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Labour Law Reforms

Bhatia & Bhatia
CHARTERED ACCOUNTANTS



The Great Indian Labour Reset: A Comprehensive Analysis of the 2025 Reforms

In this issue, we bring you clear and practical updates on the new labour codes and their implications for employers. As these reforms aim to streamline and modernise labour regulations, this edition summarises the relevant provisions and timelines to help businesses plan ahead.

With several provisions expected to reshape payroll, compliance timelines, and HR processes, this edition highlights the key points businesses should prepare for. Our objective is to present these changes in a simple, structured manner so you can stay updated and ensure smooth compliance within your organisation.

Introduction: The Architecture of a Modern Workforce

On November 21, 2025, the Republic of India embarked on its most ambitious legislative overhaul in the domain of employment and industrial jurisprudence since its Independence. The implementation of the four Labour Codes -

The Code on Wages, 2019;

- The Industrial Relations Code, 2020;
- The Code on Social Security, 2020;
- The Occupational Safety, Health and Working Conditions (OSH) Code, 2020, represents a tectonic shift in the country's regulatory framework.

This report is structured to guide industry leaders, legal practitioners, and HR professionals through the details of each Code.

The Uniform Definition of "Wages" [Section 2(y)]

The most consequential technical change in the entire labor reform architecture is the unified definition of "Wages" under Section 2(y) of the Code on Wages, 2019. The statutory definition is constructed in three parts: inclusions, exclusions, and a limiting proviso.

Inclusions: Basic Pay, Dearness Allowance (DA), Retaining Allowance (if any).

Exclusions: HRA, conveyance, bonus, overtime, employer PF, gratuity, commission, retrenchment compensation, etc.

The 50% Cap: If excluded components exceed 50% of total remuneration, the excess is added back to "Wages".

► The Mathematical Impact on Salary Structures

This "50% Rule" effectively dismantles the prevailing practice of "low basic, high allowance" structures.

Implications for Take-Home Pay vs. Savings:

- Reduced Take-Home: for allowance-heavy salaries due to higher PF deduction (subject to ₹15,000 PF cap).
- Increased long-term benefits through higher PF, Gratuity, Leave Encashment, Accidental coverages and annual health benefits.

► Issuance of New Letter & Payslips

Employers must issue fresh appointment/restructuring letters and revised payslips showing fixed and variable components clearly. *

*The notification regarding the prescribed format for the revised appointment letters and payslips is still awaited from the Central and respective State Governments.

Universalisation of Minimum Wages

The Code on Wages, 2019, extends the statutory right to minimum wages to 100% of the workforce, covering both the organised and unorganised sectors.

Employee Safety Net: Deduction Limit

No employer may deduct more than 50% of wages in any month, ensuring minimum financial security for employees.

Payment Discipline and Transparency

While the Code on Wages emphasizes that salary must be credited timely for all employees, a specific, immediate deadline has been mandated for the digital economy:

IT & ITES Deadline: Mandatory wage payment by the 7th of the following month.

Other Sectors: Employers must continue to adhere to existing state-level rules until new regulations are officially gazetted.

****Failure to comply will attract a penalty; details regarding the nature and quantum of this penalty are awaited through forthcoming state notifications.****

Full and Final Settlement: Must now be paid within 48 hours of separation, ending the old 30-90 day delays.

Operational Challenge: Given the complexity of processing all variables in 48 hours, employers are advised to settle guaranteed statutory components first due to the tight timeline.

Gratuity Reforms: The One-Year Rule

The Code on Social Security, 2020, introduces a landmark change for Fixed-Term Employees (FTEs) i.e. employees hired for a defined period under a written contract:

Reduced Eligibility: FTEs are now eligible for gratuity if they render service for a period of one year, with pro-rata calculation.

Permanent Employees: The five-year continuous service requirement for gratuity eligibility remains unchanged.

Shram Suvidha Portal

A revamped single-sign-on portal now enables consolidated registration under all four Codes. ESIC coverage is expanded across all 740 districts, improving portability of medical and cash benefits.

▶ Accidental Coverage

Commute-related accidents are now covered, with no cap on compensation, making Corporate Accidental Insurance essential. To safeguard your financial stability against these newly expanded and substantial risks, we strongly advise immediate action to secure comprehensive Corporate Accidental Insurance coverage.

▶ Annual Health Checkups

Mandatory for:

- All workers above 40, and
- All workers in hazardous industries, regardless of age.

▶ Annual Leave and Encashment Reforms

The OSH Code introduces employee-friendly changes to leave policies, encouraging work-life balance and preventing the lapsing of earned benefits.

- Eligibility Reduced: The threshold for eligibility for leave with wages has been reduced from a minimum work of 240 days to 180 days of work in a calendar year.
- Carry Forward and Encashment:
 - Workers can carry forward annual leave up to a maximum of 30 days.
 - Encashment: Crucially, if the leave balance exceeds 30 days at the end of the calendar year, the worker is entitled to encash the excess leave.

▶ Women in the Workforce: Breaking Barriers

The OSH Code mandates that women shall be entitled to be employed in all establishments for all types of work, including hazardous processes and night shifts.

- Night Shifts (Before 6 AM and after 7 PM): Women can work night shifts, subject to their consent.
- Safety Obligations: The employer must comply strictly with conditions relating to safety, holidays, and working hours.
- The new code also mandates equal pay for all employees for equal work, irrespective of gender.

▶ Working Hours, Overtime & WFH

- Weekly Limits: The weekly limit is set at 48 hours.
- Overtime at 2x wages, only with consent
- Flexible spread-over allows a potential 4-day workweek.
- Work from Home: Though already widely followed, the WFH arrangements are now officially recognised.

Strategic Implications and Recommendations

The implementation of the Labour Codes 2025 is not merely a legal update; it is a strategic reset.

For Employers:

1. Cost Impact Analysis: CFOs must immediately assess the impact of the "Wages" definition on the wage bill. The increase in leave encashment and gratuity liability must be budgeted for.
2. Policy Overhaul: HR policies regarding leave, overtime, and grievances must be rewritten. The "Use it or Lose it" leave policy for balances above 30 days is now illegal; policies must reflect the encashment right.

For Employees:

1. Financial Planning: Employees should anticipate a potential reduction in monthly take-home salary but an increase in retirement savings. This necessitates a review of personal financial planning and liquidity needs.
2. Rights Awareness: Employees should now be more aware about their rights related to leaves, maximum deductions and work-life balance.

Conclusion:

The Labour Codes 2025 represent a decisive reset—formalizing the informal workforce, protecting employees, and enabling businesses to align with global standards. While the transition demands structural and administrative adjustments, the long-term outcome is a more balanced, transparent, and future-ready labour ecosystem for India.



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