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Tax Flash News

20 August 2025

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Government of India issues guidelines on Employment Linked Incentive Scheme

Background

The Union Cabinet had issued a press release on 1 July 2025 approving the Employment Linked Incentive Scheme (the scheme) to support employment generation, enhance employability and social security across all sectors with special focus on manufacturing sector. Please refer to our earlier Flash News dated 3 July 2025 for more details on the scheme[1].

The scheme also named as Pradhan Mantri Viksit Bharat Rozgar Yojana (PMVBRY) has two main components:

a) to provide support to first time employees; and

b) to offer incentives to employers for creating additional employment.

The Ministry of Labour and Employment, Government of India, has recently released Guidelines[2] for the PMVBRY.

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[1] Link to access the Tax Flash News dated 3 July 2025 - Government approves Employment-linked incentive schemes

[2] Guidelines issued by the Ministry of Labour and Employment Source - https://pmvbry.epfindia.gov.in/wp-content/themes/epfo-child/assets/images/PMVBRY-Final.pdf - Accessed on 20 August 2025

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Key guidelines on PMVBRY

1. Introduction

The PMVBRY comprises of two parts:

- Part A: Provides a one-time incentive of up to INR 15,000 to assist first-time employees in navigating their learning curve before becoming fully productive.
- Part B: Provides support to employers with focus on manufacturing sector. The objective is to create additional employment in all sectors and incentivizing employers for four years in manufacturing sector and two years in other sectors.

2. Important definitions provided in the guidelines

a) *New Employee*: An employee who has joined the establishment during the scheme registration period (from 1 August 2025 to 31 July 2027) will be considered as a new employee.

b) *First timer*: An employee who was not a contributing member of the Employee Provident Fund Organization (EPFO) or exempted trust prior to commencement of the scheme and his date of joining in an establishment is during the scheme registration period and contribution is received in EPFO or exempted trust for the first time, will be termed as first timer or first time employee. Incentives to a first timer under Part A will be admissible only if his Universal Account Number (UAN) is authenticated by face authentication technology on the UMANG App.

c) *Re-joinee*: An employee with a previous contributory membership of Employees Provident Fund either with EPFO or exempted trust and joins an establishment registered with EPFO or an exempted trust during the scheme registration period. Incentives to the employers in respect of any re-joinee will be admissible only if such re-joinee has UAN which is Aadhaar authenticated using biometric or face authentication technology.

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d) *Eligible Employee*: Any new employee in respect of whom contribution is received in EPFO or exempted trust for at least six months for both the employee and employer and whose gross wages at the time of joining the establishment is less than INR 100,000 per month, will be considered for incentive to establishments under Part B of the scheme.

e) *Old employee*: An employee who joined the establishment before 1 August 2025 and has not exited, will be considered as an old employee and the employer in respect of these employees will not be eligible for the incentive under the scheme.

f) *Gross Wage*: It means all emoluments, whether in cash or kind received by the employee as per the terms of the employment contract.

g) *Manufacturing*: It means and includes activities as defined in section 2(72) of Central Goods and Service Tax Act, 2017 and as mentioned in registration certificate of the establishment.

3. Determination of baseline for net additional employment

- The baseline for calculating net additional employment will be the average number of employees as per Electronic Challan-cum-Return (ECR) filed during 1 August 2024 to 31 July 2025 for establishments registered with EPFO before 31 July 2024.
- The baseline number will not change for six months from the start of the scheme. However, if there are higher number of employees, then based on revised ECRs, the same will be considered.

4. Guidelines for incentive calculation

- Part A: Incentives will be provided to first-time employees if they meet the specific eligibility criteria, including having gross wages up to INR100,000 at the time of joining and filing of ECRs for six months. The total incentive will be capped at INR15,000 and paid in two installments: the first up to INR 7,500 after six months and the second after 12 months after completing a Financial Literacy program and filing all required ECRs.

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- Part B: Incentives are provided to employers for net additional employment beyond the baseline number including first-timers and re-joinees. Establishments with fewer than 50 employees must add at least two employees and those with 50 or more must add at least five employees. Incentives will be disbursed every six months for employees completing continuous employment. No benefits will be given for months where threshold criteria is not met. Detailed calculation guidelines for Part B will be issued separately.

5. Cessation of incentives

Incentives under the scheme will cease in the following cases:

- If a first timer leaves employment voluntarily or otherwise.
- In case of death or other eventualities affecting the beneficiary.
- In the event of closure/ winding up etc.
- In the event of any misrepresentation or fraud.

6. Mode of payments

- Incentives will be disbursed within 45 days of fulfilling eligibility conditions and filing ECRs. Payments will be made via Direct Benefit Transfer as follows:
  - To employees: through Aadhaar Bridge Payment System to Aadhaar-seeded bank accounts.
  - To establishments: through PAN-linked bank accounts.
- If an employee's bank account is not Aadhaar-seeded, incentive payments will be suspended but will continue to accrue. It will be paid once Aadhaar seeding is completed.

7. Special provisions for exempted establishments

- Exempted establishments under the Employees' Provident Funds and Miscellaneous Provisions Act, 1952 are eligible for incentives under the scheme. They must file monthly returns as prescribed by EPFO. For baseline calculation, exempted trusts must submit ECRs with employee details for August 2024 to July 2025, subject to certain conditions.

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- To ensure transparency and smooth implementation, exempted establishments must obtain Aadhaar-authenticated UANs for all employees.

8. Taxation

Incentives received under the scheme will be subject to tax as per the provisions of the Income-tax Act, 1961 unless specifically exempted by the Competent Authority. These incentives will be in addition to benefits under any other scheme.

The guidelines also provided for several other aspects including grievance redressal, penalty, communications, monitoring of the scheme, data sharing and audit of the scheme by the regulators.

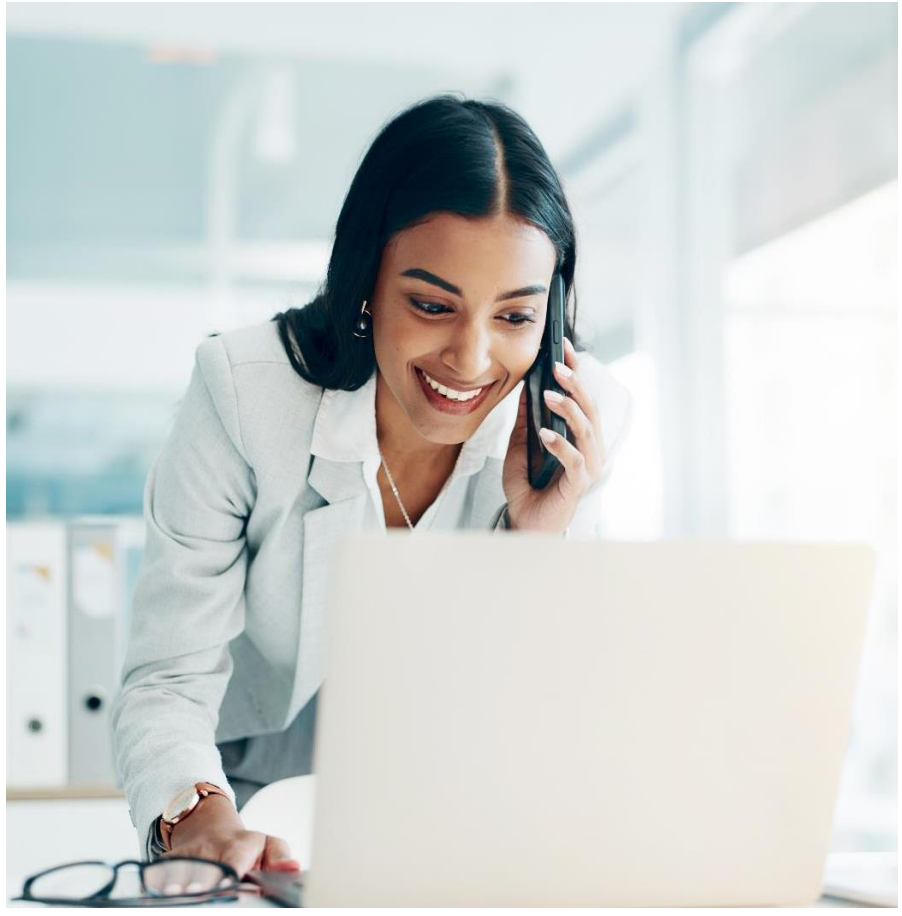
Our comments

The guidelines issued by the Government of India is a welcome step.

These guidelines provide clarity to first time employee and employers on several questions that had emerged following the press release issued in July 2025 which announced the scheme.

Employers must update their specific details including the employer's PAN, GSTN, and PAN-linked bank account number under the EPFO portal.

Employer should also ensure timely and appropriate compliance with Provident Fund regulations for securing benefits under the scheme.



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