

CAREER CREED HR SERVICES PVT. LTD.

DECODING INDIA'S NEW LABOUR CODES

A practical employer guide for startups, SMEs and growing businesses

LABOUR • PAYROLL • SOCIAL SECURITY • WORKPLACE

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PURPOSE

Translate the four Labour Codes and current Central Rules into practical HR, payroll and compliance actions — without replacing professional legal advice.

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From legal reform to HR readiness

India's four Labour Codes consolidate 29 Central labour laws into four principal Codes covering wages, industrial relations, social security, and occupational safety, health and working conditions. The Ministry of Labour & Employment states that the four Codes came into force on 21 November 2025. Central Rules for the four Codes were notified on 8 May 2026.

THE PRACTICAL MESSAGE

For employers, Labour Code readiness is not a single policy exercise. It is a cross-functional review spanning compensation, payroll, employment documentation, HR policies, social security, working conditions, contractor arrangements, records and HR technology.

What leaders should know

- The four Codes create a more consolidated framework, but applicability still depends on the establishment, worker/employee category, thresholds, sector and the appropriate Central or State rules.
- The Code on Wages introduces a common definition of “wages” with an exclusion mechanism that can affect compensation analysis where excluded components exceed the prescribed limit.
- The Social Security Code expands the statutory framework to include categories such as gig and platform workers and contains provisions affecting PF, ESI, gratuity and other social-security arrangements.
- The OSHWC Code strengthens the framework for appointment documentation, occupational safety, welfare and working conditions, with detailed obligations depending on the establishment and applicable rules.
- The Industrial Relations Code changes the framework around standing orders, dispute resolution, strikes/lockouts, retrenchment, fixed-term employment and worker representation.
- The safest implementation approach is to assess applicability first, then map gaps, redesign documents/processes, configure payroll/HRMS and establish evidence of ongoing compliance.

Current regulatory snapshot — September 2026

Item	Current position
Four Labour Codes	In force from 21 November 2025, according to Ministry of Labour & Employment.
Central Rules	Central Rules for the four Codes were notified on 8 May 2026; each set states commencement from publication in the Official Gazette.
State rules	Labour is in the Concurrent List. Employers must check the applicable State rules and notifications in addition to Central requirements where relevant.
Employer approach	Treat readiness as a continuing compliance programme rather than a one-time document update.

Why the Labour Codes matter

The reform consolidates a fragmented central-law architecture into four Codes. The Government describes the reform as rationalising 29 Central labour laws while strengthening areas including wages, safety, social security and worker welfare.

Code	Primary focus	Typical HR touchpoints
Code on Wages, 2019	Wages, minimum wages, payment and deductions	Salary structure • payroll • wage records • deductions
Industrial Relations Code, 2020	Employment relations and industrial disputes	Standing orders • disputes • retrenchment • unions • FTE
Code on Social Security, 2020	Social-security benefits and coverage	EPF • ESIC • gratuity • gig/platform workers
OSHC Code, 2020	Safety, health and working conditions	Appointment letters • hours • leave • welfare • safety • contract labour

CONSULTING LENS

Think of the Codes as an operating model change: LAW → POLICY → PROCESS → SYSTEM → RECORD → CONTROL.

What changes in an organisation?

Layer	Questions to ask
Legal applicability	Which Code provisions apply to our establishment, workforce and activities?
Policy	Which policies, standing orders or employment terms need review?
Process	Do recruitment, payroll, leave, attendance, separation and grievance processes reflect the applicable requirements?
Technology	Can HRMS/payroll capture the required data, calculations, documents and audit trail?
Evidence	Can the organisation demonstrate compliance through registers, wage slips, records, notices and approvals?
Governance	Who owns each compliance action and how is closure monitored?

Code on Wages, 2019

IN ONE LINE

Creates a consolidated framework around wages, minimum wages, payment of wages, deductions and related protections.

Key provisions to understand

- Universal minimum-wage coverage is a central feature of the Code; minimum rates set by the appropriate Government cannot be below the notified floor wage.
- “Wages” is defined in the Code with specified inclusions and exclusions. Where excluded components exceed the prescribed proportion of total remuneration, the excess is treated as wages for the statutory calculations covered by the Code.
- Payment of wages and deductions are brought into a common framework, with prescribed controls around timing and permissible deductions.
- The Code prohibits discrimination in wages and recruitment on the basis specified in the Code, including gender-related protections.
- Central Rules 2026 prescribe forms and record-keeping requirements; employers should align their payroll records and wage slips with the applicable rules.

Employer lens

- Run a compensation-structure diagnostic rather than automatically redesigning every salary.
- Map every salary component to the statutory definition of wages and identify where exclusions may trigger an adjustment.
- Review payroll logic, wage slips, deductions, registers and employee records.
- Check minimum-wage applicability by employee category, employment type, location and applicable Government notification.
- Document the methodology used for salary-structure review so that payroll changes are explainable and auditable.

Employee lens

- Employees should understand how their salary components are described and how statutory benefits may be calculated.
- Minimum-wage protection is broader under the Code than the earlier scheduled-employment framework.
- Timely payment and permissible deductions remain important employee-facing controls.

Illustrative example

ILLUSTRATION ONLY

A monthly CTC contains basic pay plus multiple allowances. The organisation should not assume that every allowance can remain outside the statutory wage base. First classify each component under the applicable definition, then test the exclusion cap and calculate the resulting statutory impact. The result can differ by employee and by benefit.

Industrial Relations Code, 2020

IN ONE LINE

Modernises the framework for industrial relations, worker representation, standing orders, disputes and separation-related processes.

Key provisions to understand

- Provides a framework for negotiating unions/councils and recognition of worker representation.
- Introduces a consolidated framework for industrial disputes, conciliation and adjudication.
- Contains provisions relating to standing orders and their applicability to covered industrial establishments.
- Regulates strikes and lockouts through a more structured notice framework.
- Provides a framework for retrenchment, lay-off and closure, including thresholds and permissions that depend on the applicable provisions.
- Recognises fixed-term employment and provides statutory treatment for directly engaged fixed-term employees.

Employer lens

- Review employment models and distinguish direct employees, fixed-term employees and contract labour.
- Review disciplinary, grievance and separation procedures for consistency with the Code and applicable rules.
- Assess whether standing-order requirements apply to the establishment and whether documentation is current.
- Maintain clear records for workforce changes, notices, settlements and dispute-related actions.
- Build management protocols for any retrenchment, lay-off, closure or industrial dispute scenario instead of handling them informally.

Employee lens

- Employees have clearer statutory frameworks for representation, dispute resolution and certain separation processes.
- Fixed-term employment has a distinct statutory framework; it should not be confused with labour supplied through a contractor.
- Rights and obligations depend on the worker's legal status and the applicable provisions.

Illustrative example

ILLUSTRATION ONLY

A growing company uses both direct fixed-term employees and agency-supplied contract labour. HR should not treat both groups as identical. The Code and Ministry FAQs distinguish direct fixed-term employment from contract labour; the organisation should map the legal relationship before applying a policy or benefit.

Code on Social Security, 2020

IN ONE LINE

Consolidates major social-security frameworks and expands the architecture to additional worker categories.

Key provisions to understand

- Provides the statutory framework for EPF, ESI, gratuity and other social-security schemes under the Code.
- Introduces statutory recognition of gig workers and platform workers and enables schemes for their social security.
- EPFO coverage continues around the statutory establishment threshold specified under the Code and applicable rules.
- ESI coverage is structured through the Code, with specific provisions for establishments and hazardous processes.
- Gratuity rules apply to eligible employees, with special treatment for fixed-term employees under the Code.
- The Ministry's 2026 FAQ states that a fixed-term employee is eligible for gratuity after one year of service from the start of the contract, subject to the Code's conditions.
- Social-security calculations can be affected by the Code's definition of wages.

Employer lens

- Reconcile employee master data with PF/ESI/gratuity records.
- Review fixed-term employment contracts and gratuity treatment.
- Check contractor documentation and contractual allocation of statutory responsibilities.
- Review payroll wage definitions used for PF/ESI/gratuity calculations.
- Track gig/platform-worker arrangements separately where the business model creates such relationships.

Employee lens

- Employees may benefit from broader statutory social-security architecture depending on coverage and eligibility.
- Fixed-term employees have specific gratuity treatment under the Code.
- Coverage should not be assumed solely from job title; statutory definitions and thresholds matter.

Illustrative example

ILLUSTRATION ONLY

A startup hires a person on a direct 12-month fixed-term contract. The Ministry's 2026 FAQ states that an FTE becomes eligible for gratuity when service under the contract reaches one year, subject to the Code. HR should therefore configure the contract and payroll/benefit records accordingly rather than relying on the old "five-year only" shorthand.

Occupational Safety, Health & Working Conditions Code, 2020

IN ONE LINE

Creates a consolidated framework for occupational safety, health, welfare and working conditions.

Key provisions to understand

- Requires appointment documentation in the manner prescribed by the Code/rules for covered workers and employees.
- Provides a framework around working hours, leave, overtime and welfare, subject to the applicable establishment and rules.
- Strengthens occupational safety and health requirements, including specified health-check and welfare measures.
- Expands the definition of inter-state migrant worker and provides for specified benefits and protections.
- Contains provisions concerning women's employment, including work in establishments and night work subject to safeguards and consent/conditions where prescribed.
- Central Rules 2026 provide detailed forms, registers and operational requirements for covered establishments.

Employer lens

- Audit appointment letters and ensure required particulars are captured.
- Review attendance, overtime, leave and wage records together rather than as separate silos.
- Map workplace safety and welfare obligations to the establishment type, headcount and work environment.
- Review contractor and inter-state migrant worker records where applicable.
- Use HRMS/attendance systems to preserve evidence of working time and statutory records.

Employee lens

- Employees should receive clearer employment documentation and workplace information.
- Working-condition protections depend on the establishment and applicable rules.
- Women's employment protections include safeguards for work at night and other conditions specified by law/rules.

Illustrative example

ILLUSTRATION ONLY

An SME has 70 employees, hybrid workers and a small office. The business should not assume that "office work" means OSHWC obligations are irrelevant. HR should map the establishment, workforce category and applicable thresholds, then document the specific obligations that apply.

What changes for employers?

Function	Key review areas	Management question
HR	Policies, contracts, employee files, grievances	Can HR demonstrate that terms and processes are current?
Payroll	Wages, deductions, wage slips, statutory calculations	Does payroll use the correct statutory wage base?
Recruitment	Appointment letters, FTE terms, worker classification	Are employment relationships documented correctly from day one?
Compliance	Registrations, returns, registers, notices, records	Can the company produce evidence on demand?
Operations	Working hours, overtime, safety, welfare	Are operational practices aligned with applicable rules?
Procurement	Contract labour and vendor compliance	Can the organisation evidence contractor compliance?
Leadership	Cost, risk, governance and workforce planning	What are the material gaps and who owns closure?

The payroll and compensation question

The most discussed practical issue is the definition of wages. The correct approach is not to apply a universal “50% basic salary” formula mechanically. Instead, classify remuneration components under the applicable Code, apply the statutory inclusion/exclusion mechanics and then test the resulting wage base for the relevant benefit or contribution.

Review step	Action
1. Inventory	Export the full compensation structure for every employee.
2. Classify	Map each component to the statutory definition and exclusions.
3. Test	Apply the prescribed exclusion-cap mechanism where relevant.
4. Quantify	Model PF, gratuity, ESI and other affected calculations.
5. Decide	Document any salary-structure change and its business rationale.
6. Implement	Configure payroll/HRMS and communicate changes transparently.

AVOID THE COMMON MISTAKE

Do not tell employees that the Labour Codes automatically reduce take-home pay or automatically increase employer cost. The financial impact depends on the existing salary architecture, statutory coverage, applicable rules and the changes the employer makes.

What the Labour Codes mean for growing businesses

Startups often scale faster than their HR controls. The priority is therefore not to build a large compliance department overnight, but to establish a reliable minimum operating system that can scale.

Growth stage	Priority review	Practical focus
1–10 employees	Foundation	Appointment letters • payroll records • basic policies • statutory applicability
11–20	Control	Leave/attendance • payroll controls • employee files • compliance calendar
21–50	Systemise	HRMS • contractor review • compensation audit • policy suite
51–100	Govern	Compliance ownership • audits • workforce analytics • structured employee relations
100+	Scale	Formal governance • specialist compliance • industrial-relations readiness • audit evidence

Special situations

- Remote/hybrid workforce: map the establishment, place of work, attendance records and applicable State requirements rather than assuming a single rule applies uniformly.
- Consultants: review the actual relationship and working arrangement; labels alone do not determine statutory status.
- Contract labour: maintain contracts, licences/registrations where applicable, wage and statutory records, and evidence of vendor compliance.
- Fixed-term employees: use written contracts that clearly state duration and terms and align gratuity treatment with the Code.
- Rapid hiring: make appointment documentation and employee master-data completeness a day-one control.

Common misconceptions to avoid

Myth	Reality
"All businesses must immediately rewrite every policy."	The right sequence is applicability assessment → gap analysis → targeted policy/process updates.
"The Codes apply identically to every employee."	Applicability varies with definitions, thresholds, establishment type, sector and worker status.
"The wage rule simply means Basic must be 50% of CTC."	The statutory test concerns the definition of wages and specified exclusions; it is not a universal CTC formula.
"Contract labour and fixed-term employees are the same."	They are distinct legal arrangements. Fixed-term employment under the Code concerns employees directly engaged by the employer.
"Gratuity is always only after five years."	The Code contains specific treatment for fixed-term employees; the Ministry's 2026 FAQ states one-year eligibility for qualifying FTEs.
"Labour Code compliance is only HR's job."	Payroll, finance, operations, procurement and leadership all contribute to compliance evidence.
"An HRMS automatically makes us compliant."	Technology enables controls; compliance still depends on correct configuration, data, process and governance.
"State rules do not matter once Central Rules exist."	Labour is in the Concurrent List; applicable State rules and notifications remain important.
"Compliance is complete once policies are signed."	Organisations must also operate the process and retain evidence.
"A startup can wait until it reaches 100 employees."	Applicability is provision-specific; foundational HR controls should be established early.

What should be reviewed?

HR area	Review?	Priority	Suggested action
Appointment / Employment Letter	Yes	High	Confirm required particulars and employment category.
Compensation & Wage Structure	Yes	High	Map components to statutory wage definition.
Payroll & Wage Slips	Yes	High	Review wage calculations, deductions, records and slips.
Leave & Attendance	Yes	High	Check working-time and leave requirements.
Overtime	Yes	High	Align attendance/payroll controls with applicable rules.
Grievance Management	Yes	High	Document escalation and resolution process.
Disciplinary Process	Yes	Medium/High	Align process with applicable employment/IR framework.
Fixed-Term Employment	If applicable	High	Review contracts and gratuity treatment.
Contract Labour	If applicable	High	Review vendor and statutory documentation.
Health & Safety	If applicable	High	Map establishment-specific OSH obligations.
Employee Records	Yes	High	Create complete, current and retrievable records.
HRMS Controls	Yes	Medium/High	Configure workflows and audit trails.

Labour Code readiness checklist

Use this checklist as an internal management tool. “Not Applicable” should be supported by an applicability assessment rather than assumption.

Area	Checkpoint	Status	Priority	Owner	Target date	Remarks
Governance	Nominate a Labour Code owner and escalation point.	☐ Reviewed ☐ Action ☐ N/A	High			
Governance	Create a central compliance calendar.	☐ Reviewed ☐ Action ☐ N/A	High			
Governance	Document the establishment(s), locations and applicable State rules.	☐ Reviewed ☐ Action ☐ N/A	High			
HR	Inventory all current HR policies.	☐ Reviewed ☐ Action ☐ N/A	High			
HR	Review appointment/employment letter templates.	☐ Reviewed ☐ Action ☐ N/A	High			
HR	Review employee classification and employment relationships.	☐ Reviewed ☐ Action ☐ N/A	High			
HR	Audit employee master data and documentation completeness.	☐ Reviewed ☐ Action ☐ N/A	High			
HR	Review grievance and disciplinary workflows.	☐ Reviewed ☐ Action ☐ N/A	High			
Payroll	Map all salary and allowance components.	☐ Reviewed ☐ Action ☐ N/A	High			
Payroll	Test the statutory wage definition against payroll data.	☐ Reviewed ☐ Action ☐ N/A	High			
Payroll	Review wage-slip format and delivery.	☐ Reviewed ☐ Action ☐ N/A	High			
Payroll	Review deductions and supporting authorisations.	☐ Reviewed ☐ Action ☐ N/A	High			
Payroll	Review overtime calculation and records.	☐ Reviewed ☐ Action ☐ N/A	High			
Social Security	Reconcile PF records and employee master data.	☐ Reviewed ☐ Action ☐ N/A	High			
Social Security	Reconcile ESI records and coverage.	☐ Reviewed ☐ Action ☐ N/A	High			
Social Security	Review gratuity calculations and FTE treatment.	☐ Reviewed ☐ Action ☐ N/A	High			
Social Security	Map any gig/platform-worker arrangements.	☐ Reviewed ☐ Action ☐ N/A	High			
OSH	Review working-hour and attendance controls.	☐ Reviewed ☐ Action ☐ N/A	High			
OSH	Review leave records and applicable requirements.	☐ Reviewed ☐ Action ☐ N/A	High			
OSH	Review workplace safety and welfare requirements.	☐ Reviewed ☐ Action ☐ N/A	High			
OSH	Review health-check requirements where applicable.	☐ Reviewed ☐ Action ☐ N/A	High			
OSH	Review women/night-work safeguards where applicable.	☐ Reviewed ☐ Action ☐ N/A	High			
Contract Labour	Inventory contractors and deployed workers.	☐ Reviewed ☐ Action ☐ N/A	High			
Contract Labour	Check contracts, licences/registrations and statutory records.	☐ Reviewed ☐ Action ☐ N/A	High			
Contract Labour	Collect periodic compliance evidence from vendors.	☐ Reviewed ☐ Action ☐ N/A	High			
Industrial Relations	Assess standing-order applicability.	☐ Reviewed ☐ Action ☐ N/A	High			
Industrial Relations	Review dispute/grievance escalation mechanisms.	☐ Reviewed ☐ Action ☐ N/A	High			
Industrial Relations	Document protocols for retrenchment/lay-off/closure where relevant.	☐ Reviewed ☐ Action ☐ N/A	High			
Records	Confirm statutory registers/records are maintained.	☐ Reviewed ☐ Action ☐ N/A	High			
Records	Confirm records are retrievable in electronic or permitted form.	☐ Reviewed ☐ Action ☐ N/A	High			
Records	Test audit readiness: can records be produced quickly?	☐ Reviewed ☐ Action ☐ N/A	High			

Area	Checkpoint	Status	Priority	Owner	Target date	Remarks
Technology	Review HRMS/payroll configuration.	☐ Reviewed ☐ Action ☐ N/A	High			
Technology	Configure alerts for missing documents and compliance actions.	☐ Reviewed ☐ Action ☐ N/A	High			
Technology	Maintain an audit trail for changes.	☐ Reviewed ☐ Action ☐ N/A	High			
Employee Communication	Prepare plain-language employee FAQs.	☐ Reviewed ☐ Action ☐ N/A	High			
Employee Communication	Communicate any compensation or policy changes clearly.	☐ Reviewed ☐ Action ☐ N/A	High			
Training	Train HR/payroll/admin owners.	☐ Reviewed ☐ Action ☐ N/A	High			
Training	Train managers on escalation and employee relations.	☐ Reviewed ☐ Action ☐ N/A	High			
Monitoring	Run a quarterly internal compliance review.	☐ Reviewed ☐ Action ☐ N/A	High			
Monitoring	Track open gaps, owners and target dates.	☐ Reviewed ☐ Action ☐ N/A	High			

From assessment to operating control

Period	Objective	Core activities	Output
Days 1–30	ASSESS	Applicability review • payroll scan • policy inventory • employee-file audit • contractor map	Gap register + priority matrix
Days 31–60	DESIGN	Policy/document updates • compensation modelling • payroll/HRMS configuration • process redesign	Approved operating changes
Days 61–90	IMPLEMENT	Employee communication • training • rollout • evidence checks • internal audit	Readiness dashboard + closure report

Recommended governance cadence

Cadence	Review
Weekly during implementation	Open high-priority gaps, payroll/system changes, blockers
Monthly	Compliance dashboard, documentation completeness, contractor controls
Quarterly	Internal audit, legal/regulatory update scan, policy/process review
Annually	Full HR compliance health check and control redesign

Suggested Labour Code readiness KPIs

KPI	Definition	Suggested management use
Employee documentation completeness	Employees with all required records ÷ total employees	Track foundation quality
Policy review completion	Policies reviewed/updated ÷ policies in scope	Monitor governance
Payroll compliance closure	Payroll-related actions closed ÷ actions raised	Track implementation
Contractor documentation completeness	Compliant contractor files ÷ contractors in scope	Monitor vendor risk
Open high-priority gaps	Count of unresolved high-priority actions	Escalate material issues
Average gap closure time	Average days from issue identification to closure	Assess control effectiveness
HRMS control coverage	Processes supported by configured controls ÷ processes in scope	Track digitisation

From compliance complexity to HR clarity

Career Creed HR Services Pvt. Ltd. supports startups, SMEs and growing businesses with practical HR operations, compliance and people advisory. The focus is to connect policy, process, people and technology so that HR becomes easier to manage as the organisation scales.

Need	Career Creed capability
Labour Code readiness	Applicability review, HR audit and readiness assessment
Policy framework	HR policy formulation, review and documentation
Payroll & compliance	Payroll outsourcing, PF, ESIC, LWF, PT, TDS and compliance support
Compensation	Compensation review and restructuring support
HR technology	HRMS implementation, administration and employee self-service
HR administration	Dedicated HR support / HR Control Desk model
Recruitment	Recruitment and RPO support for growing businesses
Ongoing HR	Outsourced HR operations and advisory

PRACTICAL NEXT STEP

Start with a structured Labour Code Readiness Assessment: establish applicability, identify gaps, prioritise actions and create an implementation roadmap.

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Readiness is an operating discipline

India's Labour Codes create a more consolidated statutory framework, but the practical challenge for employers is implementation. The strongest approach is to translate the law into an operating system: clear employment terms, correct payroll logic, complete employee records, relevant policies, documented processes, technology controls and periodic evidence-based reviews.

For startups and SMEs, the goal is not to reproduce a large enterprise compliance function. It is to build the right controls early enough that growth does not create HR or compliance chaos.

LEADERSHIP TAKEAWAY

Build the compliance foundation before scale makes it expensive to fix. Assess → Design → Implement → Monitor.

Primary sources used

- **Ministry of Labour & Employment — Compliance Handbook for Labour Codes (2026)**
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- **Ministry of Labour & Employment — Welfare of Organised and Unorganised Sectors (8 Dec 2025)**
<https://labour.gov.in/sites/default/files/pib2200433.pdf>
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Editorial note

Prepared as a practical business guide using official Government of India / Ministry of Labour & Employment materials available as of September 2026. State-specific applicability, notifications, establishment thresholds and sector-specific requirements should be checked before implementation.

Disclaimer

This publication is intended for general informational and educational purposes and should not be construed as legal advice. Applicability of the Labour Codes, rules, notifications and related obligations may depend on factors including establishment type, employee/worker classification, thresholds, sector, location and applicable Central or State rules. Employers should verify the latest applicable notifications and obtain professional legal or compliance advice before making decisions.