IT employees feel the squeeze as firms redraw salary structures under labour-code shift

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Compensation experts, staffing firms, and labour lawyers told Moneycontrol that the changes are not isolated to TCS and reflect a broader shift underway across India's IT and corporate sector as firms prepare for implementation of the new labour codes.

Representative image

- IT firms tweak pay amid new labour codes, rising costs
- Net pay falls even as annual CTC stays same or increases
- Pay cycles, deductions affect take-home salary

A growing number of IT employees are discovering that annual appraisals are no longer translating into meaningful increases in monthly take-home pay, as companies across the sector quietly redraw compensation structures to align with India's new labour-code regime while tightening costs amid a prolonged slowdown.

The trigger came after employees at Tata Consultancy Services (TCS) flagged a series of changes in their latest compensation letters, including sharply lower hikes for lower performance bands, restructuring of allowances, changes in variable-pay cycles, and removal of gratuity from displayed CTC structures.

Several employees claimed their in-hand salaries had either barely increased or, in some cases, fallen despite receiving appraisal letters.

But industry executives, compensation experts, staffing firms and labour lawyers told *Moneycontrol* that the changes are not isolated to TCS and reflect a broader shift underway across India's IT and corporate sector as firms prepare for implementation of the new labour codes.

"All organisations in the IT services have already implemented or are in the process of implementing compliance-ready comp structures to align with labour codes," said HR consulting services firm Mercer India's Senior Director Compensation Aravind Srinivasaraghavan.

The shift is being driven largely by the Code on Wages, which requires wages to constitute at least 50 percent of total remuneration, forcing firms to revisit salary structures that historically relied heavily on allowances and flexible pay components.

Higher basic pay, lower cash in hand

Experts said one of the most immediate effects of the restructuring is a rise in statutory-linked components such as provident fund and gratuity calculations, which can reduce monthly take-home salary even if annual compensation remains unchanged.

"This will purely depend on how organizations restructure their employees' salaries," said Neeti Sharma, CEO of staffing firm TeamLease Services Digital.

"Even when annual CTC stays the same or rises, higher PF contributions, deferred variable pay cycles, and changes in gratuity presentation can reduce monthly in-hand salary," Sharma said.

According to TeamLease Digital, nearly 28 percent of companies are moving toward quarterly variable payout cycles, while 45-50 percent are adopting skill-based pay models.

Variable pay now accounts for an average 16.1% of fixed compensation.

The trend is becoming particularly visible in IT services, where salary hikes remain under pressure amid weak global demand and mounting AI-led productivity shifts.

According to HR consulting and outsourcing firm Aon India, salary increases in technology consulting and services are projected at 6.6 percent in 2026, among the lowest across industries.

"What employees are experiencing is the combined effect of two simultaneous changes — moderate fixed pay hikes in a subdued demand environment, and a restructuring of how variable pay is disbursed," said Pranav Mahajan, Director, Talent Solutions at Aon India.

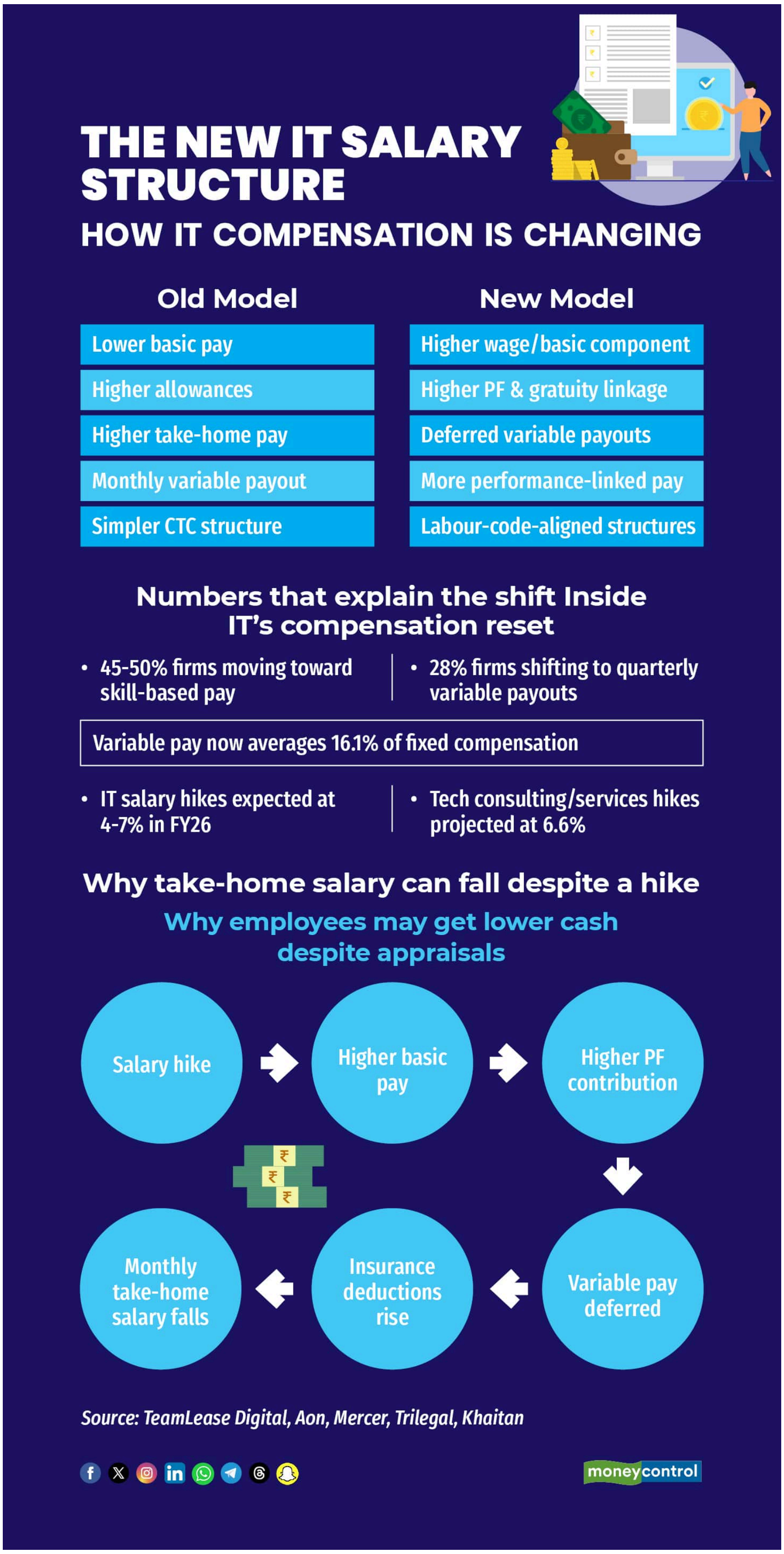
Salaries get reallocated as retirals

R Swaminathan, former CHRO of BPM firm WNS and founder of CompIQ AI Ventures, believes the government is trying to bring in stability for the growing aging population by increasing the retirals. The money is just moving from the "left pockets to the right pockets."

As per the new wage definition, there are five key components of salary structure: provident fund, statutory bonus, Employee’s State Insurance (ESIC), gratuity and the base salary. Now that the base salary was increased to 50 percent of remuneration, the rest of the components will have to be adjusted within the remaining 50 percent.

"For instance, you had a base salary of Rs 50,000, you are paying 12 percent as PF. Now that base has been increased to Rs. 70,000, on that you also end up paying more PF. That reduces the take home salary of the employees. With base pay increase, gratuity has also increased and the money is still going in the employee’s name," Swaminathan told *Moneycontrol.*

He added that with a lot of employees now mandatorily getting covered under ESIC, which was not the case earlier, this adds to another pay component for the company.



New Salary Structure

CTC structures undergo redesign

Another major source of employee confusion is the redesign of displayed CTC structures.

Across firms, components such as gratuity, HRA, personal allowance and special allowance are increasingly being recalibrated or reclassified to fit the new wage definitions under labour laws.

“In some cases, gratuity has been removed from displayed CTC altogether; allowances like HRA and personal allowance are being recalibrated,” Mahajan said. “The result is a CTC that looks structurally different on paper — higher basic pay, higher statutory deductions, and sometimes a lower visible annual number.”

Mercer said organisations are “fine-tuning” compensation structures to optimise costs while staying compliant with wage codes.

Legal experts said companies are attempting to steer the new framework carefully while avoiding a sharp increase in wage-linked liabilities.

“The Labour Codes themselves do not mandate salary restructuring,” said Anshul Prakash, Partner at Khaitan & Co.

“However, restructuring considerations arise where the ‘wages’ component exceeds 50 percent of total remuneration, since this could increase employer liability towards gratuity, retrenchment compensation and social security contributions,” Prakash said.

Atul Gupta, partner at Trilegal, said most organisations are already actively working towards compliance as the labour codes and associated rules gradually move towards implementation.

Employees feel appraisal season pain

The restructuring comes at a time when India’s IT sector is already seeing muted salary hikes after nearly two years of weak discretionary tech spending from global clients.

Employees across several firms have increasingly complained online about minimal hikes despite strong ratings, lower visible CTC, rising deductions, and declining monthly cash flow, among others.

The pressure appears sharper for mid- and lower-rated employees, while companies simultaneously increase differentiation for top performers and AI-linked skill sets.

According to Aon, top performers are receiving bonus payouts and merit increases that are 1.6x to 1.8x higher than average performers.

Industry experts said the overall direction of compensation is becoming more performance-linked, skill-driven and compliance-oriented, even if employees perceive the changes as hidden salary cuts.

“The outcome is a compensation structure that is more performance-linked, variable, and increasingly complex to compare at face value,” Sharma added.

Educating employees on new CTC

Ultimately, the IT companies have to explain these changes and the new structures to the respective employees.

"TCS has just released its increments, but to reach nearly 600,000 employees with proper explanation of the CTC structure will take some time. The Labour Codes came with a tight deadline and it was implemented retrospectively," said Swaminathan.

"One thing is clear, no company is trying to cheat any employee. IT companies on average spend 60 percent of their budget on its employees," he added.

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