INDIA'S NEW

Labour Codes

29 old labour laws replaced by 4 new Codes.
This guide explains highlights the changes, what it costs, and what you must do.

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Why This Matters to You

Three things every employer should know before we start

Your wage bill is likely to go up

Even if you pay your staff exactly the same salary as earlier, the amount you owe towards PF, gratuity and bonus can rise.

Every worker needs a letter

Every single person you employ must have a written appointment letter. No exceptions.

Deadlines have already started

Some rules are live now. Others depend on your state. Waiting is the expensive option.

In plain terms: Nothing about your business has to change for your costs to change. The rules simply count your wage bill differently.

The Four New Codes

29 old laws bundled into 4

Code on Wages

Pay, minimum wages and bonus

Industrial Relations Code

Unions, disputes and workplace rules

Code on Social Security

PF, ESI, gratuity and maternity

Safety & Working Conditions

Safety, working hours and contract labour

In plain terms: Think of it as four rulebooks instead of twenty-nine. The rules are mostly familiar but the maths underneath has been rewritten.

PART ONE

The One Change That Drives Everything

How "wages" is now counted

The National Floor Wage

A statutory wage floor no state may go below

No state can prescribe wage below National Floor Wage

A statutory floor is being fixed now

It becomes binding on states

Section 9 of the Code on Wages lets the Centre fix a floor wage. Once notified, no State may set a minimum wage below it. States already paying more cannot cut back to the floor.

It is not the wage you pay

The floor is only a baseline. Your actual obligation stays the State minimum wage for that skill level, zone and industry, which is higher almost everywhere.

In plain terms: Until the statutory floor is notified, keep paying your State minimum wage - the floor sets a base, it does not replace your State rate.

How Most Salaries Are Structured Today

A typical pay slip, split into parts

A typical ₹80,000 salary

Basic Pay	**₹30,000**
Dearness Allowance	**₹5,000**
House Rent Allowance	₹25,000
Other allowances	₹20,000

Two kinds of money

The "core" part

Basic + DA. PF, gratuity and bonus have always been calculated on this.

The "allowance" part

HRA, conveyance, special allowances and so on. These were left out of the PF and gratuity calculation.

In plain terms: For years, many employers kept Basic low and allowances high. That legally reduced PF, gratuity and bonus costs. The new Codes close this door.

The New 50% Rule

The single most important change in the Codes

Your allowances cannot be more than half the salary. Anything above half gets treated as core pay.

1

Add up the allowances

HRA ₹25,000 + other ₹20,000 = ₹45,000

2

Take half the salary

Half of ₹80,000 = ₹40,000

3

Find the excess

₹45,000 – ₹40,000 = ₹5,000 too much

4

Move the excess to core

Core becomes ₹35,000 + ₹5,000 = ₹40,000

In plain terms: The salary you pay does not change i.e still ₹80,000. But the figure used to calculate PF, gratuity and bonus rises from ₹35,000 to ₹40,000.

What the 50% Rule Actually Costs

Same salary. Bigger base. Higher contributions.

+14%

Increase in core wage for every statutory calculation

This flows into:

- Provident Fund contributions
- Gratuity you owe on exit
- Bonus eligibility and amount
- Leave encashment payouts

In plain terms: A useful rule of thumb: if your staff are on allowance-heavy salaries today, expect your statutory costs to rise. If Basic is already above half, you may see no change at all.

Who Is Affected Most?

It depends on how you structure salaries today

Basic is already more than half

Little or no change. You are already compliant with the 50% rule.

Basic is around 40–50%

Some increase. Worth modelling before the year ends.

Basic is well under 40%

Significant increase. This is where most companies sit today.

In plain terms: You cannot know which group you are in without checking your actual salary structures. That is the first job.

PART TWO

What You Must Actually Do

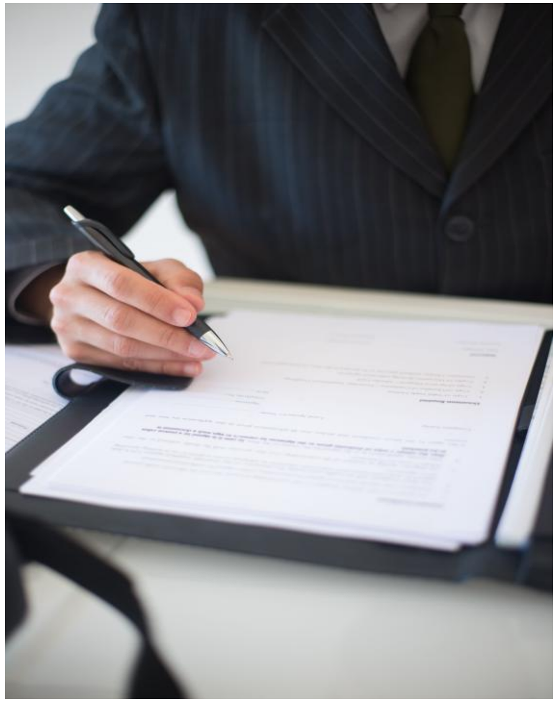
The practical checklist

Everyone Needs an Appointment Letter

No exceptions, no matter how casual the arrangement

Covers absolutely everyone

Permanent staff · fixed-term staff · casual workers · gig and platform workers. Regardless of grade or tenure.



What the letter must contain

- Name, date of birth, parents' names
- Your establishment's ID number
- Job title and skill category
- Basic pay, DA and other allowances
- What the job involves
- Anything else relevant
- Aadhaar number (with their consent)
- PF and ESI numbers, if they have them
- Type of job and joining date
- Whether PF and ESI apply
- Maternity benefits (for women staff)
- Your and employee signature

In plain terms: If you have staff working without a written letter today, this is the fastest thing to fix and the easiest to be caught on during an inspection.

Paying Wages on Time

The old "7th or 10th" rule is gone

How you pay	When wages must reach the worker
Daily wages	At the end of the shift
Weekly wages	On the last working day of the week
Fortnightly wages	Within two days of the fortnight ending
Monthly wages	By the 7th of the next month

When someone leaves

2 working days

Whether they resign or you let them go, their final wages must be paid within two working days.

In plain terms: It no longer matters how many people you employ. What matters is how often you pay them. And full-and-final settlements just got much tighter.

Working Hours and Overtime

More flexibility, but the weekly limit holds

48

hours a week — unchanged

12

hours maximum in one day

2×

pay for every overtime hour

Four-day weeks are now possible

Longer days, fewer of them — as long as the hours of work in a week stays within 48.

Overtime gets more expensive

Overtime is double the normal rate — and the "normal rate" is now calculated on the bigger wage base.

In plain terms: The 50% rule quietly makes every overtime hour cost more, even if you never change your overtime policy.

PART THREE

Your People

Equal treatment, safety and welfare

Equal Treatment at Work

Rules that apply from the job ad onwards

No gender bias in hiring or pay

You cannot advertise, hire, or pay differently based on gender for the same work. A job ad saying "Wanted - Female Receptionist" is now a direct violation.

This covers managers too

It is not just factory floor staff. Supervisors, managers and office roles are all covered.

Everyone gets the same facilities

One canteen, one washroom standard, one set of facilities. A separate "executive dining room" while others use a basic canteen is not allowed unless it is written into that person’s appointment letter as a taxed perk.

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Women Can Now Work Any Shift

A new freedom, with conditions attached

The old night-shift ban is gone

Women can work between 7 PM and 6 AM. You do not need to apply for permission.

But only if you provide and pay for all of this

- Safe transport, to and from home
- Proper workplace security
- Adequate supervision on shift
- Separate washrooms and rest areas

In plain terms: This is a choice, not an obligation. If you cannot provide safe transport and security, do not roster women on night shifts.

Free Annual Health Check-ups

Required in specific industries

Who must be checked

Staff aged over 40, working in dock work, building or construction. You pay for it.

Keep the results private

Health records are sensitive. Store them securely and limit who can see them.

It is a proper medical, not a quick check

- Heart, lungs and joints examined
- Blood tests — sugar, cholesterol, blood count
- Chest X-ray and ECG
- Eyesight and hearing tests

In plain terms: Budget for this properly. A full medical for every worker over 40 is a real annual cost, not a formality.

PART FOUR

The Money

What lands on your books

Provident Fund

The rate is the same. The base is bigger.

₹15,000

The PF wage ceiling has not changed

No change here

BUT

The amount you calculate PF on goes up

Because the 50% rule pushes more of the salary into the "core" bucket, the figure PF is calculated on rises so your monthly PF outgo rises with it, even though the rate and ceiling are untouched.

In plain terms: Headlines will say "PF limits unchanged". That is true and misleading. The limit is the same; the number you apply it to is not.

Employees' State Insurance

Wider access, and a wage base that shifts who qualifies

₹21,000

The ESI wage ceiling has not changed

But more staff will cross it

BUT

Voluntary registration is now open

The 10-employee threshold for mandatory cover still stands. What has changed is that establishments below it were earlier barred from registering at all, they may now opt in voluntarily.

It now applies everywhere in India

ESI used to apply only in notified areas — mostly industrial belts. It now applies in every district.

In plain terms: Under 10 staff? ESI is still not compulsory for you but the door to voluntary cover is now open if you want it.

Gratuity

Fixed-term staff now qualify much sooner

Permanent staff

5 years

Still need five years of service to earn gratuity. Unchanged.

Fixed-term staff

1 year

Now earn gratuity after just one year, paid proportionally. This is new.

Two costs land together

More people qualify for gratuity, and each person's gratuity is calculated on a bigger wage base. If you use fixed-term contracts heavily, this is a significant new liability.

In plain terms: Ask your accountant to re-estimate your total gratuity liability. The number on your books today is probably low.

Bonus and Leave Encashment

Two more places the bigger base shows up

Statutory Bonus

- The ₹21,000 eligibility limit has not changed.
- But eligibility is now tested against the new, bigger wage figure not just Basic pay.
- Some staff who used to qualify for bonus may now be pushed above the limit and become ineligible.

Leave Encashment

- Staff can carry forward up to 30 days of leave.
- Anything above 30 days must be paid out in cash at year end, if the employee asks.
- Each leave day is now worth more, because it is valued on the bigger wage base.

In plain terms: Notice the pattern by now: the rules look unchanged, but every single one of them is calculated on a bigger number.

If You Manufacture Goods

One extra effect on your accounts

1. Your PF, ESI and terminal benefit costs for factory staff go up
2. Those costs form part of what it costs you to make each item
3. So unsold stock sitting in your warehouse is valued higher
4. **Your profit for the year can look slightly different as a result**

In plain terms: This one is subtle and only affects manufacturers. Your accountant will handle it but do not be surprised when stock values shift.

PART FIVE

Contract Labour

Where hidden liability sits

You Cannot Contract Out Your Core Work

Contract labour is for support functions only

CORE WORK

Must use own staff

Core work is whatever the business actually does to make money. If you make garments, stitching is core. If you run a bakery, baking is core. You cannot replace these people with contract labour.

NON-CORE WORK

Contract labour is fine

- Cleaning and housekeeping
- Security
- Canteen and catering
- Loading and warehousing

In plain terms: Ask yourself: if these workers stopped tomorrow, would my product or service stop? If yes, it is core unless they fall within the exceptions, they should be on your payroll.

Your Contractor's Problem Becomes Yours

The liability you may not know you carry

If your contractor does not pay their workers' wages, PF or ESI - you must pay it. Directly.

It is not optional

The law makes you the backstop. You cannot point at the contract and walk away.

You can try to recover it

You may deduct what you paid from the contractor's bills, or pursue them legally.

But the risk stays with you

If the contractor disappears or has no money, you have simply lost the amount.

In plain terms: Practical step: before you pay a contractor's invoice, ask for proof they have paid their workers' PF and ESI last month.

PART SIX

When Does This Apply?

Centre, states and what to watch

Why the Answer Is "It Depends on Your State"

Both Centre and your state government make rules

The Central rules

Finalised and notified on 8 May 2026. This part is settled.

✓ Done

Your State's rules

Every state is at a different stage. Many, including Telangana, are still finalising theirs.

Still in progress

Old rules still apply for now — Until your State issues its rules, the old state rules keep running alongside the new Codes.

Some State laws never go away — Shops & Establishments, Professional Tax and Labour Welfare Fund remain separate. The Codes do not replace them.

Telangana — State rules are still being finalised. But the Gig Workers Act came into force on 1 June 2026.

Five Mistakes We Are Already Seeing

Avoid these

"The rules are not final in my state, so I will wait."	→ The wage-base change affects your costs regardless. Waiting just means a bigger catch-up later.
"My PF ceiling has not changed, so nothing has changed."	→ The ceiling is the same. The figure you apply it to is bigger. Your outgo rises.
"I will just cut the salary to keep costs flat."	→ You cannot reduce someone's pay without their consent. Restructure carefully, with advice.
"My casual workers do not need letters."	→ They do. Every worker does, whatever be the arrangement.
"My contractor handles all of that."	→ If they default, you pay. Ask for proof of PF and ESI payment every month.

Your Action Plan

Six things to do, in order

1. **Pull out your salary structures**
   Look at what percentage of each salary is Basic + DA.

2. **Work out who crosses the 50% line**
   These are the staff whose costs will rise.

3. **Estimate the extra cost**
   PF, gratuity, bonus and leave added up for the year.

4. **Issue appointment letters**
   Everyone. Including casual and contract-adjacent staff.

5. **Check your contractors**
   Ask for monthly proof of PF and ESI payment.

6. **Re-check your gratuity provision**
   The figure in your books is probably understated.

The Way Forward

The Codes preserve much of the legacy substance. The uniform wage definition is what changes the numbers.

Re-model the wage base

Test every salary structure against the 50% ceiling and quantify the add-back.

Map state-level obligations

Shops & Establishments, PT and LWF Acts continue to apply independently.

Close the documentation gap

Issue compliant appointment letters across the entire workforce.

Twenty-nine laws have been replaced but the obligations they carried have not gone away, they have been recast.

Thank You

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