

INVESTOR ADVISORY SERIES | 2026

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# India Reduced 29 Labour Laws to 4 Codes — But Multiplied the Operational Load

Why India Is Still Not a Barrier-Free Market  
for New Investors

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Covering: Labour Codes 2026 • 10 Key Compliance Barriers

Payroll, HR & Cost Impact • Guidance for Foreign Investors

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## Executive Summary

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India's Labour Code consolidation — four codes replacing twenty-nine central statutes — was announced as the most significant labour reform in independent India's history. It was not wrong. The consolidation is real. The simplification, however, is largely notional.

What changed: the statute count. What did not change: the compliance obligation count. Payroll thresholds, registration triggers, inspector access rights, return filing timelines, gratuity computation rules, and social security contribution rates — all remain, often restated with new numbering and fresh interpretive ambiguity.

For the foreign investor arriving with a clean spreadsheet and a belief in India's 'Ease of Doing Business' ranking improvement, this booklet is a corrective. For the Indian founder who has already survived an ESI inspection, it is validation.

The four codes — the Code on Wages (2019), Industrial Relations Code (2020), Code on Social Security (2020), and Occupational Safety, Health and Working Conditions Code (2020) — cover every employee from the factory floor to the corner office. This document unpacks what that coverage means in operational terms.

## The 'Himalayan Mountain' Problem

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India's regulatory environment has long been compared — not unfairly — to a Himalayan trek: the destination is visible, the path is scenic, and the altitude eventually kills you. The Labour Codes reorganise the mountain. They do not reduce its height.

Consider the prior system: twenty-nine central statutes, each with its own definition of 'employee', its own wage computation formula, its own inspector, its own return format, and its own liability clause for directors. A single payroll error could trigger simultaneous violations under three separate acts. Prosecutions were rare; inspections were not.

The four Codes merge these definitions. One definition of 'wages' now applies — broadly — across all four codes. One threshold determines both EPF applicability and gratuity eligibility. In theory, this is elegant. In practice, the uniform definition of 'wages' under the Code on Wages 2019 excludes House Rent Allowance, overtime, bonus, and commissions when computing the minimum wage floor — creating immediate conflict with how most payroll software structures CTC components.

The result: a smaller statute library with a larger interpretation library. Every new code requires state-level rules, and India has twenty-eight states. The central code sets the floor; the state sets the ceiling, the form, the frequency, and the penalty. Compliance, accordingly, remains hyper-local.

## 10 Barriers Every Investor Must Know

The table below identifies the ten compliance barriers most likely to affect a new investor or employer within the first twenty-four months of operations in India. Each barrier is rated for complexity, cost exposure, and frequency of regulatory contact.

#	Barrier	Applicable Code	Operational Impact	Risk Level
1	Threshold-based registration (EPF, ESI, Gratuity)	Code on Social Security 2020	Triggers at 10/20 employees; retroactive liability on breach	<b>HIGH</b>
2	Wages definition mismatch vs. CTC structuring	Code on Wages 2019	Minimum wage computation may differ from offer-letter CTC	<b>HIGH</b>
3	State-level minimum wage variation (28 states)	Code on Wages 2019	No uniform floor; state schedules updated at variable intervals	<b>MEDIUM-HIGH</b>
4	Fixed-term employment contract compliance	Industrial Relations Code 2020	FTE entitles same benefits as permanent staff; notice obligations	<b>MEDIUM</b>
5	Standing Orders mandatory (100+ employees)	Industrial Relations Code 2020	Must be certified; discipline procedure governed by approved text	<b>MEDIUM</b>
6	POSH committee and annual reporting	POSH Act 2013 (standalone)	Not covered by Labour Codes; separate compliance obligation	<b>HIGH</b>

#	Barrier	Applicable Code	Operational Impact	Risk Level
7	Overtime computation and caps	OSH Code 2020	Daily/weekly limits; OT wage at 2x rate; records mandatory	<b>MEDIUM</b>
8	Contractor / gig worker classification	Code on Social Security 2020	Platform workers may attract ESI/EPF; classification risk	<b>HIGH</b>
9	Return filing across central & state portals	All Four Codes	Multiple portals; inconsistent form formats; penalty on delay	<b>MEDIUM-HIGH</b>
10	Director liability for default	Code on Social Security 2020	Directors personally liable for unpaid contributions; no safe harbour	<b>VERY HIGH</b>

Note: Risk Level reflects probability and cost of a regulatory event within 36 months of operations, assuming a mid-size employer (50–200 employees). Not a legal opinion.

# Extracts from the Labour Codes: Key Provisions Explained

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The following summarises selected provisions from the four Labour Codes as notified, paraphrased for clarity. This is not a verbatim reproduction of statutory text and does not constitute legal advice.

## Code on Wages, 2019

Establishes a universal minimum wage applicable across all scheduled employments. The 'floor wage' — set by the Central Government — overrides state minimums where lower. Wages must be paid by a specified date (the 7th or 10th of the following month, depending on workforce size). Deductions are restricted to categories explicitly listed in the Code; any unlisted deduction constitutes a violation regardless of employee consent. Wage records must be maintained for a minimum of three years.

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## Industrial Relations Code, 2020

Consolidates the Trade Unions Act, Industrial Employment (Standing Orders) Act, and Industrial Disputes Act. The threshold for prior permission before retrenchment or closure is raised from 100 to 300 workers — a change that effectively gives medium-sized employers more operational flexibility. Fixed-term employees are entitled to all statutory benefits proportionately, eliminating the earlier incentive to hire on short contracts. Negotiating Unions replace the prior multi-union recognition regime.

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## Code on Social Security, 2020

Expands social security coverage to unorganised sector workers, gig workers, and platform workers — a structurally significant change for technology companies using contract or delivery workforce models. EPF contribution thresholds remain at 12% (employer) and 12% (employee) of basic wages. The Employees' State Insurance (ESI) wage ceiling for coverage may be revised periodically. Gratuity is now payable after one year of continuous service for fixed-term employees, departing from the prior five-year threshold that applied to permanent staff.

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## **OSH Code, 2020**

Replaces thirteen statutes governing factory safety, mines, construction, and plantation labour. A single occupational safety licence replaces multiple establishment-specific registrations. The Code mandates annual health examinations for workers in hazardous processes. Overtime is capped at 125 hours per quarter; compensation at double the ordinary rate. Employers must maintain a register of accidents, near-misses, and dangerous occurrences and submit quarterly safety audits in prescribed format.

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## Impact on Payroll, HR, Compliance, and Cost Structure

The operational consequences of the Labour Codes are most acutely felt in four functions: payroll processing, HR administration, compliance management, and total cost-to-company calculation. Each is addressed below.

Function	Old Regime	Under Labour Codes	Net Change
Payroll Processing	Wages defined differently per statute	Single definition; but CTC restructuring needed	Rework required for legacy payroll
EPF / ESI Deduction	Separate thresholds, separate computation	Unified threshold; ESI ceiling may vary	Lower administrative complexity
Gratuity Provision	5 years continuous service for all	1 year for fixed-term; 5 years for permanent	Higher provisioning for FTE employers
Statutory Returns	Format per Act; 29 separate filings	Consolidated; but state portals vary	Moderate reduction in filing count
Compliance Risk (Director liability)	Under specific Acts (EPF Act, etc.)	Consolidated personal liability clause	Risk concentration; legal exposure higher
Contractor Cost	PF applicable if 20+ on rolls	Gig/platform workers now in scope	Cost increase for platform businesses

### Cost-to-Company: The Hidden Recalculation

The single most underestimated operational impact of the Labour Codes is the mandatory recalculation of CTC structuring. Most Indian employers — and virtually all foreign employers entering India — structure compensation packages to minimise the 'wages' component for EPF computation purposes, directing larger portions to allowances.

The Code on Wages 2019 requires that allowances exceeding 50% of total remuneration be treated as wages for statutory computation purposes. This single provision, if enforced uniformly, will alter the effective cost of

employment for a significant share of India's organised sector workforce. The compliance cost is not theoretical.

# What Foreign Investors Misunderstand

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The typical foreign investor brief on India reads: large market, young workforce, improving regulatory environment, recent ease of doing business reforms. The brief is accurate. It is also incomplete in the ways that cost money.

## 1. The ranking is not the reality.

India's improvement in the World Bank's Ease of Doing Business index was driven by specific sub-indicators — contract enforcement, minority investor protection, credit access. Labour compliance, inspector discretion, and return-filing burden were not primary drivers of the improvement. The ranking does not measure how long it takes to close an ESI dispute.

## 2. Centralisation is not uniformity.

The Labour Codes are central legislation. Their implementation is state-determined. A company operating in Tamil Nadu, Maharashtra, and Telangana simultaneously faces three different minimum wage schedules, three different inspector jurisdictions, three different portal registrations, and potentially three different gratuity fund trustees.

## 3. The informal economy does not apply to you.

Foreign-invested entities are subject to enhanced scrutiny. They are fully formal, fully documented, and highly visible to the inspectorate. The informal shortcuts that reduce compliance burden for unorganised-sector employers are structurally unavailable to a listed subsidiary or a PE-backed portfolio company.

## 4. ESOPs and phantom equity have compliance implications.

Perquisites provided to employees — including ESOPs and stock appreciation rights — may constitute wages under the Code for certain computation purposes. This is an area of active interpretation. Tax counsel and labour counsel are not the same person and must be consulted separately.

## What Indian Founders Already Know

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Indian founders — particularly those who have scaled beyond fifty employees — have absorbed the compliance reality through lived experience rather than briefing notes. What they know tends not to appear in investor pitches or regulatory impact assessments.

- The compliance calendar is a second operating calendar. Return dates, payment due dates, and registration renewal dates are tracked with the same rigour as product release cycles — because the penalty for missing them is not a warning letter.
- A good compliance officer is harder to hire than a senior engineer. The skill set is narrow, the certification requirements are specific, and the accountability is personal. Turnover in this role triggers immediate risk.
- State labour departments operate on their own timelines. A pending registration application does not create provisional compliance protection. The period between application and approval is a documented liability window.
- Workplace policy documents — the Internal Complaints Committee charter, the Standing Orders, the Leave Policy — must align with the applicable Code provisions at the state level. A policy drafted to the central code's standard may still fail a state inspection.
- The four Codes are not yet uniformly operative. As of 2026, certain states have not notified all rules under all four codes. This does not reduce employer obligation; it creates interpretive ambiguity that inspectors resolve in their own favour.

## Conclusion

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### **"Ease of Doing Business is a slogan. Compliance is the reality."**

The Labour Codes represent genuine legislative progress. Consolidating twenty-nine statutes into four is a meaningful achievement in a country where reform has historically meant accretion rather than replacement. The intent deserves acknowledgement.

The implementation, however, demands scrutiny. State-level notification gaps, CTC structuring conflicts, extended-workforce classification risk, and director liability consolidation collectively create a compliance environment that is arguably more concentrated in risk — if not more burdensome in volume — than its predecessor.

For the investor: enter India with a compliance-first operating model, not a compliance-later one. The cost of retrofitting labour compliance onto a running business is significantly higher than building it in at the first payroll cycle.

For the founder: the Codes are your framework, not your protection. The inspectorate has discretion; the definition sections have gaps; the state rules are not yet complete. Build your documentation accordingly.

For both: India remains one of the most consequential markets of this decade. The compliance complexity is the price of entry into a market of 1.4 billion. It is payable. It requires preparation.

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