

## Government announces LTC scheme for non-central government employees

### Background

The continuing COVID-19 situation has cast a limitation on employees to travel and consequently avail leave travel concession (LTC).

To provide relief to central government employees, the government had recently announced a special scheme for payment of LTC and leave encashment without the actual need to undertake travel, provided specified amount is spent towards purchase of eligible goods and services. The objective was to provide cash benefit to employees on one hand and to encourage consumption expenditure on the other. Click [here](#) to read our alert on this announcement.

The government has now extended the benefit under the LTC payment scheme and related tax exemptions to non-central government employees as well. Cash allowance of up to INR 36,000 per person shall be allowed as 'deemed LTC fare' that would be exempt from tax subject to meeting specified conditions.

### Eligible conditions under the scheme

The below conditions are to be fulfilled for obtaining LTC payment and claiming tax exemption by non-central government employees-

- The employee exercises option for the deemed LTC fare, in lieu of the applicable LTC for the block years 2018-21.
- The employee spends a sum equal to three times of the value of the eligible deemed LTC fare on purchase of eligible goods/services.
- Eligible goods and services are those which attract Goods and Services Tax (GST) at the rate of 12% or more and are purchased from a GST registered vendor/service provider through digital mode.
- Purchases are made between the period 12 October 2020 to 31 March 2021.
- Employee obtains a voucher indicating GST identification number (GSTIN) of vendor and amount of GST paid and the same is submitted with the employer.

### Determination of admissible payment under the scheme

- Maximum amount of tax-exempt LTC entitlement will be INR 36,000 per person.
- In case the full eligible amount (i.e. up to three times of INR 36,000 per person) is not spent, the entitlement will be calculated as a proportion of the actual amount spent by the employee.

### Example

- An employee is entitled to deemed LTC fare of INR 20,000 per person for a family of four members. The total tax exempt LTC payable would be INR 80,000.
- The employee would need to be spend three times of INR 80,000 i.e. INR 2,40,000 to receive the tax exempt LTC of INR 80,000.
- However, in case employee spends a lower amount of say INR 1,80,000, he shall be entitled to proportionately lower amount of deemed LTC fare (i.e. 75% of 180,000 = INR 60,000).

### Employees opting for lower tax rate regime

It has been clarified that an employee who has exercised an option to pay income tax under concessional tax regime under Section 115BAC of the Income-tax Act, 1961 shall not be entitled for this exemption.

### Our comments

LTC or leave travel allowance (LTA) is a popular salary component provided by many employers. The guidelines for allowing tax exempt LTC/LTA to employees in the private sector was eagerly awaited and the guidelines pave the way for providing this benefit.

In order to grant the tax benefit under this scheme, employers would need to review existing compensation structure and provide the employees with an option to avail the tax exemption for LTC/LTA under this scheme. Also, a window may be provided to the employees to submit the declarations towards expenses to be incurred by 31 March 2021 for purchase of eligible goods/services under this scheme.

The legislative amendment to the Income-tax Act, 1961 for this purpose is awaited.

Follow us on:

