

Employment Law Framework in India: Impact of the New Labour Codes

February 2026

The new Labour Codes

29 Central legislations have been consolidated into 4 Codes:

- The Code on Wages, 2019 (Wage Code),
- The Code on Social Security, 2020 (SS Code),
- The Occupational Safety, Health and Working Conditions Code, 2020 (OSHW Code)
- The Industrial Relations Code, 2020 (IR Code).

They are effective from 21 November 2025. Key highlights below:

- **Uniform Definition:** For e.g., different definition “wages” led to administrative complexities for employers.
- **Updating archaic laws:** Most were enacted 5-7 decades ago and not aligned with the current market situation.
- **Introduction of new provisions to address loopholes:** Few aspects which are not adequately addressed under the old laws.

KEY IMPACT AREAS

Key impact

Obligation	Note	Impact
New definition of wages	<ul style="list-style-type: none">• The Wages Code provides a single, uniform definition for ‘wages’ across all 4 labour codes which shall apply to all statutes.• The consolidated definition provides for specific inclusions and exclusions.• If the exclusions exceed 50% of all the remuneration, then the amount that exceeds 50% would be deemed as "remuneration."• This could vary the calculation of benefits payable to the employee, such as gratuity.	<p>Organisations may need to review their pay structure to ensure it is aligned with the new definition of wages.</p> <p>Due to the revised definition, the quantum of gratuity which has to be paid out at the time of exit by could be higher. Consequently, the provision to be made towards gratuity would be higher.</p>
Prohibition of contract labour	<ul style="list-style-type: none">• The OSHW Code also prohibits employment of contract labour in the core activities of an establishment.• The term 'core activities' has been defined under the OSHW Code to mean "<i>activities for which the establishment has been setup, and includes any activity which is essential and necessary to such activity.</i>"	<p>Assess if the restriction applies prior to engaging 50 or more contract labour through third-party vendors.</p>

Key impact

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Grievance Redressal Committee (GRC)	<ul style="list-style-type: none">• Under the IR Code, companies with more than 20 employees must constitute a GRC to address the grievances of individual employees.• The GRC shall have an equal number of members representing the employer and the employee.	Companies will now have to constitute a GRC.
Fixed-Term Employees	<ul style="list-style-type: none">• The SS Code and IR Code have recognized fixed-term employees.• The IR Code prohibits an employer from offering lower wages / benefits (as compared to permanent employees) to employees hired on fixed term basis,• They are eligible to receive gratuity if they have completed 1 year of service.• As per the SS Code, fixed term employees' hours of work, wages, allowances, and other benefits are to be equal to those paid / provided to a permanent employee doing the same or similar work.	<p>Organizations which hire fixed term employees will have to ensure that they receive the same benefits and conditions of service as permanent employees.</p> <p>Companies must also make provisions for the payment of gratuity to these employees.</p>
Women working at night	<ul style="list-style-type: none">• The OSH Code permits women to work beyond 7 PM and before 6 AM, provided the employer complies with the requirements around safety, holidays, working hours or any other condition prescribed by the government.	Compliance to be assessed once the conditions have been notified

Key impact

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Contributions to the Worker Re-skilling Fund	<ul style="list-style-type: none">Previously, retrenched employees were only eligible to receive retrenchment compensation.The IR Code also introduces a "Worker Re-skilling Fund" where in the event of retrenchment, the employer must contribute an amount equal to 15 days' last drawn wages in respect of every retrenched worker, within 45 days of such retrenchment, into a fund set up by the appropriate government for the use of re-skilling of the workers affected by such retrenchment or closure.	Companies to now account for the additional cost of such contributions while retrenching employees.
Classification of gig-workers	<ul style="list-style-type: none">The SS Code defines a "gig worker" as a person who performs work or participates in a work arrangement and earns from such activities outside of traditional employer-employee relationship.The Government will roll out social security schemes to cover gig workers.	Any consultants engaged by an entity would now be classified as gig-workers under the SS Code.
Introduction of a national Floor Wage	<ul style="list-style-type: none">The Wage Code prescribes a national 'Floor wages' that will be fixed by the Central government. States can't fix wages lower than the floor wage.	Compliance to be assessed once the Floor Wages have been notified.

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Working Hours	<ul style="list-style-type: none">• The OSHW Code sets out a daily limit of 8 hours and provides that the intervals and spread over will be notified by the appropriate Government. The draft Central rules stipulate weekly limit of 48 hours, interval of 1 hour, spread over of 12 hours and total overtime of 125 hours in a quarter.• OSHW Code requires employers to obtain consent of the worker for working overtime.	Ensure compliance with working hours once the Rules are notified, and that consent is obtained before employees are required to work overtime.
Disciplinary Proceedings	<ul style="list-style-type: none">• The IR Code sets out a requirement to complete disciplinary proceedings within 90-days.	Ensure that all disciplinary proceedings are completed within 90 days.
Payment of full and final settlement	<ul style="list-style-type: none">• The Wage Code state where an employee has been (i) removed or dismissed from service; or (ii) retrenched or has resigned from service, or became unemployed due to closure of the establishment, the wages payable to him shall be paid within two working days of his removal, dismissal, retrenchment or, as the case may be, his resignation.	Full and final payments are to be made within 2 days of exit.



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