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Government notifies cash incentive in lieu of Leave Travel Concession (LTC) Scheme for non-Central Government Employees as well

Issued on 3rd November 2020



Summary:

In view of the Covid-19 pandemic and resultant lockdowns, it has not been possible for several employees to undertake travel and thereby avail their leave travel concession (LTC). In order to boost consumption, the Government had announced a special cash incentive / allowance in lieu of Leave Travel Concession (LTC) fare for Central Government Employees. Such cash incentive / allowance in lieu of deemed travel, would be eligible for exemption under Income-tax Act, 1961 ('ITA') subject to certain conditions. This amount is required to be spent on goods / services carrying not less than 12% Goods and Services Tax ('GST'). As per a press release issued on 29th October 2020 this scheme is now extended to non-Central Government employees as well. Details of the same are covered in this Flash.

Leave Travel Concession (LTC) in brief:

LTC, alternatively referred to as Leave Travel Allowance (LTA) is the reimbursement made by the employer towards the actual travel expenditure incurred by an employee, subject to conditions. The amount so reimbursed is exempt to the extent specified under section 10(5) of the ITA. The LTC exemption is available in respect of 2 journeys in a block of 4 years. The present block period is 2018-2021. The travel should be to any place in India with or without family, as applicable.

LTC Cash Voucher Scheme:

The income-tax exemption for the cash incentive / allowance in lieu of LTC for a non-Central Government employee, will be subject to the following conditions:

- The deemed LTC claimed will be in lieu of unutilised LTC during the block 2018-2021.
- The employee is required to spend **3 times** the amount of the deemed LTC fare on the purchase of goods / services that carry a GST rate of not less than 12%, from GST registered vendors / service providers.
- This payment is made through digital mode during the period 12th October 2020 to 31st March 2021, and the employee obtains and submits a voucher indicating the GST number and the amount of GST paid. There is no restriction on the number of transactions for the purchase of Goods / Services.
- In case the amount spent is less than 3 times the deemed LTC fare, the income-tax exemption will be proportionately reduced.
- The maximum amount that can be received as deemed LTC fare under the scheme is INR 36,000/- per person.
- Employees who have opted for the concessional tax regime under section 115BAC of the ITA would not be entitled to claim this exemption.

CNK Comments:

- *The press release states that the income-tax exemption for LTC scheme earlier announced for Central Government employees will now also be applicable for non-central Government employees. While the term "non-Central Government employees" has not been specifically defined, it is inferred from news reports that in addition to employees of the State Government and Public sector, the employees of the Private Sector would also be included.*
- *More clarity and operational details are expected to be notified soon through amendment to ITA. It is expected that the same will clarify the following open points:*
 - *Specified goods / services which will be eligible for this exemption.*
 - *The 3 times spend is to be considered inclusive or exclusive of GST.*
 - *Modality of submission of the proofs for claiming the tax exemption.*

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- *Manner in which the provisions of the office memorandum and clarifications issued in context of Central Government employees will be made applicable for LTC incentive for non-Central Government employees*
- *The above scheme is expected to boost consumption and while the exemption may reduce income-tax revenue for the Government, its GST collections should increase.*
- *Once the amendments and notifications are effective for the private sector, the compensation structure may be revisited to allow employees to avail the scheme.*

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