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Tax alert: Cabinet Approves Employment Linked Incentive (ELI) Scheme

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The Union Cabinet has approved the Employment Linked Incentive (ELI) Scheme to boost job creation, especially in the manufacturing sector. The scheme aims to generate over 3.5 crore jobs in two years (from 1 August 2025 to 31 July 2027), including 1.92 crore first-time employees.

In a nutshell

Overview of the scheme:

The ELI Scheme aims to generate 3.5 crore jobs over a period of 2 years (Aug 2025–July 2027). It has an outlay of INR 99,446 crore, with a focus on:

- Youth employability,
- Social security coverage, and
- Job creation across formal sectors, especially, manufacturing.

Parts of the scheme

Part A – Incentive to First-Time Employees

- First-time EPFO-registered employees earning up to INR 1 lakh per month will receive one month's EPF wage (up to INR 15,000) in two installments.
- First installment - after 6 months of service
- Second installment after 12 months of service and completion of a financial literacy program.

Part B – Incentive to Employers

- Employers registered with EPFO will receive incentives up to INR 3,000 per month for hiring additional employees (salary ≤ ₹1 lakh) with at least six months of sustained employment. Minimum hires: 2 (if <50 employees) or 5 (if ≥50 employees).
- The benefits will be extended for additional 2 years for the manufacturing sector.

Payment Mechanism:

All payments under the ELI Scheme will be made via Direct Benefit Transfer (DBT)—to employees through the Aadhaar-based payment system.

And to employers into their PAN-linked accounts.

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Background:

- The ELI Scheme was first announced in July 2024 in the Union Budget 2024–25 as part of the Prime Minister's package of five schemes aimed at supporting 4.1 crore youth through employment, skilling, and related initiatives.
- The Union Cabinet has now approved the ELI Scheme with the aim of promoting employment generation and expanding social security coverage across formal sectors.
- This scheme will have a total outlay of INR 99,446 crore and it aims to generate over 3.5 crore jobs in two years (from 1 August 2025 to 31 July 2027).

Salient features

The Scheme consists of two parts; Part A is focused on new employees, while Part B is focused on employers.

Part A – Incentive to First-Time Employees

- This part is targeted towards first-time employees who are registered with the Employees' Provident Fund Organisation (EPFO) and earning up to INR 1 lakh per month.
- The incentive will be equivalent to one month's EPF wage, subject to a maximum of INR 15,000, and will be paid in two installments.
- The first installment will be paid after 6 months of service, and the second after 12 months of service and only upon completion of a financial literacy programme.
- Out of the total incentive, a portion shall be retained in a deposit account for a fixed period, which can be withdrawn by the employee at a later date.
- All payments to the employees will be made via DBT using the Aadhaar Bridge Payment System (ABPS).
- This part of the scheme is expected to benefit approximately 1.92 crore first-time employees.

Part B – Support to Employers

- This part aims to encourage additional job creation across formal sectors, with a special focus on the manufacturing sector.
- Only EPFO-registered establishments are eligible for the incentive. They must hire a minimum of two additional employees (if their employee strength is less than 50) or five additional employees (if their employee strength is 50 or more) to qualify for the incentive.
- Employers will be eligible for incentives from the government for hiring employees who are earning up to INR 1 lakh per month.
- The government will provide incentive of up to INR 3,000 per month per employee for 2 years for each additional employee who remains in sustained employment for at least six months.

EPF Wage Slabs of Additional Employee	Benefit to the Employer (per additional employment per month)
Up to INR 10,000*	Up to INR 1,000
More than INR 10,000 and up to INR 20,000	INR 2,000
More than INR 20,000 (up to salary of INR 1Lakh/month)	INR 3,000

**Employees with EPF wages up to INR 10,000 will get a proportionate incentive.*

- For employers in the manufacturing sector, these incentives will be extended to the third and fourth year as well.
- Payments to employers will be credited directly to their PAN-linked bank accounts.
- This part of the scheme is expected to incentivize employers for creation of additional employment of nearly 2.60 crore persons.

Comments:

Originally announced in the Union Budget 2024–25, the ELI had three schemes viz Scheme A, Scheme B and Scheme C. The Cabinet-approved final ELI Scheme, now, operationalizes the employment-linked component with a clear, structured incentive model.

The ELI Scheme is a significant step toward enhancing formal employment, especially for youth entering the workforce for the first time. By incentivizing both employees and employers, and placing special emphasis on the manufacturing sector, the scheme is expected to catalyze large-scale job creation, expand social security coverage and thus fostering inclusive economic growth.

This aligns closely with the national vision of a self-reliant and resilient economy, where productive employment serves as a cornerstone for sustainable development and long-term economic progress.

It is advisable for employers to familiarise themselves with the scheme provisions to leverage the applicable benefits.