

# Government Reduces the Rate of ESI Contribution from 6.5% to 4%

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—————The Government of India has taken a **historic decision to reduce the rate of contribution under the ESI Act from 6.5% to 4%**(employers' contribution being reduced from 4.75% to 3.25% and employees' contribution being reduced from 1.75% to 0.75%). Reduced rates will be effective from **01.07.2019**. **This would benefit 3.6 crore employees and 12.85 lakh employers.**

The reduced rate of contribution will bring about a substantial **relief to workers** and it will **facilitate further enrollment of workers** under the ESI scheme and **bring more and more workforce into the formal sector**. Similarly, reduction in the share of contribution of employers will **reduce the financial liability of the establishments leading to improved viability** of these establishments. This shall also lead to **enhanced Ease of Doing Business**. It is also expected that reduction in rate of ESI contribution shall lead to **improved compliance of law**.

The Employees' State Insurance Act 1948 (the ESI Act) provides for **medical, cash, maternity, disability and dependent benefits** to the Insured Persons under the Act. The ESI Act is administered by Employees' State Insurance Corporation (ESIC). Benefits provided under the ESI Act are funded by the contributions made by the employers and the employees.

Under the ESI Act, **employers and employees both contribute** their shares respectively. The Government of India through Ministry of Labour and Employment decides the rate of contribution under the ESI Act. Presently, the rate of contribution is fixed at **6.5% of the wages with employers' share being 4.75% and employees' share being 1.75%**. This rate is in vogue **since 01.01.1997**.

The Government of India in its pursuit of expanding the Social Security Coverage to more and more people started a programme of **special registration of employers and employees** from December, 2016 to June, 2017 and also decided to **extend the coverage of the scheme to all the districts in the country** in a phased manner. The **wage ceiling of coverage** was also **enhanced from Rs. 15,000/- per month to Rs. 21,000/-** from 01.01.2017.