

# Code on Wages Central Rules, 2026

From Notification to Action A Forensic Employer Playbook

8 May 2026

Central Rules notified

21 Nov 2025

Code largely in force

17 + Rules

Repealed & superseded

4 Codes

Wider compliance reset

# The Big Picture

## What this is

A practical, partnergrade walkthrough of the new Central Rules.

A working tool applicability, decision tree, rulewise digest, 90day roadmap.

Karma's recommended client position, drafted to be defensible.

## What this is not

Not a panic note. Not every employer is suddenly on Central Rules from 8 May 2026.

Not a waitforState excuse. The Code is largely in force and inaction is risky.

Not a cypaste Big 4 deck Karma views are explicit and opinionated.

## How to use it

Read sections 1–4 with leadership; sections 5–10 with HR & payroll; section 11 with finance.

Use the decision tree to classify each entity, location and contractor deployment.

Treat this as the start of a 90day exercise, not a oneoff circular.

# Five takeaways for the leadership table

- 01** The Central Rules are live for Central sphere employers.  
Effective from 8 May 2026 by virtue of Rule 1(2). Banks, insurance, telecom, mines, oilfields, major ports, air transport, Central PSUs, Central Act bodies and contractors deployed at such establishments must implement now.
- 02** State sphere employers cannot 'wait it out.'  
Most provisions of the Code are already in force from 21 November 2025. State Rules will deal with procedural mechanics not with the Code itself, which is binding.
- 03** Inaction is increasingly hard to defend.  
PF, ESI, gratuity, contractor and due diligence triggers will surface the gap later. A documented review beats silence even before full restructuring.
- 04** Salary architecture, not slogans, is the battle line.  
Section 2 (y) and the 50% provision are now operational. Aggressive low Basic structures, fixed 'incentives' and fixed 'reimbursements' without evidence are weak defences.
- 05** Treat this as a 90 day governance project.  
Applicability map → wage audit → financial model → contractor audit → HRMS readiness → phased transition. Sequenced, documented, board noted.

# What has actually happened on 8 May 2026

## 8 May 2026

**Central Rules notified**

G.S.R. 343(E) Code on Wages (Central) Rules, 2026. Rule 1(2): in force on the date of publication in the Official Gazette.

## 30 Dec 2025

**Draft published**

Draft Central Rules earlier published vide G.S.R. 936(E); 45day window for objections and suggestions; comments duly considered before final notification.

## 21 Nov 2025

**Code largely in force**

Most substantive provisions of the Code on Wages, 2019 already commenced including the wage definition under Section 2(y).

### Supersession what the new Rules replace

The Central Rules are made under Section 67 of the Code on Wages, 2019 and supersede a long list of legacy Central rules except as respects things done or omitted before such supersession.

- Payment of Wages (Procedure) Rules, 1937
- Minimum Wages (Central) Rules, 1950
- Payment of Wages (Mines / Railways / Air Transport) Rules
- Payment of Bonus Rules, 1975
- Equal Remuneration Rules, 1976
- Payment of Wages (Nomination) Rules, 2009
- Code on Wages (Central Advisory Board) Rules, 2021
- Ease of Compliance Register Rules under ER, MW and POW Acts

**This is consolidation, not addition. Old wage compliance scaffolding is being withdrawn employers cannot keep operating purely on the legacy frame.**

# Old Acts and Rules → New Code on Wages 2019

*Four legacy Acts and seventeen plus Central Rules are now subsumed in to a single Code and a single set of Central Rules. Knowing what 'used to live where' helps with mapping policies, registers and clauses.*

Old Act / Framework	Now in Code on Wages, 2019	Now in Central Rules, 2026	What materially changes
<b>Payment of Wages Act, 1936</b>	Chapter III payment, deductions, claims	Rules 11–20 (deductions, advances, fines)	50% deduction cap codified; showcause and notice framework formalised
<b>Minimum Wages Act, 1948</b>	Chapter II Sections 5–14	Rules 3–9 (day/hour/month, VDA, working day, rest)	Floor wage concept; uniform 8hr day / 48hr week; VDA twice yearly
<b>Payment of Bonus Act, 1965</b>	Chapter IV Sections 26–41	Rules 21–28 (seton/off, gross profit)	Threshold and applicability under Code; contractor bonus risk to principal employer
<b>Equal Remuneration Act, 1976</b>	Chapter I Section 3 (no discrimination)	Subsumed across Forms I, IV, V	Genderneutral wage payment; recruitment and conditions of service equality
<b>Various Nomination Rules</b>	Section 44	Rules 45–47 (Form VII, undisbursed dues)	Spousepriority nomination; refresh on marriage; DCLC deposit framework
<b>Ease of Compliance Register Rules</b>	Section 50	Rule 51 (Forms I, IV, IX) + Form V slip	Threecoreregisters + slip; electronic permitted; 5year retention

**Note:** 'Section' references are to the Code on Wages, 2019. 'Rule' references are to the Central Rules, 2026. State Rules supersede further legacy State rules in their respective domain (e.g., Maharashtra MW Rules, 1963 → State Code on Wages Rules upon final notification).

Do these Rules apply to every employer in India from 8 May 2026?

**No. Not in that simple manner.**

Applicability turns on a single classification Central sphere or State sphere.

### **If you are Central sphere**

The Central Rules are operational from 8 May 2026. Full implementation expected registers, wage slips, VDA tracker, contractor audit, deduction processes.

### **If you are State sphere**

Most ordinary private establishments. Wait for State Rules only for procedural formats, portals, authorities. Do not wait for wage audit, salary review, contractor audit, HRMS readiness.

# Central sphere vs State sphere a layman view

## SPHERE CENTRAL

Appropriate Government = Central

Implement Central Rules from 8 May 2026

- Banks
- Insurance companies
- Telecommunication
- Railways
- Mines and oilfields
- Major ports
- Air transport services
- Central PSUs and subsidiaries
- Central Act corporations
- Autonomous bodies of Central Government
- Contractors deployed at such establishments

## STATE SPHERE

Appropriate Government = State

Wait for State Rules but only for procedural formats

- Private manufacturing factories
- IT and ITES companies
- Shops & commercial establishments
- Retail chains
- Hotels and restaurants
- Hospitals and clinics
- Schools and colleges
- Warehouses and logistics units
- Private offices and service companies
- Private construction (projectfact dependent)
- Contractors serving State sphere clients

**NOTE:** Classification is perestablishment and perdeployment not percompany. MultiState groups commonly straddle both spheres at once.

# What this means by employer type at a glance

Employer type	Likely sphere	What to do now
Bank	Central	Implement Central Rules from 8 May 2026
Insurance company	Central	Implement Central Rules from 8 May 2026
Telecom company	Central	Implement Central Rules from 8 May 2026
Mine or oilfield	Central	Implement Central Rules from 8 May 2026
Major port establishment	Central	Implement Central Rules from 8 May 2026
Central PSU	Central	Implement Central Rules from 8 May 2026
Contractor at Central PSU / bank	Central (for that deployment)	Align immediately with Central Rules for deployed workforce
Private IT / ITES company	Usually State	Continue State compliance; start Code readiness now
Private factory	Usually State	Wait for State Rules for forms; start wage and payroll review now
Retail chain	Usually State	MultiState mapping and wage review immediately
Hotel or hospital	Usually State	Continue current law, prepare transition
Contractor serving both bank + retail	Mixed	Maintain separate compliance tracks per deployment

**Note:** classification is factspecific and requires confirmation against the establishment's actual operations, ownership, control and the deployment context for contract labour. Multientity groups should expect more than one answer.

# Where each State stands on the Code on Wages Rules

Position as of 9 May 2026 • Subject to change as State gazettes are notified

## FINAL RULES NOTIFIED

*With confirmed gazette reference*

Gujarat Code on Wages (Gujarat) Rules, 2021

Notification:  
KHR/2021/29/LVD/10/2020/555709/M(2),  
Labour & Employment Department, dated  
5 October 2021 (Gazette of Gujarat,  
Extraordinary)

(Other States periodically claimed as 'final' in thirdparty trackers Karnataka, Haryana, Madhya Pradesh could not be confirmed with a primary gazette reference at the time of this advisory. They are placed under 'verify locally'.)

## DRAFT PUBLISHED

*In consultation; final Rules not yet notified*

Madhya Pradesh Draft Code on Wages Rules, 2026

Published 5 January 2026 (Department of Labour, Mantralaya, Bhopal); 45day consultation

Maharashtra Draft Code on Wages Rules, 2026

Published 28 April 2026 (Maharashtra Government Gazette); consultation closes 12 June 2026

## STATUS TO BE VERIFIED

*With State Labour Department*

Karnataka, Haryana, Tamil Nadu, Kerala and Telangana, Uttar Pradesh, Uttarakhand, Bihar, Jharkhand, Odisha, Punjab, Rajasthan, Delhi, West Bengal, Assam, Arunachal Pradesh, other NorthEast States and UTs

Position is fluid and changes as gazette notifications are issued. Karma confirms position perengagement, perState, before any client filing or compliance commitment.

**NOTE:** Serve HR relies only on gazette confirmed positions. Position is reverified per State at the start of every engagement.

# Our recommended client stand

Move from casual payroll design to defensible wage architecture. Don't panic. Don't wait. Document the review and phase the implementation.

**1** Central sphere employers do not wait. Implement from 8 May 2026.

**2** State sphere employers wait only for State Rules for forms, portals, authorities nothing else.

**3** Internal review begins now. Wage architecture, PF/ESI/Gratuity model, contractor audit, HRMS readiness, leadership briefing.

**4** Do not engineer fresh aggressive lowBasic structures because State Rules are pending. The Code wage definition is in force.

**5** Move from casual payroll design to a defensible, documented, rorationalised wage architecture.

# Implement now • Can wait • Should NOT wait

## IMPLEMENT NOW

Central sphere employers from 8 May 2026

Employee Register (Form I)  
Wage Register (Form IV)  
Wage Slip (Form V) on or before payment  
Attendance cum Muster Roll (Form IX)  
Fiveyear preservation, electronic or physical  
Min wage day / hour / month formula • VDA tracker before 1 April and 1 October  
Working hour and weekly rest compliance  
Nightshift continuity logic  
Contractor wage funding and audit  
Deduction, fine and damage procedures  
Bonus computation framework  
Nomination and undisbursed dues process

## CAN WAIT

State sphere for State Rules only on these

Final Statespecific forms  
State portals and digital filings  
State prescribed authorities  
State filing processes  
State inspection schemes  
State minimum wage notifications under the Code  
State transition mechanics  
State specific procedures for amenities and administrative matters

## DO NOT WAIT

Internal readiness start now regardless

Wage structure audit  
Section 2(y) and 50% test mapping  
Allowance defensibility review  
PF, ESI and Gratuity impact model  
Contractor wage and compliance audit  
Overtime and restday review  
Payroll data cleanup  
HRMS readiness and digital register design  
Board / management risk note

# Six steps to position your establishment

## 1 Identify appropriate Government

### ASK

Bank, insurance, telecom, railway, mine, oilfield, port, air transport, Central PSU, Central Act body?

### ACTION

If YES Central Rules effective 8 May 2026.

## 2 Ordinary private establishment?

### ASK

If you are a private, nonCentrallisted establishment.

### ACTION

Likely State sphere continue State compliance; start Code readiness.

## 3 MultiState?

### ASK

Operations across more than one State.

### ACTION

Build a Statewise applicability matrix. A single national assumption is risky.

## 4 Contractor deployments?

### ASK

Workforce deployed via contractors at client sites.

### ACTION

Run separate contractor risk review sphere can differ by deployment.

## 5 Basic < 50% or large special allowance?

### ASK

Aggressive lowBasic / balancingfigure structures.

### ACTION

Run immediate wage structure and legal defensibility review.

## 6 Fixed incentives / unsupported reimbursements?

### ASK

Monthly fixed 'incentives', attendance allowances, fixed reimbursements without bills.

### ACTION

Review and redesign these are weak under Section 2(y).

# Wage mechanics Rules 3 to 9

Risk grade **P0** High / immediate **P1** Material **P2** Procedural

Rule	Description	Action	Risk Grade
<b>Rule 3</b>	Minimum wage day / hour / month formula Means: Daily rate ÷ 8 = hourly. Daily × 26 = monthly. Rounding: ½ and above rounds up.	<b>Action:</b> Audit divisor logic in payroll; align OT, leave, contractor sheets, registers and slips.	<b>P0</b>
<b>Rule 4</b>	Variable Dearness Allowance Means: VDA computed before 1 April and 1 October each year using AICPIIW.	<b>Action:</b> Build State + Central VDA tracker; revise contractor wage rates immediately on revision.	<b>P1</b>
<b>Rule 5</b>	Normal working day Means: 8 hours where wage period is daily; 48hour weekly cap for others.	<b>Action:</b> Review attendance, shift rosters, weekly hours and OT capture; revisit 'managerial' exclusions.	<b>P0</b>
<b>Rule 6</b>	Weekly day of rest Means: Rest day each week; substituted rest day allowed but no more than 10 consecutive working days	<b>Action:</b> Build a 10day continuous duty alert; audit security, housekeeping and contract rosters.	<b>P0</b>
<b>Rule 7</b>	Night shifts Means: Where shift extends past midnight, hours after midnight count toward the previous day.	<b>Action:</b> Configure HRMS / payroll for nightshift continuity; align OT logic; review BPO, ITES, hospitals, logistics.	<b>P1</b>
<b>Rule 8 &amp; 9</b>	Special categories and longer wage period Means: Some categories may exceed normal hours but OT under Section 14 still applies. Longer wage period is by the month.	<b>Action:</b> Document why any category is treated specially; avoid blanket 'managerial' classification; pay OT where due.	<b>P1</b>

# Payment, deductions and contractor wages Rules 11 to 20

<b>Rule 11</b>	<p>Payment of wages to contractual employees <b>Means:</b> Principalemployer must pay the contractor amounts payable for wages of contract workforce.</p>	<p><b>Action :</b> Review contractor wage funding; check wage slips, bank proofs, PF/ESI; add audit clauses and monthly compliance certificate.</p>	<b>P0</b>
<b>Rule 12</b>	<p>Less than normal working day / part time <b>Means:</b> Parttime workers not entitled to full day wages where employment terms agree to parttime.</p>	<p><b>Action:</b> Issue clear parttime appointment terms; define hours and wage basis; avoid informal cash arrangements.</p>	<b>P2</b>
<b>Rule 13</b>	<p>Recovery of deductions 50% cap <b>Means:</b> Authorised deduction exceeding 50% of wages must be carried forward; monthly cap is 50%.</p>	<p><b>Action:</b> Configure 50% cap in payroll engine; review loan / advance recovery and F&amp;F deduction practices.</p>	<b>P1</b>
<b>Rule 14–18</b>	<p>Fines, absence deductions, damage recovery <b>Means:</b> Authority approval, written notice, 7 day show cause and 15 day intimation framework.</p>	<p><b>Action:</b> End informal payroll deductions; build a documented policy; preserve electronic showcase record.</p>	<b>P1</b>
<b>Rule 19</b>	<p>Recovery of advances <b>Means:</b> Recovery in instalments not exceeding 50% of wages in a wage period; capture in Form IV.</p>	<p><b>Action:</b> Maintain advance register; written employee acknowledgment; recovery cap configured.</p>	<b>P2</b>
<b>Rule 20</b>	<p>Recovery of loans <b>Means:</b> Loan recovery as per Government instructions / guidelines on extent and interest.</p>	<p><b>Action:</b> Align loan policy with applicable Government guidance; document interest rates and recovery terms.</p>	<b>P2</b>

# Bonus, claims, registers and records Rules 21 to 52

<b>Rule 21</b>	<b>Bonus to contractual employees</b> <b>Means:</b> If contractor fails to pay bonus, principal employer may have to pay minimum bonus on confirmation of failure.	<b>Action:</b> Add bonus compliance to vendor audit; obtain proof; include indemnity and recovery clauses.	<b>P1</b>
<b>Rule 22–28</b>	<b>Bonus seton / setoff and gross profit</b> <b>Means:</b> Seton / setoff illustrated for years 6 and 7; grossprofit computation prescribed for banking and others.	<b>Action:</b> Run bonus computation jointly with finance; maintain working papers; annual statutory bonus note.	<b>P2</b>
<b>Rule 45–47</b>	<b>Nomination and undisbursed dues</b> <b>Means:</b> Form VII nomination ; spouse priority on family; undisbursed dues to be deposited with DCLC framework.	<b>Action:</b> Digitise nomination forms; refresh on marriage; link nomination to F&F and exit process.	<b>P1</b>
<b>Rule 48</b>	<b>Returns</b> <b>Means:</b> Returns filed electronically using forms under the Occupational Safety, Health and Working Conditions Code.	<b>Action:</b> Crosslink wage data with OSH returns; maintain a single master to avoid mismatches.	<b>P2</b>
<b>Rule 49–50</b>	<b>Claims and appeals</b> <b>Means:</b> Single application allowed for grouped claims; employer appeal requires deposit of claim amount.	<b>Action:</b> Strengthen records; preserve payroll evidence; budget for appealdeposit cash flow risk.	<b>P1</b>
<b>Rule 51–52</b>	<b>Registers and wage slips</b> <b>Means:</b> Form I (Employee), FormIV (Wages/OT/Advances/Fines/Deductions), Form IX (Attendance); slips in Form V; preserve 5 years.	<b>Action:</b> Update HRMS UAN, ESIC IP, Aadhaar, bank, nominee, family, OT, deductions, bank txn ID; align contractor registers.	<b>P0</b>

# Every Form under the Central Rules at a glance

Form	Purpose	Reference rule	Maintained / Issued by	Mode & retention
<b>Form I</b>	Employee Register identity, employment, pay, social security details	<i>Rule 51(1)(i)</i>	Employer, every employee	Electronic / physical; preserve 5 years
<b>Form II</b>	Single application for claims under Section 45(5)	<i>Rule 49(1)</i>	Employee / TU / Inspector	Manual or electronic; before Authority
<b>Form III</b>	Appeal under Section 49(1) before Appellate Authority	<i>Rule 50(1)</i>	Aggrieved party	Manual or electronic; deposit on employer appeal
<b>Form IV</b>	Register of Wages, Overtime, Advances, Fines, Deductions	<i>Rule 51(1)(ii)</i>	Employer, every wage period	Electronic / physical; preserve 5 years
<b>Form V</b>	Wage Slip pay, deductions, OT, transaction ID	<i>Rule 52</i>	Employer to employee	Electronic / physical; on or before payment
<b>Form VI</b>	Application & certificate for composition of offences	<i>Rule 54</i>	Accused person → Gazetted Officer	Manual or electronic; 30day window
<b>Form VII</b>	Nomination Form spouse priority on family	<i>Rule 45(1)(a)</i>	Employee, refresh on marriage	Electronic / physical; in employee file
<b>Form VIII</b>	Notice to respondent by Authority / Appellate Authority	<i>Rules 49(2), 50(2)</i>	Authority / Appellate Authority	Speed post or electronic
<b>Form IX</b>	Attendance Register cum Muster Roll with shift in/out	<i>Rule 51(1)(iii)</i>	Employer, every month	Electronic / physical; preserve 5 years

**NOTE:** Form I, Form IV and Form IX are the litigation register set. If anyone of these is unmaintained, expect an adverse inference in any wage, OT or contractor proceeding.

# Section 2(y), the 50% proviso and Surya Roshni

## Section 2(y) Wages, in essence

All remuneration by way of salaries, allowances or otherwise, expressed or capable of being expressed in monetary terms. Includes Basic, DA and Retaining Allowance. Specified exclusions exist (HRA, conveyance, OT, bonus, gratuity, etc.) but if total exclusions exceed onehalf of remuneration, the excess is deemed wages.

### The 50% proviso

Excluded components must not exceed 50% of total remuneration. The proviso adds the excess back into wages restructuring around this is the central exercise.

### Universality (Surya Roshni)

Allowances paid universally, ordinarily and necessarily to all employees, without rolebased variability or genuine purpose, are vulnerable to inclusion as wages.

### Form follows function

Form V itself accepts Basic, DA and Allowances. Allowances are not prohibited but each must be defended on purpose, evidence and variability.

**VIEW A** 'balancing figure' special allowance is wages from day one Section 2(y) lists specific exclusions (a) to (k) and a balancing figure does not fit any of them. The 50% proviso is triggered only by claimed exclusions; an unclaimable special allowance is in the wage base before the proviso is even reached.

# Pay heads under Section 2(y) quick reckoner

*IN =part of the wage base. OUT= excluded. ADD BACK= excluded subject to the 50% provision once total exclusions cross half of remuneration, the excess is deemed wages.*

Pay component	Position under §2(y)	Counts toward 50% provision?	PF / Gratuity / Bonus base	Serve HR defensibility flag
Basic Pay	IN	Yes always wages	Yes	Defensible keep ≥ 50% of CTC
Dearness Allowance (DA)	IN	Yes always wages	Yes	Defensible universal allowance
Retaining Allowance	IN	Yes always wages	Yes	Defensible where genuine
House Rent Allowance	OUT	Yes counted	No (subject to proviso)	Acceptable if rent paid in fact
Conveyance Allowance	OUT	Yes counted	No (subject to proviso)	Defensible only with reasonable cap
Travel Reimbursement (with bills)	OUT	No defrays expense	No	Strong if bills retained; weak if flat
LTA (with travel proof)	OUT	No special expense	No	Defensible with documentation
Special Allowance (balancing)	IN by default	Not applicable	Yes wages from day one	<b>WEAK no exclusion to claim under §2(y)(a)-(k)</b>
Attendance Allowance (fixed monthly)	OUT (form) → IN (substance)	Yes counted	Risky	<b>WEAK Surya Roshni vulnerability</b>
Performance / Variable Pay (genuine)	OUT (commission)	No if true variability	No	Defensible if criteria documented
Bonus (statutory / ex gratia)	OUT	No excluded	No	Defensible separate scheme
Overtime Wages	OUT	No excluded	No	Defensible paid as OT
Employer PF Contribution	OUT	No excluded	No	Defensible employer outflow
Gratuity / Retrenchment Comp.	OUT	No excluded	No	Defensible terminal benefit

# Stronger vs weaker salary structures

## **DEFENSIBLE**

### **Stronger structures usually have**

- Rolebased logic analyst vs lead vs executive differ meaningfully
- Business rationale documented for each component
- Policy support written compensation policy, approved
- Reimbursements backed by actual bills and evidence
- Real variability in incentives and variable pay
- Proper approval mechanism and audit trail
- Clear, consistent appointment and employment terms
- Payroll, HR, finance and policy aligned, not in conflict

## **VULNERABLE**

### **Weaker structures usually have**

- Basic salary at 25–35% with no rationale
- Large 'special allowance' as a balancing figure
- Identical allowance pattern for every employee
- Fixed monthly 'incentive' paid irrespective of performance
- Attendance allowance paid even when attendance varies
- Reimbursements without bills or supporting evidence
- Allowances designed only to suppress PF / gratuity
- Payroll structure inconsistent with policy or appointment letter

# Four practical salary structure pitfalls

## 01 Large special allowance P0

*Basic 18,000 • HRA 9,000 • Special Allowance 28,000 • Gross 55,000*

**Risk:** If special allowance has no defined purpose and is merely a balancing figure, it faces inclusion challenge in PF, gratuity and wage disputes.

**Fix:** Restructure into rolebased, evidencebacked components or bring partly within the wage base.

## 02 Attendance allowance paid every month P1

*₹2,500per month to all staff regardless of attendance variability*

**Risk:** Loses incentive character; appears as ordinary wages and likely attracts PF / gratuity inclusion.

**Fix:** Convert to a genuine attendancelinked component with documented conditions, or restructure entirely.

## 03 Fixed travel reimbursement without bills P1

*₹4,000per month flat, no travel proof, no claim form*

**Risk:** Disguised wages. The exclusion in Section 2(y) requires evidence of expense incurred.

**Fix:** Require actual evidence and approval; or redesign as taxable allowance and apply correct wage treatment.

## 04 Monthly 'technical incentive' that is really fixed P1

*Notional 5–20% incentive; in practice, identical amount every month for years*

**Risk:** Treated as ordinary remuneration. Performance linkage is lost in form, lost in fact.

**Fix:** Document criteria, approval, nonautomatic nature, periodic review and actual variability.

# PF, ESI and Gratuity what to model

## PROVIDENT FUND

The Central Rules do not conclusively settle the larger PF wage interpretation, but employers running aggressive low Basic structures with large allowances will face higher scrutiny in audits and inspections.

### MODEL FOR

- Differential PF on disputed components
- Interest under §7Q
- Damages under §14B (up to 100%)
- Trust vs EPFO compliance gap

## EMPLOYEES' STATE INSURANCE

If wavelinked components rise in any restructuring, some employees previously above the ₹21,000 threshold may fall within ESI coverage. Coverage maps must be redrawn after any structure change.

### MODEL FOR

- New employees within coverage
- Contribution differential
- Coverage disputes on excluded
- heads Reverse coverage exits

## GRATUITY

If wage components increase, gratuity provisioning increases. Long service workforces should remodel the actuarial liability before any restructuring is rolled out.

### MODEL FOR

- Higher actuarial liability
- Disclosure impact (Ind AS 19)
- Settlement claims on departing
- staff Audit committee note for listed entities

**DO NOT RESTRUCTURE BLINDLY.** Always model PF, ESI, gratuity, bonus, takehome and CTC together and run the employee communication script before signing off.

# What if employers do nothing

## FUTURE RISK TRIGGERS

PF inspection • ESI dispute • Employee exit / claim • Gratuity claim • Union complaint • Contractor worker complaint • M&A or PE due diligence • IPO preparation • Labour inspection • Whistleblower

Area	Possible consequence	Severity
PF	Differential contribution, \$7Q interest, \$14B damages on disputed wage base	P0
Gratuity	Higher wage base claims; actuarial topup; restated provisions	P1
ESI	Coverage and contribution disputes on previously excluded components	P1
Overtime	Back wages for unrecorded OT; restdayviolation back wages	P1
Contractor labour	Principal employer exposure under Rule 11 and Rule 21	P0
Minimum wages	Arrears, claims and group applications under Rule 49	P0
Deductions	Refund and compensation for noncompliant deductions	P2
Records	Weak documentary defence register / wage slip gaps	P1
Due diligence	Valuation impact, indemnity demands, escrow holdbacks	P0

# One company, more than one compliance track

*A company with branches in ten States must not assume one answer for allocations. Classification is per establishment and per deployment and group structures often straddle both spheres.*

## WORKED EXAMPLE

A company with HO in Mumbai, IT office in Bengaluru, warehouse in Haryana and contract workforce deployed at a public sector bank project

### **Mumbai HO**

State sphere Maharashtra  
rules

### **Bengaluru IT**

State sphere Karnataka  
rules

### **Haryana warehouse**

State sphere Haryana  
rules

### **Bank deployment**

Central sphere Central Rules  
now

## PRACTICAL GUIDANCE

- Build a Statewise applicability matrix sphere classification, status of State Rules, existing minimum wages
- Inventory existing registers, returns, wage slips, contractor agreements per State
- Test wage structure consistency across States the same designation should not mean different things in different States •Map contractor deployments separately sphere can change with the principal employer at the deployment site
- Rate each location by risk: highrisk (low Basic + many contractors + multiple States) gets priority remediation

# What to demand, what clauses to add

## ASK EVERY CONTRACTOR FOR

- Employee list with designation and category
- Wage structure and minimum wage classification
- Daily attendance records and OT records
- Wage slips for every wage period
- Bank payment proof for every employee
- PF ECR with UANlinked breakup
- ESI challan and contribution proof
- VDA revision evidence (April / October)
- Bonus payment proof and computation
- Leave register and weekly off records
- Form I, IV, IX equivalents and 5year preservation

## CONTRACT CLAUSES TO ADD

- Monthly statutory compliance certificate as a payment condition
- Right to audit payroll, attendance and statutory records
- Immediate wage / VDA revision obligation on notification
- PF and ESI challan submission with monthly invoice
- OT compliance and restday adherence as contractor obligation
- Bonus compliance proof annually
- Indemnity and holdharmless for statutory noncompliance
- Right to withhold payment for confirmed statutory breach
- Right to make direct payment to workers in case of contractor default
- Termination right on repeated noncompliance

# What your system must be able to capture

The Rules define 'electronically' broadly email, designated portal, mobile app, website, digital payment. Wage governance is moving to digital traceability.

## Employee identity & social security

- Employee Code
- Name, gender, DOB, nationality  
Father / Spouse / Mother Aadhaar,  
PAN, UAN, ESIC IP Bank account &  
IFSC
- Nominee and family details

## Employment & wage structure

- Date of joining, designation, category  
Type of employment (P/T/FT/T/B)
- Place of posting, promotion record
- Wage structure: Basic, DA, allowances
- Daily / hourly / monthly rate
- Date of exit and reason

## Attendance, payroll & deductions

- Attendance and shift timings
- Total OT hours per period
- Wages earned vs paid
- Deductions: PF, ESI, society, IT,  
fines Advances, loans, damages
- Bank transaction ID per payment

# Sequenced, documented, boardnoted



**DAYS 1-15**

**Applicability & risk classification**

Central vs State sphere call per entity

Location wise matrix

Contractor deployment inventory

High risk salary structure flagging

Management note to board / audit committee

**DAYS 16-30**

**Wage and payroll audit**

Wage heads mapped to Section 2(y)

50% test simulation

LowBasic structures

identified

Fixed incentives and weak

Overtime and weekly off review  
reimbursements flagged

**DAYS 31-60**

**Financial modelling**

PF impact (employer + employee)

ESI impact and coverage shifts

Gratuity actuarial top up

Bonus impact

Contractor cost impact

Take home and CTC sensitivity

**DAYS 61-90**

**Transition plan**

Salary structure philosophy  
locked Policies and SoPs  
updated

HRMS aligned, registers digitised  
Employee communication script

Contractor agreements amended  
Pilot for highest risk groups

**NOTE** Each phase produces a deliverable. Document the work even an 'inprogress' file is a far stronger defence than silence at the time of inspection.

# Final readiness checklist by domain

## APPLICABILITY

- Sphere classification per entity Statewise matrix
- Contractor deployment mapping

## WAGE STRUCTURE

- Basic %
- DA where applicable
- HRA, special allowance
- Incentives, reimbursements, variable pay 50% proviso test

## SOCIAL SECURITY

- PF impact modelled
- ESI impact modelled
- Gratuity actuarial topup
- Bonus impact

## PAYROLL

- Form V wage slip
- Daily / hourly / monthly logic
- OT logic
- Deduction logic, advance recovery F&F process

## WORKING HOURS

- 8 hour day, 48 hour week
- Weekly off & substituted rest day
- 10 day continuous duty alert Nightshift continuity

## CONTRACTOR

- Min wages, VDA, OT
- PF, ESI, bonus
- Wage slips and bank proof
- Audit and indemnity clauses

## RECORDS

- Form I, IV, IX maintained
- Form V wage slips issued
- Form VII nominations refreshed 5year preservation

## GOVERNANCE

- Board / audit committee note
- Compliance calendar live
- Policy updates approved
- HRMS readiness signed off

# Thank You !

**Connect with us**

**Parnesha | +91 720834537**

 **parnesha@servehrindia.com**

 **[www.servehrindia.com](http://www.servehrindia.com)**