



Labour Law Reform Takes Effect: Quick Primer for Employers

The Government of India has made effective four labour codes* (collectively referred to as “Codes”) from 21 November 2025. The Codes will replace 29 central legislations and are intended to streamline compliance, bring uniformity across States, and extend protections to more categories of workers.

This note summarises the key changes introduced with the implementation of the Codes.

Key Changes & Implications of the Codes

1. Code on Wages (2019)

The Code on Wages, 2019 (“Wage Code”) repeals and replaces the following central labour laws:

- Payment of Wages Act, 1936;
- Minimum Wages Act, 1948;
- Payment of Bonus Act, 1965; and
- Equal Remuneration Act, 1976.

a. Implementation: From 21 November 2025, effectively most of the provisions of the Wage Code have been put into force and the aforesaid erstwhile legislations have been repealed. The provisions relating to constitution of a Central Advisory Board under the Wage Code are yet to be enforced.

b. New Definition of ‘Wages’

In India, wages are typically divided into various components such as basic salary, house rent allowance (or HRA), special allowances, travel allowances, and others. Traditionally, employers structure salaries such that a large portion was categorised as special or other allowances, keeping the basic salary component low.

Since social security contributions by employers and employees like Provident Fund (PF), and gratuity are calculated primarily on basic salary, this approach helped reduce the employer’s social security liability.

To address this, the Wage Code redefines the term “wages” to include only three components:

- (i) Basic pay
- (ii) Dearness allowance
- (iii) Retaining allowance (if any)

* (i) Code on Wages, 2019, (ii) Code on Social Security, 2019, (iii) Occupational Safety, Health, and Working Conditions Code, 2020, and (iv) Industrial Relations Code, 2020.

All other components of salary, such as HRA, bonuses, conveyance, special allowances, and employer's provident fund contributions—are excluded from the definition of wages.

Furthermore, the Wage Code introduces a 50% threshold rule: if the total value of excluded components exceeds 50% of the total remuneration, the excess amount will be added back to 'wages'. This ensures employers cannot keep basic salary artificially low to reduce their liability for statutory benefits like PF, and gratuity.

The introduction of a new definition of "wages" may affect employees' take-home pay in situations where their current basic salary is less than 50% of the total monthly remuneration. In such cases, employers will be required to revise the basic salary so that it constitutes at least 50% of the total monthly remuneration. As a result, deductions for social security, such as provident fund contributions and other statutory payments will increase, leading to a lower take-home salary for employees. In such situation, this change will also require employers to bear higher social-security contribution costs.

Furthermore, the older laws had separate definitions of wages in different statutes with separate jurisprudence for each statute- now the definition has been consolidated and removes ambiguity.

c. National Floor Wage: Previously, each state Government was free to determine its own minimum wages for different categories of employment. Under the Wage Code, however, a new concept of a 'National Floor Wage' has been introduced. The Central Government will fix this national floor wage, and the respective State Governments will then be required to set their minimum wage rates at or above this threshold.

d. Equal Pay & Anti-Discrimination: The erstwhile laws prohibited gender discrimination in pay and employment conditions in relation to 'same work' or 'work of similar nature', and this is being continued in the Wage Code. Earlier, the definitions were based on binary terms of "man", "woman" or "opposite sex", whereas now the definitions have been made broad by referring to "any gender" or "all genders".

e. Settlement of Payments on Termination and Resignation: As per the Wage Code, employers must now pay all pending wages within two working days from an employee's last day of work, even in cases of resignation. Earlier, this timeline applied only to termination, but it has now been extended to cover resignations as well.

2. Industrial Relations Code (2020)

The Industrial Relations Code, 2020 ("IR Code") repeals and replaces the following Central laws:

- o The Trade Unions Act, 1926;
- o The Industrial Employment (Standing Orders) Act, 1946; and
- o The Industrial Disputes Act, 1947.

a. Implementation: All provisions of the IR Code have come into force with effect from 21 November 2025.

- b. Fixed-Term Employment:** Fixed-term workers now get parity in pay, working hours, allowances, and benefits with permanent workers. Fixed-term workers are entitled to all benefits available to those on permanent employment, proportionate to their period of service, irrespective of any qualifying period that are prescribed for regular permanent employees.
- c. Grievance Redressal:** Establishments with 20 or more workers must set up a Grievance Redressal Committee (GRC) consisting of equal representation from employer's and workers' side, including adequate representation of women members.
- d. Definition of 'workmen' replaced by 'worker':** The term "workmen," as defined under the repealed Industrial Disputes Act, 1947, has been replaced with the term "workers," with certain modifications to the scope of coverage. Notably, the category of "workers" now excludes supervisory employees earning more than INR 18000 per month. Under the earlier regime, supervisory employees earning more than INR 10000 per month were excluded, and this threshold has now been increased to INR 18000.
- e. Retrenchment (Termination), Lay-off and Closure:** Government approval for lay-offs, retrenchment, or closure in factories, mines, and plantations is now required only where 300 or more workers are employed, and the authorities may further increase this threshold if they choose. Under the repealed Industrial Disputes Act, 1947, such approval was required where 100 or more workmen were employed in similar establishments.
- f. Standing Order:** Establishments with 300 or more workers will now be required to obtain certified standing orders. This is an increase from the earlier threshold of 100 workers (with some States having prescribed different thresholds). However, certain States, such as Karnataka, have exempted certain industries, such as IT/ITES and other knowledge-based sectors from the applicability of the Industrial Employment (Standing Orders) Act, 1946. Accordingly, a clarification will be required on whether such exemptions will continue under the Code, and if so, whether any additional terms or conditions will need to be complied with.
- g. Worker Re-skilling Fund:** The appropriate Government may establish a Worker Re-Skilling Fund. In cases of retrenchment (i.e., termination by employer for convenience), employers are required to contribute an amount equal to 15 days' last drawn wages of the retrenched worker to this fund within 45 days of the retrenchment. This fund is intended to support skill development and re-employment opportunities for affected workers. This will also have an additional cost impact on the employers undertaking termination activities, including due to redundancies.

3. Code on Social Security (2020)

The Code on Social Security, 2020 ("**SS Code**") consolidates and replaces 9 Central legislations, which inter alia, include: the Employees' Compensation Act, 1923, the Employees' State Insurance Act, 1948, the Employees' Provident Funds and Miscellaneous Provisions Act, 1952, the Maternity Benefit Act, 1961, and the Payment of Gratuity Act, 1972, and other laws relating to notifying vacancies on employment exchanges, cine-workers welfare fund, building workers welfare and unorganised workers' social security.

- a. **Implementation:** While most of the provisions of the SS Code have been implemented, there are few that remain, which include provisions relating to establishment of a Provident Fund Scheme and Pension Scheme under the SS Code.
- b. **Expanded Coverage:** The SS Code is designed to extend social security coverage to all types of employees and workers, and broadens employer obligations to include gig workers, platform workers, fixed-term workers, contract labour, migrant workers, unorganised workers, and more.
- c. **Gratuity Computation and Payment:** Under the repealed Payment of Gratuity Act, 1972, gratuity was payable only on the “basic salary” and “dearness allowance.” As per the SS Code, gratuity must now be computed as per the new wage structure. This means that employees whose current wages (i.e., basic wage, dearness allowance, and retaining allowance) are less than 50% of their total monthly remuneration may be entitled to a higher gratuity than what they would have received before the implementation of the SS Code. This will have an impact on both past and future provisions made by companies in their books in connection with gratuity liabilities. Further, legal advice should be obtained regarding gratuity computations on and after 21 November 2025.
- d. **Gratuity to fixed term employees:** The Labour Codes set different qualifying conditions for regular (permanent) employees and fixed-term employees. Fixed-term employees become entitled to gratuity on a pro-rata basis even if they have not completed the full period required for permanent staff (i.e., 5 years of continuous service).
- e. **Recognition of Gig Workers and Platform Workers:** The SS Code formally defines the concepts of Gig Workers and Platform Workers.
 - i. **‘Platform Work’** refers to work arrangements outside the traditional employer–employee relationship, where organisations or individuals use an online platform to access or provide specific services for payment.
 - ii. A **‘Gig Worker’** is a person who performs such work or participates in such arrangements and earns income from them, independent of a standard employment relationship.

The Code provides for the extension of social security benefits (such as insurance, provident fund, and maternity benefits) to gig and platform workers, who are not covered under the current legislations.

- f. **Joint Liability on Transfer of Establishment:** In case an employer transfers an establishment (in whole or in part), both the transferor and transferee are jointly and severally liable for any dues under the SS Code relating to the period before the transfer. However, the liability of the transferee is limited to the value of the assets received through such transfer.

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

The Occupational Safety, Health and Working Conditions Code, 2020 (“OSH Code”) consolidates and amends 13 Central laws, which inter alia include the Factories Act, 1948, Contract Labour (Regulation and Abolition) Act, 1970, and various others relating to plantations, mines, migrant workmen, dock workers, journalists, cine-workers, motor transport workers etc.

- a. **Implementation:** All provisions of the OSH Code have come into force with effect from 21 November 2025.
- b. **Contract Labour:** The OSH Code applies to establishments engaging 50 (fifty) or more contract labourers at any time in the preceding 12 months. Similarly, the OSH Code applies to contractors supplying 50 or more contract labours. Earlier, this limit was 20 in many states. Employers are now prohibited from engaging ‘contract labour’ for core activities, except in certain limited cases, such as where the work is normally outsourced, work is of temporary nature, or work does not require full-time staff.
- c. **Standardised Safety Norms:** Uniform health, safety, and welfare standards across sectors have been prescribed and the safety obligations on an employer are now clearly defined.
- d. **Working Hours, Leaves & Overtime:** The OSH Code allows working hours for 8 hours a day and the period of work must conform to spread over and overtime limits as that set by appropriate government. Overtime beyond prescribed working hours must be paid at double the wage rate. The OSH Code also prescribes annual leaves that are commonly applicable in many States, however, the carry forward and encashment provisions have to be analysed in detail to ensure effective implementation. The OSH Code also does not contain separate sickness or casual leave entitlements for employees like prescribed in many State-level legislations.
- e. **Consent for overtime work:** A worker’s prior consent will be necessary before they can be required to work overtime.
- f. **Women & Night Work:** Women can work night shifts with written consent and prescribed safety measures.
- g. **Interplay with State-level legislations:** The labour codes, including the OSH Code affect many provisions that are also covered in local State-legislations such as shops and establishment legislation, for example, working hours of employees, leave benefits like privilege/annual leave, sickness leave or casual leaves. In case of commercial establishments, the relevant limits set by the State Governments would ordinarily continue to apply- clarity on this topic can be expected in the near future.

Next Steps for Implementation by Employers

- **Compliance Overhaul:** Employers must revisit internal policies, workforce classifications, payroll structures, employment contracts, and other documentation to align with the new definitions, obligations, and reporting requirements.
- **Cost Impact:** Redefined “wages” would impact payroll structuring, result in greater social security coverage, gratuity for fixed-term workers etc., and may require greater operational and financial planning.
- **Risk of Transitional Uncertainty:** While the Codes are effective immediately, detailed rules and State-level regulations are still being notified or are expected to be notified, which could create short-term ambiguity. The current position appears to be that the existing rules under the repealed laws will continue to apply and will need to be interpreted in harmony with the substantive provisions of the newly notified Labour Codes, to the extent they are not inconsistent with them. This position will remain until the State Governments formally notify and implement fresh rules under the Labour Codes.

Disclaimer: This publication is for general information purposes only. It is not and should not be construed as legal advice. If you would like to know more or seek specific legal advice, please reach out to our team.



G&W LEGAL | Advocates and Legal Advisors

Delhi (Regd.): C-9 / 9624, Vasant Kunj, New Delhi - 110 070, India

Gurugram: Incuspaze #2, G.F., Plot No.13, Phase 4, Udyog Vihar, Sector 18, Gurugram -122015

Ph.: +91 (124) 4402666 E. info@gnwlegal.com

www.gnwlegal.com