

## Tax Alert | Delivering clarity

3 November 2020

### Consumption based leave travel concession exemption to non-central government employees

The Central Board of Direct Taxes has issued press release dated 29 October 2020 to extend consumption based leave travel concession exemption to non-central government employees.

#### Background:

- Section 10(5) of the Income Tax Act, 1961 (ITA) provides Leave Travel Concession (LTC) exemption to salaried employees to the extent of expenditure incurred in relation to travel within India, subject to compliance of conditions prescribed in Rule 2B of the Income Tax Rules, 1962 (Rules). One of the conditions is that exemption is available for two journeys in a block of four calendar years commencing from calendar year 1986 (current block being calendar years 2018-2021). The exemption is available to both government and non-government employees.
- Due to the Covid-19 pandemic and resultant nationwide lockdown as well as disruption of transport and hospitality sector, it is difficult for taxpayers to avail LTC in the current block of calendar years 2018-2021. In order to compensate Central Government (CG) employees and incentivise consumption and thereby give boost to consumption expenditure, the government allowed payment of cash allowance equivalent to LTC fare to CG employees by introducing the 'LTC Cash Voucher Scheme' (Scheme) vide press release dated 12 October 2020<sup>1</sup> ( First press release). The CG employees can avail benefits of the Scheme only on satisfaction of conditions prescribed in Office Memorandum (OM) dated 12 October 2020<sup>2</sup> issued in this regard. Further, the CG issued FAQs to clarify the queries received in respect of the Scheme vide OM dated 20 October 2020<sup>3</sup>.
- Further, in order to provide the benefits of the Scheme to other employees (i.e. non-central government employees) who are not covered by the OM dated 12 October 2020, the Central Board of Direct Taxes (CBDT) has issued a press release dated 29 October 2020<sup>4</sup> (Second press release) to provide similar income-tax exemption for the payment of cash equivalent of LTC fare to non-central government employees.

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<sup>1</sup> <https://www.pib.gov.in/PressReleasePage.aspx?PRID=1663722>

<sup>2</sup> <https://www.taxsutra.com/sites/taxsutra.com/files/webform/Special%20Cash%20Package%20in%20lieu%20of%20LTC%20for%20the%20BY2018-21.pdf>

<sup>3</sup> <https://www.taxsutra.com/sites/taxsutra.com/files/webform/Special%20Package%20LTC%20Clarification.pdf>

<sup>4</sup> <https://www.pib.gov.in/PressReleasePage.aspx?PRID=1668609>

## Highlights of the second press release:

- The payment of cash allowance, subject to maximum of INR 36,000 per person as deemed LTC fare per person (round trip) to non-central government employees, shall be allowed income-tax exemption subject to fulfilment of following conditions:
  - The employee exercises an option for the deemed LTC fare in lieu of the applicable LTC in the calendar block years 2018-2021.
  - The employee spends a sum equal to three times of the value of the deemed LTC fare on purchase of goods / services which carry Goods and Services Tax (GST) rate of not less than 12% from GST registered vendors / service providers (the specified expenditure) through digital mode during the period 12 October 2020 to 31 March 2021 ('specified period') and obtains a voucher indicating the GST number and the amount of GST paid.
  - An employee who spends less than three times of the deemed LTC fare on specified expenditure during the specified period, shall not be entitled to receive full amount of deemed LTC fare and the related income-tax exemption and the amount of deemed LTC fare and the related income-tax exemption and the amount of both, shall be reduced proportionately as explained below.

Example:

Deemed LTC Fare:  $\text{INR } 20,000 \times 4 = \text{INR } 80,000$

Amount to be spent:  $\text{INR } 80,000 \times 3 = \text{INR } 240,000$

Thus, if an employee spends INR 240,000 or above on specified expenditure, he shall be entitled for full deemed LTC fare and the related income-tax exemption. However, if the employee spends INR 180,000 only, then he shall be entitled for 75% (i.e. INR 60,000) of deemed LTC fare and the related income-tax exemption. In case the employee already received INR 80,000 from employer in advance, he has to refund INR 20,000 to the employer as he could spend only 75% of the required amount.

- An employee who has exercised an option to pay income-tax under concessional tax regime under section 115BAC<sup>5</sup> of the ITA, shall not be entitled for this exemption.
- The clarifications issued for the government employees vide OM dated 20 October 2020 shall apply mutatis mutandis to non-central government employees also, subject to fulfilment of conditions as mentioned above.

## Comment:

- The extension of the Scheme to non-central government employees is a welcome move.

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<sup>5</sup> New concessional tax regime for individuals and Hindu Undivided Family introduced by the Finance Act 2020.

- The payment of cash allowance as per the Scheme shall not be taxable in the hands of the non-central government employees.
- The legislative amendment to the provisions of the ITA will be proposed in due course.



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