



# Global Tax Update: Gearing up for labour codes

## India

Deloitte Tohmatsu Tax Co.

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### Background

The Ministry of Labour (Government of India) have decided to introduce the following four labour codes:

- Code on wages
- Code on social security
- Industrial relations code
- Occupational safety, health, and working conditions code

The above codes subsume the 29 existing labour regulations and have received the presidential assent. The codes were originally scheduled to take effect in April 2021, but it has been delayed.

Recent communications from the Ministry of Labour indicate that the codes may be effective in next few months.

## Significance of labour codes

The labour codes aim to ease compliance and bring in transparency within the system. Some significant aspects of the codes are highlighted below:

- Uniform “Wage definition” across codes.;
- Extension of social security coverage to a wider section of the workforce (including fixed-term employees, gig/platform workers, and those in the unorganised sector);
- Enablement of a single registration for compliance under different provisions of the codes;
- Paving the way for a supportive structure with the creation of the office of the “facilitator”;
- Laying down a formal negotiation mechanism with trade unions;
- Digitising procedural requirements to minimise time and effort, besides leaving an audit trail.

## Impact Areas

These changes in the labour codes are likely to have an impact primarily in the below areas:

- a) Cost-related or a financial impact;
- b) Policy and process changes;
- c) Workforce categorisation, etc.

From a financial standpoint, each company should focus on:

- Evaluating existing elements of their compensation structure vis-à-vis the new “Wage definition” to determine wages;
- Assessing the financial impact, based on the new wages, on the companies’ profit and loss account, take-home pay of the employees, retiral benefit, etc.
- Realigning the compensation structure as required;
- Ensuring requirements of all stakeholders are handled in an appropriate manner.

## Impact on policies and processes

The new legislation necessitates that each company revisit their policies and processes to:

- Initiate a deep-dive analysis on the impacted policies, processes, and contracts to ensure compliance;
- Tailor these to meet the requirements of the codes;
- Ensure necessary compliances.

Some key policies that may need to be examined are gratuity, leave encashment, overtime, social security benefits, etc.

## Impact on workforce categorization

Under the codes, compliance for certain categories of workers have been specifically called out. Hence, companies may:

- Clearly demarcate their workforce into different categories
- Define compliance requirements for each category
- Ensure compliance is met for that specific category of workers

Some of the categories that may need to be evaluated are:

- Regular employees; fixed-term employees;
- Contract/third-party employees;
- Gig or platform workers;
- Consultants/retainer-based;
- Other non-traditional employer-employee arrangements.

## The Road ahead

The industry at large is looking to gear up to get into a state of readiness and be equipped to comply once the codes go live

Hence, the need of the day is for companies to:

- Identify and understand the changes;
- Prepare a road map for identified modifications and new requirements;
- Build the compliance framework for payroll and IT processes;
- Realign the internal processes to meet compliance requirements;
- Keep pace with the changes and course correct with minimal disruption.

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### Contacts

**Deloitte Tohmatsu Tax Co. , Japan**

**International Tax and M&A**

Hiroyuki Hayashi, Partner, [hiroyuki.hayashi@tohmatu.co.jp](mailto:hiroyuki.hayashi@tohmatu.co.jp)

**Deloitte India**

Bhavik Timbadia, Partner, [btimbadia@deloitte.com](mailto:btimbadia@deloitte.com)

Pawankumar Kulkarni, Senior Manager, [kpawan@deloitte.com](mailto:kpawan@deloitte.com)

### Issued by

**Deloitte Tohmatsu Tax Co.**

**Tokyo Office**

Marunouchi Nijubashi Building, 3-2-3 Marunouchi, Chiyoda-ku, Tokyo 100-8362, Japan

Tel : +81 3 6213 3800

email : [tax.cs@tohmatu.co.jp](mailto:tax.cs@tohmatu.co.jp)

Corporate Info. : [www.deloitte.com/jp/tax](http://www.deloitte.com/jp/tax)

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