



DIRECT TAX ALERT

N. A. SHAH **BULLETIN**

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N. A. SHAH ASSOCIATES LLP
Chartered Accountants

M. A. PARIKH & CO. WAS NOW A PART OF N. A. SHAH ASSOCIATES

Executive Summary

LTC scheme extended to employees other than Central Government Employees. As per the CBDT circular, employees will be eligible for income tax exemption for the entire leave travel concession amount up to Rs 36,000 per person, provided they spend 3 times of the deemed LTC fare.

Income tax exemption for payment of deemed LTC fare for employees other than central government employees

1. Under the existing provisions of the Act, leave travel concession can be claimed as exempt from tax in respect of two journeys undertaken in a block of four calendar years (the current block being 2018 to 2021) for travel to any place in India by the employee and his family.
2. The family of an employee includes his/her spouse, children (up to two), parents, brothers and sisters, wholly or mainly dependent on the employee. This leave travel exemption is limited to air fare, air-conditioned first-class rail fare or first-class or deluxe fare depending upon the mode of travel.
3. Due to COVID restrictions, employees and their families may not be able to travel to claim the leave travel exemption and therefore, the government has announced a new LTC scheme which gives an option to an employee to spend on eligible goods and services to claim the tax exemption, **in lieu of** one journey in the said block of four calendar years.
4. The employee will be eligible for deemed LTC fare (subject to **maximum of INR 36,000/- per person of the family**) which will be exempt, on the fulfillment of the following conditions:
 - a) The employee purchases goods or services **worth 3 times the deemed LTC fare** between 12.10.2020 to 31.03.2021
 - b) The goods or services should attract **GST of 12% or more**
 - c) The payment should be made through **digital mode**

5. The above can be illustrated with an example as under:

An employee's family of four (self, spouse and two children), would get a maximum eligibility of INR 1,44,000 (INR 36,000*4) for the purpose of this LTC scheme. For availing the tax exemption of the full amount of INR 1,44,000, the employee will be required to spend INR 4,32,000 (INR 1,44,000*3) on eligible goods and services. In case the entire amount is not spent, only pro-rata exemption will be available.

6. It is to be noted that since this exemption is provided in lieu of the leave travel concession, an employee who has exercised option to pay tax under concessional tax regime u/s. 115BAC of the Act shall not be eligible.
7. The necessary statutory amendments in this regards shall be made in due course by the government.
8. The CBDT has also issued clarifications for number of queries raised in respect of the said scheme. Some of the FAQ's are as under:
- a) Whether the invoice can be in the name of spouse and / or any family member who are eligible for LTC?

The invoices of goods or services purchased as per the scheme may be in the name of spouse or any family member who are eligible for LTC fare.

- b) Whether purchase of goods/ services on loan / EMI, will be covered under the scheme?

Purchase of any goods or services which attract GST of 12% and above qualify for reimbursement under this scheme. Purchase on EMI basis is also permissible.

- c) Can the payment be made by cheque/ DD/ Banker's cheque/ NEFT/ RTGS?

Yes

- d) Whether we can purchase different items under this scheme like washing machine, mobile, AC or not?

Yes. An individual can purchase different items which attract GST of 12% or more. The payment should be made through digital mode.

- e) How spending of 3 to 4 times on purchasing of products will be tracked? Will purchase made online from e-commerce website be acceptable?

Any purchase with digital mode is to be supported by invoice. Based on production of invoice the spending is calculated. The intention of this scheme is to encourage every mode of purchase. It is for the employee to choose a suitable digital mode.

- f) Whether there is any prescribed format for applying for this scheme?

There is no prescribed format. A simple application conveying the desire of the employee for availing the scheme, if advance is required for the purpose the same is to be mentioned.

- g) Any limit on number of transaction?

As far as possible the number of transaction may be limited to a minimum extent to avoid any difficulty / delay.

- h) I purchased certain items after 12.10.2020 but before formally exercising my option. Can it be counted for reimbursement?

All eligible purchase on or after 12.10.2020 and before 31.03.2020 can be counted.

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We will be glad to provide any information, elaboration and elucidation you may need in this regard.

From:

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