



# Voices on Reporting

22 January 2026

—

[kpmg.com/in](https://kpmg.com/in)



# Speaker for the webinar



**Ravi Kant Thakur**

Partner

Assurance  
KPMG in India



# Navigating the New Labour Codes



# Standardised definition of 'wages' under Labour Codes

## Meaning and inclusions (Part A)

Means all remuneration whether by way of salaries, allowances or otherwise, expressed in terms of money or capable of being so expressed which would, in terms of employment, express or implied, where fulfilled, be payable to a person employed in respect of his employment, and includes:

- Basic pay
- Dearness allowance
- Retaining allowance, if any.

## Specified exclusions (Part B)

- Statutory bonus
- Value of house accommodation and utilities (such as light, water, medical attendance, etc.)
- Employer contribution to provident fund or pension together with accretions
- Conveyance allowance or value of travelling concession
- Sum paid to defray special expenses due to nature of work
- House rent allowance
- Remuneration payable under any award or settlement
- Any overtime allowance
- Any commission payable
- Any gratuity payable on termination
- Any retrenchment compensation or retirement benefit payable or ex-gratia payment made.

## Conditional inclusions (Part C)

Where the aggregate of specified exclusions as highlighted:

- Exceeds one-half, or such other notified per cent, of all remuneration calculated under this clause
- Amount which exceeds such one-half or other per cent, so notified
- Shall be deemed to be remuneration and
- Shall accordingly be added under this clause.

## Value of remuneration in kind (Part D)

Where an employee is given remuneration in kind in lieu of either the whole or part of the wages payable to him, the value of such remuneration, to the extent it does not exceed 15 per cent of total wages payable to him, shall be deemed to form part of wages of such employee.

# Clarifications needed in definition of wages



## Variable payments

- any non-guaranteed payments/performance
- linked payments



## Specific allowances

for meeting expenses or cost-of-living differential during travel or deputation away from base location



## Car lease rentals,

fuel, driver, meal coupons, club fees paid, stock options, etc.- is it 'remuneration in kind'?



## One-time payments

such as performance-linked incentives, ex-gratia, etc.



How to apply the **50 per cent ratio** of exclusion to total wages?



## Calculation and interpretation issues

to 'remuneration in kind'.

## Clarifications as per FAQs of 30 December 2025

*If allowances and benefits together (except gratuity and retrenchment compensation) exceed 50 per cent of total remuneration, the excess amount shall be added back to wages.*

*Wages specifically exclude:*

1. *Performance-based incentives*
2. *Employee Stock Option Plans (ESOPs)*
3. *Variable part of component*
4. *Reimbursement-based payments*

## Draft COSS rules

*Wages for gratuity exclude:*

1. *Annual payments linked to performance or productivity of employee or employer, which are not part of the remuneration payable under terms of employment*
2. *Reimbursement of medical expenses*
3. *ESOP/ cash equivalent of stock award*
4. *Crèche allowance*
5. *Telephone and internet reimbursement*
6. *Value of meal vouchers*

# Case study - consideration of wages

## Illustration

Components	Amount (INR per month)
Basic salary	22,000
House rent allowance	11,000
Conveyance allowance	3,000
Special allowance (balancing figure)	8,000
<b>Total fixed compensation</b>	<b>44,000</b>
Add: Variable bonus	6,000
<b>Total cost to company (per month)</b>	<b>50,000</b>

**Wages - INR 30,000 (basic + special allowance)**

- Wages computed as per **Payment of Gratuity Act** (last drawn basic + DA): **INR 22,000**
- Wages computed as per **ESIC Act**: (basic + cash allowances, excluding bonus): **INR 44,000**
- Wages computed as per **Maternity Benefit Act**: (basic + cash allowances + Incentive bonus): **INR 50,000**

# Case study – financial impact of certain benefits

Annual CTC: 100

Basic salary: 40

Excluded allowances - 60

Wages as per code: 50  
(i.e. 40 + 10 added back)

Wages will change for Gratuity

Particulars	Current	Labour Code	Increment (per cent)
Gratuity - 4.81per cent of basic salary / wages	1.92 (40*4.81 per cent)	2.41 (i.e. 50*4.81per cent)	25 per cent
Leave encashment ( <b>only for workers</b> ) assumed ten days encashed (in excess of 30 days carry forward)	1.09 (40*10/365)	1.36 (i.e. 50*10/365)	26 per cent
Overtime assumed 20 hours per month	7.69 (40/52 weeks / 48 hours per week*240 hours*2)	9.62 (50/52 weeks / 48 hours per week*240 hours*2)	25 per cent

*\*Retrospective and actuarial valuation to be computed separately*

**Assumptions:**

- 1. Leave encashment is currently being paid to workers on basic salary
- 2. Overtime is currently being paid as twice of basic salary

# What are the key financial impact areas?

Provident Fund	ESIC	Gratuity	Leave Encashment	Overtime	Maternity
<ul style="list-style-type: none"> <li>Act repealed vide corrigendum.</li> <li>12 months transition period – until then, existing rules and schemes apply</li> </ul>	<ul style="list-style-type: none"> <li>Revised wage from 21 November</li> <li>Enhanced definition of family</li> <li>Enhanced coverage.</li> </ul>	<ul style="list-style-type: none"> <li>Revised wage from 21 November</li> <li>Pro-rata gratuity to for FTE employees on termination after one year</li> <li>Impact on provisioning and actuarial valuations</li> </ul>	<ul style="list-style-type: none"> <li>Revised wage from 21 November</li> <li>Applicable only to workers</li> <li>Casual leave limited to 30 days</li> <li>Balance – annual encashment</li> <li>Potential Impact on provisioning?</li> </ul>	<ul style="list-style-type: none"> <li>Two time the revised wage</li> <li>8 hours a day / 6 days a week.</li> <li>144 hours per quarter</li> <li>Period of work each day, including intervals and spread overs, to be notified</li> </ul>	<ul style="list-style-type: none"> <li>Revised wage</li> <li>Crèche allowance in specific cases</li> </ul>

Can I continue to contribute only on 15,000?

Can I apply the current INR 21000 wage ceiling?

FAQ clarifies  
- new wage definition effective 21 November  
- 20 lakh limit applies

FAQ clarifies new wage definition effective 21 November

Is this applicable to every employee?

Will the revised wage definition lower the salary base for contribution?

# Employee vs worker – one framework, two definitions!

## Employee

Covers any person (other than an apprentice engaged under the Apprentices Act, 1961), employed on wages by an establishment to do any skilled, semi-skilled or unskilled, manual, operational, supervisory, managerial, administrative, technical or clerical work for hire or reward, whether the terms of employment be express or implied.

**Covers all irrespective of role/level/nature of duties/salary.**

## Worker

Covers any person (except an apprentice under the Apprentices Act, 1961) employed in any industry to do any manual, unskilled, skilled, technical, operational, clerical or supervisory work, but does not include any person:

- who is employed mainly in a **managerial or administrative capacity**; or
- who is employed in a **supervisory capacity** drawing wage of exceeding **INR15,000 (under code on wages) / 18,000 (under code on Occupational Safety, Health and Working Conditions)** per month or an amount as may be notified by the Central Government from time to time.

Areas of  
Concern

Who all comes under the purview of supervisory capacity?

Who will come under the managerial or administrative capacity?



# Am I an employee or worker?

A person in a managerial capacity responsible for controlling or administering an organisation or a group of staff?

Employee

A person in an administrative capacity working in relation to management of a company? -

Employee

A supervisor in an establishment drawing monthly salary of INR12,000 and has authority over a worker? Will the answer change if salary is INR 22,000?

Earlier – Worker  
Now – Employee

A highly qualified executive / single contributor technical person with no one reporting to him drawing a salary of one crore annually ?

??

I have many interns in my organisation. Are they all workers?

??

# Contract workforce

- Key terms defined
- Contract labour in core activities
- Liability of principal employer



# Contract workforce – key terms defined

## Contract labour

**Workers** employed through a contractor

### Exclusions:

- **Regularly employed\*** by the contractor for the activity of his establishment; and
- employment is governed by **mutually accepted standards of the conditions** of employment; and gets periodical increment in the pay, social security coverage and other welfare benefits.

*\*Rule 175 - Annual increment of not less than 2 per cent of wages to be given to workers regularly employed by the contractor (so as to be excluded).*

## Contractor

A person who undertakes to produce a given result for the establishment,

other than a mere supply of goods/articles of manufacture to such establishment through contract labour;

Or

Provides contract labour for any work of the **establishment as mere human resource.**

# How do I identify contract labour

Contractor does not hire specifically for my company? They are **contractor's permanent employees.**

Contract labour?

We hire approx. 30-40 contract labour from **seven to eight contractors each?**

Does OSH code apply to me?

If the **agreement is between company to company for manpower supply** – does the individual working for me qualify?

Contract labour ?

If the **agreement is between company to company for supply of services** - does the individual working at my premises qualify?

Contract labour ?

# Contract labour in core activities



## Law

Contract labour not permitted in core activities of an establishment

Core activities are tasks essential to the establishment's primary purpose

Except in specific circumstances.



## Exceptions

**Excluding** support services such as

sanitation, security, catering, loading/unloading, maintenance, gardening, housekeeping, transport, and other intermittent activities.



## Exceptions

Exceptions allowing contract labour in core activities include:

- Activities normally performed through contractors.
- Tasks that do not require full-time workers for most working hours
- Sudden workload increases requiring completion within a set timeframe.

# Illustration - core vs non-core activities

Industry	Probable core activities??	Illustrative exclusions
Manufacturing	Production Assembly Quality check Raw material procurement Any other identified ?	Canteen Office maintenance Sanitation Security
Service-for e.g. Information Technology	Software development Coding Product design Any other identified?	

*On question on determination of core activity aggrieved party may apply to the Joint Secretary*

# Our publications

## Accounting and Auditing Update



Scan the QR to download



## First Notes



Scan the QR to download



## Voices on Reporting – Webinar



Scan the QR to download



## Coming up next

New issue of:

- Accounting and Auditing Update
- First Notes
- Voices on Reporting - Webinar

Download from [kpmg.com/in](https://kpmg.com/in)

# Thank you!

Feedback/queries can be sent to: [aaupdate@kpmg.com](mailto:aaupdate@kpmg.com)

[kpmg.com/in/en/home/social](https://kpmg.com/in/en/home/social)



The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

KPMG Assurance & Consulting Services LLP, Lodha Excelus, Apollo Mills Compound, NM Joshi Marg, Mahalaxmi, Mumbai - 400 011 Phone: +91 22 3989 6000, Fax: +91 22 3983 6000

© 2026 KPMG Assurance & Consulting Services LLP, an Indian limited liability company and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization.

This document is for e-communication only.