Code on Wages, 2019

This resource was originally created by **Pacta**. We're thankful for the time and care they've put into making this information accessible.

You can read the information below in over 15 languages! Simply use the translation tool in the top-left corner of the screen to select your preferred language, including □□□□□□□ , □□□□□ , □□□□□□□ , □□□□□□ , □□□□□ , □□□□□□ , □□□□□ , □□□□□□□□ , □□□□□□ , □□□□□ , □□□□□□ , □□□□□□□□□ , □□□□□ , □□□□□□ , and اُردُو.

Background

The Code on Wages, 2019 is a landmark labour law reform aimed at simplifying and strengthening India's wage regulation framework. Effective from 21 November 2025, it applies uniformly across sectors and categories of employment, marking a decisive shift towards universal wage regulation. Prior to the enactment of the Code, wage-related matters were governed by multiple central laws, each operating with different definitions, thresholds, and enforcement mechanisms. This fragmented framework often led to ambiguity, uneven application, and exclusion of workers, particularly in the unorganised sector. Drawing from the recommendations of the Second National Commission on Labour and subsequent policy deliberations, the Code on Wages, 2019 was enacted to consolidate and rationalise wage laws, ensure consistency in wage standards, and balance worker welfare with ease of doing business.

Subsumed Laws

- Payment of Wages Act, 1936
- Minimum Wages Act, 1948
- Payment of Bonus Act, 1965

- Equal Remuneration Act, 1976

Applicability

- Applies to all establishments, irrespective of size, sector, or nature of operations
- Covers both organised and unorganised sectors
- Applicable to:
  i. Permanent employees
  ii. Fixed-term and contractual workers
  iii. Daily wage and piece-rate workers
  iv. Other categories of workers recognised under the Code

Key Structural Reforms

- Introduction of a uniform statutory definition of “wages”
- Extension of minimum wages to all employments
- Provision for fixation of a national floor wage
- Strengthened prohibition on gender-based discrimination in recruitment and wage payment
- Establishment of a unified, facilitative inspection and compliance mechanism
- Enhanced focus on transparency, consistency, and ease of compliance

Comparison of Key Legal Provisions between Old Regimes and New Code on Wages, 2019

Table 1: Comparison Of Key Legal Provisions Between Old Laws (Pertaining to Wages) And New Code on Wages, 2019

Old Regime (Previous Acts)	New Regime (Code on Wages, 2019)	Impact

Coverage: Restricted to "Scheduled Employments" (approx. 30% of workforce) and specific wage ceilings.	Applies to all employees in all establishments (organised & unorganised), irrespective of wage ceilings or sector.	Expands the compliance universe to cover all categories of workers, including contractual and project-based personnel, reducing ambiguity on applicability.
Definition of Wages: Varied across the four different Acts. Led to confusion and litigation regarding what constitutes "basic wage" for PF/Gratuity.	Standardised across all provisions. "Wages" refers to all remuneration payable to an employee for employment or work done, whether described as salary, allowance, or otherwise, and whether paid in money or capable of being expressed in money, provided the employee has fulfilled the terms of employment.	Introduces the "50% Rule" that allowances cannot exceed 50% of total remuneration. (See Box 1). Requires review and possible restructuring of remuneration components to align with the statutory wage definition, with implications for statutory contributions.
Minimum Wage: Fixed by States for "Scheduled Employments" only. Rates varied wildly between states for similar work.	The Central Government fixes a "Floor Wage." State fixed minimum wages cannot be lower than this Floor Wage.	Introduces a uniform minimum wage, improving wage predictability, while potentially increasing payroll costs in lower-wage states.
Bonus Eligibility: Applicable at 8.33% - 20% of the salary or wage earned during that year. Payable only to employees earning up to ₹21,000/month and worked at least 30 days in that year. Exempts not for profit organisations from payment of bonus.	Applicable at 8.33% - 20% of annual wage/ salary. Payable to employees who have worked at least 30 days in that year (Wage ceiling for eligibility is to be notified by the appropriate Government.) *Exempts not for profit organisations from payment of bonus.*	Retention of exemption avoids additional financial burden while maintaining statutory clarity on eligibility thresholds.
Gender Discrimination: Limited to "Equal Pay for Equal Work" for men and women.	Prohibits discrimination in recruitment and conditions of employment, not just pay. Includes transgender individuals.	Employers must audit hiring practices, role classification, and pay parity frameworks.

Weekly Day of Rest: Required provision of one day of rest in every seven days, with payment of remuneration, subject to applicable rules.	Retains the same requirement to provide one paid day of rest in every period of seven days to employees or specified classes.	Requires uniform scheduling of weekly rest days and ensuring paid rest, impacting workforce planning and wage budgeting.
Timeline for Full & Final Settlement: Dismissal/Removal: Within 2 working days. Resignation: No specific timeline (usually paid in the next wage cycle).	Wages must be paid within 2 working days for all separations, such as resignation, dismissal, retrenchment, or closure (See Table 3).	Requires employers to streamline and expedite their exit payroll and settlement process.
Inspection: “Labour Inspectors” with a focus on policing and penalties. Physical inspections were common.	“Inspector-cum-Facilitators” Focus on enabling compliance. Inspections can be web-based, randomised, and transparent.	Reduces adversarial enforcement and promotes compliance through guidance and technology-driven oversight.
Penalties: Complex mix of fines and imprisonment; often outdated low monetary fines.	Decriminalised for many first-time offenses. Fines are significantly higher, up to ₹50,000 or ₹1 Lakh. Imprisonment is generally reserved for repeat offenders. Compounding of offence is allowed even after the process of prosecution has been initiated.	Shifts the compliance approach from punitive to corrective, encouraging timely rectification while strengthening deterrence for persistent non-compliance.

Implication of Code on Wages, 2019 for Non-profit Organisations

A. On amount of wages payable:

1. Under the old regime, minimum wages only applied to specific “scheduled employments.” This left large sections of workers uncovered. The new Wages Code extends the right to minimum wages to all employees across all establishments, regardless of the sector or the wage ceiling. The minimum wages are expected to be notified by the state

governments from time to time and shall be the wages payable for various types of roles.

2. The States had varied minimum wages under the old regime. Now, the Central Government will fix a “National Floor Wage” based on minimum living standards. State governments cannot fix minimum wages lower than this floor wage. However, this is yet to be notified. Until it is so notified, the existing minimum wages notifications shall apply.
3. The Wages Code also introduces a unified definition of wages. Earlier, various allowances, such as HRA or conveyance, often constituted the bulk of the salary, keeping the basic wage low to reduce Provident Fund (PF) or gratuity liabilities. Under the Wages Code, if “other benefits” exceed 50% of the total remuneration, the excess amount will be added back to the “wages” for calculating social security contributions. The new Code prevents employers from structuring salaries with low basic pay and is likely to have the impact of increasing contributions to PF and gratuity (See Box 1).
4. First non-compliance with provisions on wages would attract fine of INR 50000/-. Hence non-profits must revisit their salary structures and ensure compliance.

Computation of Wages Compliant with Code on Wages

Typical Components Included in Wages

The following elements usually form part of wages:

- Basic Pay
- Dearness Allowance (DA)
- Retaining Allowance, if applicable

Typical Components Excluded from Wages

The following payments are generally excluded from the computation of wages:

a. Statutory or non-contractual bonus not forming part of employment terms
b. Value of house accommodation or amenities such as light, water, medical facilities, or services excluded by government order
c. Employer’s contribution to provident fund or pension, including accrued interest
d. Conveyance allowance or travel concessions
e. Reimbursement of special employment-related expenses

f. House Rent Allowance (HRA)

g. Payments under awards, settlements, or court/tribunal orders

h. Overtime allowance

i. Commission

j. Gratuity payable on termination

k. Retrenchment compensation, retirement benefits, or ex gratia payments on termination

Ceiling on Exclusions (50% Rule)

If the total of payments made under the excluded categories (a to i) exceeds 50% of the total remuneration (or any other percentage notified by the Central Government):

- The excess amount beyond such limit shall be treated as wages, and
- This excess will be added back to the wage calculation.

Remuneration in Kind

Where an employee receives remuneration in kind (instead of money, wholly or partly), The value of such remuneration up to 15% of total wages shall be deemed to form part of wages.

> **Illustration:** NPO X employs Ravi as a senior programme manager. His monthly remuneration is:
>
> - Basic Pay: ₹25,000
> - Dearness Allowance (DA): ₹5,000
> - House Rent Allowance (HRA): ₹30,000 (excluded from wages)
> - Conveyance Allowance: ₹10,000 (excluded from wages)
> - Performance Incentive: ₹15,000 (excluded from wages)
>
> **Step 1: Total Remuneration**
>
> 25,000 + 5,000 + 30,000 + 10,000 + 15,000 = ₹85,000
>
> **Step 2: Total of Excluded Payments**
>
> HRA + Conveyance + Incentive = 30,000 + 10,000 + 15,000 = ₹55,000

> **Step 3: Threshold (50% of total remuneration)**
> 50% of 85,000 = ₹42,500
>
> **Step 4: Excess over threshold**
> Excluded payments = 55,000 → Threshold = 42,500 → Excess = 55,000 – 42,500 = ₹12,500
>
> **Step 5: Wages for statutory purposes**
> Basic + DA + excess excluded payments = 25,000 + 5,000 + 12,500 = ₹42,500
>
> Even though Ravi's total pay is ₹85,000, for statutory purposes like minimum wages, PF, or gratuity calculation, his wages are considered ₹42,500, because the excess of excluded payments over 50% of total remuneration is added back.

B. On bonus and overtime

5. All employees in respect of whom minimum wages are notified are entitled to receive overtime wages at a rate of at least twice the rate of normal wages if they work beyond normal hours. Previously, overtime wage rates varied depending on specific state discretion.
6. It also enforces a strict cap on deductions (PF, ESI, income tax, court orders, cooperative society dues) on pay at 50% of the employee's total wages in all cases. Earlier, under the Payment of Wages Act, 1936, deductions could go up to 75% for payments to cooperative societies, and 50% in other cases.

C. On record keeping by employer

Table 2 - Statutory Wage & Payroll Registers – Compliance Overview

Category / Parameter	Requirement / Rule	Illustrative Example / Notes
Wage Register	Mandatory for all establishments	From date of last entry

Category / Parameter	Requirement / Rule	Illustrative Example / Notes
Wage slips	To be issued to every employee	Digital or physical
Fine Register	Required if fines are imposed	Mandatory where applicable
Deduction Register	Records all wage deductions	Covers all authorised deductions
Overtime Register	Required where overtime applies	Applicable establishments only

D. On time for wage payment and mode of wage payment

7. The Code mandates that wages be paid timely, by the 7th of the next month, and that a full and final settlement be done within two days of an employee's resignation or removal.
8. The new Code also recognises the payment of wages through electronic modes, in addition to the traditional coins, currency notes, cheques, and bank credits.

Table 3: Timelines for Payment of Wages Based on Mode of Engagement and Separation

Basis of Engagement / Situation	Statutory Time Limit for Payment of Wages	Illustrative / Clarificatory Note
Daily basis employees	At the end of the shift	Wages payable immediately after completion of the shift
Weekly basis employees	On the last working day of the week (before the weekly holiday)	Payment to be made prior to the weekly off
Fortnightly basis employees	Before the expiry of the second day after the end of the fortnight	Two-day outer limit after the fortnight ends
Monthly basis employees	Before the expiry of the seventh day of the succeeding month	Example: October wages payable by 7 November
Removal or dismissal from service	Within two working days of removal or dismissal	Final wage settlement within two working days

Basis of Engagement / Situation	Statutory Time Limit for Payment of Wages	Illustrative / Clarificatory Note
Retrenchment, resignation, or closure of establishment	Within two working days of retrenchment, resignation, or closure	Applies regardless of reason for separation

Table 4: Permitted Modes of Wage Payment and Compliance Requirement

Permitted Mode of Wage Payment	Status	Timeline / Condition	Compliance Note
Electronic Transfer (preferred)	Permitted	Ongoing compliance	Direct credit to employee’s bank account with wage slip; digital wage slip encouraged
Cash Payment	Permitted with safeguards	During working hours	Payment at workplace with proper documentation
Cheque / Demand Draft	Permitted with employee consent	As agreed	Proper records mandatory

E. On offences and penalties

9. Compounding of offences is a legal mechanism that allows an employer to settle certain non-serious statutory violations by paying the prescribed fine instead of facing prosecution. It is generally permitted only for offences not punishable with imprisonment and is intended to reduce litigation while ensuring regulatory compliance. Earlier, compounding offences was only allowed in certain states. The new Code provides for the compounding of offences which are not punishable by imprisonment, and this is applicable everywhere.

Compounding is only allowed for a sum of 50% of the maximum fine provided for the relevant offence. However, this option is not available to employers who commit an offence for the second time or within a period of five years from either (i) commission of a similar offence which was earlier compounded; or (ii) commission of a similar offence for which such person was earlier convicted.

What lies ahead?

Although the Code on Wages, 2019 has been enacted, its practical operation depends on detailed Central and State notifications. Several critical aspects of day-to-day compliance are yet to be fully notified.

- Fixation of National Floor Wage by the Government
- Prescription of daily and weekly working hour limits, beyond which overtime wages will become payable
- Working hours for certain classes of employees, including those engaged in unforeseen emergency work outside normal working hours as under Section 13(2) of the Code
- Weekly day of rest and conditions for payment where employees work on rest days
- Conditions governing intermittent work, emergency work, and employment in specific sectors
- Determination of normal working day hours, entitlement to a day of rest, and conditions for payment where employees are required to work on rest days
- Stipulation of the period for preservation and retention of wage and employment records

> Pacta will continue to track developments and update this section as and when the Central and State Governments notify the relevant Rules.

Revision #7
Created 2026-01-05 08:07:26 UTC by Pooja
Updated 2026-01-13 11:12:53 UTC by Pooja