

# P. C. CHANDAK & CO.

Advocates

FIRST FLOOR, NARIMAN CENTRE, WRIGHT TOWN, JABALPUR  
Phone : (O) 2402768, 2405661, 2971768 (M) 7354600768 (R) 2666479  
E-mail : chandakchambers@gmail.com

HAPPY NEW YEAR

Dear Sir,

Dated: 01.01.2026

This is to inform you that the **Central Government** has streamlined India's legal framework by consolidating multiple labour laws into **Four Labour Codes**, effective from **21st November, 2025**. These codes aim to simplify compliance, enhance transparency, and ensure nationwide uniformity in labour regulations.

While the reforms encompass four distinct codes—the Industrial Relations Code (2020), the Code on Social Security (2020), the Occupational Safety, Health and Working Conditions Code (2020), and the Code on Wages (2019)—their implementation has an **immediate impact on your payroll processing**.

## **1. Revised Definition of "Wages"**

Under the new Code, "Wages" includes all remuneration (**Basic Pay + Dearness Allowance + Retaining Allowance**) payable to an employee.

### **Exclusions from Wages:**

To ensure accurate statutory calculations, the following components are **excluded** from the definition of wages:

- House Rent Allowance (HRA) and all other allowances, however designated
- Conveyance Allowance or Value of Travel Concessions
- Overtime Wages
- Employer's contribution to PF, Pension, or ESIC
- Statutory Bonus or Ex-gratia
- Gratuity payable on termination

*If the total sum of all excluded allowances exceeds 50% of the gross remuneration, the excess must be reclassified as 'wages' for the purpose of calculating PF, gratuity, and other social security computations.*

## **2. Essential Guidelines for Salary Sheet Preparation**

To maintain statutory compliance and avoid legal discrepancies, all concerned departments must adhere to the following rules :

- **Minimum Wage Compliance:** Wages (Basic wages + DA + Retaining allowance) must not fall below the notified Minimum Wage (MW) rates for the respective employee category.

- **Provident Fund (P.F.) Calculation:** P.F. is payable on Wages. However, if the total sum of all excluded allowances exceeds **50% of the gross remuneration**, the excess amount must be treated as part of the Wages for the purpose of calculating PF, Bonus Gratuity and other social security computations.
- **P.F. Membership Threshold:** If wage rates increase beyond ₹15,000, P.F. membership continues, though contributions may be capped at the ₹15,000 statutory wage ceiling.
- **E.S.I. Contribution:** E.S.I. is payable on Wages (Basic + D.A. + RA + OT). Please note that if an employee's salary exceeds **₹21,000 per month** (reviewed in April and October), E.S.I. contributions cease to be payable. There is no "opt-in" provision for employees exceeding this threshold.
- **Bonus :** Yearly Bonus is payable on Wages earned during the financial year up to monthly salary of Rs. 21000/- subject to maximum to M.W. Rates of wages.
- **Gratuity :** Gratuity is payable on last Wage Rates with no wage ceiling.

### **3. Key Changes to Note for Payroll:**

- **The "50% Rule" :** Under the Code on Wages, 2019, basic pay + DA + Retaining Allowance must now comprise at least 50% of the total salary.
- **Higher Provident Fund (PF), Bonus & Gratuity :** As the basic pay component increases for many employees, employer and employee PF contributions, as well as Entitlement towards Bonus and Gratuity also increases.
- **Gratuity Changes:** Fixed-term employees are now eligible for gratuity on a pro-rata basis, which must be factored into monthly payroll provisions.

### **4. Action Required**

We request you to review your current pay structures and rectify any deviations to align with these recent mandates. Ensuring these adjustments at the time of salary sheet preparation is vital to safeguard the interests of the organization and maintain statutory integrity.

Should you require further clarification or assistance in restructuring your payroll, please do not hesitate to contact our office.

Thanking you,

To,  
M/s.....  
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Yours faithfully  
  
(P.C. CHANDAK)  
ADVOCATE

### **ANNEXURE I : SAMPLE SALARY STRUCTURE**