

Travel less! Leave Travel Concession Exemption for Salaried Employees

Snapshot

The Government on October 12, 2020 announced scheme of cash vouchers to Central Government employees in lieu of LTC fare which could be spent only in buying non-food items with GST rate of 12% and above.

Similarly, in order to boost consumer spending in Indian economy, CBDT issued Press Release on October 29, 2020 to extend similar income tax exemption with respect to LTA to non-central government employees.

Considering current difficulties in transport & hospitality sector due to COVID-19, non-central government employees can now claim LTA up to Rs. 36,000 from employer in cash and also avail exemption for such LTA by simply spending three times the value of LTA for purchase of goods & services bearing GST rate of 12% or more through digital mode.

This could help in achieving multiple objectives of tax benefits and GST collection along with circulation of money in the economy.

Background

The existing provision of section 10(5) of the Income tax Act, 1961 ("the Act") read with Rule 2B provides for an exemption of the amount incurred on travel within India by taking leave from the employment popularly known as LTA exemption. The amount of exemption to an employee is an amount equivalent to actual traveling fare incurred and computed as per Rule 2B. Further such exemption is given for two travel journeys during the block of period of 4 calendar years.

In view of COVID-19 outbreak and difficulty in travel and disruption of transport & hospitality currently and unforeseeable future, the Government of India has considered the practical difficulty faced by the taxpayers in claiming LTA in current block of Calendar Year 2018 to 2021 ('Block Period'). Accordingly, it has introduced an alternative mechanism for claim of LTA & related exemption under provisions of the Act. Originally such scheme was applicable to government employees but now such scheme is applicable to all employees.

In Detail

CBDT has issued a Press Release dated October 29, 2020 in this regards and necessary changes will be made under the Act so as to incorporate it as part of the Act. Under such scheme, instead of the requirement of an actual travel to claim such exemption, an employee is required to incur expenditure through digital modes during the specified period. Such expenditure shall be deemed to

be regarded as an amount incurred on travel to claim such exemption.

The framework provided in CBDT's Press Release requires an employer to pay Cash Equivalent amount of unutilized LTA for each employee subject to maximum of Rs. 36,000 per person in 'family'¹. Further, in order to claim the exemption against such LTA, an employee is required to spend an amount being 3 times of such LTA amount by way of purchase of goods or services through '*digital mode*' during the period October 12, 2020 to March 31, 2021. Also, such goods or services should be subject to GST rate which should not be less than 12%. If an employee does not spend an amount equivalent to 3 times of LTA given by employer, such exemption would get reduced proportionately.

To summarize, an employee can claim his unutilized claim of LTA if any for the Block Period and avail income tax exemption which will be determined in following manner:

$$\text{Amount of Exemption} = \frac{A \times B}{C}$$

Where,

- A** Cash equivalent LTA during Block Period (being lower of sum of Rs.36,000 per person in '*Family*' or unutilized LTA)
- B** Actual amount of '*Specified Expenditure*' during '*Specified Period*' out of (A) above
- C** Amount being three times of (A) above

'**Specified Expenditure**' means amount spent by an employee for purchase of goods or services which carry GST rate of 12% or more from GST registered Vendors / Service Providers through digital mode

'**Specified Period**' means the period from the October 12, 2020 to March 31, 2021.

Further, the above Press Release provides additional conditions for claim of exemption which have been summarized below along with few clarifications issued by Department of Expenditure in its Office Memorandum dated October 20, 2020:

- The above scheme is not available to an employee who have opted for concessional taxation regime u/s 115BAC of the Act.
- An Employee who wishes to opt for above scheme, shall intimate the company by way of duly signed application indicating his wish to avail above scheme. In case an employer gives advance to employee for incurrence of such expenditure on the basis of such declaration, any unutilized amount out of such advances shall be required to be given back to the employer.
- Employees would be required to produce original bills for '*Specified Expenditure*' and submit the same to the company latest by March 31, 2021.
- Invoice shall contain GST Number and Amount of GST paid on such purchase of goods and services.
- Invoices submitted by employee shall be in the name of employee only.
- The date mentioned in bills shall be falling within period from October 12, 2020 to March 31, 2021 and payment must be made during such period only.

It is to be noted that the Press Release does not give any clarity as to whether such exemption would be available in case where an employee has already obtained LTA for two journeys in Block Period.

¹ Family means (i) Employee (ii) Spouse of Employee (iii) Children of the employee (iii) parents, brothers and sisters of the employee or any of them who are wholly or mainly dependent on the Individual

KCM's Note

Since such scheme considers the incurrance of specified expenditure as equivalent to expenditure incurred on travelling to claim LTA exemption, in our view, such exemption shall be subject to other applicable conditions under Rule 2B with respect to number of travels etc. during such Block Period.

Further, the term 'digital mode' is not defined in the Press Release. In our view, such mode may include payment made using debit card, credit card, UPI, Payment Wallets, NEFT, ESC & other modes of electronic transfer. However, considering the term 'digital mode', the payment made using cheque may not qualify as payment made by 'digital mode'.

The above amendment proposed by government is likely to benefit employees in private sector at large

to avail their unutilized LTA claims without undertaking any travel and taking any leave.

Such scheme will encourage the use of digital platform as mode of payment and also boost the consumer spending which is the need of the hour. It also appears that the Government is giving back the amount of 12% of GST collected on such specified expenditure by way of reduction in personal tax liability of an employee. So, let's be ready with the list of expenditures to be incurred subject to 12% or more GST and don't forget to make payment digitally.

Don't Travel!!! Stay & Work from home!!!! Spend also from Home Digitally!!! Claim your LTA!!!! - COVID is changing the way of life!!!!

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For further analysis and discussion, you may please reach out to us.

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