

# EY Alert

**Draft rules pre-published by the Central Government under new labour codes implemented with effect from 21 November 2025**

EY Alerts cover significant tax news, developments and changes in legislation that affect Indian businesses. They act as technical summaries to keep you on top of the latest tax issues. For more information, please contact your EY advisor.

## Executive summary

Following the implementation of the four labour codes on 21 November 2025, the Central Government has pre-published draft rules on 31 December 2025 under the respective labour codes.

The Central Government have invited objections and suggestions on these draft rules within 45 days (30 days for draft Industrial Relations Rules, 2025 ('IR Rules')) i.e. by 14 February 2026 (by 30 January 2026 for IR Rules).

### Key aspects covered under draft rules pre-published by the Central Government:

1. Clarification on 'wages' for determination of gratuity payment to employees
2. Weekly working hours limit for requirement to pay overtime to workers
3. Substituted day of rest to be provided to employees for working on rest day
4. Conditions for engagement of contract labour
5. Grievance redressal mechanism for on-roll employees and contract labour
6. Compliance requirements under the labour codes
7. Appointment letter to be issued to employees within 3 months
8. Benefits to employees - Annual health examinations; Creche allowance; Employment of women at night; Journey allowance to inter-state migrant workers
9. Standing orders for mines, manufacturing sector and service sector
10. Worker re-skilling fund established for re-skilling of retrenched workers

### Next steps:

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



The better the question.  
The better the answer.  
The better the world works.



**Shape the future  
with confidence**

# Background

On 21 November 2025, the Government of India issued notifications<sup>1</sup> in the Official Gazette to announce the implementation of the four labour codes from the said date.

Under the labour codes, authority is given to the Appropriate Government to notify rules on specific aspects. On 31 December 2025, the Central Government has pre-published following draft rules for comments under the respective labour codes:

- ▶ The Code on Wages (Central) Rules, 2025 under the Code on Wages, 2019 ("COW Rules" under the "Code on Wages")
- ▶ The Code on Social Security (Central) Rules, 2025 under the Code on Social Security, 2020 ("COSS Rules" under the "Code on Social Security")
- ▶ The Occupational Safety, Health and Working Conditions (Central) Rules, 2025 under the Occupational Safety, Health and Working Conditions Code, 2020 ("OSHWC Rules" under the "OSHWC Code")
- ▶ The Industrial Relations (Central) Rules, 2025 under the Industrial Relations Code, 2020 ("IR Rules" under the "IR Code")

The Central Government have invited objections and suggestions on these draft rules within 45 days (30 days for IR Rules) i.e. by 14 February 2026 (by 30 January 2026 for IR Rules).

Once notified, the central rules will apply to following establishment in following sectors:

- ▶ Railways, including metro railways, mines, oil fields, major ports
- ▶ Air transport service
- ▶ Telecommunication
- ▶ Banking or insurance company
- ▶ Corporation or other authority established by a Central Act
- ▶ Central public sector undertakings or subsidiaries
- ▶ Autonomous bodies owned or controlled by the Central Government
- ▶ Establishment of contractors for the purposes of such establishment
- ▶ Establishments having departments or branches in more than one state (under Code on Social Security)

For other manufacturing and non-manufacturing establishments, the state rules to be notified by respective State Governments are applicable, which are yet to be notified, except for few states which have already notified final rules.

# Key aspects covered under draft rules pre-published by the Central Government

## I. Wages for determination of gratuity

As per the Code on Social Security, 2020, gratuity is to be calculated based on rate of "wages" last drawn by the employee concerned.

The COSS Rules clarify that for the purpose of determination of gratuity, the exclusions from "wages" shall also include any payment payable on an annual basis, that is linked to performance or productivity of an employee or of the establishment in which he is employed and is not part of the remuneration payable under the terms of employment. Also, the following shall not form part of the "wages" -

- a. reimbursement of medical expenses;
- b. stock option benefit or cash equivalent of stock award;
- c. crèche allowance;
- d. telephone and internet reimbursement; and
- e. value of meal vouchers.

However, it remains to be clarified whether such components will be covered within 50% limit on exclusions in the definition of "wages".

## II. Applicability of overtime for workers under the OSHWC Code

As per the OSHWC Rules, where in an establishment, a worker works for more than 8 hours in any day as daily wager, or for more than 48 hours in any week, as the case may be, he shall in respect of such overtime work be entitled to wages at the rate of twice his rate of wages and shall be paid at the end of each wage period.

Accordingly, 'workers' shall be entitled to overtime for working beyond 48 hours in a week (without any daily working hour limit for applicability of overtime).

## III. Substituted day of rest for working on a rest day

As per the COW Rules:

- ▶ An employee shall be allowed rest of one day or more than one day as the case may be, every week (referred to as "the rest days").
- ▶ Any such employee shall not be required or allowed to work on the rest day unless he has or will have a substituted rest day for a whole day on one of the working days in a week immediately before or after the rest day.

<sup>1</sup>Notifications - S.O. 5319(E); S.O. 5320(E); S.O. 5322(E) and S.O. 5321(E)

- No substitution shall be made which will result in the employee working for more than ten days consecutively without a rest day for a whole day.

#### IV. Condition for engagement of contract labour

The OSHWC Code 2020 prohibits employment of contract labour in core activities of an establishment, subject to exceptions. As per the OSHWC Rules, the Joint Secretary to the Government of India, Ministry of Labour & Employment ('MoLE') is empowered to pass an order on the question whether an activity classifies as a core activity or not.

Other conditions with respect to engagement of contract labour include:

- Principal employer to pay minimum bonus to contract labour where the contractor fails to do so.
- Principal employer to pay to the contractor the amount payable in respect of wages of employees. The condition to make such payment before the date of payment of wages to contract labour, as proposed in earlier draft central rules issued on 7 July 2020, is done away with.
- Annual increment of not less than 2% of wages to be given to workers regularly employed by the contractor (for them to be excluded from "contract labour" definition).
- Where contractor wants to obtain CLRA license for more than one State / whole of India, a common license may be applied for on the Shram Suvidha portal or designated portal of MoLE.
- Experience certificate to be issued to contract labour on demand giving details of the period, work performed, and experience gained in various fields.

#### V. Grievance redressal / committees

The IR Code 2020 requires every industrial establishment employing 20 or more workers to set up a grievance redressal committee for resolution of disputes arising out of individual grievances.

The OSHWC Rules have introduced a provision for setting up a separate grievance redressal mechanism for contract labour for redressal of grievances related to health, working conditions and wages. The grievances may be submitted at the level of principal employer.

In addition, every establishment employing 500 or more workers shall constitute a safety committee in the prescribed manner and shall consist of equal number of members representing the employer and the workers, which shall not exceed 20.

#### VI. Compliance requirements

- COW Rules cover provisions for nomination to be obtained from employees in specific format

for payment of dues in case of employee's death / whereabouts not being known

- Unified annual returns to be filed each year
- Establishments to maintain Employee register; Attendance register-cum-muster roll; Register of wages, overtime, advances, fines and deductions; Register of women employees
- Registers and records to be preserved in original for a period of 5 calendar years
- Registers to be made in English and Hindi or language understood by majority of persons employed

#### VII. Appointment letter

Letter of appointment to be issued to all employees in the establishment within 3 months of the rules coming into force. Format of letter of appointment is prescribed.

#### VIII. Benefits

- Annual medical examination:

As per OSHWC Rules, every employer of factory, dock, mine, building & other construction work shall arrange to conduct free of cost, medical examination for every employee annually i.e. within 120 days from the commencement of the calendar year who has completed 40 years of age.

An employer may avail facility for medical examination of the employee (s) under relevant rule of Social Security Code Rules, 2025 through Employees' State Insurance Corporation (ESIC).

- Creche allowance:

Employer and negotiating union / council or majority of employees of the establishment (in the absence of negotiating union / council) may enter into agreements for provision of creche facility in the establishment and if not provided, then for payment of creche allowance, which shall not be less than INR 500 per month per child.

- Women working after 7 PM:

OSHWC Rules have prescribed conditions for employment of women in night shifts (i.e., after 7 PM and before 6 AM) - written consent of woman employee and pick and drop transport facility mandatory.

- Journey allowance to inter-state migrant workers:

Employer to pay journey allowance to inter-state migrant workers once in 12 months for to & fro journey from the place of employment to the place of residence.

## IX. Standing Orders

The provisions relating to standing orders under the IR Code 2020 apply to industrial establishments employing 300 or more workers. The Model Standing Orders in respect of industrial establishment in mines, manufacturing sector and service sector are set out in Schedule A, B and C of the new rules.

Employers may adopt model standing orders notified by the Central Government or prepare draft standing orders within 6 months from the date of commencement of IR Code 2020. Employers may continue with existing standing orders (if any) where such standing orders are not in contravention of IR Code 2020.

## X. Worker re-skilling fund

Employer who retrenches a worker(s) to transfer an amount equivalent to 15 days last drawn wages of such worker(s), within 10 days of such retrenchment, in an account to be maintained by the prescribed labour commissioner.

The fund received from the employer to be electronically transferred by the labour commissioner to the account of the retrenched worker(s) within 45 days of retrenchment to enable the worker(s) to utilize the amount for re-skilling.

## Comments

While the Rules pre-published by the Central Government under labour codes have introduced some significant changes to promote ease of doing business and simplify compliance, it is essential for organizations to thoroughly assess the implications of these changes.

### Way forward for organisations:

- 1. Financial impact on account of gratuity and leave encashment:** Assess the additional cost for organisations on account of enhanced gratuity and leave encashment payout basis the new definition of 'wages' and provisions of labour codes.
- 2. Cost implications for other benefits under rules:** Evaluate the financial impact of overtime after 48 hours of work in a week, on-site creche facility versus payment of creche allowance; payment of journey allowance; conducting annual medical examinations.
- 3. Checks for engagement of contract labour:** Principal employer to conduct audits to verify that contractor aligns with prescribed requirements; To budget 2% annual hike and compliance with minimum wages; Restriction on engagement of contract labour for core activities, subject to exceptions.
- 4. Operational changes for women working after 7 PM:** Operational changes such as transport, security and facility access might be required to accommodate longer shifts and night shifts for women employees.
- 5. SOPs for grievance redressal of on-roll employees and contract labour:** Organizations to set up clear standing operating procedures to handle grievances raised and ensure disposal of complaints within prescribed timeline.
- 6. Establish a robust compliance framework:** Implement strong internal controls, conduct periodic diagnostic reviews, and ensure effective governance.

# Our offices

## Ahmedabad

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

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

## Bengaluru

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

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

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

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

## Bhubaneswar

8<sup>th</sup> 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

6<sup>th</sup> & 7<sup>th</sup> 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

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

4<sup>th</sup> & 5<sup>th</sup> 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  
18<sup>th</sup> Floor, "SOUTH LOBBY"  
Survey No 83/1, Raidurgam  
Hyderabad - 500 032  
Tel: + 91 40 6736 2000

## Jaipur

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

## Kochi

9<sup>th</sup> 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

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

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

3<sup>rd</sup> 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, 18<sup>th</sup> Floor  
Pandurang Budhkar Marg  
Worli, Mumbai - 400 018  
Tel: +91 22 6192 0503

## Pune

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

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

## Ernst & Young LLP

EY | Building a better working world

EY is building a better working world by creating new value for clients, people, society and the planet, while building trust in capital markets.

Enabled by data, AI and advanced technology, EY teams help clients shape the future with confidence and develop answers for the most pressing issues of today and tomorrow.

EY teams work across a full spectrum of services in assurance, consulting, tax, strategy and transactions. Fueled by sector insights, a globally connected, multi-disciplinary network and diverse ecosystem partners, EY teams can provide services in more than 150 countries and territories.

## All in to shape the future with confidence.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via [ey.com/privacy](http://ey.com/privacy). EYG member firms do not practice law where prohibited by local laws. For more information about our organization, please visit [ey.com](http://ey.com).

Ernst & Young LLP is one of the Indian client serving member firms of EYGM Limited. For more information about our organization, please visit [www.ey.com/en\\_in](http://www.ey.com/en_in).

Ernst & Young LLP is a Limited Liability Partnership, registered under the Limited Liability Partnership Act, 2008 in India, having its registered office at Ground Floor, Plot No. 67, Institutional Area, Sector - 44, Gurugram - 122 003, Haryana, India.

© 2025 Ernst & Young LLP. Published in India.  
All Rights Reserved.

ED None.

This publication contains information in summary form and is therefore intended for general guidance only. It is not intended to be a substitute for detailed research or the exercise of professional judgment. Neither EYGM Limited nor any other member of the global Ernst & Young organization can accept any responsibility for loss occasioned to any person acting or refraining from action as a result of any material in this publication. On any specific matter, reference should be made to the appropriate advisor.

[ey.com/en\\_in](http://ey.com/en_in)



@EY\_India



EY



EY India



EY Careers India



@ey\_indiacareers



Download the EY India Tax Insights App