
REDEFINITION OF WAGES AND ITS CONTEMPORARY IMPACT ON SOCIAL SECURITY AND EMPLOYER LIABILITY (THE CODE ON WAGES, 2019)

Dr Pr. Angayarkani, M.A.M.L., Ph.D., PG.DFL, Dean, School of Law, Perambalur

ABSTRACT

The Code on Wages, 2019 represents a reform in India's labour law framework by consolidating four major wage-related statutes and introducing a uniform, comprehensive definition of "wages" applicable across sectors. This redefinition is a decisive attempt to address long-standing ambiguities that enabled employers to structure remuneration in a manner that reduced statutory contributions to social security schemes, thereby undermining labour welfare objectives. By incorporating basic pay, dearness allowance, and retaining allowance within the core wage definition and imposing a statutory ceiling whereby excluded components cannot exceed fifty per cent of total remuneration, the Code seeks to prevent wage fragmentation and ensure substantive compliance with labour standards. The contemporary significance of this reform lies in its direct impact on social security entitlements, including provident fund contributions, gratuity payments, and bonus calculations, thereby strengthening the financial security of workers. At the same time, the expanded wage base significantly alters employer liability by increasing compliance obligations and financial contributions, particularly for enterprises that historically relied on allowance-heavy compensation structures. It critically examines these competing perspectives by analysing the legislative intent, statutory provisions, and policy rationale underlying the redefinition of wages, while situating the discussion within broader labour reform initiatives and the State's commitment to ease of doing business. It further explores the implications of the redefined wage structure for unorganised and informal sector workers, highlighting persistent enforcement challenges and the gap between legal entitlement and practical realisation of social security benefits. The study also engages with constitutional and judicial dimensions, drawing upon judicial interpretations of the right to life and dignity, and evaluates the alignment of the Code with international labour standards, particularly International Labour Organization conventions on minimum wages and equal remuneration. That while the redefinition of wages under the Code on Wages, 2019 is normatively progressive and welfare-oriented, its transformative potential is contingent upon effective implementation, regulatory clarity, and institutional capacity-building.

Introduction

Wage regulation has consistently been a cornerstone of labour law, functioning as a vital instrument for protecting the economic well-being and dignity of workers. In the Indian legal framework, wages are not viewed merely as a contractual obligation arising from the employment relationship rather, they are intrinsically linked to the constitutional commitment to social justice and welfare. The constitutional vision articulated by the emphasises the creation of a labour regime that guarantees just and humane conditions of work, fair remuneration, and a standard of living conducive to human dignity. This vision finds expression in the Directive Principles of State Policy, particularly Articles 38, 39, and 43, which obligate the State to promote social and economic justice.¹ Judicial interpretation has further strengthened this framework by expanding the scope of Article 21 to encompass the right to livelihood and the right to live with dignity, thereby situating wage protection within the broader domain of fundamental rights.² Consequently, wage regulation in India transcends the narrow confines of wage payment and assumes wider socio-economic significance, encompassing concerns of social security, equality, and distributive justice. Wage regulation in India was governed by a multiplicity of statutes, including the Payment of Wages Act, 1936, the Minimum Wages Act, 1948, the Payment of Bonus Act, 1965, and the Equal Remuneration Act, 1976.³ While these enactments contributed substantially to the development of labour welfare jurisprudence, their fragmented nature resulted in inconsistencies, overlapping provisions, and divergent definitions. A major structural weakness of this regime was the absence of a uniform and comprehensive definition of “wages.” This lacuna enabled employers to design compensation structures heavily reliant on allowances and excluded components, thereby reducing the portion of remuneration classified as wages for the purpose of calculating statutory benefits such as provident fund contributions, gratuity, and bonus.⁴ As the first of the four labour codes enacted as part of India’s labour law reform initiative, the Code seeks to simplify compliance, enhance transparency, and extend statutory protection to a broader

¹ Justiciability of ESC Rights – The Indian Experience, Human Rights Library, Univ. of Minn., <https://hrlibrary.umn.edu/edumat/IHRIP/circle/justiciability.htm> (last visited Jan. 1, 2026) (on file with Human Rights Library, Univ. of Minn.)

² Article 21: Protection of life and personal liberty, Constitution of India, as reproduced on [constitutionofindia.net](https://www.constitutionofindia.net), <https://www.constitutionofindia.net/articles/article-21-protection-of-life-and-personalliberty/> (last visited Jan. 1, 2026)

³ The Code on Wages 2019 – Unified Framework | Key Reforms | Wage Structure, Taxmann (Nov. 29, 2025), <https://www.taxmann.com/post/blog/analysis-the-code-on-wages> (last visited Jan. 1, 2026).

⁴ Rupin Chopra & Apalka Bareja, Decoding Definition of ‘WAGES’ as per the New Wage Code—India, S.S. Rana & Co. (June 29, 2022), <https://ssrana.in/articles/decoding-definition-wages-new-wage-code-india/>.

workforce, including workers in the unorganised and informal sectors. Among the various reforms introduced by the Code, the redefinition of “wages” constitutes one of its most consequential and debated features. By establishing a uniform wage definition and restricting the extent to which allowances and exclusions may be used to reduce the wage base, the Code aims to curb artificial wage structuring and ensure that workers receive remuneration in a form that meaningfully contributes to their social security entitlements. The contemporary significance of this redefinition lies in its profound implications for both social security and employer liability. Since social security benefits such as provident fund and gratuity are directly linked to wages, the expansion of the wage base enhances the value and reach of these benefits, thereby strengthening income security and long-term financial stability for workers.

‘Wages’ under the Code on Wages, 2019:

The Code on Wages, 2019 establishes a standardised and inclusive definition of “wages” under Section 2(y), signalling a fundamental shift from the earlier fragmented and often inconsistent statutory framework governing wage determination in India.⁵ Unlike the previous regime, where multiple labour statutes adopted varying definitions of wages, the Code consolidates and rationalises the concept by identifying the core elements of remuneration. Under this provision, wages comprise basic pay, dearness allowance, and retaining allowance, thereby capturing the substantive components of an employee’s earnings.

Section 2(y) delineates a list of specific exclusions from the wage definition, including house rent allowance, bonus, employer contributions to provident fund, gratuity, overtime payments, and commission.⁶ These exclusions acknowledge that certain payments serve distinct purposes, such as incentives, performance-linked rewards, or statutory benefits triggered upon the occurrence of specific contingencies. However, the legislative framework consciously departs from earlier practices by preventing the excessive use of exclusions as a means to dilute statutory wage obligations. The most significant regulatory innovation introduced by the Code is the statutory ceiling on exclusions, commonly referred to as the fifty per cent rule. The imposition of the fifty per cent cap serves several interrelated objectives. It

⁵ Analysis of Definition of “Wages” under Code on Wages, 2019, Amlegals (Mar. 27, 2021), <https://amlegals.com/analysis-of-definition-of-wages/> (last visited Jan. 1, 2026)

⁶ Understanding Payment of Bonus Act and Wage Definitions for Employee Remuneration, CiteHR, <https://www.citehr.com/616288-understanding-bonus-wage-why-house-rent-allowance.html>

ensures that a meaningful proportion of an employee's total remuneration is classified as wages, thereby enhancing access to wage-linked social security benefits.⁷

Impact on the Social Security Framework

The redefinition of “wages” under the Code on Wages, 2019 has profound and far-reaching implications for India's social security framework, which is largely wage-linked in nature. Social security benefits such as provident fund contributions, gratuity, bonus, and other statutory entitlements are calculated on the basis of wages paid to an employee.⁸ Under the preCode regime, employers frequently structured compensation packages in a manner that minimised the wage component and maximised allowances, thereby reducing the quantum of wages considered for social security calculations. This practice weakened the effectiveness of statutory social security schemes and resulted in diminished long-term financial protection for workers. Since provident fund contributions are directly linked to wages, the expansion of the wage base increases both employer and employee contributions, thereby augmenting retirement savings and long-term income security.⁹ This reform aligns with the broader objective of ensuring financial stability for workers beyond their active working years. Similarly, gratuity payments, which are calculated on the basis of last drawn wages, are positively affected by the redefinition.

A broader wage base ensures higher gratuity payouts, providing workers with meaningful financial support upon retirement, resignation, or termination, and reinforcing the role of gratuity as a social security mechanism rather than a nominal benefit. The impact of the redefined wages is also evident in the context of bonus entitlements. Preventing excessive fragmentation of wages, the Code ensures that workers receive bonus payments calculated on a more realistic representation of their earnings.¹⁰ This enhances income supplementation and promotes a more equitable distribution of profits and productivity gains. From a welfare perspective, these changes collectively contribute to income adequacy, reduce vulnerability to

⁷ New Wage Code 2022: The Impact on Payroll Processing in India, TopSource Worldwide (2025), <https://topsourceworldwide.com/insights/new-wage-code-2022-the-impact-on-payroll-processing-in-india/> (last visited Jan. 1, 2026)

⁸ Richard Mitchell, Petra Mahy & Peter Gahan, *The Evolution of Labour Law in India: An Overview and Commentary on Regulatory Objectives and Development*, 1 *Asian J.L. & Soc'y* 413 (2014), <https://doi.org/10.1017/als.2014.8> (Cambridge Univ. Press) (last visited Jan. 1, 2026)

⁹ EPFO FAQ: Contribution Rate for EPF, Employees' Provident Fund Organisation, India, EPF & Pension Scheme FAQ (Q.119), https://www.epfindia.gov.in/site_en/FAQ.php/Disclaimer.php (last visited Jan. 1, 2026)

¹⁰ The Code on Wages, 2019: Decoding Your Paycheck Rights, Meliora Legal Center (Dec. 12, 2025), <https://www.mplegalfirm.in/2025/12/the-code-on-wages-2019-decoding-your.html> (last visited Jan. 1, 2026)

economic shocks, and support the constitutional mandate of providing a dignified standard of living to workers. Although the Code formally extends wage protection to all employees irrespective of sector, the effective realisation of social security benefits for informal workers remains contingent upon implementation and enforcement mechanisms. Transparent wage definitions and standardised wage structures can facilitate better registration, documentation, and eventual inclusion of informal workers within social security schemes.¹¹ However, persistent challenges such as lack of awareness, weak enforcement capacity, and limited employer compliance continue to hinder the full operationalisation of these benefits for vulnerable workers. It reinforces the principle that wages must serve not only as immediate remuneration but also as a foundation for long-term social security and economic resilience. At the same time, the expanded wage base necessitates a parallel strengthening of administrative capacity, grievance redressal mechanisms, and institutional coordination to ensure effective implementation. In the absence of such supportive measures, the potential of the Code to transform India's social security landscape may remain under realised. Nonetheless, the redefinition of wages under the Code on Wages, 2019 represents a critical step towards building a more inclusive, robust, and equitable social security framework grounded in constitutional values and labour welfare objectives.

Wage-Linked Social Security Benefits

Wage-linked social security benefits constitute a cornerstone of India's labour protection framework, providing financial stability and long-term economic security to employees. These benefits primarily provident fund contributions, gratuity, and bonus payments are intrinsically tied to the quantum of wages earned, making the legal definition of wages pivotal for the effective operation of social security mechanisms.¹² Under the pre-Code regime, fragmented legislation and inconsistent definitions often allowed employers to structure remuneration packages with a high proportion of allowances, thereby reducing the wage base used for statutory calculations. This practice undermined the protective intent of social security provisions and left employees inadequately safeguarded against economic vulnerabilities.

¹¹ Carin Håkansta et al., What Is the Role of Minimum Wages in Addressing Precarious Employment in the Informal and Formal Sectors? Findings from a Systematic Review, 55 *Int'l J. Soc. Determinants Health & Health Servs.* 124 (Oct. 7, 2024), <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC11977811/>

¹² Understanding and Managing Payroll Expenses, *Madagascar-Services* (Feb. 5, 2024), <https://www.madagascar-services.com/blog/en/2024/02/05/understanding-and-managing-payroll-expenses/>

The Code on Wages, 2019 addresses these deficiencies by introducing a uniform and comprehensive definition of wages under Section 2(y), which includes basic pay, dearness allowance, and retaining allowance while imposing a statutory limit of fifty per cent on excluded components.¹³ This redefinition ensures that a substantive portion of remuneration contributes to social security entitlements, thereby enhancing the adequacy of benefits. Provident fund contributions calculated on a wider wage base secure long-term retirement savings, while gratuity payments offer meaningful financial support upon cessation of employment. Similarly, bonus eligibility based on the redefined wages facilitates equitable sharing of enterprise productivity and profits.

Code on Social Security, 2020

The **Code on Social Security, 2020** represents a significant milestone in India's labour law reform agenda, aiming to consolidate, rationalise, and modernise the country's social security framework. Enacted as part of the four labour codes, the Code subsumes and replaces nine central labour legislations, including the Employees'

- Provident Funds and Miscellaneous Provisions Act, 1952
- Employees' State Insurance Act, 1948
- Payment of Gratuity Act, 1972
- Maternity Benefit Act, 1961
- Unorganised Workers' Social Security Act, 2008¹⁴

The primary objective of the Code is to extend comprehensive social security coverage to all categories of workers organised, unorganised, gig, platform, and migrant workers there by addressing long-standing gaps in labour protection in a rapidly changing economy. A broadened and inclusive definition of "employee" and "worker," which reflects contemporary employment realities marked by contractual, freelance, and digital

¹³ Code on Wages, 2019 Safeguards Workers, Induces Growth, Empowers Women & Enhances Employment, Press Information Bureau, Government of India (Nov. 23, 2025), <https://www.pib.gov.in/PressReleasePage.aspx?PRID=2193095>

¹⁴ Legislative Brief: The Code on Social Security, 2019, PRS Legislative Research (2020), <https://prsindia.org/billtrack/prs-products/prs-legislative-brief-3412>

platformbased work. For the first time in Indian labour legislation, the Code explicitly recognises **gig workers and platform workers**, enabling the formulation of specific social security schemes relating to life and disability cover, health and maternity benefits, old-age protection, and accident insurance.¹⁵ The Code also mandates the establishment of social security funds at the central and state levels, with contributions from the government, aggregators, employers, and beneficiaries, ensuring a shared responsibility model.

The Code on Social Security, 2020 further strengthens institutional mechanisms for implementation and compliance. It provides for the digitisation of registration, record-keeping, and benefit disbursement, thereby enhancing transparency and reducing administrative inefficiencies. Provisions relating to portability of benefits are particularly significant for interstate migrant workers, enabling them to access social security entitlements irrespective of their place of employment. Additionally, the Code rationalises contribution thresholds and compliance requirements, seeking to balance worker welfare with ease of doing business for employers. The absence of notified rules in many states, concerns regarding increased employer liability, and ambiguity in the operationalisation of schemes for gig and unorganised workers have raised apprehensions among stakeholders. Critics argue that without effective enforcement, adequate funding, and awareness among workers, the transformative potential of the Code may remain unrealised. Nevertheless, the Code on Social Security, 2020 marks a decisive shift towards a universal, rights-based social security regime, reflecting India's commitment to inclusive growth, labour dignity, and long-term social protection.

The Occupational Safety, Health and Working Conditions Code, 2020 (OSHC Code)

It comprehensive labour welfare legislation enacted to consolidate and modernise India's regulatory framework relating to workplace safety, health, and conditions of employment. The Code amalgamates **thirteen central labour laws**, including the Factories Act, 1948; Mines Act, 1952; Contract Labour (Regulation and Abolition) Act, 1970; and InterState Migrant Workmen Act, 1979, thereby creating a uniform and simplified legal regime applicable across sectors.¹⁶ Its primary objective is to ensure safe, healthy, and humane working

¹⁵ Gig and Platform Workers Recognised Under Labour Law: e-Shram Aadhaar-Linked ID & Social Security Benefits, Angel One (Dec. 9, 2025), <https://www.angelone.in/news/economy/gig-and-platform-workersrecognised-under-labour-law-e-shram-aadhaar-linked-id-social-security-benefits>

¹⁶ Occupational Safety, Health and Working Conditions Code, 2020, Wikipedia, https://en.wikipedia.org/wiki/Occupational_Safety,_Health_and_Working_Conditions_Code,_2020

conditions while promoting ease of compliance and improved enforcement mechanisms.

A feature of the OSHWC Code is its **expanded scope of coverage**, extending protections to establishments employing ten or more workers and to all mines and docks, regardless of workforce size.¹⁷ The Code introduces uniform standards for occupational safety and health, empowering the appropriate government to prescribe national standards for workplace safety, hazardous processes, and working environments. It mandates employer responsibilities such as providing a safe workplace, free annual health examinations for specified employees, welfare facilities, and information on occupational hazards. Special provisions have been incorporated for **women workers**, permitting their employment in all establishments, including hazardous sectors, subject to safety safeguards and consent, thus promoting gender equality in employment. The Code places particular emphasis on the protection of **inter-state migrant workers**, redefining them to include self-employed migrants and enhancing their access to welfare benefits, journey allowances, and portability of entitlements.¹⁸ Digitalisation is a core aspect of the Code, with provisions for electronic registration, licensing, and maintenance of records, aimed at improving transparency and reducing bureaucratic delays. From an enforcement perspective, the Code introduces an inspector-cum-facilitator system, shifting the regulatory approach from punitive inspection to facilitative compliance, while still retaining penalties for serious violations.

Expanded Employer Liability and Compliance Obligations

The redefinition of “wages” under the Code on Wages, 2019 has substantially altered the landscape of employer liability and compliance in India, introducing both normative clarity and practical challenges. A uniform definition of wages and imposing the 50 per cent ceiling on excluded components of remuneration, the Code has expanded the wage base on which statutory contributions and benefits are calculated. As a result, employers are now exposed to enhanced financial obligations in respect of provident fund contributions, gratuity payments, bonus calculations, and other wage-linked entitlements.¹⁹ This recalibration of liability reflects

¹⁷ The Occupational Safety, Health and Working Conditions Code, 2020, PRS Legislative Research, <https://prsindia.org/billtrack/the-occupational-safety-health-and-working-conditions-code-2020>

¹⁸ Legal Rights of Inter-State Migrant Workers under the OSH Code, Corrida Legal (2024), <https://corridalegal.com/legal-rights-of-inter-state-migrant-workers-under-the-osh-code/>

¹⁹ Gratuity, Provident Fund Contribution May Rise Under New Code, Agarwal Jetley & Co. (2025), <https://www.agarwaljetley.com/gratuity-provident-fund-contribution-may-rise-under-new-code.html>

a deliberate legislative effort to curb long-standing practices of wage fragmentation that diluted social security benefits and undermined the protective objectives of labour law.

Employers are required to undertake a careful reassessment of existing salary components to ensure conformity with the statutory definition and the 50 per cent rule. This entails revising employment contracts, payroll systems, and internal accounting mechanisms to accurately classify remuneration and monitor the proportion of excluded components. Noncompliance, whether deliberate or inadvertent, can result in reclassification of allowances as wages, leading to retrospective liabilities, penalties, and potential disputes with enforcement authorities. Consequently, the compliance burden is not merely procedural but demands sustained legal and financial diligence. The contemporary challenges associated with this regulatory shift are particularly pronounced for industries that traditionally relied on flexible or allowance-heavy wage structures, such as information technology, gig-based services, manufacturing, and contract labour-intensive sectors.²⁰ For such employers, aligning existing compensation models with the statutory framework may increase operational costs and reduce flexibility in designing incentive-based remuneration. Small and medium enterprises (SMEs), in particular, face difficulties due to limited administrative capacity and lack of specialised legal expertise, making compliance both costly and complex.²¹ The uniform application of the wage definition, while promoting equity, does not always account for sector-specific economic realities, thereby intensifying compliance pressures.

Another significant challenge lies in the transitional uncertainties surrounding the enforcement of the Code. Since the Code on Wages, 2019 consolidates and replaces multiple earlier legislations, employers must navigate overlaps between legacy practices and the new regulatory regime. Ambiguities regarding the retrospective application of the 50 per cent rule, treatment of legacy contracts, and reconciliation with judicial interpretations under repealed statutes continue to generate legal uncertainty. This has increased the likelihood of litigation, as employers seek judicial clarification on the scope and application of the new wage definition and its implications for past and ongoing obligations. While the redefinition of wages under the Code on Wages, 2019 undeniably increases employer liability and compliance obligations,

²⁰ Challenges and Opportunities in Implementing the New Labour Codes in India, SMA Legal (2024), <https://www.smalegal.in/home/challenges-and-opportunities-in-implementing-the-new-labour-codes-in-india>

²¹ Halima Oluwabunmi Bello, Courage Idemudia & Toluwalase Vanessa Iyelolu, Navigating Financial Compliance in Small and Medium-Sized Enterprises (SMEs): Overcoming Challenges and Implementing Effective Solutions, *World J. Advanced Res. & Rev.* 42 (2024), <https://doi.org/10.30574/wjarr.2024.23.1.1984>

these changes are integral to addressing systemic inequities in wage determination and social security coverage. The contemporary challenges associated with implementation underscore the need for clear governmental guidelines, capacity-building initiatives, and phased enforcement to ensure that the objectives of the Code are realised without imposing disproportionate hardship on employers.

Alignment with Constitutional and International Labour Standards

The redefinition of wages under the Code on Wages, 2019 demonstrates a deliberate effort to align India's domestic labour laws with both constitutional mandates and international labour standards. At the constitutional level, the Code reinforces the Directive Principles of State Policy, particularly Articles 38, 39, and 43, which emphasise social justice, equitable distribution of resources, and the promotion of worker welfare.²² By ensuring that a substantial portion of remuneration is treated as wages, the Code strengthens social security entitlements such as provident fund, gratuity, and bonus, thereby operationalising the constitutional goal of providing a dignified standard of living and economic security to employees. The recognition of wages as the foundation for social protection directly supports the right to livelihood and the broader interpretation of Article 21 as encompassing the right to a decent and dignified life.

From an international perspective, the Code resonates with conventions and recommendations of the International Labour Organization (ILO), which advocate for fair remuneration, adequate social security coverage, and protection of workers from economic vulnerability.²³ The emphasis on a uniform wage definition and curbing artificial wage structuring aligns with the ILO's standards on wage determination, decent work, and social protection floors, promoting transparency, equity, and financial security for employees.²⁴ By integrating these principles into domestic legislation, India moves closer to fulfilling its international obligations, fostering compliance with global labour norms, and enhancing its credibility in the international labour and trade arena.

²² Part IV – Directive Principles of State Policy, ConstitutionofIndia.net, <https://www.constitutionofindia.net/parts/part-iv/>

²³ Varun Mansinghka, Poverty, Working Conditions and Wages: Legal and Reputational Risks, Int'l Bar Ass'n (2022), <https://www.ibanet.org/article/B43681EE-AFC9-434E-B3BF-F13F95F26EF5>

²⁴ Overhaul of Labour Legislations in India – Impact on Businesses, Mondaq (Dec. 29, 2025),

<https://www.mondaq.com/india/employee-rights-labour-relations/1724528/overhaul-of-labour-legislations-inindia-impact-on-businesses>

Challenges for Micro, Small, and Medium Enterprises (MSMEs) under the Code on Wages, 2019

The implementation of the Code on Wages, 2019 presents a range of challenges for Micro, Small, and Medium Enterprises (MSMEs), which constitute the backbone of the Indian economy and contribute significantly to employment generation, industrial growth, and GDP.²⁵ While the Code aims to strengthen labour welfare and ensure uniformity in wage determination, the practical realities faced by MSMEs make compliance complex, resource intensive, and sometimes financially burdensome. The challenges arise primarily due to the redefinition of wages, the expansion of employer liability, and the accompanying compliance requirements.

One of the foremost challenges is the financial impact of the expanded wage base. Under Section 2(y) of the Code, wages now include basic pay, dearness allowance, and retaining allowance, with excluded components limited to 50 per cent of total remuneration.²⁶ For many MSMEs that traditionally relied on allowance-heavy compensation structures to manage labour costs, this redefinition leads to a significant increase in statutory contributions toward provident fund, gratuity, and bonus payments. Given that MSMEs often operate on tight profit margins, especially in the manufacturing, retail, and service sectors, the sudden rise in labour costs may affect operational sustainability. For start-ups and newly established enterprises, this increased financial liability could constrain growth and limit the ability to expand employment.

Administrative and compliance challenges constitute another critical issue for MSMEs. The Code mandates meticulous documentation of wage structures, classification of allowances, and accurate calculation of statutory benefits in accordance with the 50 per cent exclusion rule. For many small enterprises, the lack of dedicated human resources or legal and accounting expertise creates difficulties in restructuring payroll systems to comply with the statutory requirements. Errors in classification or calculation may expose MSMEs to penalties, retrospective liabilities, and even litigation, adding to the operational burden. Transitional challenges further complicate the situation. Many MSMEs continue to operate under legacy

²⁵ Saurabh Bhattacharjee, *Universalization of Minimum Wages As A Pipe Dream: Many Discontents of the Code on Wages, 2019*, 16 *Socio-Legal Rev.*(2024), <https://repository.nls.ac.in/slr/vol16/iss2/>

²⁶ *The Code on Social Security, 2020 — Wages Definition & Implications on Gratuity and Other Employee Benefits*, Ka-Pandit (2025), [https://www.ka-pandit.com/assets/articles/the-code-on-social-security-\(2020\)%20-wages-definition-implications-on-gratuity-and-other-employee-benefits](https://www.ka-pandit.com/assets/articles/the-code-on-social-security-(2020)%20-wages-definition-implications-on-gratuity-and-other-employee-benefits).

wage structures designed according to older legislations such as the Payment of Wages Act, 1936, and the Minimum Wages Act, 1948.²⁷ Reconciling these legacy systems with the new statutory framework requires detailed assessment of historical allowances, recalibration of salary components, and renegotiation with employees where necessary. These transitional adjustments are time-consuming and may lead to temporary disruptions in payroll processing or employee dissatisfaction if not managed carefully.

The impact on competitiveness is another concern. MSMEs often compete with larger enterprises that have more financial flexibility and robust compliance systems. The increased wage-related obligations under the Code may disproportionately affect MSMEs, making it challenging for them to offer competitive pricing while maintaining statutory compliance. This is particularly acute in sectors with high labour intensity, where wages constitute a substantial portion of operational costs. Awareness and training gaps exacerbate the problem. Many MSME owners and managers lack detailed knowledge of the nuances of the Code, including the scope of included and excluded wage components, the calculation of statutory benefits, and reporting requirements.²⁸ Without adequate guidance and capacity-building initiatives, MSMEs are prone to unintentional non-compliance, which could lead to legal disputes, penalties, and strained employer-employee relations. Despite these challenges, the Code also provides an opportunity for MSMEs to modernize their wage structures and implement transparent, equitable compensation practices. Digitalisation of payroll systems, proper recordkeeping, and engagement with regulatory authorities can help MSMEs adapt to the new legal framework while maintaining compliance. Government support in the form of training, advisory services, and phased implementation timelines can further ease the burden on smaller enterprises.

Critical Analysis and Findings

The redefinition of wages under the Code on Wages, 2019 marks a significant milestone in India's labour law regime, introducing a uniform approach that seeks to balance worker protection with regulatory clarity. By standardising the definition of wages and imposing the fifty per cent ceiling on excluded components, the Code strengthens social

²⁷ MSME Policy in India – Framework | Compliance | Documentation, Taxmann (Dec. 31, 2025), <https://www.taxmann.com/post/blog/msme-policy-in-india>

²⁸ The Code on Wages, 2019, greytHR, <https://www.greylhr.com/wiki/acts/code-on-wages-2019/> (last visited Jan. 1, 2026).

security entitlements, ensuring higher and more consistent provident fund contributions, gratuity, and bonus payments.²⁹ This reform addresses long-standing practices of allowance heavy remuneration that previously reduced statutory benefits, thereby advancing the constitutional objectives of social justice and economic security for workers across various sectors. Increased financial liability and the need to restructure payroll systems present considerable challenges, especially for micro, small, and medium enterprises. The transition from legacy wage structures to the new framework introduces potential ambiguities, increasing the risk of disputes and litigation. Administrative burdens related to accurate classification, monitoring of excluded components, and adherence to statutory thresholds further complicate compliance.³⁰

Conclusion

Encouraging dialogue between employers, workers, and regulatory authorities can also foster cooperative compliance and minimise disputes. Finally, periodic review of the Code's implementation, including its impact on social security coverage, employer liability, and industrial relations, is essential to ensure that the legislation remains responsive to changing economic and labour market conditions. The development of clear and detailed regulatory guidelines to assist employers in interpreting the definition of wages, calculating the fifty per cent ceiling on excluded components, and restructuring payroll systems. Such guidance would reduce ambiguities and minimise litigation arising from transitional uncertainties. Training and capacity-building programmes for HR professionals, payroll managers, and small enterprise owners could further enhance compliance and ensure uniform understanding of the statutory requirements. Another important recommendation is the need for phased implementation and monitoring mechanisms. Gradual enforcement of the expanded wage definition, with adequate timelines for adaptation, would allow employers to recalibrate compensation structures without disrupting business operations. Simultaneously, robust monitoring and inspection mechanisms should be established to ensure that employees actually benefit from enhanced social security entitlements, particularly in the unorganised and informal sectors, where regulatory oversight has historically been weak. In the redefinition of wages under the Code on Wages, 2019 is a

²⁹ Vipul Das, Social Security Code 2020 FAQs: 8 Major Acts Repealed From Nov. 21, 2025; What Happens to PF, ESI & Gratuity?, GoodReturns (Dec. 28, 2025), <https://www.goodreturns.in/classroom/social-security-code-2020-faqs-8-major-acts-repealed-from-nov-21-2025what-happens-to-pf-esi-g-1478436.html>

³⁰ Michael Anne Kyle et al., Patient Administrative Burden: A Scoping Review, 3 Health Affs. Scholar qxaf216 (2025), <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC12637203/>.

progressive step towards strengthening social security, ensuring equitable remuneration, and promoting labour welfare in India. While it enhances worker protection and aligns with constitutional principles of social justice, the reform also introduces significant employer responsibilities and compliance challenges. Achieving the intended objectives of the Code will require a balanced approach, combining effective enforcement, stakeholder awareness, administrative support, and ongoing evaluation. With strategic implementation and proactive engagement, the Code has the potential to create a more transparent, fair, and inclusive wage and social security framework, benefiting both workers and employers in the long term.