

New Labour Codes In India - Key Provisions

Dhruv - [Notebook Link](#)

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Questions

1. What are the new labour codes?
2. How do they impact how companies calculate employee costs?
3. What do we know so far about the impact of the new labour code on Q3 FY2026 earnings of companies?
4. Which sectors are most likely to be impacted due to the implementation of the new labour codes?
5. Beyond the one-time impact, do these codes impact company expenses in future quarters as well?
6. How does the implementation of these new codes benefit employees?
7. Does it increase cash-in-hand or long-term benefits for employees??
8. Can you make an estimate on the amount the companies could report as a provision due to the implementation of these codes?

Q1. What are the new labour codes?

New Labour Codes in India - Key Provisions

The Government of India has introduced **four Labour Codes** that came into force on **21st November 2025**. These codes have amalgamated, simplified and rationalized the provisions of the previous **29 Central Labour Acts** into a streamlined framework.

The Four Labour Codes

LABOUR CODE	YEAR OF ENACTMENT	IMPLEMENTATION DATE
Code on Wages	2019	21st November 2025
Industrial Relations Code	2020	21st November 2025
Code on Social Security	2020	21st November 2025
Occupational Safety, Health and Working Conditions Code	2020	21st November 2025

Key Provisions Under Each Code

1. Code on Social Security, 2020

- **Social security cover extended to all workers** including unorganised workers, gig workers and platform workers
- New definitions introduced for **aggregator, gig worker and platform workers** to cater to new forms of employment
- **Universal coverage of ESIC** extended pan-India (previously limited to notified districts/areas)
- ESIC benefits extended to **establishments with less than 10 employees** on voluntary basis
- **Mandatory ESIC coverage** for establishments employing even a single employee involving hazardous processes
- **Universal coverage of EPFO** now applies to all establishments employing 20 or more employees
- Central Government may frame schemes for **unorganised, gig and platform workers** under Section 45

2. Code on Wages, 2019

- **Universalisation of minimum wages** to all employments (previously limited to scheduled employment)
- **Floor Wage made statutory** - minimum wages fixed by appropriate government shall not be less than floor wage
- **Gender neutrality promoted** - prohibits discrimination in recruitment and wage payment, including for transgender persons
- **Timely payment of wages** mandated for all employees

- **Allowances exceeding 50% made part of wages** - enhances maternity benefits, gratuity, EPF and EPS contributions

3. Occupational Safety, Health and Working Conditions Code, 2020

- Employers required to provide **free annual health check-ups** for employees above specified age
- **Expanded definition of Inter-State Migrant Worker** includes workers employed by contractors and self-migrated workers
- Migrant workers entitled to **annual lump-sum travel allowance and portability** of benefits
- **Women allowed to work in all sectors** including underground mining, heavy machinery and night shifts (subject to prior consent and adequate safety measures)

4. Industrial Relations Code, 2020

- **Reskilling fund provision** for retrenched workers
- **Mandatory appointment letters** for all workers

Overall Impact and Benefits

The four Labour Codes are designed to reduce **multiplicity of definitions and authorities**, facilitate use of technology, and bring transparency and accountability in enforcement. Simultaneously, they strengthen protection available to workers, including unorganized workers, in terms of statutory minimum wage, timely payment, social security, occupational safety and healthcare.

As per available information, **32 States/UTs have pre-published their draft rules** under the four Labour Codes. The codes enhance worker safety, welfare and social protection across sectors including unorganized workers.

Q2. How do they impact how companies calculate employee costs?

Impact of New Labour Codes on Employee Cost Calculation

The **New Labour Codes** that came into force on **21 November 2025** have significantly impacted how companies calculate employee costs in India. The codes introduce fundamental changes to wage definitions, social security contributions, and employee benefit obligations.

Key Accounting Impact

Under **IAS 19** and **Ind AS 19** (Employee Benefits), changes to employee benefit plans arising from legislative amendments constitute a plan amendment, requiring recognition of **past service cost immediately** in the statement of profit and loss.

Revised Wage Definition and Its Impact

The most significant change comes from the **Code on Wages, 2019**, which mandates that **allowances exceeding 50% are made part of wages**. This provision has far-reaching implications:

- **Expanded Wage Base:** Previously, many companies structured compensation with a lower basic salary and higher allowances to minimize statutory contributions. The new 50% threshold means more components now form part of "wages"
- **Increased Statutory Contributions:** The expanded wage definition directly increases contributions to EPF (Employees' Provident Fund), EPS (Employees' Pension Scheme), gratuity, and maternity benefits
- **Social Security Impact:** Higher wage base translates to increased ESIC (Employees' State Insurance Corporation) contributions where applicable

Company-Specific Impact Examples

COMPANY	ONE-TIME IMPACT (Q3 FY26)	ACCOUNTING TREATMENT
HCL Technologies Limited	\$109 million	Recognized as employee benefit expense in Q3 FY26
ICICI Prudential Life Insurance	₹1,104 lakhs	Past service cost charged to Revenue and P&L Account
360 ONE WAM Limited	Estimated and accounted	Increased obligations recognized in Q3 FY26

How Companies Calculate Employee Costs Under New Codes

1. Wage Restructuring

Companies must now ensure that basic wages constitute at least 50% of total compensation. This requires:

- Recalculating the basic salary component
- Reclassifying allowances that were previously excluded from wage calculations
- Adjusting compensation structures to comply with the new definition

2. Enhanced Social Security Contributions

The [Code on Social Security, 2020](#) expands coverage and increases employer obligations:

- **EPF Contributions:** Calculated on the revised higher wage base (12% employer + 12% employee contribution)
- **ESIC Coverage:** Extended to all establishments pan-India (previously limited to notified areas)
- **Gratuity:** Higher wage base increases gratuity liability calculations
- **Maternity Benefits:** Enhanced benefits calculated on revised wage definition

3. Actuarial Reassessment

Companies are required to [reassess employee benefit obligations](#) based on:

- Revised wage definitions
- Increased contribution rates
- Extended coverage to previously excluded employee categories
- New benefits for gig and platform workers (where applicable)

4. Ongoing Cost Implications

Beyond the one-time past service cost, companies face recurring increases in:

- Monthly payroll costs due to higher statutory contributions
- Provision for employee benefits (gratuity, leave encashment)
- Compliance and administrative costs
- Potential costs related to expanded worker categories (gig, platform, migrant workers)

Implementation Considerations

As [noted by HCL Technologies](#), the Government is still in the process of notifying related rules to the New Labour Codes. Companies are:

- Estimating and accounting for known impacts in Q3 FY26
- Monitoring ongoing developments and rule notifications
- Preparing to evaluate and account for additional impacts as rules are finalized
- Following guidance from [ICAI FAQs](#) on accounting implications

Summary of Cost Calculation Changes

The New Labour Codes fundamentally alter employee cost calculations by:

- 1 **Expanding the wage base** through the 50% allowance threshold
- 2 **Increasing statutory contribution rates** on the expanded wage base
- 3 **Extending social security coverage** to more establishments and worker categories
- 4 **Requiring immediate recognition** of past service costs as a one-time expense
- 5 **Creating ongoing higher payroll costs** through increased EPF, ESIC, gratuity, and other statutory obligations

Companies must now factor these enhanced obligations into their financial planning, budgeting, and cost structures going forward.

Q3. What do we know so far about the impact of the new labour code on Q3 FY2026 earnings of companies?

Impact of New Labour Codes on Q3 FY26 Earnings - Consolidated

The **New Labour Codes** that became effective from **November 21, 2025** have resulted in one-time charges to Q3 FY26 earnings across multiple companies. These codes consolidate multiple existing labour legislations into a unified framework, introducing changes including a uniform definition of wages and enhanced benefits relating to leave, gratuity, and other employee benefits.

Accounting Treatment

Under **IAS 19** and **AS 15** (Employee Benefits), changes to employee benefit plans arising from legislative amendments constitute a plan amendment, requiring recognition of **past service cost immediately** in the statement of profit and loss for Q3 FY26.

Company-Specific Impact on Q3 FY26 Earnings

COMPANY	ONE-TIME IMPACT (Q3 FY26)	IMPACT DETAILS
HCL Technologies Limited	\$109 million	Recognized as employee benefit expense across cost of revenues (\$96 million), R&D expenses (\$2 million), and SG&A expenses (\$11 million)
Infosys Limited	\$143 million / ₹1,289 crore	Increase in gratuity liability from past service cost and increase in leave liability
L&T Technology Services Limited	₹35.4 crore (Gross) ₹26.5 crore (Net of Tax)	Q3 FY26 Net Income and EPS excludes this one-time impact (Tax impact: ₹8.9 crore)
ICICI Prudential Life Insurance Company Limited	₹11.04 crore	Incremental liability on account of past service cost charged to Revenue and P&L Account
360 ONE WAM Limited	Impact included in Q3 costs	Full impact of New Labour Code included in Q3 FY26 total costs of ₹399 crore
HDB Financial Services Limited	Impact disclosed separately	Q3 FY26 PAT of ₹686 crore excludes labour code impact; Cost to Income ratio of 39.5% also excludes this impact

Key Observations

1. Magnitude of Impact

The impact varies significantly across companies based on workforce size and existing wage structures. IT services companies with large employee bases reported the highest absolute

impacts, with **Infosys** reporting the largest charge at \$143 million, followed by **HCL Technologies** at \$109 million.

2. Nature of Liabilities

The one-time charges primarily arise from:

- Increased gratuity liability due to revised wage definitions
- Enhanced leave liability from expanded benefits
- Past service cost adjustments for existing employees
- Reassessment of employee benefit obligations under the new framework

3. Reporting Approach

Companies have adopted different disclosure approaches:

- Some companies like **L&T Technology Services** and **HDB Financial Services** reported adjusted earnings excluding the labour code impact
- Others like **HCL Technologies** separately disclosed the impact across different expense categories
- **360 ONE WAM** included the full impact in reported costs without separate disclosure of the quantum

4. Ongoing Monitoring

As noted by **HCL Technologies**, the Government is still in the process of notifying related rules to the New Labour Codes. Companies continue to monitor developments and will evaluate and account for additional impacts as rules are finalized in accordance with applicable accounting standards.

Sector-Wide Implications

The New Labour Codes have created a one-time earnings impact across sectors, particularly affecting labour-intensive industries. The implementation represents a significant shift in India's labour regulatory framework, with companies required to:

- 1 Reassess all employee benefit obligations under revised wage definitions
- 2 Recognize past service costs immediately rather than amortizing over time
- 3 Prepare for ongoing higher payroll costs due to expanded wage base and enhanced benefits
- 4 Monitor evolving rules and regulations for potential additional impacts

While the Q3 FY26 impact is a one-time charge, companies will face recurring increases in employee costs going forward as the expanded wage definitions and enhanced benefits become part of regular operations.

Q4. Which sectors are most likely to be impacted due to the implementation of the new labour codes?

Sectors Most Impacted by New Labour Codes Implementation

The **New Labour Codes** that came into force on **21st November 2025** have consolidated 29 existing labour laws into four unified codes, creating significant impact across multiple sectors in India. The implementation has resulted in one-time charges and ongoing cost implications for companies across various industries.

Key Sectors Impacted

1. Information Technology (IT) Services Sector

The IT services sector has been among the most significantly impacted due to its large employee base. Companies like **HCL Technologies** reported a one-time impact of **\$109 million** in Q3 FY26, while **Infosys** reported **\$143 million**, and **L&T Technology Services** reported **₹35.4 crore**.

2. Financial Services Sector

Financial services companies have also been impacted, with **ICICI Prudential Life Insurance** reporting a one-time charge of **₹11.04 crore**, **360 ONE WAM** including the impact in its Q3 FY26 costs, and **HDB Financial Services** reporting separately adjusted metrics.

3. Labour-Intensive Manufacturing Sectors

According to the **Ministry of Finance**, labour-intensive manufacturing sub-sectors including **textiles, garments, footwear, and food processing** are expected to be significantly impacted. These sectors have strong potential for job creation and are particularly sensitive to changes in labour regulations.

4. Services Sector

The services sector, particularly **trade, hotel, tourism, education and health services**, is expected to see substantial impact. These sectors are characterized by high employment intensity and will be affected by the new wage definitions and enhanced benefits.

5. Construction and Real Estate Sector

The construction sector is specifically addressed in the **Occupational Safety, Health and Working Conditions Code, 2020**, with enhanced safety regulations and worker welfare provisions. The sector's large workforce of both organized and unorganized workers makes it particularly vulnerable to the new regulations.

6. Unorganised Sector Workers

The New Labour Codes have extensive provisions for **unorganised workers**, including those in agriculture, domestic work, gig economy, and platform workers. Key sectors affected include:

- **Agriculture workers**
- **Gig and platform workers**
- **Inter-state migrant workers**

- Domestic workers

Key Changes Impacting Sectors

Wage-Related Changes

- Universalisation of minimum wages to all employments
- Allowances exceeding 50% made part of wages, enhancing maternity benefits, gratuity, EPF, and EPS contributions
- Introduction of statutory Floor Wage

Social Security Expansion

- Universal coverage of ESIC extended pan-India
- Universal coverage of EPFO to all establishments employing 20 or more employees
- Mandatory ESIC coverage to establishments employing even single employee involving hazardous processes

Worker Welfare Provisions

- Free annual health check-ups for employees above specified age
- Annual lump-sum travel allowance for inter-state migrant workers
- Expanded rights for women to work in all sectors including night shifts

Accounting Impact

Under IAS 19 and AS 15, changes to employee benefit plans arising from legislative amendments constitute a plan amendment, requiring recognition of past service cost immediately in the statement of profit and loss. This has resulted in one-time charges across sectors in Q3 FY26, with ongoing higher payroll costs expected going forward.

Sector-Specific Vulnerabilities

SECTOR	KEY IMPACT AREAS	VULNERABILITY LEVEL
IT Services	Large employee base, increased gratuity and leave liabilities	High
Manufacturing (Textiles, Garments, Footwear)	Labour-intensive operations, minimum wage universalisation	Very High
Financial Services	Employee benefit obligations, compliance costs	Moderate to High
Construction & Real Estate	Large unorganised workforce, safety compliance, migrant worker provisions	Very High
Hospitality & Tourism	Service sector provisions, gig worker coverage	High

SECTOR	KEY IMPACT AREAS	VULNERABILITY LEVEL
Healthcare & Education	Service sector employment, enhanced benefits	Moderate to High
Gig Economy & Platform Services	New definitions and social security coverage	High

Ongoing Monitoring

As noted by companies like [HCL Technologies](#), the Government is still in the process of notifying related rules to the New Labour Codes. Companies across sectors continue to monitor developments and will evaluate and account for additional impacts as rules are finalized in accordance with applicable accounting standards.

Q5. Beyond the one-time impact, do these codes impact company expenses in future quarters as well?

Ongoing and Future Quarterly Expense Impacts of New Labour Codes Implementation

The **New Labour Codes** that came into force on **21 November 2025** have resulted in both one-time charges and ongoing expense impacts for companies. While the one-time impact relates to past service costs recognized immediately, the codes also create recurring quarterly expense increases going forward.

Nature of Ongoing Expense Impact

The New Labour Codes have fundamentally changed the definition of wages by mandating that **allowances exceeding 50% be made part of wages**. This change has ongoing implications for:

- Enhanced maternity benefits
- Increased gratuity provisions
- Higher EPF contributions
- Increased EPS contributions

Company-Specific Ongoing Impacts in Q3 FY26

1. HCL Technologies Limited

HCL Technologies reported a **one-time charge of \$109 million** in Q3 FY26. Importantly, the company noted that **"The Government is in the process of notifying related rules to the New Labour Codes and impact of these will be evaluated and accounted for in accordance with applicable accounting standards in the period in which they are notified."**

This indicates that beyond the one-time past service cost, additional ongoing impacts are expected as rules are finalized. The company's **segment reporting** explicitly states that **"Segment expenses do not include finance cost, tax expense and one-time impact of New Labour Codes"**, suggesting that future recurring impacts will be included in regular operating expenses.

2. ICICI Prudential Life Insurance Company Limited

ICICI Prudential reported a **one-time charge of ₹11.04 crore** in Q3 FY26. The company explicitly stated: **"The Company continues to monitor developments relating to the implementation of the New Labour Codes and will review its estimates and assumptions on an ongoing basis."**

This indicates that the company expects ongoing adjustments and impacts in future quarters as implementation progresses and additional rules are notified.

3. 360 ONE WAM Limited

360 ONE WAM's Q3 FY26 presentation noted that **"Q3 costs include the full impact of the New Labour Code"**. The company's **employee costs stood at INR 282 Crores** in Q3 FY26, with total costs at **INR 399 Crores**.

The reference to "full impact" suggests that the company has incorporated both the one-time charge and the ongoing recurring cost increases into its Q3 FY26 expense base, which will continue in future quarters.

4. HDB Financial Services Limited

HDB Financial Services disclosed a **labour code impact of ₹56 crore** in Q3 FY26. The company's presentation shows operating expenses "**excluding impact on account of the new labour codes**", indicating that the company is separately tracking this impact.

The company's **employee costs increased from ₹679 crore in Q2 FY26 to ₹694 crore in Q3 FY26** (excluding the labour code impact), suggesting an underlying increase in the cost base.

5. L&T Technology Services Limited

L&T Technology Services reported that "**Q3 FY26 Net Income and EPS excludes the one-time impact of New Labour Codes (Gross: INR 35.4 Cr, Tax: INR 8.9 Cr, Net: INR 26.5 Cr)**".

Key Ongoing Expense Categories Impacted

Employee Benefit Provisions

The revised wage definition means that companies will see ongoing increases in:

- Gratuity provisions calculated on higher wage base
- Leave encashment liabilities
- Provident fund contributions (both employer and employee portions calculated on expanded wage definition)
- Employee State Insurance Corporation (ESIC) contributions

Social Security Costs

The codes mandate **universal coverage of ESIC pan-India** and **universal coverage of EPFO to all establishments employing 20 or more employees**. This expansion of coverage will result in ongoing quarterly increases in social security contributions.

Compliance and Administrative Costs

Beyond direct payroll costs, companies will incur ongoing expenses for:

- **Free annual health check-ups for employees above specified age**
- **Annual lump-sum travel allowance for inter-state migrant workers**
- Enhanced safety and welfare provisions
- Compliance monitoring and reporting systems

Future Quarter Implications

Several factors indicate that ongoing quarterly impacts will continue beyond Q3 FY26:

- 1 **Pending Rule Notifications:** As noted by **HCL Technologies**, the Government is still notifying related rules, which will trigger additional accounting adjustments in future periods.
- 2 **Ongoing Monitoring:** Companies like **ICICI Prudential** have explicitly stated they will review estimates and assumptions on an ongoing basis, indicating potential future adjustments.
- 3 **Structural Cost Base Changes:** The expanded wage definition and enhanced benefits create a permanently higher cost structure that will persist in all future quarters.
- 4 **Coverage Expansion:** The **universal coverage mandates** for ESIC and EPFO mean that companies will see ongoing increases as they bring more employees under these schemes.

Accounting Treatment

Under **IAS 19** and **AS 15**, the one-time past service cost is recognized immediately. However, the ongoing impact of higher contribution rates and expanded coverage will be reflected in regular employee benefit expenses in each future quarter, increasing the recurring cost base.

Sector-Wide Impact

The ongoing quarterly impacts are expected to be particularly significant for:

- **Labour-intensive sectors:** **Textiles, garments, footwear, and food processing**
- **IT Services:** Due to large employee bases and high wage bills
- **Financial Services:** With significant employee benefit obligations
- **Construction and Real Estate:** Particularly affected by **enhanced safety regulations and worker welfare provisions**
- **Gig Economy and Platform Services:** Now covered under **social security provisions for unorganised workers**

Conclusion

While companies reported significant one-time charges in Q3 FY26, the New Labour Codes will have ongoing quarterly expense impacts through higher payroll costs, increased social security contributions, expanded benefit provisions, and enhanced compliance requirements. These recurring impacts will persist in all future quarters and may increase further as additional rules are notified by the Government.

Q6. How does the implementation of these new codes benefit employees?

Employee Benefits Under New Labour Codes Implementation

The **four Labour Codes** that came into force on **21 November 2025** have introduced comprehensive benefits for employees across welfare, working conditions, social security, and compensation dimensions. These codes consolidate **29 existing labour laws** into a unified framework comprising the Code on Wages 2019, Industrial Relations Code 2020, Code on Social Security 2020, and Occupational Safety, Health and Working Conditions Code 2020.

Enhanced Compensation and Wage Benefits

The **Code on Wages 2019** introduces several critical improvements for employee compensation:

- **Universal Minimum Wages:** The codes mandate **universalisation of minimum wages to all employments** as against scheduled employment in the previous Act, ensuring wage protection for all workers.
- **Statutory Floor Wage:** A **Floor Wage has been made statutory**, which will be notified by the Central Government. Minimum rates of wages fixed by the appropriate Government shall not be less than the floor wage.
- **Expanded Wage Definition:** **Allowances exceeding 50% are now made part of wages**, which will enhance maternity benefits, gratuity, Employees Provident Fund (EPF), and Employees Pension Scheme (EPS) contributions.
- **Timely Payment:** The codes ensure **timely payment of wages to all employees**.
- **Gender Neutrality:** The codes **promote gender neutrality and prohibit discrimination in recruitment and wage payment**, including for transgender employees.
- **Mandatory Appointment Letters:** The codes **mandate appointment letters** for all employees, providing formal employment documentation.

Comprehensive Social Security Coverage

The **Code on Social Security 2020** significantly expands social security benefits:

Universal Coverage Expansion

- **ESIC Pan-India Coverage:**
Universal coverage of Employees State Insurance Corporation (ESIC) extended pan-India against the previous system of notified districts/areas only.
- **Small Establishment Coverage:**
ESIC benefits extended to establishments with less than 10 employees on voluntary basis.
- **Hazardous Work Protection:**
Mandatory ESIC coverage to establishments employing even single employee involving hazardous process
-
- **EPFO Universal Coverage:**
Universal coverage of Employees Provident Fund Organization (EPFO) now applies to all establishments employing 20 or more employees
-

Gig and Platform Workers

For the first time, **definitions of gig workers and platform workers** have been provided in the Code on Social Security 2020. The code provides for framing suitable social security measures for these workers on matters relating to:

- Life and disability cover
- Accident insurance
- Health and maternity benefits
- Old age protection

The code provides for **setting up a Social Security Fund to finance welfare schemes** and provisions to **constitute a National Social Security Board for the welfare of gig workers and platform workers**.

Improved Working Conditions and Safety

The **Occupational Safety, Health and Working Conditions Code 2020** introduces several welfare provisions:

Health and Wellness

- **Free Health Check-ups:** Employers must provide free of cost annual health check-up for employees above the specified age.
- **Safety Standards:** Rules, regulations, and standards have been made for safety of workers in constructions, manufacturing and mining sectors
- **Compliance Monitoring:** Inspections are conducted time to time in respect of conditions of service including health, safety and welfare provisions

Women Employees

The codes introduce **expanded rights for women to work in all sectors including night shifts**, promoting gender equality in employment opportunities.

Inter-State Migrant Workers

The **definition of Inter-State Migrant Worker has been expanded** to include migrant workers employed by contractors and self-migrated workers. They are entitled to:

- Annual lump-sum travel allowance
- Portability of benefits
- Nationwide social security

Enhanced Employee Welfare Provisions

Maternity and Gratuity Benefits

The revised wage definition where allowances exceeding 50% are made part of wages directly enhances:

- Maternity benefits
- Gratuity provisions
- EPF contributions
- EPS contributions

Reskilling and Retraining

The Industrial Relations Code provides reskilling fund for retrenched workers, ensuring support for employees during job transitions.

Coverage of Unorganised Sector Workers

The codes have a large number of provisions to ensure the social security of unorganised workers in the country, including:

- Social Security cover to all workers including unorganised workers, Gig & Platform workers
- Section 45 of the Code on Social Security 2020 allows the Central Government to frame schemes for unorganised workers, gig workers and platform workers and their families

Enforcement and Compliance

The codes ensure robust enforcement mechanisms:

- **Penalties for Non-Compliance:** In case of detection of irregularities, penalties including fines and imprisonment are imposed as per rules and regulations prescribed
- **Technology Integration:** The codes facilitate use of technology, bring transparency & accountability in enforcement.
- **Reduced Multiplicity:** The codes reduce multiplicity of definitions & authorities, simplifying compliance for both employers and employees.

Key Takeaways

The New Labour Codes represent a fundamental shift in India's labour framework, providing employees with:

- 1 **Financial Security:** Enhanced wages through universal minimum wages, statutory floor wages, and expanded wage definitions that increase EPF, EPS, gratuity, and maternity benefits.
- 2 **Comprehensive Social Protection:** Universal ESIC and EPFO coverage, social security for gig and platform workers, and benefits for unorganised sector workers.

- 3 **Better Working Conditions:** Free annual health check-ups, enhanced safety standards, expanded rights for women including night shift work, and special provisions for migrant workers.
- 4 **Employment Security:** Mandatory appointment letters, reskilling funds for retrenched workers, and protection against wage discrimination.
- 5 **Inclusive Coverage:** Extension of benefits to previously excluded categories including gig workers, platform workers, unorganised workers, and employees in small establishments.

These reforms align with the Government's vision of building **an inclusive, fair, and resilient ecosystem for workers, accelerating India's journey towards a Viksit Bharat by 2047.**

Q7. Does it increase cash-in-hand or long-term benefits for employees??

Impact of New Labour Codes on Employee Compensation - Cash-in-Hand vs Long-Term Benefits

The implementation of the **four Labour Codes** that came into force on **21 November 2025** creates a fundamental shift in employee compensation structure, balancing immediate cash-in-hand with enhanced long-term financial security. The key mechanism driving this change is the revised wage definition under the Code on Wages 2019.

Impact on Cash-in-Hand (Immediate Take-Home Salary)

The new labour codes introduce a critical change that **reduces immediate cash-in-hand** for many employees through the revised wage definition:

Wage Definition Change

Under the **Code on Wages 2019**, **allowances exceeding 50% are now made part of wages**. This means:

- **Previous Structure:** Many employers structured compensation with basic salary as low as 30-40% of total Cost to Company (CTC), with the remaining 60-70% classified as allowances (House Rent Allowance, Special Allowance, etc.)
- **New Structure:** Allowances cannot exceed 50% of total wages, effectively requiring basic salary to be at least 50% of CTC
- **Cash Impact:** Higher basic salary means higher statutory deductions (EPF, EPS contributions), which reduces the monthly take-home salary

Increased Statutory Deductions

The expanded wage definition directly increases mandatory contributions:

- **EPF Contribution:** Employee contributes 12% of basic salary + dearness allowance
- **Higher Base:** With basic salary now constituting a larger portion of CTC, the absolute EPF deduction increases
- **Result:** Lower monthly cash-in-hand compared to the previous structure

Long-Term Benefits Enhancement

While immediate cash-in-hand decreases, the new codes significantly enhance long-term financial security and retirement benefits:

Enhanced Retirement Corpus

The same wage definition change that reduces take-home salary substantially increases retirement savings:

- **EPF Accumulation:** Higher basic salary means **enhanced Employees Provident Fund (EPF) contributions**, building a larger retirement corpus
- **EPS Benefits:** Increased **Employees Pension Scheme (EPS) contributions** lead to higher monthly pension after retirement

- **Employer Matching:** Employers also contribute 12% (with 8.33% going to EPS), effectively doubling the retirement benefit accumulation

Improved Gratuity Benefits

The codes ensure **enhanced gratuity benefits** through the revised wage definition:

- **Calculation Base:** Gratuity is calculated on basic salary + dearness allowance
- **Higher Payouts:** With basic salary now forming a larger component, gratuity amounts at retirement or job change will be substantially higher
- **Formula:** (Last drawn salary × 15 days × years of service) / 26 - higher basic means higher gratuity

Enhanced Maternity Benefits

Female employees receive **enhanced maternity benefits** under the new structure:

- **Benefit Calculation:** Maternity benefits are calculated based on wages (which now include previously excluded allowances)
- **Higher Payouts:** Women employees receive higher maternity leave compensation
- **Financial Security:** Better support during maternity leave period

Comprehensive Social Security Coverage

The codes expand social security benefits that provide long-term protection:

- **ESIC Coverage:** **Universal coverage of Employees State Insurance Corporation (ESIC) extended pan-India**, providing medical benefits and sickness benefits
- **Healthcare Benefits:** **Free annual health check-ups for employees above specified age**
- **Accident Insurance:** Enhanced coverage for workplace accidents and disabilities

The Trade-Off Analysis

ASPECT	CASH-IN-HAND (SHORT-TERM)	LONG-TERM BENEFITS
Monthly Take-Home	Decreases due to higher EPF/EPS deductions	N/A
Retirement Corpus (EPF)	N/A	Significantly increases - larger accumulation over career
Monthly Pension (EPS)	N/A	Higher pension after retirement
Gratuity	N/A	Substantially higher payout at retirement/exit
Maternity Benefits	N/A	Enhanced compensation during maternity leave

ASPECT	CASH-IN-HAND (SHORT-TERM)	LONG-TERM BENEFITS
Social Security	N/A	Comprehensive ESIC coverage, health benefits

Illustrative Example

Consider an employee with CTC of ₹10,00,000 per annum:

Previous Structure (Pre-Labour Codes)

- Basic Salary: ₹3,50,000 (35% of CTC)
- Allowances: ₹6,50,000 (65% of CTC)
- EPF Deduction (12% of basic): ₹42,000 per year
- Higher monthly take-home due to lower deductions

New Structure (Post-Labour Codes)

- Basic Salary: ₹5,00,000 (50% of CTC minimum)
- Allowances: ₹5,00,000 (50% of CTC maximum)
- EPF Deduction (12% of basic): ₹60,000 per year
- Additional ₹18,000 deducted annually, reducing monthly cash-in-hand by ₹1,500
- **But:** Retirement corpus grows by ₹36,000 more per year (including employer contribution)

Key Insights

The new labour codes prioritize long-term financial security over immediate cash-in-hand. While employees experience a reduction in monthly take-home salary due to higher statutory deductions, they gain:

- 1 **Forced Savings:** Higher EPF contributions create a disciplined retirement savings mechanism
- 2 **Employer Contribution Benefit:** For every rupee deducted from employee salary for EPF, employer contributes an equal amount - effectively doubling the retirement benefit
- 3 **Tax Benefits:** EPF contributions are tax-deductible under Section 80C, providing some offset to the reduced take-home
- 4 **Inflation Protection:** EPF earns interest (currently around 8.15-8.25% annually), protecting retirement corpus from inflation
- 5 **Financial Discipline:** Mandatory higher contributions ensure employees build substantial retirement corpus even if they lack personal savings discipline
- 6 **Social Security Net:** Comprehensive ESIC coverage, health benefits, and enhanced gratuity provide a robust safety net

Conclusion

The implementation of new labour codes represents a **strategic shift from immediate gratification to long-term financial security**. While employees will see a reduction in monthly cash-in-hand

(typically 1-3% of CTC depending on previous salary structure), they gain substantially enhanced retirement benefits, social security coverage, and financial protection.

This trade-off aligns with the Government's vision of building **an inclusive, fair, and resilient ecosystem for workers**, ensuring that employees have adequate financial security in their post-retirement years. The codes effectively mandate a higher savings rate, which benefits employees in the long run despite the short-term reduction in disposable income.

For young employees in the 18-25 age group (who constitute **57.29% of new EPFO subscribers**), this structure is particularly beneficial as the power of compounding over a 30-40 year career can create a substantial retirement corpus, far outweighing the modest reduction in monthly take-home salary during their working years.

Q8. Can you make an estimate on the amount the companies could report as a provision due to the implementation of these codes?

Provision Amounts Reported by Companies Due to New Labour Codes Implementation - Q3 FY26

Following the implementation of four Labour Codes on 21 November 2025, several Indian companies have reported one-time provisions for employee benefits in their Q3 FY26 financial results. These provisions arise from the revised definition of wages under the new labour codes, which require companies to reassess their employee benefit obligations, particularly for gratuity and leave encashment.

Companies Reporting Labour Code Provisions

COMPANY NAME	PROVISION AMOUNT (₹ CRORE)	NATURE OF PROVISION
Tata Consultancy Services Limited	2,128.00	Statutory impact of new Labour Codes (Exceptional Item)
Infosys Limited	1,215.50	Increase in gratuity and leave liability (USD 143 million)
HCL Technologies Limited	926.50	One-time increase in provision for employee benefits (USD 109 million)
ICICI Prudential Life Insurance Company Limited	11.04	Incremental liability on account of past service cost (₹ 1,104 lakhs)

Note: USD amounts have been converted to INR crore using an approximate exchange rate of ₹85 per USD for comparison purposes.

Key Insights

Total Estimated Provisions: Based on the companies that have disclosed specific amounts, the aggregate provision reported is approximately **₹4,281 crore** across four major companies in Q3 FY26.

Breakdown by Company

- **TCS leads with the highest provision** at **₹2,128 crore**, recognized as an exceptional item in their standalone financial results for Q3 FY26
- **Infosys reported ₹1,215.50 crore** (USD 143 million), representing an **increase in gratuity liability arising from past service cost and increase in leave liability**
- **HCL Technologies recorded ₹926.50 crore** (USD 109 million) as a **one-time increase in provision for employee benefits**
- **ICICI Prudential Life Insurance reported ₹11.04 crore** as an **incremental liability charged to the Revenue and Profit and Loss Account**

Companies with Immaterial Impact

Several companies acknowledged the labour code implementation but indicated the impact was not material to their financial results:

- **Reliance Industrial Infrastructure Limited:** The company **estimated and recognised incremental liability but stated it was not material** to standalone financial results
- **South India Paper Mills Limited:** The company stated that as their **current wage structure is aligned with requirements of New Labour Codes, no material incremental liability is expected**

Nature of Provisions

The provisions reported by companies primarily relate to:

- 1 **Gratuity Liability:** Increased obligations due to revised wage definitions under the **Code on Social Security, 2020**
- 2 **Leave Encashment:** Enhanced leave liability arising from the uniform definition of wages
- 3 **Past Service Cost:** Recognition of incremental liability for past employee service under the revised framework

These provisions are recognized in accordance with accounting standards (IAS 19 for IFRS reporters, AS 15 for Indian GAAP reporters) as **plan amendments** resulting from legislative changes, requiring immediate recognition in the profit and loss statement.

Regulatory Context

The **four Labour Codes** - Code on Wages 2019, Code on Social Security 2020, Industrial Relations Code 2020, and Occupational Safety, Health and Working Conditions Code 2020 - became effective from 21 November 2025. These codes consolidate **29 existing labour legislations** into a unified framework.

The key change impacting provisions is the **revised definition of wages**, which now includes allowances that were previously excluded, thereby increasing the base for calculating employee benefits like gratuity, provident fund contributions, and leave encashment.

Ongoing Monitoring

Several companies have noted that while the codes are effective, **supporting rules are yet to be notified**. Companies continue to monitor developments and will review their estimates and assumptions on an ongoing basis as additional rules and clarifications are issued by the Government.

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