



EMPLOYMENT LINKED INCENTIVE SCHEME Whether A Relief or Burden on The Employers

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Background:

The Indian Union Budget 2024–25 allocated rupees two thousand billion (~23.5 billion USD) to be spent over 5 years for the Prime Minister's package of five schemes and initiatives to facilitate employment, skilling and other opportunities for the younger generation entering the workforce.

The Government subsequently issued a press release on July 23, 2024 on three employment-linked incentive packages, namely,

- i. Incentive to the first-time employees: A direct benefit transfer of one-month's salary up to Rs. 15,000 (~175 USD) will be paid to the first-time employees registered with the Employees' Provident Fund Organisation ("EPFO");
- ii. Reimbursement of the EPF contribution: Reimbursement of the EPF contribution by employers up to Rs.3,000 (~35 USD) per month for 2 years in respect of each fresh/new hire; and
- iii. Incentives to the manufacturing sector: Incentive to the employers and employees in the manufacturing sector as per their EPFO contribution in the first 4 years of employment.

As per the official press release issued on July 1, 2025, the employment-linked incentive packages were discussed by the Union Cabinet and an Employment-Linked Incentive Scheme ("ELI Scheme") has been approved by the Union Cabinet. The ELI Scheme is allocated with the budget outlay of rupees 994.46 billion (~ 12 billion USD) and aims to incentivise the creation of more than 35 million jobs in India, over a period of 2 years. Out of these, 19.2 million beneficiaries will be first timers entering the workforce.

ELI Scheme:

The ELI Scheme has two parts and will apply to jobs created between August 1, 2025 and July 31, 2027 (the "**Relevant Period**").

Part A: Incentives for First-Time Employees

This incentive is given to individuals entering formal employment for the first-time with salaries up to Rs.100,000 (~ 1,200 USD) per month and registered with the EPFO.

Key features include:

- A one-time incentive equivalent to one month's wages (up to Rs. 15,000 (~175 USD)), subject to withholding of a portion of the incentive towards savings, will be disbursed to the employees in two tranches:
 - **First instalment:** After 6 months of continuous service.
 - **Second instalment:** After 12 months of service and completion of a financial literacy program. The details of the financial literacy program are yet to be announced by the Government.
- A portion of the incentive will be deposited into a savings instrument or fixed deposit account, promoting long-term savings. The same can be withdrawn by the employee at a later date. The Government is yet to formulate the guidelines in this regard.
- The balance will be paid to the employee via Direct Benefit Transfer (DBT) using the Aadhaar Bridge Payment System (ABPS).

Further details on the implementation of the incentive for first-time employees are awaited from the Government.

Part B: Incentives for Employers

This incentive is provided to encourage businesses registered with the EPFO to create new jobs in all sectors but with a special focus on the manufacturing sector. To be eligible for the incentive, during the Relevant Period, businesses registered with EPFO with (i) fewer than 50 employees will be required to hire at least 2 new / fresh employees; and (ii) those with 50 or more employees will be required to hire at least 5 new / fresh employees. The minimum tenure of employment for the fresh hires should be at least 6 months.

Key features include:

- A monthly incentive to employers for each fresh hire with sustained employment for at least 6 months as below:

- Wage of up to Rs. 10,000 (~116 USD) per month- *Incentive of up to Rs. 1,000 (~12 USD) per month (incentive provided will be proportionate to the wages paid to the employee);*
- Wage between Rs. 10,000 (~116 USD) per month and Rs. 20,000 (~230 USD) per month – *Rs. 2,000 (~23 USD) per month; and*
- Wage between Rs. 20,000 (~230 USD) per month and Rs. 100,000 (~ 1,200 USD) per month - *Rs. 3,000 (~35 USD) per month.*
- Employers hiring fresh / new employees earning up to Rs.100,000 (~ 1,200 USD) per month will receive incentives for up to two years in all sectors. For employers in the manufacturing sector, benefits can be extended to the 3rd and 4th year also.
- Payments will be made directly to the employer's PAN-linked bank accounts.

Wage under the ELI Scheme:

The wage for the purpose of the ELI Scheme will be the components of salary considered for the purpose of contributions under the Employees' Provident Fund and Miscellaneous Provisions Act, 1952, that is, the basic wages, dearness allowance, retaining allowance and value of food concession, if any.

Analysis:

The ELI Scheme is one of the most ambitious employment generating initiatives proposed by the Government. However, there are some initial challenges that can be foreseen:

- i. Considering the cost to the company involved in hiring a fresh resource, businesses may evaluate whether to add resources for the purpose of incentives under the ELI Scheme.
- ii. Indian law mandates engagement of apprentices by establishments with 30 or more employees under different Government schemes and hiring under the ELI Scheme may become an additional burden and increase administrative overheads for many employers if hiring is mandatory under the ELI Scheme (which is not entirely clear from the available material relating to the ELI Scheme).

Looking Forward:

If implemented efficiently without excessive burden on the employers, the ELI Scheme may accelerate hiring, promote workforce formalization and significantly enhance job opportunities. Further, the Government should frame clear guidelines in respect of compliances required by the employers.