

# Income-tax Exemption for payment of deemed LTC fare for non-Central Government employees

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In view of the COVID-19 pandemic and resultant nationwide lockdown as well as disruption of transport and hospitality sector, as also the need for observing social distancing, a number of employees are not able to avail of Leave Travel Concession (LTC) in the current Block of 2018-21.

With a view to compensate Central Government employees and incentivise consumption, thereby giving a boost to consumption expenditure, the Government of India allowed payment of cash allowance equivalent to LTC fare to Central Government employees subject to fulfilment of certain conditions vide OM No F. No 12(2)/2020-EII (A) dated 12th October 2020. It has also been provided that since the cash allowance of LTC fare is in lieu of deemed actual travel, the same shall be eligible for income-tax exemption on the lines of existing income-tax exemption available for LTC fare.

In order to provide the benefits to other employees (i.e. non-Central Government employees) who are not covered by the above mentioned OM, it has been decided to provide similar income-tax exemption for the payment of cash equivalent of LTC fare to the non-Central Government employees also. Accordingly, the payment of cash allowance, subject to maximum of Rs 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 conditions specified in para 4.

The income-tax exemption to receipt of deemed LTC fare by a non-Central Government employee ('the employee') shall be allowed subject to fulfilment of the following conditions:-

- (a) The employee exercises an option for the deemed LTC fare in lieu of the applicable LTC in the Block year 2018-21.
- (b) The employee spends a sum equals to three times of the value of the deemed LTC fare on purchase of goods / services which carry a GST rate of not less than 12% from GST registered vendors / service providers ('the specified expenditure') through digital mode during the period from the 12th of October, 2020 to 31st of March, 2021 ('specified period') and obtains a voucher indicating the GST number and the amount of GST paid.
- (c) 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 both shall be reduced proportionately as explained in Example-A below.

The DDOs shall allow income-tax exemption subject to fulfilment of the above conditions after obtaining copies of invoices of specified expenditure incurred during the specified period. Further, as this exemption is in lieu of the exemption provided for LTC fare, 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.

The clarifications issued by the Department of Expenditure, Ministry of Finance for the Central Government employees vide OM F. No 12(2)/2020-EII (A) Dated 20th October, 2020 and subsequent clarification, if any, issued in this regard shall apply mutatis mutandis to non-Central Government employees also subject to fulfilment of conditions specified in the preceding paras.

The legislative amendment to the provisions of the Income-tax Act, 1961 for this purpose shall be proposed in due course.

#### Example-A

Deemed LTC Fare : Rs.20,000 x 4 = Rs. 80,000

Amount to be spent : Rs. 80,000 x 3 = Rs. 2,40,000

Thus, if an employee spends Rs. 2,40,000 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 Rs. 1,80,000 only, then he shall be entitled for 75% (i.e. Rs. 60,000) of deemed LTC fare and the related income-tax exemption. In case the employee already received Rs. 80,000 from employer in advance, he has to refund Rs. 20,000 to the employer as he could spend only 75% of the required amount.

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