

Labour Codes Central Rules Adoption Framework w.e.f 08th May 2026

The Central Government has officially notified the Central Rules under all four Labour Codes on 8 May 2026. This is not a draft stage anymore.

- Four Codes unified: Wages, Industrial Relations, Social Security, and OSH now have Central Rules notified.
- Effective dates:
 - Codes largely in force since 21 Nov 2025.
 - Draft published on 30 Dec 2025 Draft Central Rules earlier published vide G.S.R. 936(E); 45-day window for objections and suggestions; comments duly considered before final notification.
 - Central Rules notified on 8 May 2026 (G.S.R. 342–343).
- Supersession: Seventeen+ legacy rules repealed (Payment of Wages, Minimum Wages, Bonus, Equal Remuneration, etc.).

Applicability

- Central Sphere (08th May 2026 onwards): Banks, insurance, telecom, railways, mines, ports, air transport, Central PSUs, Central Act bodies, contractors deployed there.
- State Sphere (Procedural Wait): IT/ITES, BPO, AI, Fintech, Gaming, shops, retail, hospitality, Warehouses and logistics, healthcare, Private offices and service companies. Must begin wage audits and payroll readiness now; only forms/portals await State Rules.

SSCode Central Rules Applicability

- Single-state establishments: Governed by State Rules for gratuity, maternity, and employment exchange. Continue following state-specific notifications until State Labour Code Rules are notified.
- Multi-state establishments: Governed by Central Rules. All gratuity settlements, maternity provisions, notices, career centre reporting, and prescribed forms must align with the Social Security (Central) Rules, 2026.

Chapter V – Gratuity Compliance Updates

<u>Old Form (PGA 1972)</u>	<u>New Form (SS Central Rules 2026)</u>	<u>Purpose</u>
Form F	Form III	Nomination / Fresh Nomination / Modification of Nomination (mandatory for new joiners on/after 8 May 2026)
Form I / J	Form IV	Application for Gratuity by Employee / Nominee / Legal Heir (mandatory for exits on/after 8 May 2026)
Form L	Form V	Notice for Payment or Rejection of Gratuity Claim (mandatory for settlements on/after 8 May 2026)

Process Changes

- Wages: New Wage Definition to be applied in arriving at the Gratuity Calculation
- Determination of gratuity: As per Section 56(2) of the Code, employers must calculate gratuity proactively (even without an employee making an application). (The current gratuity ceiling limit is ₹20 lakhs. However, if any company is presently disbursing gratuity exceeding ₹20 lakhs, or provides gratuity for employees with one year or more of service as part of its established company policy, then, in accordance with Rule 128 of the SS Code, the company is required to maintain its existing policy, as it is more favourable than the provisions of the new SS Code.
- Service of notice: Notices must be served via personal delivery with acknowledgment, speed post with registration, or electronically.

- Retention: All digital registers and metadata entries must be preserved in their original form for a minimum of 5 calendar years from the date of the last entry.
- Gratuity Display authorised officer notice to be changed as per Rule 53(4)
- Gratuity Abstract under SS Code to be displayed
- Fixed-term employees with 1+ continuous year service are now eligible for gratuity.
- Transitional Provision: Existing Nominations / Gratuity Forms Remain Valid For Pending Claims filed before 8th May 2026.

Chapter VI – Maternity Benefit Compliance Updates

- Single-state establishments: Continue under State Maternity Benefit Rules until State Labour Code Rules are notified.
- Multi-state establishments: Governed by Central Rules. All maternity provisions and forms must align with the Social Security (Central) Rules, 2026.

Key Changes

- Old Central maternity rules (1963) applied only to mines/circus. Now extended to all multi-state establishments including IT/ITES.
- Inspection & appeals: Central Inspector-cum-Facilitator and Central Competent Authority now empowered.

Forms – Old vs New

<u>New Form (SS Central Rules 2026)</u>	<u>Rule</u>	<u>Purpose</u>	<u>Old State Form</u>	<u>Old Central Form (Mines & Circus)</u>
Form X	Rule 35(1)	Medical Certificate (pregnancy, delivery, miscarriage, MTP, tubectomy, illness)	Form B/C/E/G	Form B/C/D/G
Form XI	Rule 35(2)	Notice of Claim + Receipt of Payment	Form A / Form I	Form A
Form XII	Rule 38(2)	Appeal against wrongful dismissal/discharge	Form J / varied	None
Form XIII-A	Rule 39(1)	Complaint to Inspector-cum-Facilitator	Form K / varied	None
Form XIII-B	Rule 39(2)	Appeal against Inspector's decision	No prescribed form	None
Form XIV	Rule 40(4)	Abstract of maternity provisions (display at workplace)	Form H	Form E

<u>Particulars</u>	<u>Old Law</u>	<u>New Law (8 May 2026)</u>
Central Govt maternity rules covered	Only Mines and Circus (Maternity Benefit (Mines and Circus) Rules, 1963)	All multi-state establishments including IT/ITES
IT/ITES multi-state maternity regulated by	State Government (each state's Maternity Benefit Rules)	Central Government (SS Central Rules, 2026)
Inspector who can inspect	State Labour Inspector	Central Inspector-cum-Facilitator
Authority for appeals/complaints	State Competent Authority	Central Competent Authority

Additional Provisions

- Crèche facility (Rule 37): Mandatory if 50+ employees at any location.
 - Physical crèche within 1 km, OR
 - Allowance of ₹500/month/child (up to 2 children), formalized through majority employee agreement.
- Nursing breaks: Two breaks of 15 minutes daily, plus up to 15 minutes travel time.
- Payment timelines:
 - Wages under Section 65 → payable within 48 hours of Form X submission.
 - Medical bonus → ₹3,500, disbursed with second instalment of maternity benefit.
 - Death of woman → payment within 2 months.

OSH Registration Obligations — Two Distinct Categories

The Central Rules apply only where the Central Government is the appropriate government — i.e., Central PSUs, railways, mines, ports, banking and insurance. For most private sector establishments, State Rules will govern, and many States are yet to notify final Rules.

Category A — New Establishments (Coming into existence after 8 May 2026)

Establishments covered under the OSH Code that come into existence after 8 May 2026 are required to file an application for registration in Form 1 electronically on the Shram Suvidha Portal within 60 days from the date of commencement of operations/applicability. The deadline for establishments commencing on or after 8 May 2026 will be calculated accordingly from their start date. Late filing beyond 60 days attracts a late fee.

Category B — Existing Establishments Already Registered under Central Labour Laws

Establishments already registered under any repealed central labour laws (e.g., Factories Act 1948, Contract Labour (R&A) Act 1970, etc.) are deemed to be registered under the OSH Code. No fresh Form 1 application is required under the Central Rules. However, these establishments are required to update/migrate their registration particulars on the Shram Suvidha Portal within 6 months from 8 May 2026, i.e., by 8 November 2026.

Important Note:

Holding an ESIC/EPFO registration code does NOT confer deemed registration status under the OSH Code 2020. The ESI Act 1948 and EPF & MP Act 1952 fall under the Social Security Code 2020, which is a separate legislation from the OSH Code. Establishments in these sectors employing 10 or more workers, which do not independently hold a registration under any of the 13 laws repealed by the OSH Code (*Factories Act, Mines Act, Dock Workers (Safety, Health & Welfare) Act, Building & Other Construction Workers Act, Plantations Labour Act, Contract Labour (Regulation & Abolition) Act, Inter-State Migrant Workmen Act, Working Journalists & Newspaper Employees Act, Working Journalists (Fixation of Wages) Act, Motor Transport Workers Act, Sales Promotion Employees Act, Beedi & Cigar Workers Act, Cine Workers & Cinema Theatre Workers Act*), must file Form 1 on the Shram Suvidha Portal within 60 days of the applicable date.

Chapter XII – Mandatory Vacancy Reporting Workflows

Action Requirement (Multi-state establishments – Central Rules)

- Vacancies with monthly salary \geq ₹11,000 must be reported electronically to the Central Career Centre.
- Reporting is through centralized electronic channels (Form XXV).
- Reporting must be completed at least 15 days before filling a vacancy
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Deferred Notification Trigger – Rule 56(1)(b) (Single-state establishments)

- Vacancy reporting will begin only from the date specified in State notifications.

Compliance Position

- Multi-state IT/ITES establishments → Central Rules apply now. Vacancy reporting via Form XXV is mandatory.
- Single-state IT/ITES establishments → Await State Labour Code notifications before obligations take effect.

Applicability of other Labour Code Central Rules (Wage Code, IR Code, OSH Code)

Industries under Central Government jurisdiction

The following sectors are governed directly by the Central Rules under the Labour Codes (Wage Code, IR Code, OSH Code, SS Code):

- Oilfields
- Telecom
- Banking
- Railways, mines, ports, air transport, insurance, central PSUs, and establishments under Central Acts

For these industries, Central Rules are already notified and applicable. Employers must implement wage definition, gratuity, maternity provisions, industrial relations compliance, OSH requirements, and reporting obligations under the Central Labour Code Rules, 2026 without waiting for state notifications.

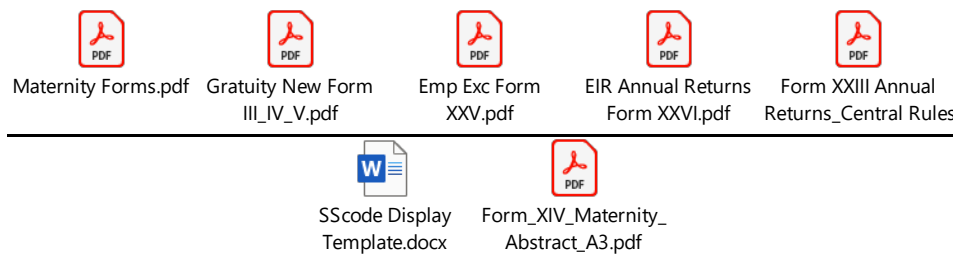
Industries under State Government jurisdiction

- IT and ITES establishments
- Private factories, shops, retail, hospitality, healthcare, schools, and other state-regulated establishments

For these employers:

- The Code provisions are binding, but the procedural formats (forms, registers, portals) will only apply once the respective State Labour Code Rules are notified.
- Until then, continue following existing state-specific notifications and rules.

Establishments with single-state presence must await State Labour Code Rules to adopt the new templates. Until such time, the old enactment templates remain applicable.



Labour Codes Adoption Framework w.e.f 21st Nov 2025

The New Labour Codes have come into force w.e.f. 21st Nov 2025. However, certain provisions of the Labour codes may be brought into force in phases through separate notifications by the Central and State Governments. Until the specific provisions and corresponding Rules are formally notified, the existing applicable labour legislations shall continue to operate.

Accordingly, the compliance framework below is structured on a “notification-contingent” basis and must be implemented as and when the formal enforcement of the relevant provisions takes place.

1: Wage Architecture (The "Core Wages")

The most critical change is the Uniform Definition of Wages. Companies must audit their entire payroll.

The definition of “Wages” under Section 2(y) of the Code on Wages, 2019, where notified and applicable, may require the establishments to review their pay structures to assess compliance exposure.

- **Uniform Wage Definition: Section 2(y)** of the Code, defines "Wages" to include all remuneration (salaries and allowances) capable of being expressed in monetary terms, and excludes components viz. HRA, LTA, Employer PF, Employer NPS, Stat Bonus, Reimbursements, conveyance, etc (as defined in 2(y)(a-i)), subject to a cumulative 50% cap of the total remuneration.
- **Add-back Mechanism:** “Where if the excluded components exceed 50% of the total remuneration, then the excess is deemed to form a part of ‘wages’ under Section 2(y). The impact of PF, Gratuity, Bonus and Leave Encashment shall arise **Only upon the notification of such statutes under the codes are notified and thresholds are crossed.**

- **Bonus & OT:** Recalculate overtime at 2x the new wage rate and ensure Statutory bonuses are paid only via bank transfer within statutory timelines.
- **Strategic Component Mapping: "PF Wages"** To mitigate additional liabilities for both the employer and employee, introducing a specific pay head titled "PF Wages" shall be effective. Since EPFO jurisdiction is currently capped at the ₹15,000 ceiling, declaring existing Basic Wages under this head helps to avoid the fluctuation of PF, in case if the Core wages (Basic + Deemed wages) are considered for PF, as it is supposed to be considered for ESI, Bonus and Gratuity, while remaining compliant with Section 124, which prohibits the arbitrary reduction of wages. In addition to the Basic Wages pay head, you may introduce another column "PF Wages" for clarity.
- **Gratuity** "Based on the draft clarifications and government presentations, it is anticipated that the new wage definition—mandating "Wages" be at least 50% of total remuneration— which according to some FAQ's to be with effect from November 21, 2025.
Source URL: <https://www.labour.gov.in>
- **Stat Bonus** April 2025 – 20 November 2025: Apply the existing Payment of Bonus Act definition of wages (Basic + DA, excluding allowances).
From 21 November 2025 onwards: Apply the new Labour Code definition of wages (Basic + Special Allowance and other fixed components as notified).
Proration: split the year into two segments:
 - Segment 1: April–20 November 2025 under the old definition.
 - Segment 2: 21 November 2025–March 2026 under the new definition. Then aggregate the two calculations for the final FY 2025–26 statutory bonus payout.

Industry Practise on Wage Restructuring: *Wage Definition (Code on Wages) – Sec 2(y)*

The following are some suggestions

Option 1

Included in wages:

Statutory components: Basic Pay, DA, Retaining Allowance (as mandated)

Fixed Remuneration: Components that are (a) truly fixed & recurring, (b) uniformly applied, and (c) not compensation for specific conditions

Excluded from wages (Section 2(y)):

- House Rent Allowance (HRA)
- Conveyance allowance / travel allowance
- Leave Travel Allowance (LTA) reimbursement
- Food & beverage vouchers (ONLY Upto 15% kind of total gross wages would however be considered as core wages)
- Broadband/telephone reimbursement (ONLY Upto 15% kind of total gross wages would however be considered as core wages)
- Statutory bonus
- Commissions – (Only if it is genuinely variable, and non-recurring and not part of fixed remuneration)
- Employer EPF & NPS
- Overtime, gratuity, retrenchment compensation, etc.

Option 2:

Some companies are setting the Basic Pay at exactly 50% of the CTC.

What it claims: Basic Pay = exactly 50% of CTC. All other components compressed into remaining 50%.

Compliance Risk: The Code defines wages as "all remuneration" that is part of "fixed remuneration structure," not just the 50% test alone. The 50% rule is a FLOOR (minimum), not a ceiling strategy. By compressing everything into the remaining 50%, Companies are treating "excluded allowances" as if they're all genuinely excludable - which is incorrect.

Option 3:

What it claims: No restructuring. Keep the old structure. Calculate "deemed wages" each month incase if the excluded allowances exceed 50%.

Companies are not disturbing their Wage Structure and are continuing as it is.

The fifty percent cap means that if the exclusions exceed fifty percent, then the excess is "deemed wages and shall be accordingly added to wages." This is compulsory, not optional. Each month Deemed wages are to be arrived.

Option 4

Included in wages:

- Basic Pay
- Special Allowance or Taxable Allowance or FBP (Excluding the below components if any)

Excluded from wages (Section 2(y)):

- House Rent Allowance (HRA)
- Conveyance allowance / travel allowance
- Food & beverage vouchers (ONLY Upto 15% kind of total gross wages would however be considered as core wages)
- Broadband/telephone reimbursement (ONLY Upto 15% kind of total gross wages would however be considered as core wages)
- Broadband/telephone reimbursement
- Statutory bonus
- Commissions
- Employer EPF & NPS
- Overtime, gratuity, retrenchment compensation, etc.

Since Included bucket contains heavy weights viz Basic & Special Allowance, the excluded bucket will be by default less than 50%.

FINAL COMPARISON TABLE

Criterion	Option 1	Option 2	Option 3	Option 4
Section 2(y) Aligned?	Yes	No	No	Partial
ReStructural Requirement?	Yes	No (Conditional)	No	YES (conditional)
Audit Risk	Low	High	Critical	Medium
Operational Simplicity	High	Moderate	Low	High
Risk Category	Low Risk	High Risk	High Risk	Medium Risk

- There is a potential risk that authorities may seek to apply the revised wage definition for any employee who resigned from November 21, 2025, the "last drawn wages" for Gratuity and Leave Encashment must be recalculated using the New Wages.
- Under Section 53 of the Code on Social Security, Gratuity must be paid within 30 days of becoming due. The company is required to pay simple interest @ 10% per annum on the differential amount from the date of separation until the date of actual payment.
- Also, note that FTEs (Fixed Term Employees), if any are eligible upon notification of the Social Security Code, for pro-rata gratuity upon completion of one year (not five). Continuous service is defined as 190 days (for 5-day work weeks) or 240 days (for 6-day work weeks) in a year. If an FTE completes this threshold, it is rounded up to a full year for calculation purposes.
- **ESI** Effective November 21, 2025, the threshold for ESI coverage remains at ₹21,000, but the method of calculation has changed fundamentally.
 - Under the Code on Social Security, the ₹21,000 limit is applied against the new "Wage" definition
 - Many employees whose "Gross" was previously above ₹21,000 (making them ineligible) may now fall under the ₹21,000 "Wage" threshold. These employees must be registered under ESI immediately.
- **Leave Compliance** Leave compliance now requires dual reference to both the State Shops & Establishments (S&E) Act and the Codes. Historically, the S&E Act lacked an independent wage definition and relied on the Payment of Wages Act. Since the latter is now subsumed by the Code on Wages, the new "50% Rule" wage definition applies. Consequently, leave encashment must now be calculated based on "Wages" as defined by the new Code, while leave entitlements, carry-forward limits, and encashment eligibility remain governed by the respective State S&E Acts, subject to State-specific provisions and amendments.
- **Time of Payment of Wages:** Now the timelines for payment of wages by employers is based on the wage period of employees. The Code on Wages mandates that those engaged on a daily basis must be paid at the end of their shift, those on a weekly basis must be paid on the last working day of the week before the weekly holiday, those on a fortnightly basis must be paid before the end of the second day after the fortnight concludes, and those on a monthly basis must be paid before the expiry of the seventh day of the succeeding month. This provision ensures timely and regular payment of wages to employees according to their mode of engagement.

Operational Change: The 2-Day F&F Window Full and Final (F&F) settlement must be completed within two working days of an employee's exit. In accordance with the statutory definition of wages, this timeline applies to unpaid salary, F&F arrears, and leave encashment. Other components, such as Statutory Bonus and Gratuity, remain under the *status quo* with no changes to their respective payout timelines. **(Components list to be referred in page no 6)**

- **Recommendation about 2-Day F&F window:**

Pre-Clearance Phase (Before DOL Fixation):

- Establish standardized clearance checklists: IT, Finance, Admin, HR
- Request employee to complete handover activities (assets, knowledge transfer, data)
- Explore informing employee to report to office instead of WFH.

DOL Fixation Phase:

- Mutually agree on Date of Leaving post-completion of handover
- DOL becomes the employee's last working day for F&F calculation

F&F Payment Phase:

- Payroll to calculate all components within the 2-day window
- F&F payment disbursed within 2 working days of DOL
- Any delay in the process will result in a corresponding extension of the DOL.

2: HR Policy & Contractual Overhaul

Existing contracts may be legally insufficient under the new Codes.

- **Mandatory Appointment Letters:** Issue new or revised appointment letters with updated clauses (New wage structure, F&F, etc) to every employee, including those previously undocumented or informal.
- **Full & Final (F&F) Deadlines:** Update internal exit processes. Wages must be paid within 2 working days of an employee's removal, dismissal, or resignation.
- Implement leave encashment rules that align with the new wage definition.
- **Sexual Harassment Disqualification:** An employee shall be disqualified from receiving any bonus under applicable law or company policy if dismissed for proven misconduct, including sexual harassment, following a duly conducted disciplinary inquiry in accordance with applicable statutory provisions and the principles of natural justice. Such disqualification shall apply only where the misconduct involves moral turpitude and the dismissal is lawfully effected in compliance with governing labour laws.
- **Standing Orders:** Review applicability; the threshold for mandatory Standing Orders shall become 300+ workers, upon final notification and enforcement of IR Code.

3: Workforce Re-classification & Social Security

The Codes expand the safety net to non-traditional workers.

- **Fixed-Term Employment (FTE):** Ensure FTEs receive parity in wages and benefits at par with the permanent employees. Note that upon the notification of the Social Security Code, they shall be eligible for gratuity on a pro-rata basis for Gratuity upon completion of 1 year of service.
- **Gig & Platform Workers:** If the client uses aggregators, they should be prepared for a contribution to the Social Security Fund at the rate to be notified, which is capped @ 1-2% of annual turnover or @ 5% of the payable amount, whichever is lower.
- **Inter-State Migrant Workers:** Ensure the "Journey Allowance" (round-trip travel to home state once a year) is budgeted for and paid to eligible workers subject to Rule-based clarification.
- **Worker Reskilling Fund:** The reskilling fund obligation applies exclusively to the retrenchment of "workers" as defined under the IR Code. This excludes persons employed in a managerial or administrative capacity, and supervisory employees drawing wages exceeding ₹18,000 per month. Retrenchment of employees above this threshold does not trigger this obligation.

Within 10 days of retrenchment — Transfer an amount equivalent to 15 days' last drawn wages of the retrenched worker electronically to the account specified/maintained by the Central Government (prescribed labour commissioner).

- The fund then credits the worker's account within 45 days of retrenchment for utilisation towards re-skilling.

4: Occupational Health & Safety (OSH)

Compliance shifts from "policing" to "facilitation," but with stricter welfare mandates.

- **Mandatory Health Check-ups:** IT/ITES establishments with 10+ workers are covered under the OSHWC Code but are NOT currently listed as covered establishments for mandatory annual health checkups.
- Rule 6 as set out in the draft Central Rules, currently applies only to factories, docks, mines, and building/construction work.
- NOTE: State Governments may extend this through future notifications. However, this is a compliance risk to monitor.
- **Night Shift Safety (Women):** Women are now permitted in all sectors/shifts. Clients must obtain written consent and implement safety measures (CCTV, transport, and female security).
- **Grievance Redressal Committee (GRC):** Establishments with 20+ employees must have a GRC with equal employer-employee representation. (Refer Page no 8)

5: Digital Compliance & Administration

- **Single Window Registration:** Migrate multiple registrations (Factories, Shops & Est.) into a single electronic registration.
- **Unified Returns:** Transition to filing one consolidated annual return instead of multiple individual filings. But outside Labour Codes continue with the applicable returns. Hence the new Labour Code unified returns will be an additional return further to the existing S&E, IC, LWF, PT, NFH returns. However, until notified, existing registrations and returns under the applicable laws will continue in parallel.
- **Digital Recordkeeping:** Move to digital-only registers for wages, attendance, and leave to be ready for the "Inspector-cum-Facilitator" model.
- The company shall display an abstract of the Wage Code, category-wise wage rates of employees, wage period, day or date and the time of payment of wages.

6: Adoption of Labour Codes by Vendors of the Principal Employer

I. Structural & Licensing Validation

- **Core Activity Restriction:** Conduct a formal "Core vs. Non-Core" audit. Ensure that the vendors DO NOT perform the core business activities unless they fall under the specific intermittent or volume-surge exceptions. Sector-specific interpretation may vary, and a documented business rationale is advisable.

Under Section 2(p) of the OSHWC Code, a Core Activity is anything for which the establishment is set up.

What needs to be done:

- **Validate Exceptions**
 1. The activity is such that the normal functioning of the establishment is ordinarily done through the contractors.
 2. The work is for a sudden increase in volume to be completed within a specified period.
 3. The activity does not require full-time workers for the major portion of the day.

- **Action:** PE must document the specific business justification (e.g., project-based surge or specialized technical delivery) to avoid being flagged for "illegal contractualization" of core work.
- **Threshold & Unified Licensing:** If a vendor deploys 50 workers, verify whether they hold the new Single All-India License (subject to the notification of final rules) (valid for upto 5 years).
- **Registration Continuity:** PE to be registered under the OSHWC Code; the old CLRA registrations are now subsumed into this unified ID. (subject to the notification of final rules)
- Also given the absence of sector-specific clarifications (especially for IT/ITES), this area should be treated as a risk-assessment exercise rather than a definitive prohibition.

II. The "Wage Code" Financial Audit

- **New Wage Rule:** Audit vendors' pay structures.
- **Uniform Wage Definition: Section 2(y)** Under the Code, "Wages" include all remuneration (salaries and allowances) capable of being expressed in monetary terms, excluding HRA, LTA, Employer PF, Employer NPS, Stat Bonus, Reimbursements, conveyance, etc (as defined in 2(y)(a-i)).
- **2-Day F&F Settlement:** Verify the vendor's exit process. All dues for resigned or terminated workers MUST be cleared within two working days.
- **Digital Payment Trail:** Reject all cash/cheque payment claims. Mandate a monthly "Electronic Credit Proof" from the vendor for every worker's salary.
- **Bonus Liability:** Ensure vendors have accrued for the 8.33%–20% statutory bonus. Remember, the PE is now directly liable if the vendor fails to pay the statutory bonus.

III. Social Security & Welfare (The "Hidden" Liabilities)

- **1-Year Gratuity for FTE:** If the vendor uses Fixed-Term Employment (FTE) contracts, ensure that they pay gratuity after one year of service and above.

IV. Compliance Documentation & Transparency

- **Appointment Letters:** Revised formal appointment letters shall specify wages and social security benefits.
- **Unified Registers:** Ensure that the vendor is maintaining the simplified common registers (Forms A through E) electronically.
- **ISMW Declarations:** If the vendor employs Inter-State Migrant Workers (ISMW), they must declare them. The PE must verify that the vendor provides the mandatory annual journey allowance to these workers, as applicable.
- All 3rd party Vendor Agreements to be Revisited.
- **Rules are awaited for all other aspects:** Actual statutory compliance, including obtaining registrations/licenses and maintenance/submission of registers, forms and returns, cannot be carried out until the Rules are notified. Other mandatory requirements, such as certification of the standing orders for establishments and constituting the Grievance Redressal Committees, also directly depends upon the Rules.

Conclusion:

1. **Regulatory Volatility:** Potential shifts in the Government's final position may require previously settled compliance processes (mentioned above) to be revisited and adjusted, upon notification of the final central and state rules.

2. Financial & Compliance Exposure: If the currently notified definitions remain unchanged and an organization fails to enforce them, it faces significant risks. These include accumulated interest on delayed payments, the administrative burden of settling arrears for separated employees, and unresolved balance sheet liabilities.

To mitigate these, we advise a cross-functional review (HR, Finance, and Legal) utilizing impact modelling. This proactive strategy, vetted by your Legal Team, is essential for adopting the new Labour Code framework.

The New Labour Codes have come into force from 21 November 2025. However, as the corresponding Central and State Rules are yet to be notified.

COMPONENTS INCLUDED IN FINAL WAGES within 2 Days

Category	Included?	Validated Explanation
1. Unpaid working days salary	Yes	Includes Basic, DA, Allowances for days worked but unpaid.
2. Statutory overtime dues	Yes	OT forms part of "wages".
3. Statutory holiday wages	Yes	Holiday wages form part of earned wages.
4. Salary in lieu of notice (if employer waives)	Yes	When employer waives notice, the salary in lieu becomes wages due immediately.
5. Statutory arrears payable	Yes	Any wage arrears = part of "wages".
6. Unpaid weekly off wages	Yes	Weekly off wages are counted as part of wage entitlement.
7. Earned Leave Encashment (EL/PL)	Yes	EL Encashment is "wages payable"

COMPONENTS INCLUDED IN FINAL WAGES within 2 Days

Category	Included?	Validated Explanation (Corrected)
1. Gratuity	NOT included	Payable within 30 days under the Gratuity Act. SS Code "2 days" clause is NOT in force.
2. Bonus	NOT included	Payable within 8 months from the FY end under the Payment of Bonus Act.
4. Incentives / variable pay	NOT included	Not part of "wages"; governed by policy. Legally excluded <i>unless</i> it triggers the 50% threshold. If it's a huge payout, it <i>becomes</i> wages by law.
5. Reimbursements (travel, mobile, etc.)	NOT included	Not wages; no statutory timeline.
6. Notice pay recovered from the employee	NOT included	Recovery item (not "wages").
7. Ex-gratia / retention / discretionary payouts	NOT included	Policy-based; no statutory timeline.
8. PF settlement	NOT included	Done by EPFO, not employer.
9. ESI benefits	NOT included	Processed by ESIC.
10. Salary advances / loan adjustments	NOT included	Must be accounted for, but not wages.
11. Items governed by separate laws	NOT included	Example: Gratuity, bonus, leave travel reimbursement.

GRC IS NOT EMPOWERED TO HANDLE the following:

To protect the establishment from legal overreach, as per Section 4 of the Industrial Relations Code, 2020, the GRC may primarily examine the individual employment disputes, but is not empowered to handle the following matters:

- Collective Bargaining Issues: General wage revisions, bonus percentages, or changes to company-wide leave policies.

- Major Misconduct: Cases involving dismissal, discharge, or suspension where a formal domestic enquiry is required.
- Sexual Harassment: Must be referred exclusively to the Internal Committee under the POSH Act.
- Statutory Benefits: Claims related to Gratuity, Provident Fund, or Employee State Insurance.
- Strategic Changes: Decisions regarding layoffs, retrenchment, or closure of the establishment.

Refer the below comparison table on the overall GRC features.

Feature	Industrial Disputes Act (1947)	Industrial Relations Draft Rules (Pending implementation)
Applicability	Establishments with 20 or more workmen	Establishments with 20 or more workers
Committee Composition	1:1 (Equal Management & Worker)	1:1 (Equal Management & Worker)
Chairperson	Rotational (Management vs. Worker)	Rotational (Management vs. Worker)
Maximum Members	6 members	10 members
Women Representation	Encouraged, at least 1 for committees with 2 members	Mandatory (Proportion to the women workforce)
Formation Notification	Not mandatory to notify to the Labour Department	No specific mention and likely remains optional
Selection Process	Where Trade unions are not registered, Employees can elect their representatives	Management cannot unilaterally appoint worker members. They must be "chosen" by the workers.
Timeline	45 days to resolve the grievance	30 days to resolve the grievance
Tenure	Not specified in the Act	Fixed 2-Year term

Employee Vs Worker – Impact Areas

Area of Impact	Employee	Worker	Code
Minimum Wage	Entitled to statutory minimum wages regardless of rank.	Entitled to statutory minimum wages and skill-based floor wages.	Wage Code
Salary Structure	At least 50% Wage-to-CTC rule applies (lowers take-home for high earners).	At least 50% Wage-to-CTC rule applies (increases PF/ESI contributions).	Wage Code
Termination Rights	Terms governed primarily by contract; no "industrial dispute" right.	Protected against retrenchment; right to raise "industrial disputes."	IR Code
Lay-offs/Closures	No government permission required for termination.	Prior govt. permission needed if establishment has 300+ workers.	IR Code
Reskilling Fund	Not eligible.	Employer must pay 15 days' wages into a fund upon retrenchment.	IR Code

Strike Notice	No statutory notice required (usually).	14-day notice required for strikes in all establishments.	IR Code
Social Security	Covered under PF, Gratuity, Maternity, plus ESIC (if under wage ceiling).	Covered under PF, Gratuity, Maternity plus ESIC (if under wage ceiling).	SS Code
Gratuity (Fixed-Term)	Standard 5-year rule for permanent staff.	Eligible after just 1 year if on a Fixed-Term Contract.	SS Code
Supervisory Limit	Any supervisor earning >₹18,000/month.	Supervisors earning <₹18,000/month may continue to be classified as "Workers", subject to any revision notified.	IR & OSH Code

Industry Concern Areas

S. No	Major Amendments	Impact of Change (Post final Notification)	Concern Areas (Clarifications Awaited)
1	'wages' correct decoding	50% of total pay, the excess is "added back" to wages.	Under the new Wage definition, are 'Basic + Fixed Allowances' collectively treated as 'Wages'? Specifically, if Basic Pay is set at 50% of the total remuneration, is the structure compliant? Scenario: If an employee's compensation is structured as Basic (50%) and Fixed Allowances (15% - unconditional), totaling 65%, what is the statutory compliance position regarding 'Wage' calculation for Gratuity, Maternity Benefit, Leave Encashment, etc.?
2	New Definition of "Wages"	Excluded components (bonus, OT, commissions, etc.) introduce volatility. If these exceed 50% of total pay, the excess is "added back" to wages.	Volatility & Deductions: Will monthly spikes in "deemed wages" due to one-time commissions lead to compliance violations if PF contributions are reduced in the following month?
3	Separation Month Payouts	Large final payouts (bonuses/commissions) risk artificially inflating the "Last Drawn Wage."	Under the new wage definition and the 50% "deemed wage" rule, significant final-month payouts—such as commissions and bonuses—may be partially "added back" to the core wages. This mechanism risks artificially inflating the Last Drawn Wage , which serves as the fundamental base for calculating Gratuity and Leave Encashment. Clarification is required on the specific approach for handling these one-time final payments to prevent a disproportionate and unintended increase in statutory settlement costs.
4	Leave Encashment Basis	Encashment is based on the new "50% Rule" wage definition rather than just Basic pay.	Legacy vs. New Code: Clarification is needed on whether this applies to leave balances accrued <i>before</i> the 2025 implementation date.
5	Bonus Eligibility Threshold	The "Core Wage" (min 50% of CTC) may push many employees above the current statutory bonus eligibility ceiling.	Threshold Revision: Will the Government revise the eligibility limit (currently ₹21,000) to account for the expanded definition of "Wages"?

6	ESI Coverage Volatility	Variable pay causes employees to cycle in and out of the ₹21,000 ESI threshold month-to-month.	Registration Window: Will the 10-day ESI registration window be relaxed to allow eligibility checks only after month-end payroll is finalized?
7	Contract Labour in Core Activities	Hiring contractors for "core activities" is now restricted except under specific sudden volume or intermittent work, subject to the conditions prescribed, and any applicable approvals.	IT Sector Definitions: For service-based industries like IT, is "software development" always a core activity, or can it be outsourced under the "intermittent" exemption?
8	Inter-State Migrant Workers (ISMW)	Definition now includes self-migrated workers. If earning ≤₹18,000/month, they get a "Journey Allowance" for home trips.	Fare Calculation: How is the "fare for a trip to the native place" is calculated for the IT/Service sector? Is it based on actuals, or a standard government rate?
9	2-Day F&F Settlement Window	Settlement must be completed within 2 working days of exit for salary and leave arrears.	Operational Deadlock: How should employers handle cases where an employee fails to return assets (laptops/IDs) within the 2-day window?
10	Effectiveness clarity	Whether Labour Code Rules to be awaited?	Although the new Labour Codes were notified effective November 21, 2025, clarity is needed on execution given that Labour is a concurrent subject. Should we await the final state-specific Rules before full implementation, or must the Codes be applied immediately (w.e.f. Nov 21) for settlements like Gratuity and Leave Encashment based on the new wage definitions?
11	Standing Orders	KN State Government SO Exemption Holiday notification status	1. Validity of Current Exemptions: The Karnataka Government extended the Standing Orders exemption for IT/ITES/Knowledge-based industries until June 2029. Given that the IR Code was enforced on November 21, 2025, does this new Central legislation render the previous State-level exemption void under the 'Repeal and Savings' clause, or does the 2029 exemption remain protected? 2. Implementation for 300+ Establishments: Under the IR Code, the applicability threshold for Standing Orders is now 300+ workers. Once the Central and State Rules are notified, must establishments exceeding this threshold automatically initiate the Standing Orders process within the prescribed six-month window, or should we await a sector-specific applicability circular (similar to previous IT/ITES exemptions) from the Karnataka Government?"

Key Points on Individual Contributors under Labour Codes

Description	How an Individual Contributor is Considered
Legal Category	The Labour Codes (Wage Code, Industrial Relations Code, OSH Code, Social Security Code) do not define "individual contributor" separately. Instead, they classify people broadly as employees or workers.

Wage Protection	Covered under the unified “wages” definition
Social Security	Eligible for PF, gratuity, and insurance
Industrial Relations	Protected under the IR Code if classified as a worker
Wage Protection	Guaranteed minimum wages, timely payment, and equal remuneration provisions.
Managerial Status	If managerial/supervisory → Employee; if not → Worker

Disclaimer:

This Labour Codes Adoption Framework is intended for informational purposes only and does not constitute legal advice. It is not a legal document. In the case of any discrepancy between this framework and the statutory provisions of the New Labour Codes, the official government notification shall prevail.

Implementation involves evolving and complex regulatory shifts. Due to pending State-specific notifications, establishments must consult legal counsel before finalizing any compliance or financial decisions. The contents of this document are subject to change without notice as final Rules are published.