

New Labour Codes - Implementation

1. Introduction

The long-awaited implementation of India's Labour Codes has finally concluded with the notification of the effective date: **21 November 2025**. Except for a few provisions pertaining to the constitution of the Central Advisory Board for fixation of minimum wages, floor-level wages, and the repeal of the EPF (Miscellaneous Provisions) Act, 1952, **all remaining provisions across all four Labour Codes have come in to force from 21st Nov'25..**

The Indian Parliament had earlier passed:

- **The Code on Wages, 2019** (August 2019),
- **The Code on Social Security, 2020**,
- **The Occupational Safety, Health and Working Conditions Code, 2020**, and
- **The Industrial Relations Code, 2020** (all in September 2020),

Although the Central Government and many of the State Governments have published draft rules, those are yet to be notified.

2. Overview of the Labour Codes (Refresher)

2.1 Code on Wages, 2019

Regulates wage and bonus payments across all employments and mandates **equal remuneration for similar work** across industries, trades, and establishments.

2.2 Occupational Safety, Health and Working Conditions Code, 2020

Governs health and safety requirements in establishments with **10+ workers**, as well as **all mines and docks**.

2.3 Code on Social Security, 2020

Consolidates **nine existing laws** relating to social security and maternity benefits.

2.4 Industrial Relations Code, 2020

Aims to strengthen the business environment by **reducing compliance burden** while balancing employer–employee relations.

3. Revised Salary Structure Requirements Under the New “Wages” Definition

The new Codes introduce a common definition of “Wages”, applicable across PF, ESI, gratuity, bonus, and other payroll calculations.

3.1 Mandatory Alignment of Salary Structure

The formula is:

Wages = Basic Pay + Dearness Allowance + Retaining Allowance [Inclusions] (It should comply with the minimum wages as notified by per the appropriate Govt.) or the 50% of the gross whichever is higher.

Most allowances are excluded **but only up to a 50% threshold**.

3.2 Allowance Exclusions Cannot Exceed 50% of Total Salary

- Exclusions include:
HRA, conveyance, special allowance, overtime, bonus, etc.
- **Rule:**
Exclusions \leq 50% of Total Salary.

If exclusions $>$ 50%, the excess gets **added back to Wages**. **Example:**

Total Salary: ₹40,000

Max exclusions allowed: ₹20,000

If exclusions = ₹25,000 → **₹5,000 will be considered as Wages** for Statutory deductions.

3.3 Existing Structures Can Continue if Wages is already \geq 50% of total salary

If Basic + DA + RA already meet the 50% requirement, restructuring is **not required**.

4. Impact on Provident Fund (PF)

Although PF scheme rules are still pending notification, the new **wage definition** automatically applies from **21-11-2025**.

4.1 PF Contribution Will Be Based on the New “Wages”

- PF = 12% employee + 12% employer
- Calculated on **Basic + DA + RA**
- Allowances excluded only up to 50%

4.2 PF base will increase for employees (where PF contribution is made on full wages without limiting to the wage ceiling of Rs 15,000/- p.m) with current basic less than 50% of gross salary.

Most companies maintain Basic at 30–40% to manage PF and other outflow. Now basic must be **at least 50% of the total salary**, increasing PF contributions.

Example:

Component	Before Code	After Code
Basic + DA	30%	50%
Allowances	70%	Max 50%

PF Contribution Example

Current: Sample I:

- Salary: ₹50,000
- Basic: 40% = ₹20,000
- PF: ₹2,400

Sample II:

- Salary: ₹30,000
- Basic: 40% = ₹12,000
- PF: ₹1,440

New Code:

- | | |
|--|--|
| • Salary : ₹50,000 | Salary : ₹30,000 |
| • Wages must be 50% = ₹25,000* | Wages must be 50% = ₹15,000 |
| • PF: ₹3,000 | PF: ₹1,800 |
| • Increase: ₹600/month per employee | Increase: ₹360/month per employee |

* **PF Contribution is made on full PF Wages currently**

4.3 PF Wage Ceiling

The existing ₹15,000 wage ceiling remains until revised.
Voluntary higher contributions of PF by Employee remains optional.

4.4 Employer Impact

- Change in statutory liability
- Change in PF contributions and actuarial costs
- Budgeting and salary restructuring required

4.5. No Immediate Procedural Change

Existing PF procedures, returns, and systems continue until new PF rules are been published.

5. Impact on ESI Calculations under the New Wage Code

The new “wages” definition significantly impacts ESI eligibility and contribution.

5.1 Higher ESI Contribution Base

Wages must be $\geq 50\%$ of total salary.

5.2 Example - Old vs New Structure

Component	Old	New
Basic	₹7,500 (30%)	₹12,500 (50%)
HRA	₹3,750	₹3,750
Conveyance	₹1,600	₹1,600
Other Allowances	₹12,150	₹7,150
Total Gross	₹25,000	₹25,000

ESI Wage Comparison

Old: ESI Wage = ₹25,000

New: Wage for eligibility = Basic + DA = **₹12,500 (within ₹21,000 limit)** (It should comply with the minimum wages as per the appropriate Govt.) or the 50% of the gross whichever is higher.

Thus, more employees become **ESI-eligible. However, the contribution amount might reduce owing to change in wage definition.**

5.3 Contribution Impact

Item	Existing Model	New Wage Code
Basic %	30%	50%
Employee Coverage	Limited	Expanded
ESI Employee Contribution (0.75%)	N/A	Applicable
ESI Employer Contribution (3.25%)	N/A	Applicable

Item	Existing Model	New Wage Code
Payroll Flexibility	High	Restricted

ESI Employee & Employer Contribution Calculations:

Item	Existing Model	New Wage Code
Total Gross	₹ 25000	₹ 25000
Basic %	30%	50% mandatory
Basic Amount	₹ 7,500	₹ 12,500
ESI Wage Employee Coverage	Many employees shown above ₹21,000 ESI Not eligible as per the Total gross	More employees fall under ₹21,000 limit, ESI eligible
ESI Employee Contribution (0.75%)	Not Applicable for ESI	₹ 93.75 on Basic (same base, but more employees covered)
ESI Employer Contribution (3.25%)	Not Applicable for ESI	₹ 406.25 on Basic
ESI Coverage	Often avoided	Mandatory for more employees

5.4 ESI Registration of Identified Eligible Employees

Employers are share the details of employees identified as eligible for ESIC coverage in the **2COMS ESI Registration Template**, along with their **photograph** and **Form-1 details** on. If an employee already has an existing **ESI IP Number**, the same must be provided to facilitate reactivation instead of creating a new number.

With the implementation of the **New Wage Code**, the number of employees falling under ESIC eligibility is expected to increase. Therefore, additional registrations will be required **with effect from 21st November 2025**.

5.5 Key Outcomes

- Employees earlier shown above ₹21,000 may now fall within ESI eligibility.
- Employer contribution might change due to new Wage definition.
- Allowances cannot be used to reduce ESI liability.

6. Impact on CTC Planning and Payroll Structures

Companies must now:

- Maintain **Basic + DA ≥ 50%**
- Recalculate PF/ESI liabilities
- Restructure payroll in line with compliance requirements

Result:

- Change in employer cost
- Enhanced employee social security
- Reduced payroll flexibility

7. Summary - PF & ESI Impact at a Glance

Area	Impact
Wage Base	Widened (50% rule)
PF Contribution	Rate continues to be 12% on wages
ESI Contribution	Increase in ESIC liability based on additional employee coverage under the New Wage Code. However, the contribution amount might reduce owing to change in wage definition
Employee Eligibility	More employees under ESI
Employer Cost	May undergo some change
Long-Term Benefits	Improve significantly