

AN EMPLOYER'S GUIDE • 2026 EDITION

Employing People *under the* Labour Codes.

What changed, what it costs and what to do next: a practical guide for general counsel, CHROs and compliance leaders.

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Five points for the leadership team.

If you read one page of this guide, read this one.

- 1** **Wages are now one number.**
A single definition, with exclusions capped at 50% of remuneration, reprices PF, gratuity, bonus, overtime and leave encashment at the same time.
- 2** **Titles do not decide classification.**
Whether someone is a “worker” turns on actual duties and pay, and it decides who has IR protections.
- 3** **Flexibility has moved up to 300.**
Standing orders and prior permission for lay-off, retrenchment and closure now apply at 300 workers, but obligations below that line have grown.
- 4** **Paper is now mandatory.**
Appointment letters for every employee, fixed-term parity and documented committees are baseline requirements, not good practice.
- 5** **2026 is a transition year.**
Central Rules, a higher EPF ceiling from 17 September and State Rules still arriving mean the position will keep moving for some months.

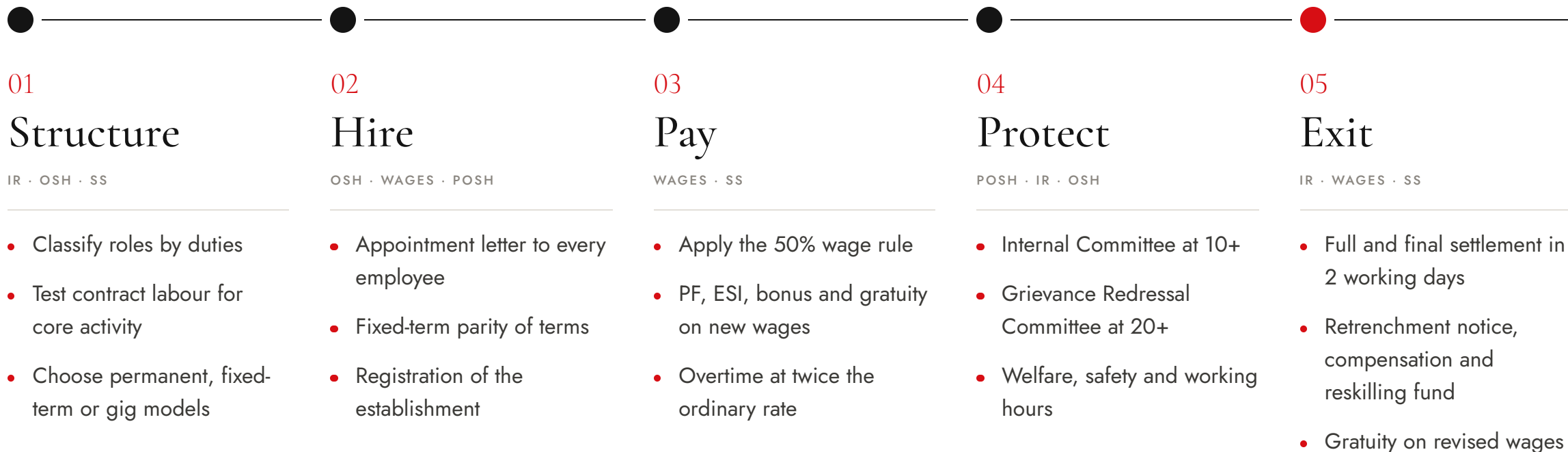
Before and after the Codes

Twenty-nine statutes became four Codes on 21 November 2025. These are the shifts that matter most in practice.

AREA	BEFORE		UNDER THE CODES
Definition of wages	Different definitions across different statutes	→	One definition; excluded allowances capped at 50% of remuneration
Appointment letters	Not universally required	→	Mandatory for every employee
Fixed-term employment	Limited statutory recognition	→	Recognised, with parity of terms and gratuity after one year
Standing orders	Applicable at 100+ workers (lower in some States)	→	Applicable at 300+ workers
Lay-off, retrenchment, closure	Government permission at 100+ workers	→	Government permission at 300+ workers
Retrenchment cost	Notice and compensation	→	Plus 15 days' wages per worker to a reskilling fund
Gig and platform workers	Outside social security law	→	Recognised, with aggregator contributions to a fund
Enforcement	Inspectors	→	Inspector-cum-facilitators; compounding for certain offences

Obligations follow the life of a workforce

The Codes are organised by subject. Employers experience them by stage. This is the map the rest of this guide follows.



Who is who in your workforce

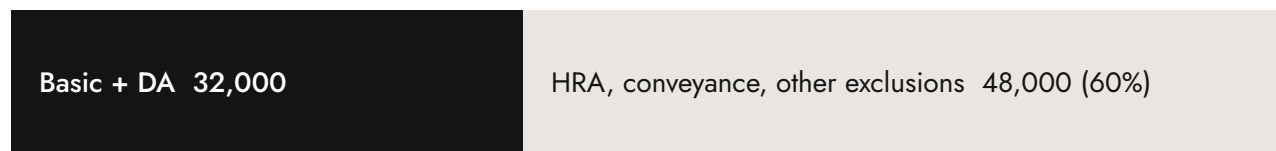
Each category carries a different set of rights and a different cost. Classification follows substance, not labels.

	Worker	Non-worker employee	Fixed-term employee	Contract labour	Gig and platform worker
WHO	Manual, clerical, technical, operational and supervisory roles (supervisors earning up to INR 18,000 a month)	Managerial and administrative roles, and supervisors above INR 18,000 a month	Engaged directly for a fixed period under a written contract	Engaged through a contractor for the establishment's work	Work outside a traditional employment relationship, often through an app
KEY ENTITLEMENTS	All protections, including retrenchment rules, standing orders and grievance redressal	Wages, social security, POSH, leave and working conditions; IR protections largely do not apply	Same hours, wages and benefits as permanent staff; gratuity after one year	Principal employer liable for wages and welfare if the contractor defaults	Social security schemes funded by aggregator contributions of 1% to 2% of turnover
WHERE THE RISKS	Executives whose day-to-day work is operational	Titles that overstate managerial authority	Rolling contracts for permanent, core roles	Deployment in core activities, which the OSH Code restricts	Control and integration that start to look like employment

The 50% rule, worked through

Excluded allowances above half of total remuneration are added back to “wages”. An illustration on a monthly package of INR 80,000.

AS STRUCTURED



AS COMPUTED UNDER THE CODES



Illustrative only. HRA and conveyance are among the listed exclusions; the treatment of any other component depends on its terms and substance.

WHAT IT DOES TO COST

+25%

on every payment computed on wages, as wages move from 32,000 to 40,000 a month

GRATUITY FOR 5 YEARS' SERVICE

92,308 → 1,15,385

Also moves leave encashment, overtime, bonus and, where contributions are not restricted to the INR 25,000 ceiling, PF.



Committees, conduct and the clock

Most workplace obligations now come with a threshold and a deadline. Missing either is usually what an inspector or a court looks at first.

POSH Internal Committee

10+ employees

90 days
to complete an inquiry

10 days
to issue the report

60 days
for the employer to act on it

Grievance Redressal Committee

20+ workers

10
members at most, with equal employer
and worker representation

30 days
to conclude a grievance

Suspension pending inquiry

Any size

50%
subsistence allowance for the first 90
days

75%
thereafter

Standing orders

300+ workers

Schedule
subjects include classification, hours,
attendance, leave, misconduct and
termination

Model
standing orders apply until the
employer’s own are in place

Separation, retrenchment and what is owed

The route out of employment determines the process and the cost. Retrenchment of workers carries the most prescribed steps.

1

Decide the route

- Resignation, termination for cause, retrenchment, closure, fixed-term expiry or superannuation
- Retrenchment follows last-in, first-out within a category unless reasons are recorded

2

Follow the process

- For retrenchment of workers: one month's notice or pay in lieu, and notice to the government
- At 300+ workers, prior government permission
- For misconduct: a fair domestic inquiry before any penalty

3

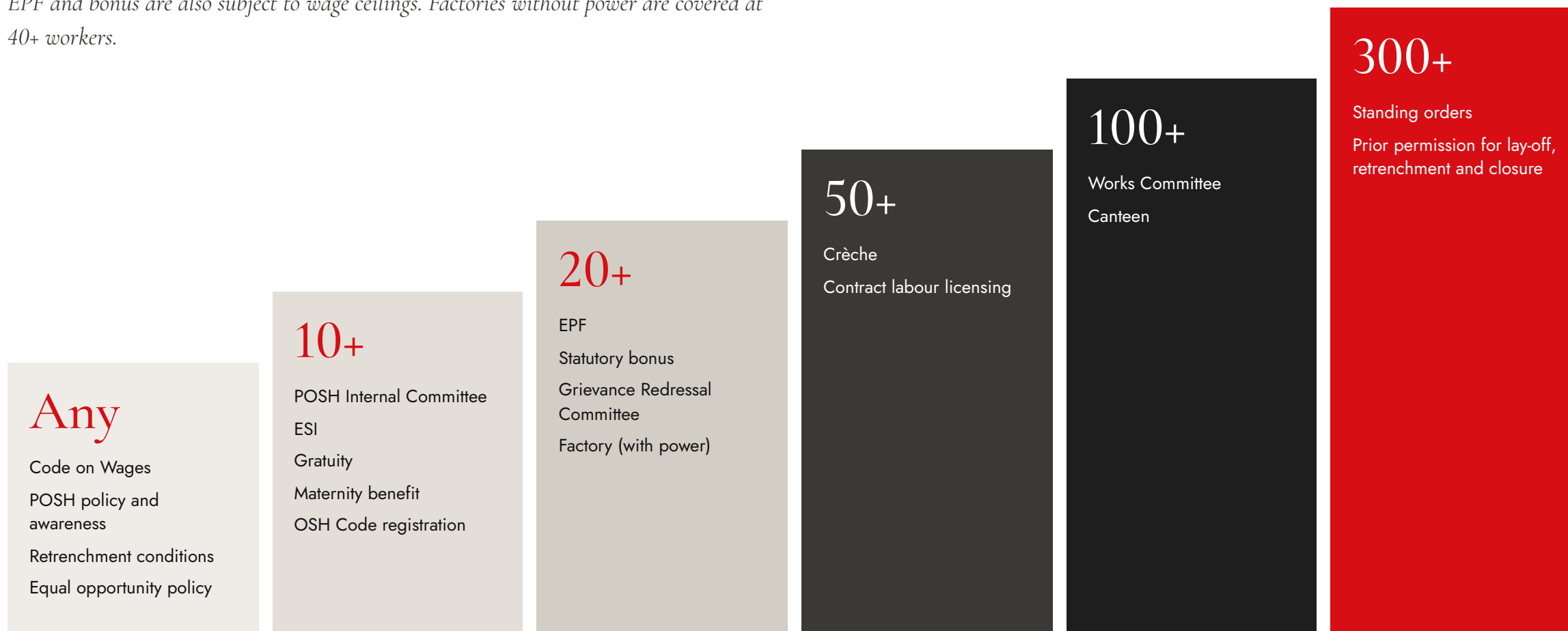
Pay what is due

- Full and final settlement within two working days
- Retrenchment compensation of 15 days' average pay per completed year
- 15 days' wages per retrenched worker to the reskilling fund
- Gratuity on revised wages, and leave encashment

Re-hiring within a year of retrenchment: retrenched workers who offer themselves have preference.

Every trigger on one page

Some triggers count “employees” and others count “workers” or contract labour. ESI, EPF and bonus are also subject to wage ceilings. Factories without power are covered at 40+ workers.



Recent changes to act on

DATE	CHANGE	WHAT IT MEANS FOR THE EMPLOYER
May 2026	Central Rules notified Final Central Rules under all four Codes.	Documents and registers prepared against the draft Rules need a second look.
May 2026	Maharashtra POSH inspections An inspection framework and checklist for POSH compliance.	Records, IC composition and annual reports need to be inspection-ready, not only policy-ready.
2026	Rule 47(6), OSH Central Rules Sanitary napkin provision at the workplace becomes mandatory.	A small operational change that an inspector can verify in a single visit.
17 Sep 2026	EPF wage ceiling at INR 25,000 Up from INR 15,000, effective mid-month.	September payroll needs split-period treatment and an EPS membership review.
31 Oct 2026	State Rules (reported target) The Centre's reported target for all States and UTs to publish final Rules.	Multi-State employers should track each location; commencement may not be uniform.

From diagnosis to embedded practice

A sequence that works for most employers. The order matters more than the speed: pay decisions should follow the numbers, not precede them.

DAYS 1 TO 30

Diagnose

- Map establishments, headcount and applicable State Rules
- Classify every role by actual duties
- Run a wage impact assessment
- Inventory contracts, policies, registers and committees

DAYS 31 TO 60

Redesign

- Decide on pay restructuring with finance, using the numbers
- Re-paper appointment letters, contracts and policies
- Constitute or refresh IC, GRC and works committees
- Correct EPF treatment from 17 September 2026

DAYS 61 TO 90

Embed

- Train HR, managers and committee members
- Launch a compliance calendar and owner matrix
- Brief the leadership team or board
- Set a monthly watch on State Rules and notifications



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ABOUT VIDHATRI LEGAL

Trusted advisors in employment, labour and corporate legal advisory.

We advise employers across the workforce lifecycle, working directly with HR, legal and finance teams, with experience across law firm, FMCG and manufacturing practice.

Structure Classification, contract labour, models

Protect POSH, investigations, industrial relations

Resolve Notices, Labour Courts, mediation

Comply Wage impact, audits, payroll, policies

Change Transactions, restructuring, exits

Beyond Corporate, cross-border, training
