India Hiring Cost & Compliance Checklist 2026

What every foreign company must budget for and file before hiring an employee in India — with the exact statutory rates in force under the four Labour Codes (effective 21 November 2025).

Prepared by the TMS compliance team · 450+ clients from 50+ countries · zero statutory penalties or disputes. Figures use standard national rates verified 3 July 2026; state-specific amounts are confirmed in your quote.

1. Cost-of-employment checklist

Beyond gross salary, an Indian employer carries these statutory and accrual costs. Rates below apply on the standard structure (basic wages set at 50% of gross per the Labour Codes).

Component	Who pays	Rate / basis (2026)
Employer Provident Fund (EPF)	Employer	12% of basic wages (basic = 50% of gross)
EPF administration charge	Employer	0.50% of PF wages (min ■500/month per establishment)
EDLI (life insurance)	Employer	0.50% of PF wages, capped at ■15,000 (max ■75/employee)
Employees' State Insurance (ESI)	Employer	3.25% of gross — only where gross < ■21,000/month
ESI — employee share	Employee	0.75% (deducted from salary; NOT an employer cost)
Gratuity accrual	Employer	4.81% of basic (payable only after ~5 yrs — accrue, don't pre-bill)
Professional Tax (PT)	Employer remits	State-set; max ■2,500/yr (Art. 276). Nil in several states
Labour Welfare Fund (LWF)	Both	State-set nominal amount (tens of ■/period)

Fully-loaded cost — rule of thumb

✓ Budget total employer cost at roughly **gross salary × 1.10 to 1.25**, before any cost of setting up and running an Indian entity.
✓ The loading is **lower** for higher salaries (ESI drops off above ■21,000/month; PT/LWF are flat nominal amounts) and **higher** for lower salaries.
✓ **Excluded from the rule of thumb** (price separately): statutory bonus, leave encashment, variable pay/incentives, one-time recruitment. Employee-side deductions (their PF/ESI share, TDS) reduce take-home, not your cost.
✓ Through an Employer of Record the entity cost disappears entirely — **TMS charges a flat USD 300/employee/month, all-inclusive**, and go-live drops from months to **24–48 hours**.

Worked example — ■1,00,000/month gross, Maharashtra, one employee

Gross salary	■1,00,000
Employer PF (12% of basic ■50,000)	■6,000
EPF admin + EDLI	■325
ESI (gross ≥ ■21,000 — not applicable)	■0
Professional tax (Maharashtra)	■200
Labour welfare fund	~■25
Statutory sub-total above gross	~■6,550 (≈ 6.5%)

Gratuity accrual of ■2,405/month (4.81% of basic) is provisioned but payable only if/when due. Add TMS's flat EOR fee (USD 300) in place of any entity, payroll or compliance overhead.

Professional Tax & LWF vary by state — common hiring states

State	Professional Tax (top slab)	LWF (employer, per period)
Maharashtra	■200/mo (■300 in Feb)	■36 half-yearly
Karnataka	■200/mo (■300 in Feb)	■100 annual
Tamil Nadu	up to ~■208/mo (half-yearly)	■40 annual
Telangana / Andhra Pradesh	■200/mo	■5–■70 annual
West Bengal	up to ■200/mo	■30 half-yearly
Gujarat	■200/mo (gross ≥ ■12,000)	■12 half-yearly
Kerala	up to ~■208/mo (half-yearly)	■50 monthly
Delhi / UP / Haryana / Punjab / Rajasthan	No Professional Tax	Delhi nominal; Rajasthan none
Odisha	PT abolished from 1 Apr 2026	■40 half-yearly

Exact figures for your state are confirmed in your TMS quote. Source: state statutory schedules, verified 3 July 2026.

2. Compliance checklist

Registrations to hold and returns to file on time. Missing a monthly deadline triggers interest, damages and penalties — the risk an EOR carries for you.

Registrations

- ✓ **EPF** registration (mandatory at 20+ employees; voluntary below).
- ✓ **ESI** registration (where employees earn under ■21,000/month gross).
- ✓ **Professional Tax** registration — employer (PTEC) and employee (PTRC) — in each applicable state.
- ✓ **Labour Welfare Fund** enrolment in each applicable state.
- ✓ **Gratuity** — provision from day one; register/insure the scheme as required.
- ✓ **Shops & Establishments** registration for each state of operation.
- ✓ **TAN** for TDS on salaries; PAN of establishment; GST if applicable.

Monthly & recurring deadlines

Filing / payment	Due date
TDS deposit on salaries	7th of the following month
Provident Fund (PF/EPF) payment & ECR return	15th of the following month
ESI contribution payment	15th of the following month
Professional Tax remittance	State-set (monthly / half-yearly)
Labour Welfare Fund	State-set (monthly / half-yearly / annual)
TDS returns (Form 24Q)	Quarterly; Form 16 to employees by 15 Jun

The four Labour Codes — essentials in force since 21 Nov 2025

- ✓ **Written appointment letter is mandatory** for every employee — non-negotiable.
- ✓ **Wages (basic) must be at least 50% of total pay** — raises the PF and gratuity base; allowance-heavy structures now cost more.
- ✓ Codes consolidate 29 laws into four: **Wages**, **Social Security**, **Industrial Relations**, and **OSH**.
- ✓ Timely full-and-final settlement, defined working hours/leave, and POSH compliance apply from the first employee.

3. Hiring-route decision checklist

Three ways a foreign company can engage talent in India. Pick the route before you make an offer — it determines cost, speed and risk.

	Own Indian entity	Independent contractor	EOR (e.g. TMS)
Time to first hire	4–6 months	Days	24–48 hours
Upfront setup	Incorporation, GST, PF/ESI, bank	None	None
Ongoing burden	In-house payroll, filings, audits	You self-manage invoices	Bundled in fee
Compliance risk	Entirely on you	High — mis-classification & PE exposure	Carried by the EOR
Benefits / statutory	You administer	None (contractor)	Full, compliant
Best when	20+ long-term headcount, permanent base	Short, genuinely independent projects	Testing market, <20 HC, speed-critical

Warning on contractors: routinely engaging an individual full-time as a contractor risks re-classification as an employee and permanent-establishment (PE) tax exposure for the foreign company. When in doubt, use an EOR.

4. How TMS handles all of this

✓ Compliant employment contracts and mandatory appointment letters, issued for you.
✓ Onboarding in **24–48 hours**; payroll, PF, ESI, PT, LWF and TDS filed on every deadline.
✓ Correct salary structuring under the Labour Codes (basic ≥ 50%), HRMS, and employee support via a dedicated HR pod plus a named Partner.
✓ Permanent-establishment (PE) risk guidance and compliant exits — no setup fees, deposits, FX mark-ups or exit fees.
✓ **Flat USD 300 per employee per month, all-inclusive.** 450+ clients from 50+ countries; zero statutory penalties or disputes.

Get a costed EOR quote — binding cost sheet within one business day.

Book a free discovery call · **+91-22-4896-7640** · tmservices.co.in

This checklist is a genuine TMS reference at our standard rate. Statutory figures use standard national rates verified 3 July 2026; state specifics and your final costing are confirmed in your quote. Source: TMS India Hiring Cost & Compliance Checklist 2026, tmservices.co.in.