



Tax alert: Karnataka extends exemption to IT/ITes establishments under Industrial Employment (Standing Orders) Act

13 June 2024

As per notification No. LD 328 LET 2023, dated 10 June 2024, the Karnataka government has renewed the exemption given to IT/ ITes establishments under the Industrial Employment (Standing Orders) Act, 1946. The renewal is for a period of 5 years w.e.f. 10 June 2024.

In a nutshell



Since 2014, the Karnataka Government has been exempting IT/ ITES/ Startups/ Animation/ Gaming/ Computer Graphics/ Telecom/ BPO/ KPO and other knowledge-based industries from compliance under the Industrial Employment (Standing Orders) Act, 1946

This exemption was last renewed in 2019 through notification No. LD194 LET 2016 dated 25 May 2019.

The exemption had expired on 24 May 2024.



There was growing anticipation that the exemption given to IT/ ITes, will not be renewed, based on views expressed by the Karnataka Labour Ministry on account of arbitrary terminations, mass retrenchments, extended working hours, etc. prevailing in the IT/ ITES industries.

The latest Notification (LD 328 LET 2023), dated 10 June 2024, extends the exemption for IT/ITes companies from the Industrial Employment (Standing Orders) Act, 1946, for another 5 years until 09 June 2029.



The latest notification maintains the conditions prescribed since 2014 for IT/ITes companies' exemption under the Industrial Employment (Standing Orders) Act, 1946.

These conditions are:

- a) Form an Internal Committee under the prevention of sexual harassment law in India.
- b) Notify authorities of disciplinary actions like discharge or dismissal, etc.
- c) Constitution of Grievance Redressal Committee to address grievance of any employee
- d) Submission of information on service conditions to authorities.



While the notification exempts IT/ITes from the legislation, it mentions that once the labour codes come into effect, the provisions of the Industrial Relations Code, 2020 will be applicable to IT/ ITes companies.



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Highlights of the Notification under the Industrial Employment (Standing Orders) Act, 1946 ('the Act')

- The Notification dated 10 June, 2024, renews exemption given to IT/ ITes companies under the Act for a further period of 5 years from the date of the Notification i.e. until 9 June, 2029.
- The conditions stipulated for IT/ITes companies to be exempted are unchanged. These conditions are:
 - **Constitution of Internal Committee**, as required under the Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013.
 - **Informing authorities** (Jurisdictional Deputy Labour Commissioner and Commissioner of Labour in Karnataka) when there are disciplinary issues which lead to discharge or dismissal, demotion etc. .
 - **Constitution of Grievance Redressal Committee** with equal number of representatives from employer and employees when there are grievances. These are to be disposed off within a reasonable timeframe.
 - **Submission of information on service conditions** when the same is requisitioned by the Jurisdictional Deputy Labour Commissioner and Commissioner of Labour in Karnataka.
- Additionally, the Notification mentions that once the Industrial Relations Code, 2020, ('IR Code') is made effective, the same will be applicable to all IT/ITes companies in Karnataka.

Our comments

The Notification does not bring in additional conditions besides those prescribed since 2014, for IT/ ITes establishments to be exempted under the Act.

This is a welcome move by the authorities for companies in the IT/ ITes space, since some level of flexibility is needed for this industry to function, considering their nature of work.

With these exemptions being renewed, IT/ ITes companies located in the state of Karnataka will continue to avail the exemptions under the existing Industrial Employment (Standing Orders) Acts, as long as they ensure that all conditions prescribed in the notification are complied with.

As called out in the notification, it is interesting to note that these exemptions are temporary and shall lapse when the labour codes come into force. Once the IR Code is made effective, companies meeting the prescribed thresholds would need to set up Grievance Redressal Committees or Works Committees, submit standing orders, etc.

As per media reports, a writ petition against the latest Notification has been filed in the Karnataka High Court by the trade union representing IT/ITes employees. Hence, this would be a space to watch.

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