

EY Alert

**New labour codes implemented
across the country effective
21 November 2025**

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Executive summary

The Government of India has made effective all the following 4 Labour Codes starting 21 November 2025:

- ▶ The Code on Wages, 2019
- ▶ The Code on Social Security, 2020
- ▶ The Occupational Safety, Health and Working Conditions Code, 2020
- ▶ Industrial Relations Code, 2020

These codes will replace 29 existing central labour laws and are applicable across the country. While the Codes are now in force nationwide, supporting rules under both central and state jurisdictions are still to be notified. Organisations should begin preparing for compliance immediately, as the new regime introduces common definitions, expanded social security coverage, and revised employment norms that will impact all employers.

Key implications for employers:

- ▶ Review job descriptions and workforce classifications to align with new definitions of 'employee' and 'worker'.
- ▶ Reassess hiring models and employment contracts, including fixed-term arrangements and restrictions on contract labour for core activities.
- ▶ Analyze the impact on compensation structures and payroll systems to comply with the uniform definition of wages and benefit calculations.
- ▶ Assess the financial impact of enhanced employee benefits on the organization.
- ▶ Update HR and employee relations policies, including working hours, leave entitlement, and retrenchment processes.
- ▶ Implement strong internal controls, conduct periodic diagnostic reviews, and ensure effective governance.

Next steps:

Organisations should undertake a holistic compliance review across HR, Finance, Payroll, and Legal functions, supported by impact modelling and policy updates, to ensure readiness under the new labour law framework.



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Background

In a landmark development for the Indian labour law landscape, the Government of India has announced the implementation of the four labour codes, which will replace 29 existing labour laws, effective November 21, 2025. The four labour codes are:

- ▶ The Code on Wages, 2019
- ▶ The Code on Social Security, 2020
- ▶ The Occupational Safety, Health and Working Conditions Code, 2020
- ▶ The Industrial Relations Code, 2020

Although all the labour codes were notified by 2020, their implementation was awaited. On 21 November 2025, the Government issued a press release¹ and four separate notifications² in the Official Gazette to announce the implementation of all the codes. The notifications for implementation of the final rules under the labour codes by the Central and State Governments is still awaited, but is expected to follow shortly.

The labour codes simplify and consolidate existing labour laws, promoting transparency and digitization in compliance and workforce models, enhancing worker welfare and ease of doing business.

The press release issued by the Government clarifies that they would engage with the public and stakeholders in the development of rules, regulations, and schemes under the new codes. Additionally, to ease the transition, the release confirms that the relevant provisions of existing labour laws will remain in force during the transition period.

Key impact areas for employers and employees

The key impact areas for employers and employees under the labour codes are summarized below:

▶ Definition of worker

The labour codes establish distinct definitions for 'employee' and 'worker,' with specific benefits and provisions applicable only to 'workers.' The definition of 'worker' closely aligns with the term 'workman' under the Industrial Disputes Act, 1947, encompassing individuals engaged in manual, unskilled, skilled, technical, operational, clerical, or supervisory work, while excluding employees in 'supervisory,' 'managerial,' or 'administrative' roles.

While the definition under the existing law had limited applicability—primarily focussed on industrial disputes and retrenchment—the definition of under the labour codes has a significantly broader scope. Workers will be entitled to various benefits, including overtime pay and leave encashment, as stipulated in the Occupational Safety, Health and Working Conditions Code, 2020. Specific provisions

related to working hours, annual leave, and standing orders apply exclusively to 'workers'.

▶ Uniform definition of wages and its financial impact for employers

The labour codes introduce a standardized definition of 'wages' applicable across all four codes. Currently, varying definitions of 'wages' and 'salary' complicate the calculation of benefits, leading to inconsistencies, multiple interpretations, and frequent litigation.

To address these challenges, a uniform definition of 'wages' has been introduced for calculating benefits related to Gratuity, Employees' State Insurance, Leave Encashment, Overtime, Statutory Bonus, etc. This new definition aims to enhance compliance by providing clarity and consistency. However, it may also result in increased costs for organizations due to wider scope of the definition of wages. There are still ambiguities regarding coverage of different components of salary within the definition of wages (such as coverage of performance bonuses / one-off payments, etc.).

▶ Workforce models

The labour codes explicitly prohibit the use of contract labour for the 'core activities' of an organisation, except in certain exceptional circumstances. Core activity means any activity for which the establishment is set up and includes any activity which is essential or necessary to such activity.

Furthermore, fixed-term employment has been officially recognised as a valid employment model, subject to specific conditions and compliance requirements. For instance, such worker would be entitled to gratuity after one year of service on termination and all other statutory benefits available to a permanent workman, proportionately according to the period of service rendered by him/her.

The labour codes also empower States to implement flexible work arrangements. Some States, such as Haryana and Odisha, have included flexible working options in their draft rules, allowing organisations to adopt a four-day work week.

▶ HR and Payroll policies

The labour codes significantly affect various aspects of HR and payroll policies. Certain provisions overlap with existing state-specific Shops and Establishments laws, which are not superseded by the labour codes, potentially leading to conflicts, especially concerning working hours, leave, and related issues.

Organizations operating in multiple states may have to ensure compliance with both sets of laws in each jurisdiction. Additionally, since specific provisions apply only to 'workers,' organizations may need to

¹ <https://www.pib.gov.in/PressReleaseDetailm.aspx?PRID=2192463>

² Notifications - S.O. 5319(E); S.O. 5320(E); S.O. 5322(E) and S.O. 5321(E)

implement different policies for various employee categories.

► **Social security for gig workers and unorganized sector**

The labour codes empower the Central and State governments to implement welfare schemes for gig workers, platform workers, and other individuals in the unorganized sector. The schemes may include life and disability coverage, health and maternity benefits, old-age protection and other relevant benefits.

For gig workers social security scheme, the aggregators will be required to contribute 1 to 2% of their annual turnover, subject to 5% of amount paid or payable by an aggregator to gig workers, to the social security fund.

► **Lay-off and retrenchment**

Labour codes allow organisations with less than 300 workers to be laid-off and retrenched without obtaining prior approval from the Government. Under the Industrial Disputes Act, 1947, this threshold was fixed at 100 workmen. This change will provide organisations the flexibility to scale their workforce as per changing business needs.

Labour codes have also introduced the concept of 're-skilling' fund to assist the retrenched workers in learning new skills. For every retrenched worker, the employer is required to contribute 15 days' last drawn wages (or any other amount notified by the central government) to a fund to be called the worker re-skilling fund.

Comments

The implementation of the labour codes is a significant and long-awaited initiative by the government. These codes are poised to impact nearly every function within organizations, given the extensive changes they introduce.

It is essential for organizations to thoroughly assess the implications of these changes and prepare for a smooth transition to ensure compliance and operational efficiency.

Way forward for organisations:

1. **Evaluate employment roles:** Identify the employees who would qualify as 'workers' basis their substantial nature of work.
2. **Assess the impact of definition of 'wages' on employees' salary structure:** Review salary structure and benefits framework to comply with the new definition of 'wages.'
3. **Analyze cost implications:** Assess the financial impact of enhanced employee benefits on the organization.
4. **Reassess hiring models:** Consider alternate hiring models in light of the provisions related to contract labour and fixed-term employment.
5. **Align HR and Payroll policies:** Ensure that HR and payroll processes comply with the labour codes and relevant state-specific regulations.
6. **Establish a robust compliance framework:** Implement strong internal controls, conduct periodic diagnostic reviews, and ensure effective governance.

Our offices

Ahmedabad

22nd Floor, B Wing, Privilon
Ambli BRT Road, Behind Iskcon Temple
Off SG Highway
Ahmedabad - 380 059
Tel: + 91 79 6608 3800

8th Floor, Building No. 14A
Block 14, Zone 1
Brigade International Financial Centre
GIFT City SEZ
Gandhinagar - 382355, Gujarat
Tel +91 79 6608 3800

Bengaluru

12th & 13th Floor
"UB City", Canberra Block
No.24 Vittal Mallya Road
Bengaluru - 560 001
Tel: + 91 80 6727 5000

Ground & 1st Floor
11, 'A' wing
Divyasree Chambers
Langford Town
Bengaluru - 560 025
Tel: + 91 80 6727 5000

3rd & 4th Floor
MARKSQUARE
#61, St. Mark's Road
Shantala Nagar
Bengaluru - 560 001
Tel: + 91 80 6727 5000

1st & 8th Floor, Tower A
Prestige Shantiniketan
Mahadevapura Post
Whitefield,
Bengaluru - 560 048
Tel: + 91 80 6727 5000

Bhubaneswar

8th Floor, O-Hub, Tower A
Chandaka SEZ, Bhubaneswar
Odisha - 751024
Tel: + 91 674 274 4490

Chandigarh

Elante offices, Unit No. B-613 & 614
6th Floor, Plot No- 178-178A
Industrial & Business Park, Phase-I
Chandigarh - 160 002
Tel: + 91 172 6717800

Chennai

6th & 7th Floor, A Block,
Tidel Park, No.4, Rajiv Gandhi Salai
Taramani, Chennai - 600 113
Tel: + 91 44 6654 8100

Delhi NCR

Aikyam
Ground Floor
67, Institutional Area
Sector 44, Gurugram - 122 003
Haryana
Tel: +91 124 443 4000

3rd & 6th Floor, Worldmark-1
IGI Airport Hospitality District
Aerocity, New Delhi - 110 037
Tel: + 91 11 4731 8000

4th & 5th Floor, Plot No 2B
Tower 2, Sector 126
Gautam Budh Nagar, U.P.
Noida - 201 304
Tel: + 91 120 671 7000

Hyderabad

THE SKYVIEW 10
18th Floor, "SOUTH LOBBY"
Survey No 83/1, Raidurgam
Hyderabad - 500 032
Tel: + 91 40 6736 2000

Jaipur

9th floor, Jewel of India
Horizon Tower, JLN Marg
Opp Jaipur Stock Exchange
Jaipur, Rajasthan - 302018

Kochi

9th Floor, ABAD Nucleus
NH-49, Maradu PO
Kochi - 682 304
Tel: + 91 484 433 4000

Kolkata

22 Camac Street
3rd Floor, Block 'C'
Kolkata - 700 016
Tel: + 91 33 6615 3400

Mumbai

14th Floor, The Ruby
29 Senapati Bapat Marg
Dadar (W), Mumbai - 400 028
Tel: + 91 22 6192 0000

5th Floor, Block B-2
Nirlon Knowledge Park
Off. Western Express Highway
Goregaon (E)
Mumbai - 400 063
Tel: + 91 22 6192 0000

3rd Floor, Unit No 301
Building No. 1
Mindspace Airoli West (Gigaplex)
Located at Plot No. IT-5
MIDC Knowledge Corridor
Airoli (West)
Navi Mumbai - 400708
Tel: + 91 22 6192 0003

Altimus, 18th Floor
Pandurang Budhkar Marg
Worli, Mumbai - 400 018
Tel: +91 22 6192 0503

Pune

C-401, 4th Floor
Panchshil Tech Park, Yerwada
(Near Don Bosco School)
Pune - 411 006
Tel: + 91 20 4912 6000

10th Floor, Smartworks
M-Agile, Pan Card Club Road
Baner, Taluka Haveli
Pune - 411 045
Tel: + 91 20 4912 6800

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