

# BoardMatters Forum

New Labour Codes

10 December 2025



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# Introduction

On 10 December 2025, EY India hosted the BoardMatters Forum (BMF) to facilitate an informed dialogue with business leaders on the implications of India's "New Labour Codes". The forum witnessed the presence of 25 Independent Directors and Board members, who discussed organizational readiness and governance considerations arising from the implementation of the four consolidated labor codes.

The discussion began with an overview of the legislative journey and the notification of the four codes in November 2025, followed by a deep dive into their impact on workforce classification, wage structures, social security benefits, industrial relations and workplace safety. Speakers highlighted how these codes aim to simplify compliance, standardize definitions and enhance worker protection, while also introducing material, financial, operational, and governance implications for enterprises.

Across the session, the conversations emphasized that labor compliance can no longer be viewed as a purely operational or HR-driven responsibility. With expanded coverage, higher penalties, and retrospective financial impact in certain areas, Boards play a critical role in guiding compliance strategy, overseeing risk management and enabling fair and responsible employment practices across organizations.

## Speaker 1

### Sonu Iyer

(National Leader, People Advisory Services - Tax, EY India)

## Speaker 2

### Puneet Gupta

(Partner, People Advisory Services - Tax, EY India)



# Overview of the New Labour Codes

The new labor law framework consolidates 29 central labor laws into four comprehensive Codes:

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

Together, these codes seek to bring uniformity in definitions, expand coverage, reduce the multiplicity of registrations and promote ease of doing business, while safeguarding employee and worker rights. While the codes replace a wide range of legacy legislations, several laws—such as the POSH Act, the Apprentices Act, and state-specific welfare statutes—continue to apply independently.

A key structural shift introduced by the codes is the removal of wage thresholds that earlier restricted applicability. Several provisions that were previously limited to employees below specified salary ceilings are now applicable across the workforce, significantly increasing employer obligations.

The codes were brought into force on 21 November 2025. While labor is a concurrent subject and certain states have expressed concerns, the general expectation is that the codes will apply uniformly, with state rules evolving over time.

## Role of the Board

The role of the Board involves comprehending the comprehensive framework of the “New Labour Codes”, evaluating their relevance across the entire organization, and helping management establish a systematic plan for transition and compliance.



# Understanding workforce classification

One of the most significant implications of the labor codes arises from the renewed focus on the definition of a “worker.” While the codes apply to all employees, several substantive benefits and protections—such as overtime, leave encashment annually and certain safety provisions—apply specifically to workers.

Under the new codes, a worker is an individual engaged in manual, skilled, technical, operational, clerical, or supervisory roles. However, individuals in managerial or administrative roles and supervisors earning more than INR18,000 per month are excluded. This distinction is not merely title-based but depends on the actual nature of duties performed.


The discussions highlighted that many highly skilled professionals, including those in IT, engineering and analytics roles, may still qualify as workers if they do not exercise managerial authority or decision-making powers. Determining worker status requires a careful review of job descriptions, reporting structures and day-to-day responsibilities.

## Role of the Board

Boards and Independent Directors should supervise workforce classification activities, as incorrect classifications can result in compliance issues, financial liabilities and industrial conflicts. It is crucial to have clear governance oversight to make sure that classification decisions are consistent and defensible.



# Overview of the New Labour Codes



The “Code on Wages” introduces a uniform definition of “wages,” covering all remuneration expressed in monetary terms, subject to specified exclusions. Importantly, the total value of excluded components cannot exceed 50% of total remuneration. Any excess is deemed wages for statutory purposes.

This change directly impacts the calculation of several employee benefits including gratuity, overtime, leave encashment, and statutory bonus. While organizations are not legally required to restructure salaries so that basic pay equals 50% of total compensation, statutory payouts must be computed based on the revised wage definition.

As a result, enterprises with historically allowance-heavy salary structures may see a significant increase in statutory liabilities. Monthly wage calculations may also fluctuate, requiring payroll systems to dynamically adjust their compliance computations.

## Role of the Board

Boards, especially audit committees, are required to assess whether the existing provisions for gratuity and other benefits align with the updated wage base. It is important to maintain oversight to enable financial statements, actuarial valuations, and cost projections accurately incorporate the effects of the new definition.



# ■ ■ ■ Gratuity provisions and retrospective considerations

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Under the gratuity provisions in the new framework, while eligibility for permanent employees continues to require five years of continuous service, two key changes were highlighted:

- Gratuity is now calculated on wages instead of basic pay.
- Fixed-term employees become eligible for gratuity after one year of service.

Further, for employees exiting on or after the effective date of the codes, gratuity must be calculated using the revised wage definition for the entire period of service, resulting in a retrospective financial impact.

Organizations offering uncapped gratuities or employing large numbers of fixed-term staff may therefore face increased liabilities. These obligations may also flow through vendor and contractor arrangements, adding complexity to workforce cost management.

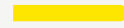
## Role of the Board

Boards should examine gratuity policies, funding methods and employment structures. Decisions on capped versus uncapped gratuity, outsourcing models, and fixed-term employment now require clear oversight at the Board level.



# Leave encashment and overtime

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The “Labour Codes” strengthen worker entitlements related to leave and overtime. Earned leave no longer lapses for workers, and balances exceeding prescribed limits must be encashed annually. Workers may also demand encashment of carried-forward leave. All such payments are calculated on wages, further increasing employer costs.

Overtime provisions have been clarified, with additional consent requirements and enhanced scrutiny. At the same time, the codes permit flexible working arrangements, allowing employers and workers to agree on weekly hour-based thresholds, provided that the overall limit of 48 hours per week is not breached.

## Role of the Board

Boards must be aware of overtime trends, leave liabilities and workforce utilization metrics. These factors impact both cost structures and employee well-being, making them significant from a governance and sustainability standpoint.



# Flexi hiring, contract labor and core activities

The codes formally recognize fixed-term employment as a legitimate hiring model, granting fixed-term employees parity in wages and benefits with permanent employees performing similar work, thereby providing flexibility to employers while maintaining fairness in employment conditions.

However, the codes also restrict the use of contract labor for core activities, subject to specified exceptions. While the definition of “core activity” leaves room for interpretation, the regulatory intent is to discourage excessive reliance on outsourced labor for essential business functions.

## Role of the Board

Boards must recalibrate their workforce strategies, especially in organizations with sizeable contingent labor pools. Decisions on outsourcing, insourcing and fixed-term roles should carefully balance flexibility, cost efficiency and compliance exposure.



# Occupational safety, health and working conditions

The “Occupational Safety, Health and Working Conditions Code” expands safety and welfare obligations across a broader range of establishments. Key provisions include standardized working hours, mandatory safety committees, enhanced safeguards for women working night shifts, and centralized digital registration. The shift towards technology-enabled inspections and data-driven enforcement signals a more proactive regulatory approach. These changes align Indian labor standards closely with international norms.

## Role of the Board

Boards are increasingly expected to embed workplace safety and employee well-being within the wider ESG and sustainability agenda. Oversight of safety metrics, independent audits and timely corrective actions is now widely regarded as a core Board-level responsibility.

# Industrial relations, dispute resolution and enforcement

The Industrial Relations Code introduces changes to dispute-resolution mechanisms, union recognition thresholds and conditions for strikes and layoffs. While the intent is to balance employer flexibility with worker protection, the framework also strengthens enforcement through higher penalties and structured compliance mechanisms.

Although routine non-compliance has been decriminalized, serious or repeated violations can still attract prosecution of responsible officers. Inspectors have been re-designated as inspector-cum-facilitators, but enforcement is expected to be more frequent and technology-driven.

## Role of the Board

Boards and Independent Directors should enable organizations to have robust compliance frameworks, internal audits and escalation matrices in place. Awareness and oversight at the Board-level play a crucial role in mitigating regulatory and reputational risks.

To support an effective transition, a phased compliance roadmap is recommended:

1. Workforce mapping and classification
2. Wage and benefit impact assessment
3. Policy harmonization across states
4. Review of contract and fixed-term employment models
5. Payroll and HR system upgrades
6. Training in HR, finance and line managers
7. Internal audits and readiness reviews
8. Ongoing monitoring and Board reporting



# ■ ■ ■ Role of Boards and senior management

Boards and Independent Directors can play a central role in ensuring the effective implementation of the labor codes, including guiding policy adoption, overseeing financial provisioning, monitoring compliance dashboards, and fostering a culture of fair and responsible employment.

Senior management—including the CEO, CHRO, CFO and CIO—must work together to interpret regulatory requirements and make them an operational reality, with adequate budget allocation, system readiness, and continuous monitoring for sustained compliance.

## Final thoughts

The “New Labour Codes” represent a transformational change in India’s employment-related legal landscape, combining consolidation and clarity with fresh financial, operational and governance demands. Enterprises that take a proactive approach to implementation, anchored in robust board-level oversight, will be better placed to manage risks, optimize costs, and strengthen credibility with their workforce.

A mature governance posture—driven by well-informed boards and accountable leadership teams—will determine how effectively organizations navigate this transition and convert compliance into a long-term advantage.

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