

## LAWS

## Labour Reset

India's biggest labour code overhaul promises simpler compliance and social security, but employers face shifts in costs, payroll structures and state-level uncertainties

By VASUDHA MUKHERJEE & SAMREEN WANI



#### THE CONSOLIDATED LABOUR

reform project was rolled out on November 21 with the enforcement of the Code on Wages 2019, the Industrial Relations Code 2020, the Code on Social Security 2020, and the Occupational Safety, Health and Working Conditions (OSHC) Code 2020. Together, they subsume 29 earlier laws. The Ministry of Labour and Employment describes the shift as a move to a "future-ready workforce" through measures such as single registration, a unified annual return and digital systems, including the Shram Suvidha portal.

#### THE CHANGES

The Code on Wages 2019 now mandates universal minimum wages and requires employers to follow strict timelines for salary payments. The Code on Social Security 2020 extends the Employees' Provident Fund (EPF), the Employees' State Insurance Corporation (ESIC) and other welfare benefits to gig and platform workers for the first time. Fixed-term employees are eligible for gratuity after one year of service. The OSHWC Code 2020 introduces annual health check-ups for eligible workers, limits weekly

working hours and places ceilings on overtime.

#### SHIFTING PAY STRUCTURES

For employers, the most immediate and disruptive change is the unified definition of wages. Basic pay, dearness allowance and retaining allowance must constitute at least half of an employee's total remuneration. This raises the base used to calculate statutory outflows such as EPF contributions, ESIC premiums, statutory bonus, gratuity and retrenchment compensation.

Suchita Dutta, executive director



## Pressure On The Rupee

The stress on the currency will remain; the RBI may still lower rates **P/14**

## Musk On Money

The business tycoon about his outlook on business, wealth and politics **P/18**

## A Square Cut Above

Cricketer Deepti Sharma has moved from the fringes to the spotlight **P/29**

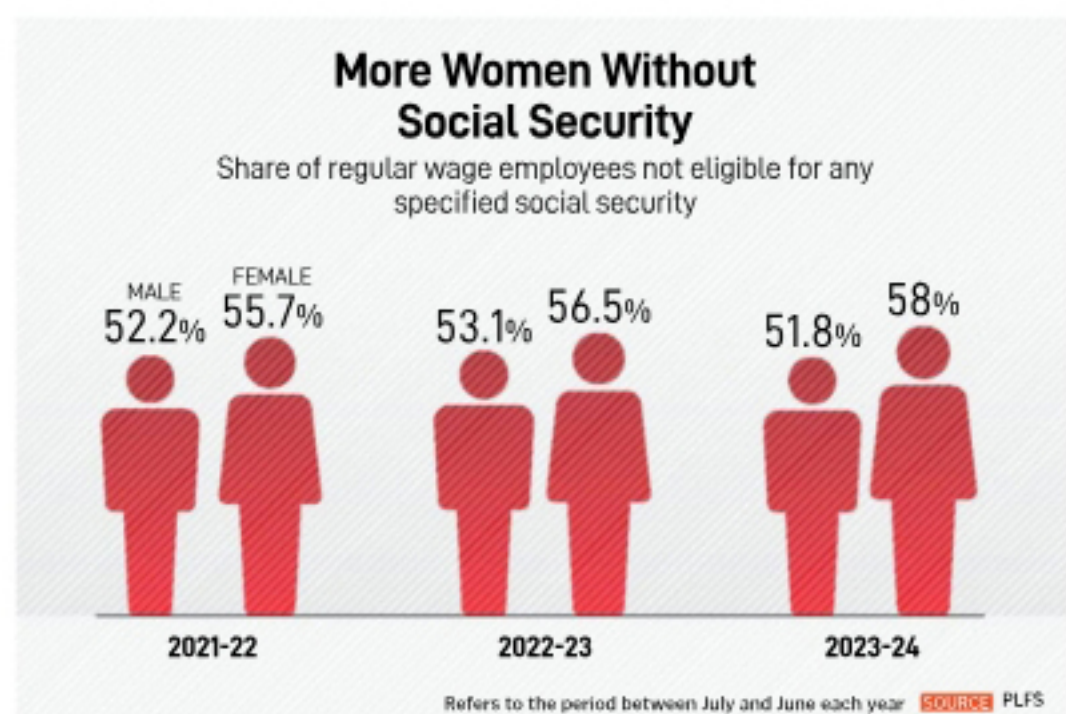
of the Indian Staffing Federation (ISF), highlights that, “allowances cannot exceed 50 percent of total remuneration, compelling firms to restructure salaries”. She adds that the provision that “basic pay must now constitute at least 50 percent of gross salary”, up from typical 30 to 40 percent structures, affects provident fund calculations, gratuity and bonuses, and “experts estimate a 10 to 15 percent rise in employer contributions to EPF”.

“The formal staffing industry currently employing 7.23 million contract workers will not be affected as much. Though the changes could result in a 10 to 15 percent overall CTC escalation for informal firms that have not yet planned to overhaul the pay structures,” adds Dutta.

Legal advisers echo this concern. Pooja Ramchandani, partner at Shardul Amarchand Mangaldas and Co, says the new wage definition will have “a far-reaching impact on gratuity payments”. She adds employers can no longer rely on low basic pay and must be prepared for increases in PF and other statutory costs. “Any excluded allowances in excess of 50 percent of remuneration must be ploughed back to wages for statutory calculations,” she says.

### HR ADAPTATION

Despite the adjustment costs, several HR leaders believe the new clarity will improve hiring sentiment. Santhosh Nair, director and COO of CIEL HR, says, “The labour codes are expected to create a healthier environment for job creation across industries.” According to him, simplification via a single licence, single registration and single return “reduces the administrative load that



often slows down hiring decisions”. He adds that “organisations can focus on growth rather than paperwork”.

HR teams are also navigating considerable employee communication challenges. Partha Neog, CEO and co-founder of Vantage Circle, an employee engagement SaaS-platform, says early conversations with clients regarding the new labour code are about helping employees understand changes in their take-home pay. “One of the key requests we are receiving from HR teams is guidance on how to explain changes in take-home pay in a way that is transparent and reassuring,” he says. Non-monetary benefits are becoming more important. “Employee recognition and rewards, wellness initiatives

and experience-driven benefits” are being used to maintain morale, he adds.

HR tech adoption is accelerating as well. Neog says, “The new labour codes are encouraging HR teams to adopt platforms and tools that provide

structure, visibility and predictability, including digital record-keeping and automated compliance systems.”

### STATE & SECTOR GAPS

Even with nationwide enforcement, companies face a period of dual compliance because some provisions require new state rules before they can be fully implemented. Ramchandani notes that “pending notification of central and state rules, full-scale implementation remains measured” and that many employers are waiting for “complete regulatory clarity before making any major structural changes”.

On November 27, Kerala announced that it does not plan to implement the codes. After a meeting with trade union representatives in Thiruvananthapuram, Labour Minister V Sivankutty said the state has “no intention” of moving to the new framework. The meeting passed a resolution calling for the codes to be withdrawn, arguing that they were drafted without sufficient consultation and dilute worker protections.

Dutta notes that “state-level variations persist” and warns that inconsistent adoption can create dual

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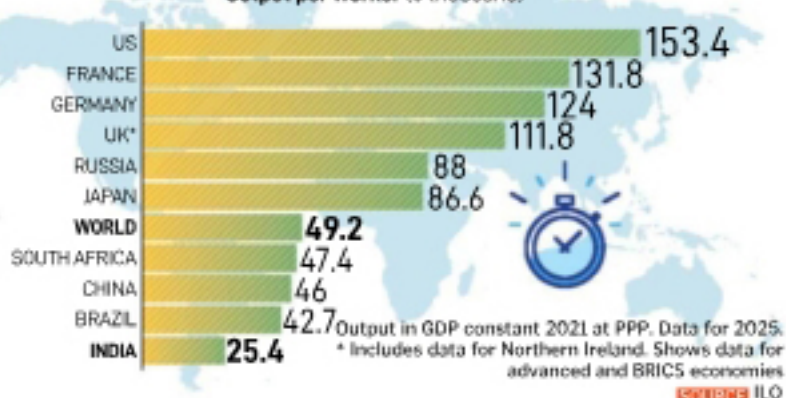
## Indians Work Longer Hours

Mean weekly hours worked per employed person in 2024



## Indians Have Lower Productivity

Output per worker (\$ thousand)



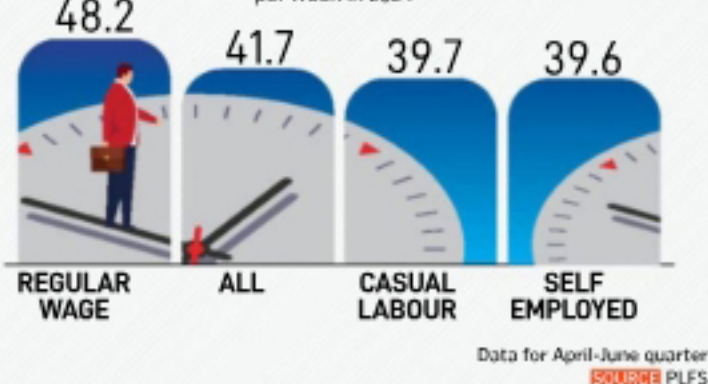
## Gujarat and Delhi Work the Longest

Average number of hours put in by salaried employees per week



## Salaried Employees Work Longer

Average number of hours worked per week in 2024



compliance burdens for companies operating across jurisdictions.

Sectors with complex workforce structures will feel the strain the most. Gig and platform companies must account for new aggregator contribution requirements, while manufacturing, construction and logistics firms face tighter rules for contract labour and wider welfare mandates.

### WORK VERSUS OUTPUT

Given that a larger proportion of women face exclusion from social protections, employees toil longer hours than global peers, and productivity lags far behind, the new laws are a welcome reform.

Government data shows that the share of women ineligible for specified social security climbed from 55.7 percent in 2021-22 to 58 percent in 2023-24—outpacing men

(51.8 percent) and the overall average (53.4 percent). This trend bucks national gains, where coverage has improved.

The most striking contradiction lies in India's work ethic versus its economic output. International Labour Organisation (ILO) data show that average Indian employees work 46 hours a week on an average, longer compared to peers in advanced economies like the US (37.6 hours) or those in the Brazil, Russia, China and South Africa (BRICS) grouping (South Africa: 42.4).

However, long hours are not translating into high-value output as India's productivity remains lowest among all countries under

consideration. Output per worker stands at about \$25,400 (at constant 2021 PPP), less than half of the global average. In fact, government data reveals acute pressure points, with regular wage employees in states like Gujarat (53 hours) and Delhi (52.3 hours) averaging well over the 48-hour statutory weekly limit set by the new codes.

In India, between 2017 and 2024, while the weekly hours clocked

by employees have dropped from 53 to 42, salaried employees still work over 48 hours a week. While those in casual labour work an average of 39.7 hours a week, self-employed work slightly lower at 39.6 hours. **F**

**Long hours don't translate into high-value output. India's productivity remains lowest among all countries under consideration**