



Tax alert: Government releases guidelines under the Employment Linked Incentive Scheme (PM-VBRY)

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The Employment Linked Incentive Scheme was first announced in Union Budget 2024–25 as a flagship program to boost job creation, formalize the workforce and the social security across all sectors, with special focus on the manufacturing sector. The Scheme has since been named as Pradhan Mantri Viksit Bharat Rozgar Yojana ('PMVBRY Scheme'). Recently, the Ministry of Labour & Employment, Government of India issued guidelines for the PMVBRY Scheme. The scheme will be implemented by the Ministry of Labour & Employment through the Employees' Provident Fund Organisation ('EPFO').

In a nutshell



Scheme Structure

- Outlay of INR 99,446 crore intended to create over 3.5 crore jobs
- Includes 1.92 crore first timers entering the work force
- Two Part Structure: Part A for employees and Part B for employers



Scheme Structure (contd.)

- Employee's Provident Fund Organization (EPFO) enrolment / data to be basis of coverage and benefit payout
- Applicable for employment generated between 1 August 2025 to 31 July 2027
- Employee eligibility: Maximum gross wage of INR 100,000 per month



Part A- First time Employees

- **Applicability:** Individuals who are registered as first-time employees with the EPFO
- **Quantum:** One-month Employee Provident Fund (EPF) wage up to INR 15,000 payable in 2 instalments
- **Payment timelines:** First instalment after 6 months of service and second instalment after 12 months of service and completion of financial literacy program.
- ECR should be filed within 18 months to receive second installment, else the benefit may not get credited to the employees.
- **Payment mode:** Direct Benefit Transfer (DBT) using Aadhaar Bridge Payment System (ABPS)



Part B - Employer

- **Eligibility:** Employers generating additional employment. Employment to be sustained for at least six months
- **Minimum additional hiring:**
 - 2 employees (baseline workforce <50);
 - 5 employees (baseline workforce ≥50)
- **Incentive amount:** Quantum of benefit per month per eligible employee as defined in the Scheme
- **Incentive period:** 2 years (4 years for manufacturing sector)



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Background:

The PM-VBRY scheme has been designed to stimulate employment creation by providing incentives to employees and employers. Its core objective is to promote the generation of sustained additional employment, increase formalization of the workforce and enhance employability through upskilling.

The PMVBRY Scheme consists of two parts - one is to help employees and the second is to support establishments for making first-time employees more productive. It also incentivizes establishments that generate additional employment. The benefits of the scheme would be applicable to jobs created from 01 August 2025 to 31 July 2027.

Key features of the guidelines:**Part A – First Timer**

- Incentives under Part A will be provided only to first-time employees (registered with EPFO) if they meet the eligibility criteria, including having gross wages up to INR 1,00,000 at the time of joining the establishment registered with EPFO and filing of Electronic Challan- cum- Return ('ECR') along with contributions for 6 continuous months.
- One-time incentive shall be equivalent to one completed month PF wage subject to a maximum of INR 15,000. The same shall be payable in two instalments to first-time employees joining establishments registered with the EPFO. Eligibility requires UAN authenticated by Face Authentication Technology on the UMANG App, completion of a financial literacy programme and filing of 12 completed months' ECRs, along with contributions by the establishment.
- The 1st instalment will be up to a maximum of INR 7,500, to be calculated as half of the average EPF wage for 6 continuous completed months and payable after filing of 6 completed months' ECRs along with contributions.
- The 2nd instalment will be equal to the average of the 12 completed months' EPF wage reduced by 1st instalment and restricted to a total incentive of INR 15,000. The 2nd installment will be kept in an appropriate saving instrument/ deposit account for a period to be specified in the guidelines which will be issued by Ministry of Labour & Employment in due course.
- The employee will become eligible for this part of incentive only after completion of the Financial Literacy program and filing of 12 completed months' ECRs along with contributions by the establishment.
- Additionally, the ECR for 12 months should be filed within 18 months from the date of joining of first-timer in the establishment for the employee to receive the second installment.

Part B – Employer Incentives

- Employers creating net additional jobs over a defined baseline will receive incentive support for 2 years (4 years for manufacturing sector) i.e. at least 2 additional employments with baseline of less than 50 and at least 5 additional employments with baseline of 50 or above.
- Further, the incentive slabs for employers range from up to INR 1,000 to INR 3,000 per additional employment per month and the EPF wage slab of new hires. In respect of employees getting EPF wages below INR 10,000, the incentive will be 10% of EPF wage and the incentive will be paid in respect of new employees with gross wages up to INR 1 Lakh at the time of joining the establishment.
- The incentives are released on a six-monthly lump sum basis after filing of 6 completed months' ECRs, subject to eligibility of both employer and employee.
- It is provided that while calculating the incentive amount for a given month, eligibility of the establishment

will be determined based on the threshold criteria as detailed in the scheme document.

- Further, the scheme document mentions that the detailed guidelines for calculation under this part will be issued separately.

Special Provisions for Exempted Establishments

- All exempted establishments under the provisions of the Employees' Provident Funds & Miscellaneous Provisions Act, 1952 ('EPF Act') are eligible for availing incentives of this scheme.
- These exempted establishments must file returns as prescribed by EPFO for availing the incentives under this scheme for each month.
- For calculation of baseline, exempted trusts need to submit ECRs along with details of employees for 12 months preceding August 2025 (i.e. from wage month of August 2024 to July 2025).
- For smooth implementation of the scheme and for transparency, exempted establishments are required to open or take Aadhaar authenticated UAN through EPFO for all their existing employees as well as new employees.

Mode of Payment

- **Incentive to employees:** To be paid through (Aadhaar Bridge Payment System) Direct Benefit Transfer to their Aadhaar-seeded bank accounts.
- **Incentive to establishment/ employers:** To be provided as Direct Benefit Transfer to PAN-linked bank account of the establishment.

The incentive will be disbursed within 45 days after fulfilling the eligibility condition and filing of paid ECR as per the periodicity defined under respective Part of the scheme.

Compliance safeguards

- No benefits shall be provided for establishments facing EPFO inquiries under Section 7A/ 7B/ 7C of the EPF Act or where inquiries under Para 26-B of the Employees' Provident Funds scheme, 1952 are pending or an FIR is filed by EPFO for fraudulent practices, or where irregularities under the ABRY scheme or any other scheme are pending or have been decided against the establishment.
- Additional employment generation may be corroborated by the authorities with enhanced trade activity/ tax deposit/ electricity utilization etc., if the need so arises in doubtful cases.
- Grievance redressal mechanism to be handled by EPFO within 15 days resolution timeline.

Taxation

- The incentives received under the Scheme are taxable under the Income-tax Act, 1961 ('ITA') unless any specific order is issued for exemption by the Competent Authority.
- The incentives under the scheme will be in addition to incentives under any other scheme.

Cessation of Incentive

Incentive payments under the scheme will cease on account of the following reasons:

- The first-time employee leaves employment on his own volition
- In the event of the death of the beneficiary
- Closure/ winding up etc. of the establishment
- Fraud or misrepresentation is detected.

Penalty Clause

- In case any establishment is found to have indulged in fraudulent activities or is found to have availed incentive under any part of the Scheme, based on fictitious data/ documents, or otherwise, necessary action will be taken against such establishments or individuals, if any, as per law.
- A comprehensive penalty clause will be issued separately by Ministry of Labour & Employment in due course.

Some of the Key Definitions

- “Electronic Challan cum Return (ECR)” means the monthly Electronic Challan cum Return submitted online along with prescribed amount of contributions, by the establishments under provisions of the Employees’ Provident Funds Scheme, 1952.

Explanation: The members in respect of whom such contribution is not received, will not be considered for ascertaining the benefits under Part A and Part B of the scheme. However, the same shall be counted towards ascertaining the Baseline. For providing the incentive, the scheme will take into account only those employees for whom contribution has been received along with the ECR for a particular month.

- “Gross Wage” means all emoluments, whether in cash or kind received by the employee as per the terms of the employment contract.
- “Manufacturing” 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.
- First-timer: An employee who was not a contributing member of the 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 UAN is authenticated by Face Authentication Technology on the UMANG App.
- Eligible Employee: Any new employee in respect of whom contribution is received in EPFO or Exempted Trust for at least 6 months for both the employee and the employer and whose gross wages at the time of the joining the establishment is less than INR 1,00,000 per month, will be considered for incentive to Establishments under Part B of the scheme.
- “Financial Literacy Course” means the mandatory module of Financial Literacy developed for providing information on personal finance, savings and investments, and financial planning among others; and made available through EPFO’s Employee portal/ website.

Comments

The PMVBRY marks a significant step in formalizing India’s workforce and in boosting job creation. While the incentives are attractive, especially for labour-intensive industries, employers must adopt a proactive compliance posture. Eligibility hinges on accurate and timely reporting under the EPFO framework, with Aadhaar/UAN authentication emerging as a non-negotiable requirement.

From a governance perspective, the scheme introduces enhanced oversight mechanisms, including fraud detection and data integration across Income Tax, GST, MCA, and EPFO systems.

Also, the employers may continue to be eligible for deduction under Section 80JJAA of ITA. Under this section employer are eligible for a deduction of 30% of the first-year salary cost every year for up to 3 years provided the gross salary of the employee is below INR 25,000 per month.

Additionally, the employers should keep in mind that incentives under Part B of the scheme may not be available pending PF inquiries (Section 7A/7B/7C of EPF & MP Act, 1952 and Para 26-B of the EPF Scheme, 1952) or if the

orders have been appealed or not complied with.

Accordingly, employers should strengthen HR, payroll, and compliance systems to:

- Optimise benefits by conducting cost–benefit analyses and identifying eligible employees early.
- Initiate Aadhaar-based UAN creation for all new joiners and complete authentication for existing eligible workers.
- Maintain ECR filing discipline and monitor workforce changes to ensure continuous compliance.
- Reconcile benefits periodically to avoid discrepancies between actual payroll and reported figures.
- Review contracts, SOPs, and definitions (e.g., “gross wage”) to ensure alignment with scheme eligibility.



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