

THE CODE ON WAGES : DECODED



The New Dawn

After all the hurdles, the four labour codes, passed in the Parliament, 5 years back, have seen the light, with the Government of India issuing notification for its commencement. Thanks to the Government and all the stake-holders involved and its always better late than never!!! So, the following four codes have come into effect from 21st Nov'25 :

- ❖ Code on Wages, 2019,
- ❖ Occupational Safety, Health and Working Conditions Code, 2020,
- ❖ Code on Social Security, 2020
- ❖ Industrial Relations Code, 2020

Highlights of the Wage Reforms

Transparency & Reduced Litigation

Clear wage definitions minimise disputes and legal challenges, creating a more predictable regulatory environment.

Fair Social Security Benefits

Capping allowances at 50% prevents artificially low basic wages, leading to higher PF accumulations, improved gratuity amounts, and enhanced financial well-being for workers.

Level Playing Field

Uniform wage structures reduce wide variations in compensation practices across industries, ensuring consistency.

Ethical Employer Behaviour

The reform discourages excessive salary splitting into allowances to reduce statutory liabilities, promoting responsible practices.

Additional Strategic Advantages

Workforce Formalisation

Clear wage structures increase the likelihood of employers bringing more employees into formal payroll systems, strengthening India's organised labour sector.

Simplified Administration

A single wage definition across most labour laws streamlines HR and payroll administration, reducing complexity and compliance burden.

Better Financial Planning

Employees benefit from a more predictable and structured salary framework, enabling improved personal financial management.

Long-Term Stability

Fair and transparent wage structures support workforce stability, enhancing employee retention and organisational continuity.

Understanding the Wages Definition

The wages definition is common across all four Labour Codes. Employers must revise or restructure salaries in line with this definition. The listed exclusion portion cannot exceed 50% of total salary—any excluded components in excess of 50% would be deemed as wages.

Existing Structure Continuation

If the inclusion portion is 50% or more, the existing structure can be continued. Importantly, salaries cannot be reduced now.

Minimum Wages Compliance

The inclusion portion shall be equal to or more than the minimum wages. HRA cannot be part of the minimum wages calculation.

Universal Application

The Code applies to all employees irrespective of salary quantum. All registers must include all employees, not just those drawing up to ₹24,000 gross salary.

Salary Structure Examples

Understanding how the 50% rule applies in practice is crucial. Here are two illustrative examples showing how deemed wages are calculated:

Example 1: Deemed Wages Calculation

Component	Amount
Basic	₹6,000 (33.3%)
HRA	₹4,000
Conveyance	₹4,000
Commission	₹4,000
Total	₹18,000

Wage portion: ₹6,000 (33.3%).

Excluded portion: ₹12,000 (66.6%). 50% of total: ₹9,000.

Deemed wages: ₹9,000

Example 2: With Education Allowance

Component	Amount
Basic	₹6,000
HRA	₹5,000
Conveyance	₹5,000
Education Allow.	₹2,000
Total	₹18,000

Wage portion: ₹8,000 (44.44%).

Excluded portion: ₹10,000 (55.56%). 50% of total: ₹9,000.

Deemed wages: ₹9,000

Minimum Wages

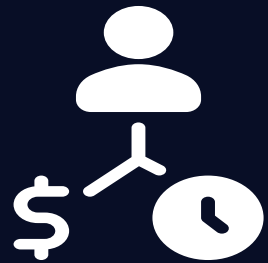
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Minimum Wages Structure

Minimum wages shall be equal to or more than wages defined (Basic + DA + Retaining Allowance). HRA is excluded and MW shall not be split. For MW of ₹12,000: consolidated pay or Basic+DA is correct; Basic+HRA is incorrect.

Component	Case 1	Case 2	Case 3
Basic	10000	-	10000
DA	2000	-	-
Consolidated pay	-	12000	-
HRA	-	-	2000
Total	12000	12000	12000
Status	Correct	Correct	Incorrect as HRA is not part of Minimum Wages

Working Hours & Overtime



Standardised Working Hours

Normal working hours are capped at 8 hours per day and 48 hours per week. This ensures a healthy work-life balance and compliance with international labour standards.

Overtime Regulations

Overtime work is allowed only with worker consent and must be paid at twice the regular rate. This protects workers from exploitation and ensures fair compensation for extra hours worked.

Overtime Compliance

If OT wage and sum of all other listed exclusion components exceed 50% of total salary, such excess amount shall be deemed as wages. Employers must obtain consent from workers for overtime work.

Rest Days

Workers are entitled to at least one rest day per week. This provision ensures adequate rest and recovery, contributing to overall worker well-being.

EPF and ESI Implications

Employees' Provident Fund (EPF)

Employees drawing wages less than ₹15,000 per month must be covered, and those already covered continue to be covered. Ensure contributions are deposited on wages as defined in the Code.

Since the Code is effective 21st November 2025, PF calculation on prorata basis may be necessary for November 2025: 1st to 20th on existing salary and 21st to 30th on revised wages.

₹15K

EPF Wage Threshold

Mandatory coverage below this limit

Employees' State Insurance (ESI)

ESI coverage is implemented across the country for establishments with 10 or more employees, including mines. It applies to establishments carrying on hazardous or life-threatening occupations even with a single employee.

With the change in wages definition, more employees may be brought under ESI purview. Financial impact could be lesser as ESI contribution shifts from gross wages to the new wage definition.

₹21K

ESI Wage Ceiling

Maximum wage limit for ESI coverage

10+

ESI Establishment Size

Minimum employees for coverage



ESI Implications

Components	Sample 1	Sample 2
Basic	12000	8000
DA	6000	4000
HRA	6000	4000
<u>Monthly Gross</u>	<u>24000</u>	<u>16000</u>
ESI wages would be, currently, Basic + DA + HRA	24000 [> 21000] Therefore, the individual will go out of the purview	16000 [< 21000] Contributions to be made on 16000
ESI wages as per the code would be	18000 [< 21000] Therefore, to be covered	12000 [< 21000] Contributions to be made only on 12000

₹ Impact on Gratuity

The revised wage definition significantly affects gratuity and bonus calculations, with important financial implications for both employers and employees.

Gratuity Entitlement

- ❖ Fixed Term Employees (FTE) are entitled to gratuity upon end of contract period after rendering continuous service of one year or more.
- ❖ Financial impact could be higher as gratuity shifts from basic wages only to the new wage definition (not less than 50% of gross wages).

Example: For gross salary of ₹30,000 with Basic+DA of ₹12,000, deemed wages would be ₹15,000.

Post-implementation, gratuity shall be calculated on ₹15,000 instead of ₹12,000.

Components	Amount
Basic	10000
DA	2000
HRA	6000
Conveyance Allowance	6000
Commission	6000
<u>Monthly Gross</u>	<u>30000</u>
Basic + DA	12000 [< 15000]
Deemed wages would be	15000
Post the implementation of codes, Gratuity shall be calculated on 15000 instead of 12000	

Impact on Bonus

Bonus Calculation

- ❖ Bonus ceiling is yet to be notified by the Appropriate Government.
- ❖ Till then, employers shall follow existing wage ceiling of ₹21,000.
- ❖ If different wages are notified for ceiling and calculation, bonus quantum may differ from one state to another.

Example: For gross salary of ₹32,000 with Basic+DA of ₹14,000 (currently <50%), deemed wages would be ₹16,000 (<₹21,000), making the employee eligible for bonus calculated on ₹7,000 or minimum wages, whichever is higher.

Components	Amount
Basic	10000
DA	4000
HRA	6000
Conveyance Allowance	6000
Commission	6000
<u>Monthly Gross</u>	<u>32000</u>
Basic + DA (Currently)	14000 [< 50%]
Deemed wages would be (50%) (When codes are implemented)	16000 [< 21000] Therefore eligible for bonus
Bonus shall be calculated for 7000 or minimum wages whichever is higher	

Maternity Benefit

Maternity Benefit

- ❖ No significant change in maternity benefit provisions.
- ❖ With the change in wages definition, the quantum of maternity benefit might reduce.
- ❖ For example, MB currently calculated on ₹24,000 (Basic+DA+HRA) would be calculated on ₹18,000 as per the Code.

Components	Sample 1
Basic	12000
DA	6000
HRA	6000
<u>Monthly Gross</u>	<u>24000</u>
MB would be, currently, Basic + DA + HRA	24000
MB as per the code would be	18000 [quantum reduced]

Contract Labour



- ❖ Contract Labour Chapter is applicable to both Principal Employer and Contractor if 50 or more contract workers are engaged in any day of the preceding 12 months.
- ❖ Engagement of contract workers in the Core Activity is prohibited.
- ❖ Welfare facilities to be provided by the Principal Employer only.
- ❖ Contract Labour includes Inter-State migrant worker too.
- ❖ A worker who is on regular employment with the Contractor and issued with Appointment Order, gets periodical increment and covered under social security benefits is not a contract labour.



Leave Encashment



Leave Encashment

With the change in wages definition, quantum of leave encashment payout might reduce. For example, LE currently calculated on ₹24,000 (Basic+DA+HRA) would be calculated on ₹18,000 as per the Code, representing a reduction in payout amount.

Components	Sample 1
Basic	12000
DA	6000
HRA	6000
<u>Monthly Gross</u>	<u>24000</u>
LE would be, currently: Basic + DA + HRA	24000
LE as per the code would be	18000 [quantum reduced]

Conclusion: A Progressive Reform

The revised wage definition and the 50% cap on allowances represent a progressive, worker-centric reform that balances employee welfare with employer clarity. By standardising wage structures, enhancing social security, and simplifying compliance, the reform contributes to a more formal, transparent, and equitable labour ecosystem in India.



Enhanced Protection

Better social security coverage for workers



Simplified Compliance

Unified wage definition across codes



Equitable Ecosystem

Fair and transparent labour practices

 **Disclaimer: The explanation provided on the new definition of wages and related implications are intended solely for general guidelines.**