

NEW LABOUR CODES- OVERVIEW FROM AUDIT PERSPECTIVE

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The Great Consolidation

The **29** central labour legislations have been consolidated into four primary Codes, effective in their entirety since November 21, 2025:



- Current Enforcement Status
- Immediate Effect: All 29 prior central laws are officially repealed.
-
- No Transition Window: Despite earlier mentions of a transition, current notifications provide no grace period. Compliance is required immediately.
-
- Rule-Making Gap: While the Codes are active, many States have yet to finalize their specific Rules. We are currently in a "hybrid" regulatory phase.

CONSTITUTIONAL PROVISIONS

- 15. Prohibition of discrimination on grounds of religion, race, cast, sex or place of birth
- 16 Equality of opportunity in matters of public employment
- 19 Protection of certain rights © to form associations or unions
-
- 19(g) to practice any profession, or to carry on any occupation, trade or business
-
- 21 protection of life and personal liberty
-
- 23 prohibition of traffic in human being and forced labour
-
- 24 prohibition of employment of children in factories, etc





Golden Rules!

Principle

Code Supremacy

Rule Continuity

Two "Golden Rules" for Interpretation

Legal impact

The Code take precedence over all existing contracts, policies and settlements. conflicting old agreements are now invalid

As per Section 24 of the General Clauses Act, old rules under repealed laws still apply only if they don't conflict with the new Codes, until new rules are gazetted.

4 NEW LABOUR CODES

01



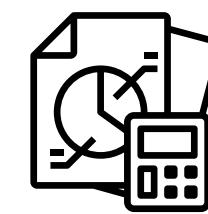
CODE ON WAGES
2019

INDUSTRIAL
RELATIONS CODE
2020



02

03

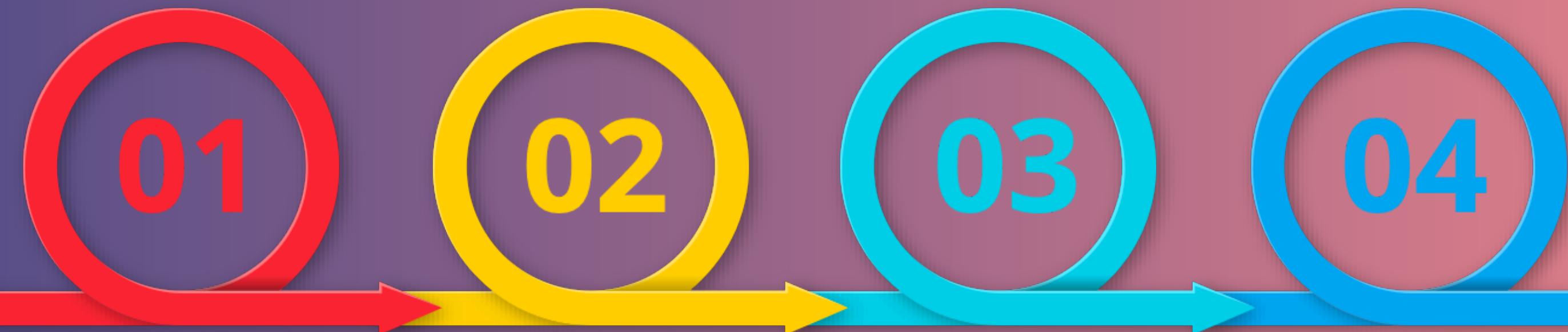


CODE ON SOCIAL
SECURITY 2020

OCCUPATIONAL
SAFETY HEALTH
AND WORKING
CONDITIONS CODE
2020



04



Wage Code:

1. Payment of Wages Act, 1936
2. Minimum Wages Act, 1948
3. Payment of Bonus Act, 1965
4. Equal Remuneration Act, 1976

IR Code:

1. Industrial Disputes Act, 1947
2. Industrial Employment (Standing Orders) Act, 1946
3. Trade Unions Act, 1926

SS Code:

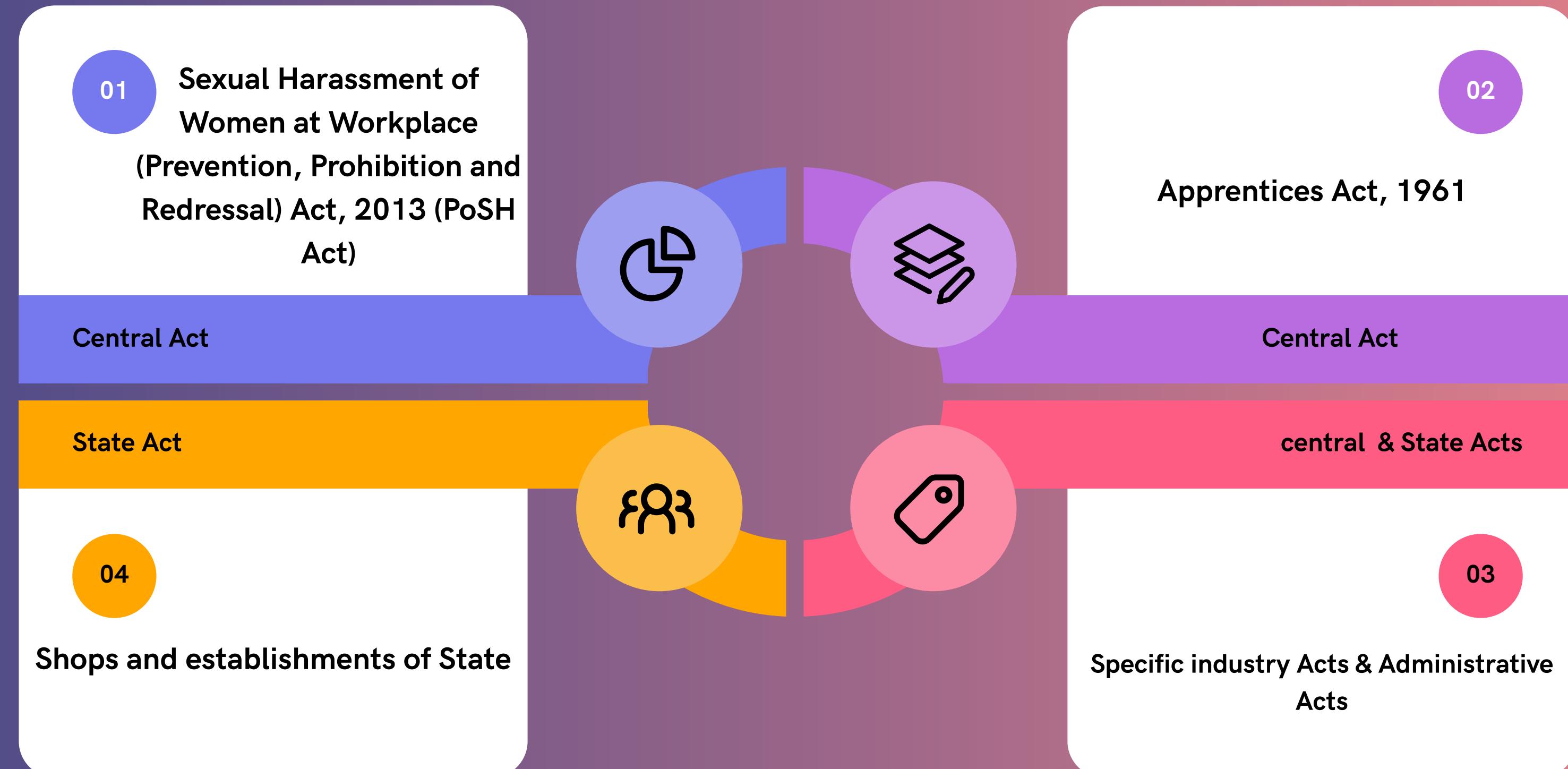
1. Employee's Compensation Act, 1923
2. Employees' State Insurance Act, 1948
3. Employees' Provident Funds and Miscellaneous Provisions Act, 1952
4. Employment Exchanges (Compulsory Notification of Vacancies) Act, 1959
5. Maternity Benefit Act, 1961
6. Payment of Gratuity Act, 1972
7. Cine-Workers Welfare Fund Act, 1981
8. Building and Other Construction Workers' Welfare Cess Act, 1996
9. Unorganised Workers' Social Security Act, 2008

oshCode:

1. Factories Act, 1948
2. Plantations Labour Act, 1951
3. Mines Act, 1952
4. Working Journalists and other Newspaper Employees (Conditions of Service) and Miscellaneous Provisions Act, 1955
5. Working Journalists (Fixation of Rates of Wages) Act, 1958
6. Motor Transport Workers Act, 1961
7. Beedi and Cigar Workers (Conditions of Employment) Act, 1966
8. Contract Labour (Regulation and Abolition) Act, 1970
9. Sales Promotion Employees (Conditions of Service) Act, 1976
10. Inter-state Migrant Workmen (Regulation of Employment and Conditions of Service) Act, 1979
11. Cine-Workers and Cinema Theatre Workers (Regulation of Employment) Act, 1981
12. Dock Workers Safety (Safety, Health, and Welfare) Act, 1986
13. Building and Other Construction Workers (Regulation of Employment and Conditions of Service) Act, 1966

*Subsumed
laws*

Continuing Acts under Labour Laws



DEFINITION OF WAGES

01 All remuneration

wages" means **all remuneration** whether by way of salaries, allowances or otherwise, expressed in terms of money or capable of being so expressed which would, if the terms of employment, express or implied, were fulfilled, be payable to a person employed in respect of his employment or of work done in such employment, and **includes,—**

- (i) basic pay;**
- (ii) dearness allowance; and**
- (iii) retaining allowance, if any,**

02 Allowances

but does not include—

- (a) any **bonus** payable under any law for the time being in force, which does not form part of the remuneration payable under the terms of employment;
- (b) the **value of any house-accommodation**, or of the supply of light, water, medical attendance or other amenity or of any service excluded from the computation of wages by a general or special order of the appropriate Government;
- (c) any contribution paid by the **employer to any pension or provident fund**, and the interest which may have accrued thereon;
- (d) any conveyance allowance or the value of any **travelling concession**;
- (e) any sum paid to the employed person to **defray special expenses** entailed on him by the nature of his employment;
- (f) **house rent allowance;**
- (g) remuneration payable under any award or **settlement** between the parties or order of a court or Tribunal;
- (h) any **overtime allowance;**
- (i) any **commission** payable to the employee;
- (j) any gratuity payable on the termination of employment;**
- (k) any retrenchment compensation or other retirement benefit payable to the employee or any ex gratia payment made to him on the termination of employment;**

DEFNITION OF WAGES.....

Provided that, for calculating the wages under this clause, if payments made by the employer to the employee **under clauses (a) to (i) exceeds one-half**, or such other per cent. as may be notified by the Central Government, of the all remuneration calculated under this clause, the amount which exceeds one-half, or the per cent. so notified, shall be deemed as remuneration and shall be accordingly added in wages under this clause:

Provided further that for the purpose of equal wages to all genders and for the purpose of payment of wages, the emoluments specified in clauses (d), (f),(g) and (h) shall be taken for computation of wage.

Explanation.—Where an employee is given in lieu of the whole or part of the wages payable to him, any remuneration in kind by his employer, the value of such remuneration in kind which does not exceed fifteen per cent. of the total wages payable to him, shall be deemed to form part of the wages of such employee;

Calculation of 50% Rule



- 01 All remuneration
- 02 Less one Time benefits
- 03 Find value of 9 allowances : less
- 04 Balance = Wages
- 05 if 9 allowances are more than 50% of all remuneration
- 06 value above 50% should be addes with wages

Practical Considerations



Whether wage determination will be done on monthly or annual basis?

01



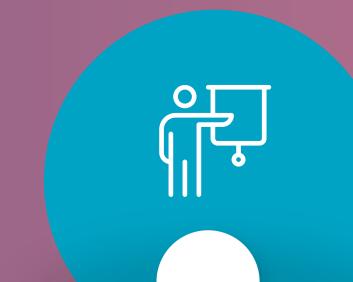
How to quantify the benefit in kind such as stock awards, car etc?

02



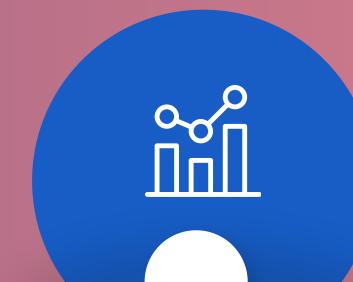
cost analysis be done for calculation of wages for gratuity, maternity benefits leave encashments , esc etc

03



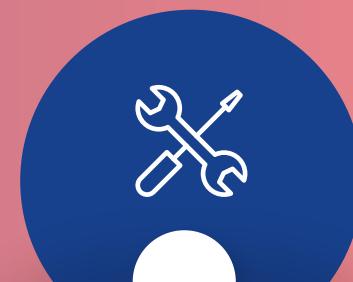
whether performance bonus/ statutory bonus forming part of bonus forming part of contact are wages?

04



what a sum paid to defry special expenses

05



commission or performance bonus

06



Example 1.	amount in Rs
Basic.	40,000
HRA.	20,000
LTA.	16,000
Special Allowance	24,000
Total	100,000

Question : what is the wage ?

- A 50,000
- B 64,000
- C 36,000
- D 100,000



Example 2.	amount in Rs
Basic.	40,000
HRA.	28,000
LTA.	28,000
Special Allowance	4,000
Total	100,000

Question : what is the wage ?

- A 50,000
- B 56,000
- C 44,000
- D 100,000

Salary in Kind

Provision: Value of "Remuneration in Kind" up to 15% of total wages is allowed.

Audit Example:

Employee Total Remuneration: ₹1,00,000.

Company provides free high-end housing valued at ₹25,000 (25%).

Audit Finding: Only ₹15,000 (15%) can be considered part of wages for statutory compliance.

The extra ₹10,000 cannot be used to "offset" minimum wage requirement.

Employee A (Male)

Basic	₹50,000
DA.	₹10,000
HRA	₹20,000
Conveyance	₹ 5,000
Overtime	₹ 8,000
Total cash paid =	₹93,000

EmployeeB (Female / Transgender)

Basic	₹50,000
DA	₹10,000
HRA	₹15,000
Conveyance	₹ 5,000
Overtime	₹ 3,000
Total cash paid	= ₹83,000

VIALATED THE LAW

d) any conveyance allowance or the value of any travelling concession;(f) house rent allowance
f) house rent allowance
(g) remuneration payable under any award or settlement between the
parties or order of a court or Tribunal;
(h) any overtime allowance;

Practical salary calculation



	Employer			
Wage	A	B	C	D
Basic	15000	50000	15000	35000
DA	6000			10000
RA				
wages as per the code 2019	21000	50000	15000	45000
<u>Exclusions</u>				
HRA	6000	25000	10000	10000
Advance bonus (monthly)	583		500	
Conveyance	2000	3000	2000	15000
Sales Commission		3000	3000	
PF Employers Share	2520		1800	25000
OT	3000	5000	3000	5000
Sum of all exclusions	14103	36000	20300	55000
<u>sum of all remuneration (CTC)</u>	35103	86000	35300	100000
50 % LIMIT	17551.5	43000	17650	50000
Short fall	-	-	2650	5000
Exclusions exceed 50%	NO	NO	YES	YES
REVISED WAGES	21000	50000	17650	50000

Why Definition of wages is most important ?

1. Statutory Contributions (EPF and ESI)

**2. Calculation of Gratuity
3. Overtime Payments**

4. Bonus Entitlement and Calculation

5. Minimum Wage Compliance

6. Leave Encashment

**7. Retrenchment compensation
8. Maternity benefit**

Floor wage worker

Fixed by Central
Government



State Govt fixes minimum
wage



minimum wage should not
be less than Floor wage



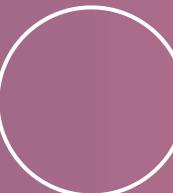
Periodical revision
geographical
consideration & skill etc



minimum wage fixed by
the state government is
higher than floor wage .
minimum wage is
applicable

Time limit for wages

Employees engaged in



Contractor : 7 days

01

Daily : end of the shift

02

Weekly : last working day of the week

03

Fortnightly : before the end of second day

04

Monthly : before 7th day of succeeding month

05

Full and final settlement within 2 working days



Permissible Deductions & The 50% Ceiling

payment of wages act cap was 75%

Authorized Deductions (Section 18):

- o Fines: Imposed for specific acts/omissions (must be notified in advance).
- o Absence from Duty: Pro-rata deduction for the period of absence.
- o Damage or Loss: Recovery for loss of goods or money expressly entrusted to the employee (requires an internal enquiry).
- o Services Rendered: Housing/Accommodation or amenities provided by the employer.
- o Recovery of Advances: Loans or advances given to the employee (and interest thereon).
- o

Permissible Deductions & The 50% Ceiling....

payment of wages act cap was 75%

Authorized Deductions (Section 18.....):

- o Dues: PF, ESI, Income Tax (TDS), and Professional Tax.
- o Court Orders: Deductions mandated by a court or competent authority.
- The 50% Statutory Cap (Section 18(3)):
 - o Total aggregate deductions from an employee's wages in any wage period cannot exceed 50%.
 - o Audit Check: If deductions (loan recovery + statutory + fines) exceed 50%, the employer must defer the recovery of the excess amount to subsequent months.

Payment of Bonus – Key Shifts from Old Act to New Code

Universal Eligibility (No Sectoral Gap):

Old Law: Limited primarily to factories and establishments with 20+ persons.

New Code: Broadened application. Any establishment with 20+ employees at any time during the accounting year must pay bonus.

New Ground for Disqualification (Section 29):

In addition to fraud, theft, and riotous behavior, an employee is now disqualified from receiving a bonus if dismissed for conviction of sexual harassment.

Direct Bank Transfer (The Digital Shift):

Old Law: Permitted cash payments.

New Code (Section 39): Statutory bonus must be credited directly to the employee's bank account. Cash is no longer a compliant mode.

Redefined Calculation Base (The 50% Rule):

Audit Alert: Since "Wages" is now redefined (Section 2(y)), the bonus calculation base may increase if allowances exceed 50% of CTC. This could push an employee's "wage for calculation" higher than before, even if their gross salary remains the same.

Code on Wages 2019

Definitions & Other Key Points

01 Employee

skilled, unskilled or semi skilled : manual , operational, supervisory, managerial ,admin, technical , clerical

02 Director

A Director can be considered an employee if they are under a "Contract of Service" with the company.

03 Any Gender

Equal remuneration for same or similar work of similar nature to all genders

04 Minimum wage

applicable to all employees

05 2 classes of work

Two or more classes of works with minimum wage

06 Overtime

Twice the wages for every extra Hour

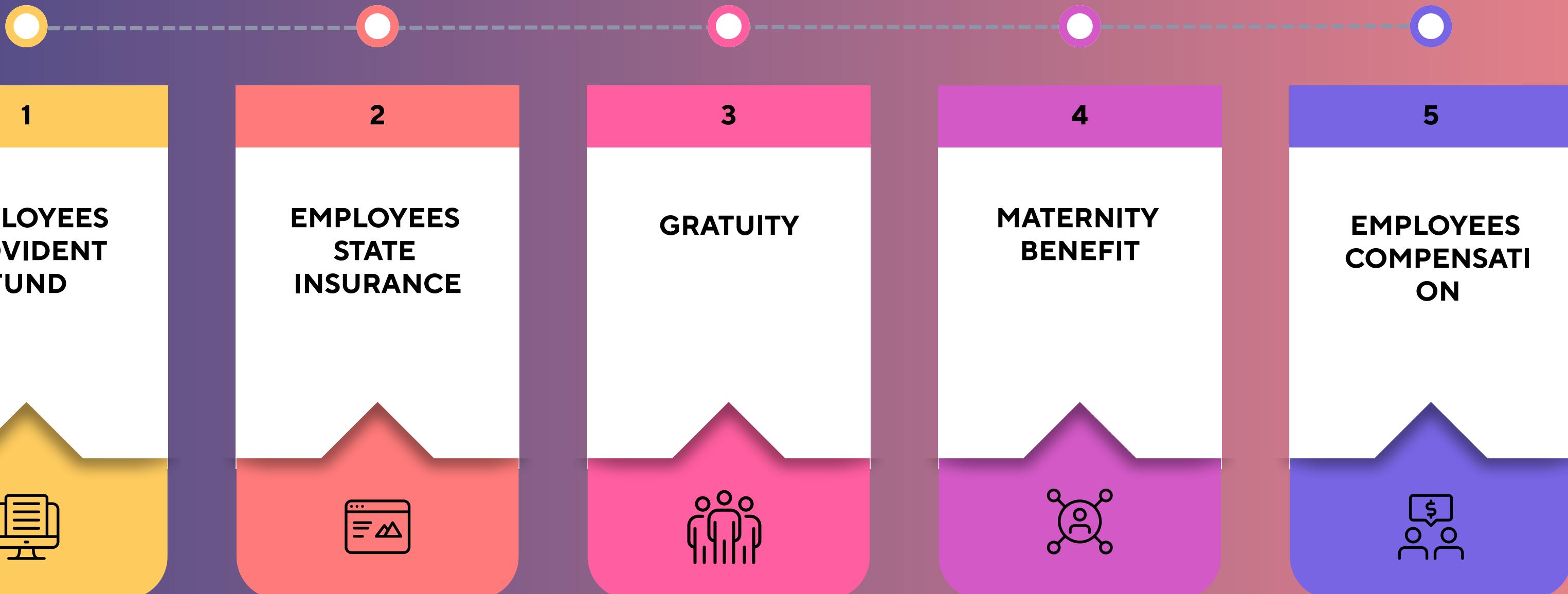
07 Audit point of view

- Verify wage reclassification in payroll master.
- Test minimum wage compliance.

08 Audit

Check timely payment & deduction limits.
Bonus accrual & payment.

Code on Social Security 2020



Code on Social Security 2020

Employees' Provident Fund (EPF):

Applies to every establishment (regardless of industry) employing 20 or more employees.

Audit Note: The old "Schedule I" list of industries is gone. Universal coverage now applies to all sectors.

Employees' State Insurance (ESI):

Applies to every establishment with 10 or more employees.

Hazardous Workplaces: Mandatory coverage even if only one worker is employed (Section 2(21)).

Gratuity:

Applies to factories, mines, oilfields, plantations, ports, and railway companies.

Applies to every shop or establishment with 10 or more employees on any day of the preceding 12 months.

Code on Social Security 2020

Maternity Benefit:

Applies to every factory, mine, or plantation (including government establishments).
Applies to every shop or establishment with 10 or more employees.

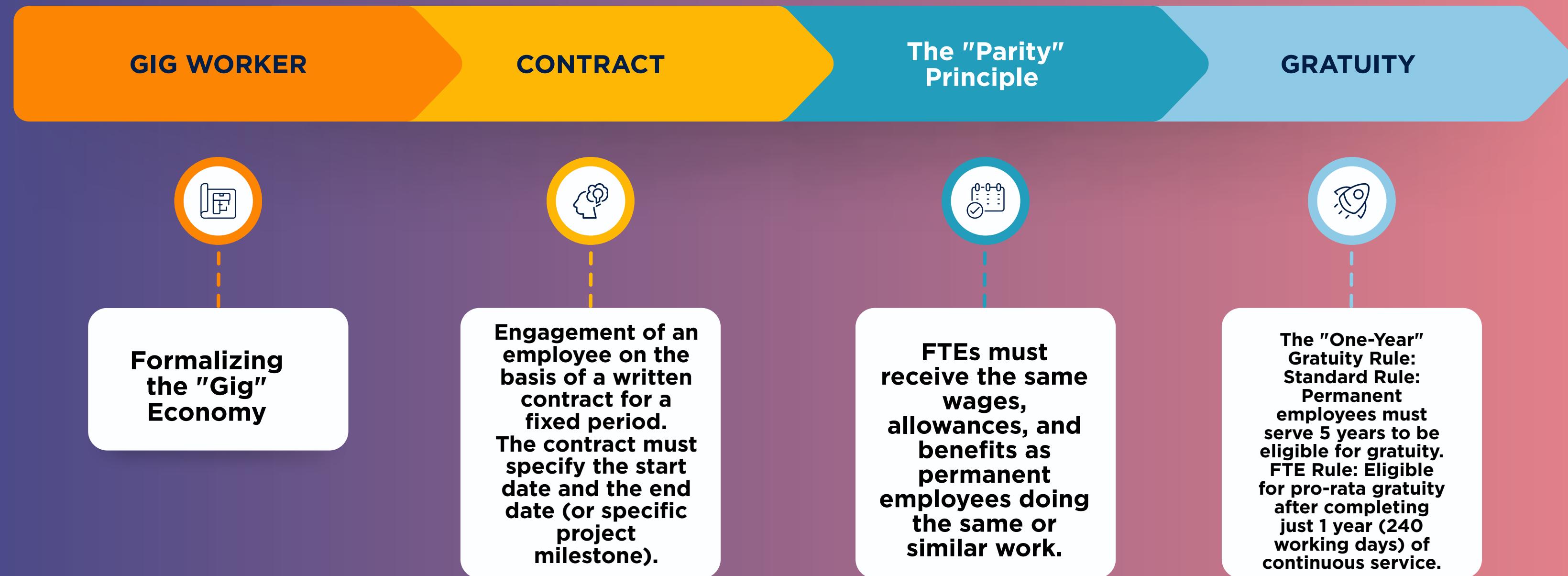
New Categories (The Digital Extension):

Gig & Platform Workers: Mandatory for Aggregators (Digital intermediaries connecting buyers and sellers) listed in the 7th Schedule (e.g., Ride-sharing, Food delivery, Logistics).

Unorganized Sector: Applies to home-based or self-employed workers.

Section 124 employer not to reduce wages -

FIXED TERM EMPLOYMENT



FIXED TERM EMPLOYMENT

**Comparison for an employee with ₹50,000 monthly "Wages"
(leaves in 2 years)**

Component	Permanent Employment	Fixed-Term Employee
PF/ESI.	Benefits Full Eligibility	Full Eligibility (Parity)
Gratuity Eligibility.	No (Did not hit 5-year mark)	Yes (Eligible after 1 year)
Gratuity Amount.	₹0	₹57,692
Retrenchment	Pay Possible (if terminated)	None (on contract expiry)
Provisioning Risk	Low (if turnover is high)	High (Mandatory liability)

INDUSTRIAL RELATIONS CODE 2020



1

TRADE
UNIONS



2

STANDING
ORDERS



3

INDUSTRIAL
DISPUTES



4

STRIKES &
LOCK OUTS



5

LAY OFF &
RETRENCHMENT



Industrial Relations Code 2020

Key Definitions (Audit Relevance)

Worker → Supervisory employees up to ₹18,000 p.m. now included (earlier ₹10,000) →

Managerial / administrative roles excluded → Impact: More employees now covered under protections, standing orders, retrenchment, etc.

Employer → Widened (includes contractors, intermediaries, principal employers)

Retrenchment, Lay-off & Closure

Prior government permission required only for establishments with 300 or more workers (raised from 100)
States can increase the threshold further
Compensation unchanged → 15 days' average pay per completed year (or part >6 months)
Advantage: Easier restructuring for mid-size companies (<300 workers)

Re-skilling Fund (New Cost)

Employer must contribute 15 days' last drawn wages for every retrenched worker
Paid into government Re-skilling Fund

Amount credited to worker's account within 45 days

Accounting: Expense in P&L in the period of retrenchment (termination benefit)
Audit: Test every retrenchment case for contribution & payment

Standing Orders & Grievance Redressal

Standing Orders mandatory for establishments with 300 or more workers
Model standing orders prescribed → uniformity across units

OCCUPATIONAL SAFETY ,HEALTH AND WORKING CONDITIONS CODE 2020

1

DUTIES OF
EMPLOYER &
EMPLOYEE



2

OCCUPATIO
NAL SAFETY
&HEALTH



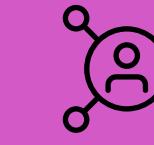
3

HOURS OF
WORK &
ANNUAL
LEAVE



4

CONTRAT
LABOUR &
IMIGRANT
WORKERS



5

APPOINTMENT
ORDER



Occupational Safety, Health and Working Conditions (OSH) Code, 2020

Working Hours & Overtime (Core Financial Impact)

Standard: Max 8 hours/day, 48 hours/week

Overtime: With consent → at least 2x normal wages (overtime allowance excluded from wages definition but paid double)

Flexibility: Govt can fix higher daily limits (e.g., 12 hrs in 4-day week)

Night shifts, weekly off mandatory

Impact: ↑ overtime costs if payroll not restructured; test accruals

Leave Entitlements & Encashment

Annual leave: At least 1 day per 20 days worked (≈18 days/year)

Carry-forward allowed; encashment of excess over 30 days mandatory on demand

Leave encashment on separation: Payable within 2 working days

Maternity, casual, sick leave provisions

Audit Red Flag: Higher leave liabilities (past service cost if wages ↑)

Welfare, Safety & Health Provisions

Employer duties: Cleanliness, ventilation, drinking water, latrines, waste treatment, safety audits

Safety Committee for 500+ workers

Compulsory welfare facilities (canteen, crèche for 50+ women)

Third-party audit/certification for startups/classes of establishments (reduces inspector visits)

Financial: Indirect costs (capex for facilities) → expense recognition

THE THRESHOLD NO OF WORKERS IN DEFINITION OF FACTORY

**OLD LAW : 10 WORKERS WITH POWER
WITH OUT POWER 20**

**NEW CODE : 20 WORKERS WITH POWER
WITH OUT POWER 40**

Reduced burden for small/micro manufacturing units (e.g., 10-19 workers with power):

No longer classified as "factories" → escape strict factory-specific compliances (e.g., some licensing, detailed hazardous process rules), but still comply with general OSH provisions.

Re-classification needed: Review client premises –

if previously a factory (under old 10/20), check current headcount. If now below 20/40, document as non-factory establishment → potential compliance savings.

Payroll/HR testing: Verify worker count (exclude apprentices/out-workers where applicable); test for accurate peak over 12 months.

Financial angle:

No direct P&L hit from threshold change, but indirect via uniform rules (e.g., overtime at 2× wages, leave encashment) applying from 10 workers..

Overview - Decriminalisation & Compounding

Imprisonment limited to serious/repeat offences (e.g., wilful evasion, safety lapses causing death/injury)

Most first-time offences → monetary fines only (higher than old laws: ₹50,000-₹5 lakh+)

Compounding allowed for first-time offences (not repeat within 3-5 years)
Fine-only offences → 50% of max fine

Fine + ≤1 year imprisonment → 75% of max fine

Opportunity to rectify before prosecution (Improvement Notice)

Audit angle: Lower litigation risk but higher provisions for potential fines

Common Features Across Codes

Inspector-cum-Facilitator role (advisory + enforcement)

Electronic records/registration → easier compliance, but non-maintenance fined

Repeat offence (within 3-5 years) → higher fines + possible imprisonment

Compounding not available for repeat/similar offences

Penalties credited to Social Security Fund (SS Code) or welfare funds

Limitation: 5-year look-back for most claims/proceedings

Code on Wages, 2019 – Key Offences & Penalties

Offence	First-Time Penalty	Repeat (within 5 years)	Section
Pay less than due / below minimum wages	Fine up to ₹50,000	Imprisonment ≤3 months OR fine up to ₹1 lakh (or both)	Sec 54(1)(a)–(b)
Contravene any other provision (e.g., records, timely payment)	Fine up to ₹20,000	Imprisonment ≤1 month OR fine up to ₹40,000 (or both)	Sec 54(1)(c)–(d)
Non-maintenance/improper records	Fine up to ₹10,000	Higher fine/imprisonment	Sec 54(2)
Obstruct Inspector	Fine up to ₹1 lakh	Imprisonment ≤6 months + fine	Various

Industrial Relations Code, 2020 - Key Offences & Penalties

Offence	First-Time Penalty	Repeat/Serious	Section
Illegal lay-off/retrenchment/closure without permission (≥ 300 workers)	Fine ₹1–10 lakh	Fine ₹5–20 lakh OR imprisonment ≤ 6 months (or both)	Sec 78–80
Contravene standing orders / unfair labour practice	Fine ₹50,000–₹2 lakh	Fine ₹1–5 lakh OR imprisonment ≤ 6 months	Sec 67, 70, etc.
Illegal strike/lock-out	Fine ₹50,000–₹2 lakh	Higher fine + imprisonment	Sec 57
Failure to constitute Grievance Committee / maintain records	Fine ₹25,000–₹1 lakh	Escalating	Various

Code on Social Security, 2020 – Key Offences & Penalties

Offence	First-Time Penalty	Repeat/Serious	Section
Failure to pay contributions (PF/ESI/gratuity)	Fine up to ₹50,000–₹1 lakh	Imprisonment ≤3 years OR fine up to ₹3 lakh	Sec 125–133
Non-registration of employees / wilful evasion	Fine ₹50,000 + ₹30,000/day continuing	Imprisonment + higher fine	Various
Misclassification / deny benefits	Fine up to ₹1–3 lakh	Imprisonment ≤3 years	Sec 142
General contravention	Fine ₹50,000–₹2 lakh	Escalating	General

OSH & Working Conditions Code, 2020 – Key Offences & Penalties

Offence	First-Time Penalty	Repeat/Serious	Section
General contravention (e.g., safety, hours, welfare)	Fine ₹2–3 lakh	Additional ₹2,000/day continuing	Sec 94
Safety violation causing accident/death/injury	Fine ₹2–5 lakh (up to ₹10–50 lakh in serious)	Imprisonment ≤1–2 years + fine	Sec 95–104
Obstruct Inspector / no registration	Fine ₹50,000–₹1 lakh	Higher + imprisonment	Sec 95
Employ prohibited categories / fail manager appointment	Fine ₹50,000–₹1 lakh	Double penalty	Various

Compounding Provisions Summary (All Codes)

Offence Type	Compounding Amount	Availability	Restriction
Fine only	50% of max fine	First-time only	Not for repeat within 3–5 years
Fine + ≤1 year imprisonment	75% of max fine	First-time only	Not for serious/repeat
Wages Code variation	Mostly 50% (even for some imprisonment cases)	First-time	Similar restrictions
Process	Before/after prosecution; paid to govt officer	—	Credited to welfare funds

Employee Benefits Provisions (often the largest in many entities)

Gratuity (under Payment of Gratuity Act / Code on Social Security, 2020):

Verify actuarial valuation (AS 15 / Ind AS 19), past service cost from new labour codes (revised "wages" definition increasing liability), funding status, and disclosures.

Leave Encashment / Compensated Absences:

Check accrual basis, revised entitlement rules (e.g., leave after 180 days, encashment), and impact of uniform wages definition.

Bonus (Payment of Bonus Act / Code on Wages):

Confirm calculation (8.33%–20% of wages), provision for unpaid bonus, and timely payment.

Other Benefits:

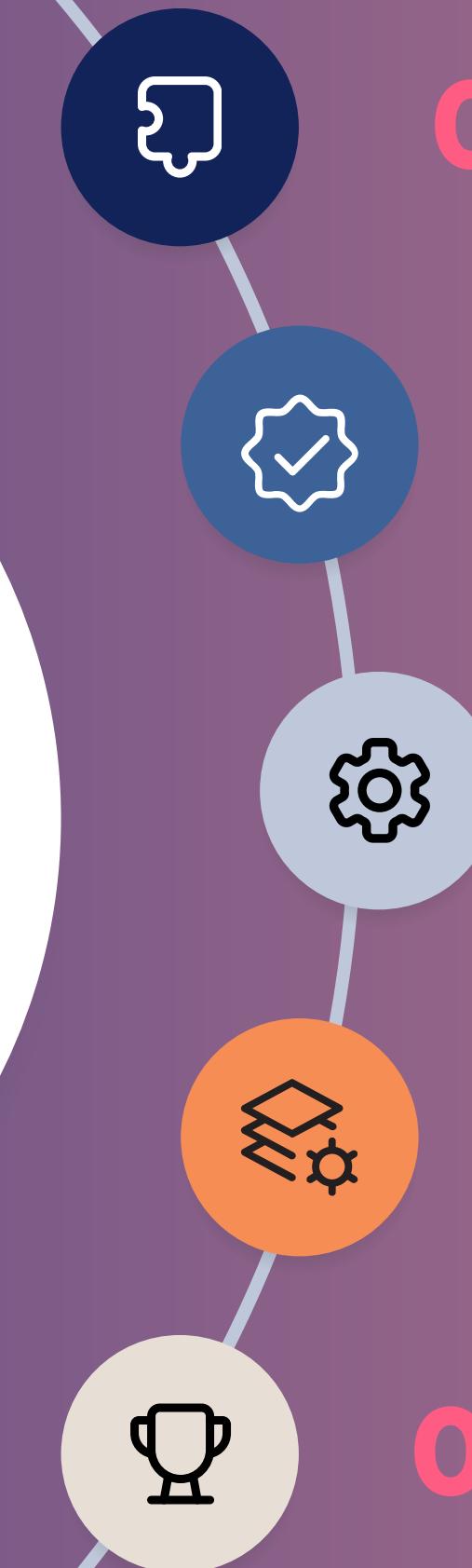
Provident Fund (PF) arrears, ESI contributions, overtime pay, night shift allowances for women, and health check-up costs (for workers 40+ in factories).

New Labour Codes Impact (effective Nov 2025):

Auditors must examine payroll restructuring, increased base for gratuity/bonus/leave (due to broader "wages" definition including more components), one-time past service costs, and disclosures on financial impact.

WAY FORWARD

IMPLEMENTATION OF NEW LABOUR COES



01

CONDUCT IMMEDIATE GAP ANALYSIS

- Map current policies, contracts & payroll against 4 Codes (Wages, Social Security, IR, OSH) + Kerala rules Identify risks: new wage definition ($\geq 50\%$ as wages), gig/fixed-term parity, safety norms

02

COMPLETE ALL REGISTRATIONS & RENEWALS

- Verify/renew: Shops & Establishments, EPF, ESI, PT, LWF, POSH Committee Obtain any pending Code-related registrations/licenses promptly

03

UPDATE POLICIES, CONTRACTS & BENEFITS

- Revise employment letters, HR policies for: equal pay, overtime, leaves, maternity, gratuity Align salary structure (min. 50% as "wages"), extend social security to eligible gig/platform workers

04

PROVISIONS IN FS

GRATUITY , LEAVE ETc

05

DISCLOSURES

potential financial risk arising out of the non compliance and disputes

THANK YOU

