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Gratuity under India's
New Labour Codes

November 2025

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What the November 2025 Notification Quietly Changed for Every Employer

India's new Labour Codes, effective 21 November 2025, represent the most significant transformation of wage and payroll governance in decades. Through the Code on Wages, 2019 and the Code on Social Security, 2020, the government has sought to standardise wage structures, strengthen statutory protection for employees, and bring uniformity across states.

One of the most consequential, yet least understood changes is the redefinition of "wages" for all statutory benefits. By mandating that wages must constitute at least 50% of total remuneration, the Codes have fundamentally altered the financial architecture of benefits such as gratuity.

As part of our continued commitment to supporting organisations through this transition, this insight note explains what the November 2025 notification has changed, how it impacts employer balance sheets, and what organisations must do to remain compliant, audit-defensible and financially prepared.

The shift most companies have not fully priced in

While eligibility and the gratuity formula remain unchanged, the base on which gratuity is computed has been permanently reset. Even if an employee's total CTC remains the same, statutory wages may need to increase to satisfy the 50% rule.

Since gratuity is calculated on wages, this automatically increases the employer's long-term obligation. This is not a future cost. It is an immediate revaluation of liabilities arising from service already rendered.

Why is this not a payroll issue

Gratuity is a defined benefit plan under AS 15 and Ind AS 19. When legislation alters the wage base used in the benefit formula, accounting standards classify it as a plan amendment.

Because it applies to past service, the impact becomes past service cost. The Labour Code has not merely changed future payroll. It has repriced past obligations already sitting on the balance sheet.

The most critical distinction: Measurement vs Recognition

This is where many organisations go wrong. Measurement – how the liability is calculated.

The increase in gratuity liability must be actuarially measured, taking into account:

- Probability of employees completing five years
- Attrition before and after vesting
- Mortality, Expected retirement age
- Discount rate and present value, Salary progression

Not all employees exit after five years. Some leave earlier; others stay far longer. Only actuarial models reflect this reality.

Recognition – how the impact hits the P&L

Once measured, accounting standards dictate how it is booked:

Standard	Recognition of past service cost
Ind AS 19	The entire amount is recognised immediately in P&L
AS 15	Vested portion recognised immediately; unvested portion amortised over the remaining vesting period

This creates material timing differences between companies reporting under different standards.

Why payroll numbers cannot be used for accounting

Payroll calculations assume everyone stays:

Payroll-based view	Actuarial view
Assumes fixed service periods	Models' real employee behaviour
Ignores attrition and mortality	Uses survival probabilities
Suitable for cost simulation	Mandatory for audit and financial reporting
Overstates or misstates liability	Produces true present-value obligation

Accounting standards are known to most people, but not all. That is why auditors insist on actuarial valuation.

What this looks like in practice

Consider two employees affected by wage realignment:

Scenario	Employee A	Employee B
Join date	2022	2018
Service today	3 years	7 years
Wage before	₹30,000	₹40,000
Wage after	₹50,000	₹60,000
Increase in gratuity (illustrative)	₹34,615	₹80,769
Service period for vesting	2	Completed
Deferment of the Expense	17,308	80,769
Accounting standard	AS 15	Ind AS 19

Although both experience higher gratuity, the accounting impact differs:

- **Employee A** (not yet vested) → impact is deferred and amortised under AS 15
- **Employee B** (vested) → entire increase hits P&L immediately under Ind AS 19

These are not payroll numbers — they are balance-sheet and earnings movements.

Why boards and CFOs should pay attention

For organisations with long-tenured workforces — common in IT services, manufacturing, BFSI, pharma and GCCs — wage realignment can increase gratuity obligations by 15–30% or more.

Because this increase is treated as past service cost, much of it flows through current-year profits and net worth, not gradually over time. This has implications for Earnings, Valuations, Debt covenants, Auditor scrutiny, Regulatory exposure.

What a compliant organisation should do now

A defensible response has four steps:

1. Identify exposure
Map employees whose statutory wages fall below 50%.

2. Re-measure actuarially
- Obtain old Defined Benefit Obligation(DBO), Revised DBO
- Obtain the past service cost split into vested and unvested

3. Apply accounting standards
Recognise the impact under AS 15 or Ind AS 19.

4. Align payroll, actuarial and financials
All three must reconcile.

The real takeaway

The November 2025 Labour Code has turned gratuity from a background benefit into a board-level financial variable.

Handled well, it ensures Compliance, Predictability, Audit confidence. Handled casually, it creates Profit volatility, Qualification risk, Regulatory exposure.

Gratuity is no longer just an HR benefit. It is now a strategic financial liability that must be actively managed.

This note is based on the Code on Wages, 2019, the Code on Social Security, 2020, and prevailing AS 15 / Ind AS 19 standards. Actual outcomes depend on workforce demographics, actuarial assumptions and state-specific rules.