

Circular No -101 / 2025

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To
All Members of The Association

Compliance on Definition of "Wages" under the Code on Social Security, 2020 and SPREE 2025 - Advisory from ESIC

The Employees' State Insurance Corporation (ESIC), Ministry of Labour & Employment, Government of India, has issued an advisory highlighting two important compliance requirements relating to (i) the harmonized definition of "Wages" under the Code on Social Security, 2020 and (ii) the one-time registration window under SPREE 2025 (Scheme for Promotion of Registration of Employers and Employees).

1. Definition of "Wages" – Social Security Code, 2020

As per Section 2(88), "Wages" include:

- Basic Pay
- Dearness Allowance
- Retaining Allowance

Exclusions (HRA, Conveyance, Overtime, Commission, Bonus, Employer PF contribution, Gratuity, amenities, etc.) are allowed only up to 50% of Total Remuneration.

If exclusions exceed 50%, the excess must be added back for ESI calculation.



2. SPREE 2025 – One-Time Registration Window

ESIC has launched SPREE 2025 (1 July – 31 December 2025) to promote registration of employers and employees.

Key Benefits:

- No demand of past dues for the pre-registration period
- Immunity from inspections and penal actions
- Online, simplified registration via ESIC/Shram Suvidha Portal

3. Key Action Points

- A. Ensure adoption of the new “Wages” definition for accurate monthly ESI calculations.
- B. Register any unregistered establishments or unregistered eligible employees under SPREE 2025 before **31 December 2025**.
- C. Review salary structures to ensure compliance with the 50% rule.
- D. Refer to the examples provided in the ESIC document for clarity on wage calculations.

For any clarification, members may contact the nearest ESIC Branch/Regional Office.

A copy of the ESIC Advisory, along with calculation examples, is enclosed.

For KARNATAKA EMPLOYERS' ASSOCIATION

**Sd/
[B C Prabhakar]
President**

Dear Valued Employer,

The Employees' State Insurance Corporation (ESIC), operating under the Ministry of Labour & Employment, Government of India, is committed to expanding social security coverage to every eligible worker across the nation. In light of recent legislative reforms and special initiatives, we wish to highlight two immediate and essential compliance requirements.

In this regard, your kind attention is solicited towards Chapter I Section 2(88) of Code on Social Security, 2020. The same has been briefly described below for kind information:

Harmonization of "Wages" under the Code on Social Security, 2020

What is Included in "Wages":

Basic pay, Dearness allowance (DA) & Retaining allowance, if any

Conditional inclusions (the 50% rule): If certain excluded payments exceed one-half (50%) of the total remuneration, the excess amount is "deemed as remuneration" and is added back into the definition of "wages" for social security calculations.

What is Excluded from "Wages":

The following components are excluded from the definition, provided they do not exceed the 50% cap of the total remuneration:

House Rent Allowance (HRA), Conveyance allowance or the value of any traveling concession, Overtime allowance, Any commission, Any bonus payable under any law not forming part of the employment terms, Employer's contribution to any pension or provident fund, Gratuity payable on employment termination, Value of house accommodation, light, water, medical attendance, or other amenities/services & Any sum paid to the employee for special expenses incurred due to the nature of employment

2. SPREE 2025 (Scheme for Promotion of Registration of Employers and Employees)

To facilitate universal social protection and encourage voluntary compliance, ESIC launched a special one-time opportunity: **SPREE 2025**. SPREE (Scheme to Promote Registration of Employers/Employees) is a special initiative by the Employees' State Insurance Corporation (ESIC), offering a one-time window from **1st July to 31st December 2025** for employers to register their

factory/establishments and all eligible employees without any demand of dues for the past period.

Key benefits of registering under SPREE 2025:

- **Immunity from Penal Action:** Employers who register under SPREE are granted immunity from inspections, punitive actions, and demands for past dues or penalties for the period prior to registration.
- **Hassle-Free Registration:** The process is hassle-free and digital via the [Shram Suvidha portal](#), [ESIC portal](#), or MCA portal.
- **Ensuring Employee Welfare:** Registration provides employees and their families immediate access to comprehensive medical care, sickness benefits, maternity benefits, and disablement compensation.

The window for this one-time opportunity is closing rapidly.

The last date for availing the benefits of the SPREE 2025 scheme is **December 31, 2025**. After this date, normal enforcement provisions under the ESI Act, including retrospective coverage and penalties, will apply to non-compliant establishments.

We urge all eligible employers to act promptly:

- A. Register any unregistered establishments/employees** before December 31, 2025, through the official [ESIC Portal](#) or the Shram Suvidha Portal.
- B. Ensure compliance with the new "wage" definition** to correctly calculate and deposit monthly ESI contributions moving forward.

For assistance or clarification, please contact your nearest ESIC Branch/Regional Office.

Your proactive cooperation ensures social security protection for the workforce and helps build a stronger, compliant labour ecosystem in India.

Sincerely,
Employees' State Insurance Corporation (ESIC)
Regional Office, Binnypet,
Bengaluru.

Calculation Examples

(TR=Total Remuneration)

ESI is currently calculated at a rate of **0.75%** of wages for employees and **3.25%** for employers, for eligible employees earning a monthly wage of up to ₹21,000 (or ₹25,000 for persons with disabilities).

Example 1: Compliant Salary Structure (No add-back required)

An employee, Mr. A, has a total monthly remuneration of ₹20,000, which is below the ₹21,000 threshold.

Salary Component	Amount	Included/Excluded for Wages
Basic Pay + DA	₹12,000	Included (60% of TR)
Allowances (HRA, Conveyance, etc.)	₹8,000	Excluded (40% of TR)
Total Remuneration (CTC)	₹20,000	
<i>50% of TR limit for exclusions</i>	<i>₹10,000</i>	
<i>Actual Exclusions</i>	<i>₹8,000</i>	

In this case, the actual exclusions (₹8,000) are less than the 50% limit (₹10,000). The ESI "wages" for calculation are the actual included components:

- **Total ESI Wages:** ₹12,000 (Basic + DA)
- **Employee ESI Contribution:** 0.75% of ₹12,000 = ₹90
- **Employer ESI Contribution:** 3.25% of ₹12,000 = ₹390
- **Total ESI Contribution:** ₹480

Example 2: Non-Compliant Salary Structure (Add-back required)

An employee, Ms. B, has a total monthly remuneration (TR) of ₹20,000. Her salary is structured differently.

Salary Component	Amount	Included/Excluded for Wages
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Basic Pay + DA	₹8,000	Included (40% of TR)
Allowances (HRA, Conveyance, etc.)	₹12,000	Excluded (60% of TR)
Total Remuneration (TR)	₹20,000	
<i>50% of TR limit for exclusions</i>	<i>₹10,000</i>	
<i>Excess Exclusions</i>	<i>₹12,000 - ₹10,000</i> <i>= ₹2,000</i>	

Here, the actual exclusions (₹12,000) exceed the 50% limit (₹10,000) by ₹2,000. This excess amount must be added back to the "wages":

- **Total ESI Wages:** ₹8,000 (Basic + DA) + ₹2,000 (Excess Add-back) = ₹10,000
- **Employee ESI Contribution:** 0.75% of ₹10,000 = ₹75
- **Employer ESI Contribution:** 3.25% of ₹10,000 = ₹325
- **Total ESI Contribution:** ₹400

The Social Security Code, 2020 aims to standardize the wage base to ensure fair and consistent calculation of social security benefits, including ESI.

Example 3: High Allowances, within ESI Limit

Ms. C earns a total monthly remuneration (TR) of **₹20,000**. Her structure has high allowances.

Salary Component	Amount (₹)	Status (for calculation)
Basic Pay + DA	₹9,000	Included
Allowances (HRA, Conveyance, etc.)	₹11,000	Excluded components
Total Remuneration (TR)	₹20,000	

50% of TR limit for exclusions ₹10,000

Excess Exclusions (added back to wages) ₹11,000 (actual) - ₹10,000 (limit) = ₹1,000

- **Total ESI Wages:** ₹9,000 (Basic + DA) + ₹1,000 (Add-back) = ₹10,000
- **Employee ESI Contribution:** 0.75% of ₹10,000 = ₹75
- **Employer ESI Contribution:** 3.25% of ₹10,000 = ₹325

Key Takeaway

Even though her actual Basic Pay is low, the 50% rule ensures her statutory ESI wage base is higher, leading to increased contributions compared to the pre-Code era.

Example 4: Compliant Structure, Wages Under Limit

Mr. Anand has a total monthly remuneration (TR) of ₹20,000.

Salary Component	Amount (₹)	Status
Basic Pay	₹10,000	Included in ESI Wages
Dearness Allowance (DA)	₹2,000	Included in ESI Wages
House Rent Allowance (HRA)	₹4,000	Excluded for 50% test
Conveyance Allowance	₹1,000	Excluded for 50% test
Special Allowance	₹3,000	Excluded for 50% test
Total Remuneration (TR)	₹20,000	

Calculation Steps:

1. **Calculate Total Excludable Allowances:**
HRA + Conveyance + Special Allowance = ₹4,000 + ₹1,000 + ₹3,000 = ₹8,000
2. **Calculate 50% of Total TR:**
50% of ₹20,000 = ₹10,000

3. Check for Excess Exclusions:

Actual Exclusions (₹8,000) are less than the 50% limit (₹10,000). Therefore, there is **no add-back** to wages.

4. Determine ESI Wages:

Total Remuneration - Actual Exclusions = ₹20,000 - ₹8,000 = **₹12,000** (or Basic + DA)

5. Calculate ESI Contributions:

- Employee Share:** 0.75% of ₹12,000 = **₹90**
- Employer Share:** 3.25% of ₹12,000 = **₹390**
- Total ESI Deposit:** ₹90 + ₹390 = **₹480**

Example 6: Non-Compliant Structure, Wages Under Limit, Add-back Required

Ms. Banu has a total monthly remuneration (CTC) of **₹20,000**. Her structure is heavily allowance-based.

Salary Component	Amount (₹)	Status
Basic Pay + DA	₹7,000	Included in ESI Wages
Allowances (HRA, Conveyance, Special, etc.)	₹13,000	Excluded components for 50% test
Total Remuneration (TR)	₹20,000	

Calculation Steps:

1. Calculate Total Excludable Allowances:

₹13,000

2. Calculate 50% of Total TR:

50% of ₹20,000 = **₹10,000**

3. Check for Excess Exclusions:

Actual Exclusions (₹13,000) are **greater than** the 50% limit (₹10,000). The excess amount is **₹3,000** (₹13,000 - ₹10,000).

4. Determine ESI Wages (with add-back):

Total Remuneration - Allowable Exclusions = ₹20,000 - ₹10,000 = **₹10,000**

Alternatively: (Basic + DA) + Excess Add-back = ₹7,000 + ₹3,000 = **₹10,000**

5. Calculate ESI Contributions:

1. **Employee Share:** 0.75% of ₹10,000 = **₹75**

2. **Employer Share:** 3.25% of ₹10,000 = **₹325**

3. **Total ESI Deposit:** ₹75 + ₹325 = **₹400**