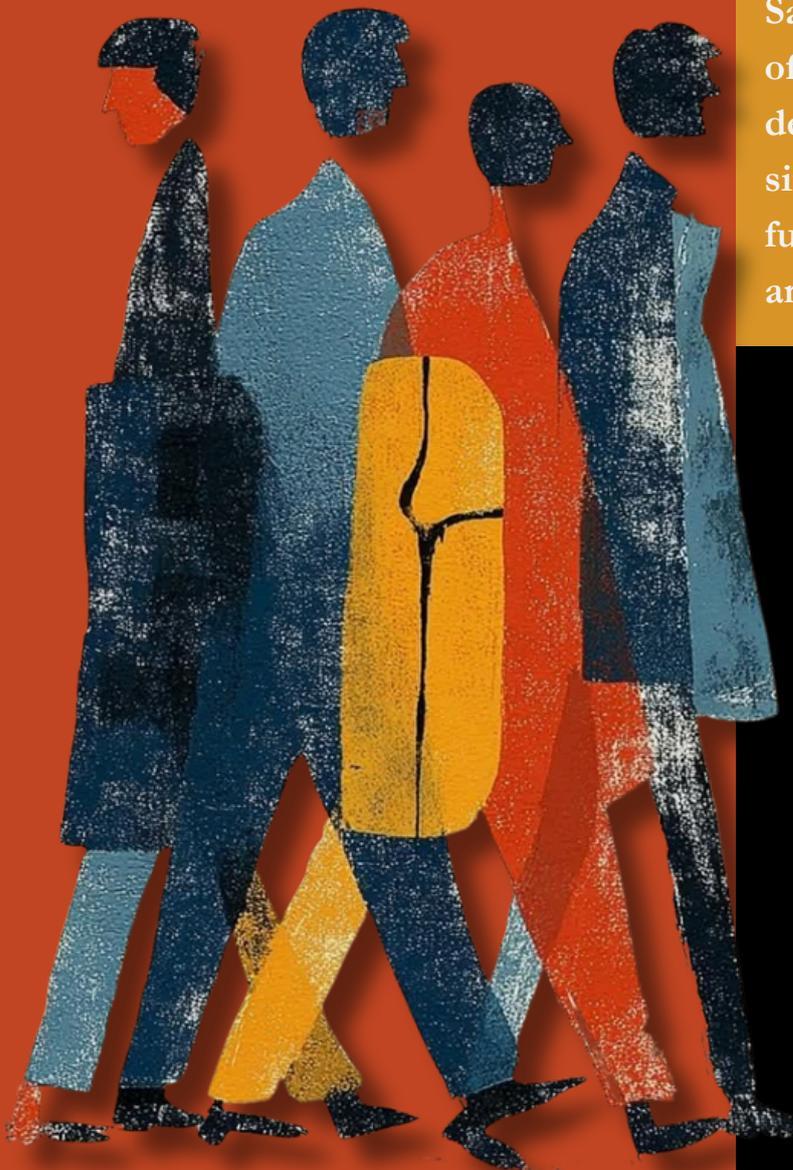


LAW CRUMBS

WAGE VS. REMUNERATION

One Nation, One Wage



For decades, India's labor landscape was a labyrinth of 29 labour laws, each with its own conflicting definition of wages. An employee's salary could be interpreted one way for Provident Fund, another for Gratuity, and a third for overtime.

The implementation of the Four New Labor Codes (Wages, Social Security, Industrial Relations, and Occupational Safety) marks a paradigm shift. At the core of this transformation is the unified definition of Wages. By streamlining this single variable, the government has fundamentally altered the financial architecture of the Indian workplace.

THE 50% RULE

The most significant change is the mandate that Wages must comprise at least 50% of an employee's total remuneration. The Problem of the Allowance Heavy Pay Slip Historically, many employers optimized their CTC (Cost to Company) by keeping the Basic Wage low (often 20 to 30%) and inflating excluded allowances like HRA, travel, and special allowances. This strategy minimized the employer's liability for statutory contributions.

UNIVERSALIZING THE RIGHT TO FAIR PAY

The One Nation, One Wage logic extends beyond corporate offices to the very edges of the Indian economy.

The National Floor Wage

The Central Government will now set a National Floor Wage. State governments can set their own minimum wages, but they cannot fall below this floor. This prevents a race to the bottom where states compete for investment by suppressing labor costs.

Universal Coverage

Previously, minimum wage protections applied only to scheduled employments. The new code removes this restriction, extending the right to a minimum wage to all 50 crore workers in India, including those in the unorganized sector and the burgeoning gig economy.

OPERATIONAL AGILITY

The 48 Hour Settlement

The Code on Wages introduces a rigorous timeline for worker exits. If an employee is removed, dismissed, or resigns, the employer is now legally mandated to pay all due wages within two working days. This requires a total overhaul of traditional payroll systems, moving away from monthly Full and Final cycles toward real time, agile financial processing.

THE NEW REALITY

- **The Inclusion Limit:** If the sum of all excluded allowances exceeds 50% of the total remuneration, the excess amount is automatically added back to the Wage base.
- **Higher Social Security:** Because PF, Gratuity, and Leave Encashment are calculated as a percentage of Wages, this change significantly increases the employer's contribution to retirement benefits.
- **Take Home vs. Retirement:** While employees may see a slight dip in their monthly take home pay due to higher PF deductions, their long term social security corpus will grow substantially.



INCLUSIVITY AND MODERNIZATION

The Gig Economy

For the first time, Gig and Platform workers are recognized. Aggregators (like food delivery and ride hailing apps) are now required to contribute 1 to 2% of their annual turnover toward a Social Security Fund.

Gender Neutrality

The codes prohibit gender discrimination in wages for the same work or work of a similar nature, and offer more flexibility for women to work night shifts, provided safety protocols are met.

THE IMPACT ON M&A AND BUSINESS VALUATION

- **Hidden Liabilities:** Investors are now conducting deep dive audits of target companies' salary structures. A company with an allowance heavy payroll faces a massive true up liability once the codes are fully enforced.
- **EBITDA Sensitivity:** Higher statutory contributions directly impact a company's EBITDA. Valuation models must now account for the increased cost of labor overheads under the new wage definition.
- **Gratuity Adjustments:** With the introduction of Fixed Term Employment (FTE), workers are entitled to pro rata gratuity even after just one year of service. This creates immediate balance sheet provisions that did not exist under the old five year rule.

