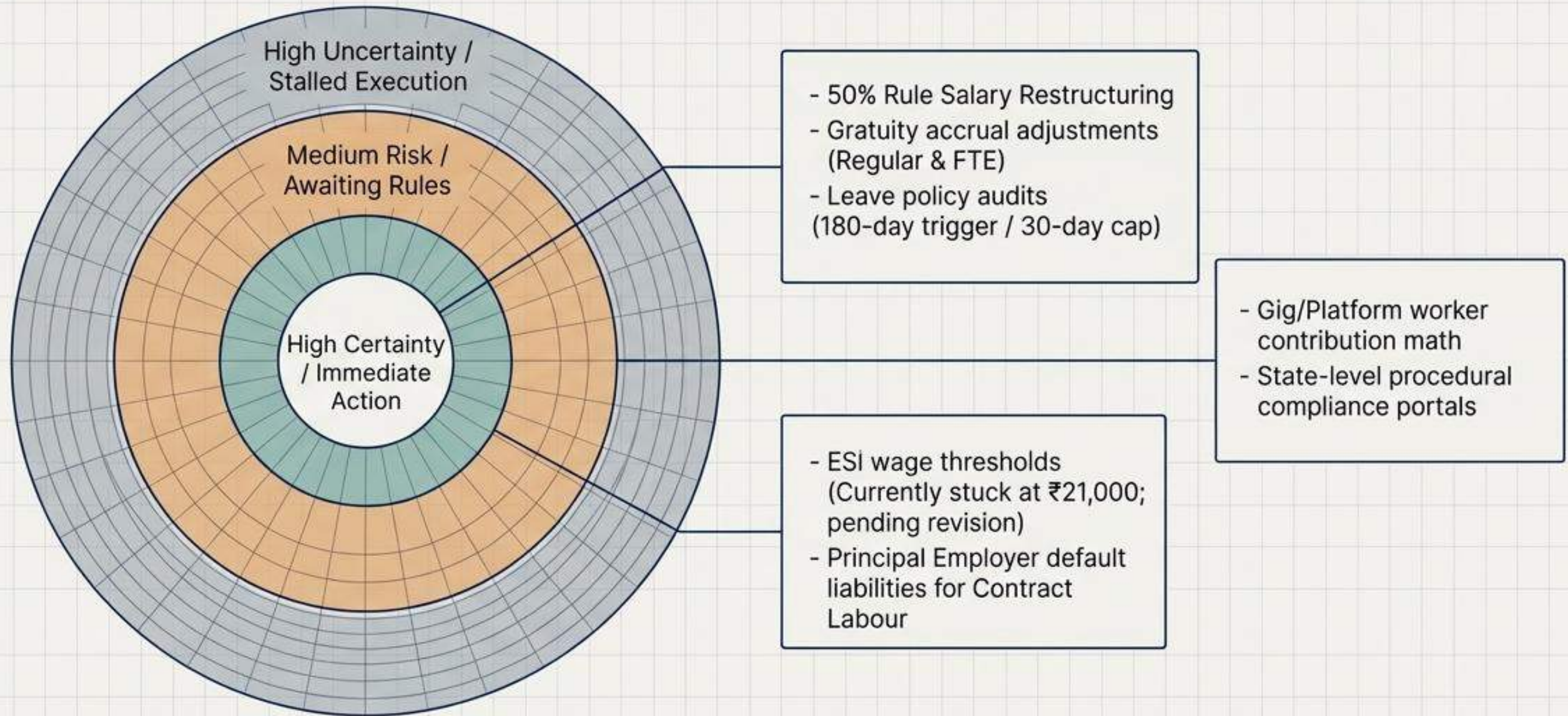
The legal framework exists, but execution is stalled. Employers are waiting on critical notifications for:

- Exact contribution percentage rates.
- The calculation base (Turnover vs. Per-transaction).
- Compliance portals and collection mechanisms to prevent dual-burden overlap.

# Contract Labour: The Liability Split



# Synthesis: The Transitional Risk Radar



**Core Insight:** The law is technically in force, but the infrastructure to comply remains incomplete

# Strategic Advisory: The Implementation Roadmap

## 1. Financial Audit (The Math)

Run a mock payroll using the 50% threshold test against your current CTC structures. Map the exact projected increase in PF, Gratuity, and Bonus statutory outflows.

## 2. Policy Overhaul (The Operations)

Review leave accruals and overtime tracking immediately. Enforce strict 8-hour limits to mitigate OT compounding, and align favorable benefit clauses with Section 120.

## 3. Contractual Fences (The Liability)

Tighten indemnity clauses with third-party contractors to protect against default roll-up liabilities. Ensure Fixed-Term Employee (FTE) contracts are explicitly defined to avoid the 11-month anti-avoidance trap.



# God Bless India

## Thank You

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