

INDIA'S NEW LABOUR CODES: A PARADIGM SHIFT FROM FRAGMENTED REGULATION TO UNIFIED COMPLIANCE

Historic Reform Consolidates Decades of Labour Legislation

On November 21, 2025, India effectuated its most comprehensive labour law overhaul since Independence, bringing into force four Labour Codes that subsume 29 separate central legislations enacted over decades. Originally enacted in 2019–2020 but operationalized after five years, these Codes represent a fundamental departure from India's historically fragmented employment law regime. The transformation replaces sector-specific, overlapping statutes with an integrated framework governing wages, industrial relations, social security, and occupational safety. This consolidation creates both immediate compliance imperatives and strategic opportunities for employers navigating India's evolving labour market.

The Consolidation Architecture: What Earlier Laws Have Been Replaced

The four Codes eliminate the complexity of managing compliance across multiple, often contradictory, labour statutes:

Labour Code	Year	Consolidated Acts	Key Features
Code on Wages	2019	Payment of Wages Act 1936, Minimum Wages Act 1948, Payment of Bonus Act 1965, Equal Remuneration Act 1976	Introduces universal wage floors; eliminates sectoral exemptions that left certain workers unprotected
Industrial Relations Code	2020	Trade Unions Act 1926, Industrial Employment (Standing Orders) Act 1946, Industrial Disputes Act 1947	Formalizes fixed-term employment; raises retrenchment thresholds from 100 to 300 workers
Code on Social Security	2020	Employees' State Insurance Act 1948, EPF & Miscellaneous Provisions Act 1952, Maternity Benefit Act 1961, Payment of Gratuity Act 1972	Expands coverage to include gig, platform, and unorganized sector workers previously excluded
Occupational Safety, Health and Working Conditions Code	2020	Factories Act 1948, Contract Labour Act 1970, Inter-State Migrant Workmen Act 1979	Unifies registration/licensing; prohibits contract labour in clearly defined 'core activities'

Transformative Changes: How the New Codes Differ from Earlier Law

1. Fixed-Term Employment Formalized with Full Benefit Parity

Earlier industrial relations law did not recognize fixed-term employment as a distinct category with defined rights. The IR Code fundamentally changes this by legally recognizing fixed-term workers and mandating complete parity with permanent employees on wages, working hours, allowances, and benefits for similar work. Most significantly, fixed-term employees become eligible for pro-rata gratuity after just one year of service, unlike the five-year threshold under the Payment of Gratuity Act 1972, fundamentally altering project-based hiring economics. Proportionate statutory benefits apply regardless of qualifying periods prescribed in earlier legislation.

2. Gig and Platform Workers Receive Social Security for First Time

Prior to the SS Code, gig workers, platform workers, and the unorganized sector operated entirely outside India's social security framework, none of the nine predecessor statutes recognized these categories. The SS Code introduces 'aggregators' (digital platforms connecting buyers with service providers) as a new regulated entity with mandatory contribution obligations, a concept absent from earlier law. Aggregators must contribute 1-2% of annual turnover (capped at 5% of amounts paid to gig/platform workers) to a Social Security Fund providing life insurance, health benefits, accident cover, and maternity benefits. The Aadhaar-linked Universal Account system, enables benefit portability across employers and states, addressing the earlier regime's employer-specific, non-portable architecture. Additionally, contract workers are now explicitly included in the 'employee' definition for gratuity purposes, making principal employers responsible, a liability that did not exist under the Payment of Gratuity Act 1972.

3. Revolutionary 'Wages' Redefinition Closes Prior Loopholes

The old Minimum Wages Act of 1948 applied only to scheduled industries and employments, but the new Labour Codes define 'wages' universally. In the past, employers inflated allowances to reduce statutory contributions, which the new definition now addresses. If excluded components like HRA, conveyance, bonus, and PF exceed 50% of total pay, the excess is counted as 'wages' for PF, ESIC, and gratuity calculations. However, companies are not required to restructure pay to meet this 50% threshold—it's just used for benefit calculations if actual wages are lower. The central government's new floor wage sets a nationwide minimum, removing previous disparities between states and sectors.

4. Threshold Changes Provide Operational Flexibility; New Obligations Emerge

The Industrial Disputes Act 1947 required government permission for retrenchment, lay-off, and closure in establishments with 100+ workers, a threshold that constrained operational flexibility. The IR Code raises this to 300 workers (with discretion to notify higher thresholds), providing significantly greater managerial autonomy. However, the Codes simultaneously introduce new obligations: mandatory Grievance Redressal Committees for establishments with 20+ workers (with prescribed gender representation), a structured requirement absent from earlier law; standing orders adoption at 300+ workers (previously varied by state), with new 'deemed certification' provisions if model standing orders are adopted; and mandatory 15-day wage contribution to government-established Worker Re-Skilling Funds upon retrenchment, entirely novel obligations. The OSH Code permits women's night shift employment (previously restricted under the Factories Act 1948) subject to written consent and safety conditions, a significant liberalization.

5. Administrative Simplification Replaces Fragmented Compliance

Earlier labour laws required separate registrations and licenses under each applicable statute, with multiple inspectorates and return formats across central and state jurisdictions, creating significant compliance burden. The OSH Code replaces this with unified PAN-India registration (single registration within 60 days) and common licensing for factories and contract labour engagement. The Codes introduce 'Inspector-cum-Facilitators' emphasizing guidance over punitive action, a philosophical shift from the enforcement-oriented approach under prior law. Critically, offenses become 'compoundable' at 50–75% of maximum penalties with pre-penalty compounding opportunities, providing resolution pathways that did not exist under earlier statutes. Consolidated registers replace multiple documentation requirements, and digital infrastructure eliminates physical filing.

Strategic Response: Priority Actions for Employers

All employers regardless of size, sector, or location face universal compliance obligations, with additional threshold-dependent requirements. Immediate priorities include:

1. Issuing appointment letters to all workers such as permanent, fixed-term, contract, gig, specifying wages and social security entitlements (now mandatory under OSH Code);
2. Auditing compensation structures to verify excluded components do not exceed 50% of total remuneration, preventing automatic wage reclassification;
3. Establishing Grievance Redressal Committees (≥ 20 employees) with gender-proportionate representation;
4. Obtain a single unified PAN-India registration and license for factories and contract labour within 60 days;
5. Enrolling all workers including gig/platform workers in PF, ESIC, and statutory benefits; and
6. Recalculating gratuity provisions for fixed-term staff under one-year eligibility. Employers should monitor forthcoming state notifications on working hours, trade union verification processes, model standing orders, inter-state migrant worker provisions, and leave entitlement overlaps between OSH Code and state laws.

Conclusion: Structural Transformation with Gradual Implementation

India's new Labour Codes represent a major overhaul, replacing many fragmented laws with unified standards that apply across the economy. Social security coverage now includes gig and platform workers who were previously excluded. While some provisions may increase costs, such as revised wage rules and new obligations, the codes offer benefits through streamlined administration, digital tools, and easier compliance. As states finalize rules, businesses should prepare strategically to ensure smooth transition and build sustainable, modern employment practices.

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