



Leave Travel Cash Voucher Scheme

Executive Summary

1. Extending the LTC Cash Voucher Scheme (Scheme) to non-central government (CG) employees. The Finance Minister (FM) had announced this Scheme for all employees on 12 October 2020
2. However, the CG had, until now, issued specific instructions for its implementation restricted to CG employees only. The current Press Release now extends similar benefits to non-CG employees as well and enumerates the conditions to be satisfied by such employees to avail of the benefits of the Scheme. The Press Release announces tax exemption for deemed Leave Travel Concession (LTC) fare up to INR36,000 per person for a round trip, subject to fulfilment of the conditions stated in the Press Release. Furthermore, the clarifications already issued³ in context of CG employees would equally apply to non-CG employees also.

Agenda

- 1 Background
- 2 Preconditions with illustration– Private Sector Employees
- 3 LTC Scheme benefits for employees
- 4 Case Studies on LTC Scheme
- 5 Questions & Answers

Background

- ▶ As per the provisions of the Income Tax Laws ('ITL'), salaried taxpayers are entitled to an exemption on LTC/ Leave Travel Allowance ('LTA'):
 - ▶ In relation to travel within India
 - ▶ Available for two journeys in a block of four calendar years (current block being years 2018-21)
 - ▶ As per the limits prescribed under Rule 2B of the Income Tax Rules ('Rules')
- ▶ COVID-19 pandemic - disruption in the transportation and hospitality sectors
- ▶ Employees have been unable to avail of LTC in the current block of 2018-21
- ▶ Accordingly, LTC Scheme was announced to provide cash in lieu of the LTC eligibility

Preconditions with Illustration-Employees



Buy goods/services worth three times of deemed LTC fare between 12 October 2020 to 31 March 2021



The money must be spent on goods/services attracting GST of 12% or more from a GST-registered vendor



The payment must be made through a digital mode and employee must produce GST invoice



Deemed LTC fare is subject to maximum of INR 36,000 per person (Round Trip)



- Scheme shall not be available under concessional personal tax regime
- Amount spent less than 3 times of the deemed LTC fare will result in proportionate tax exemption and cash allowance

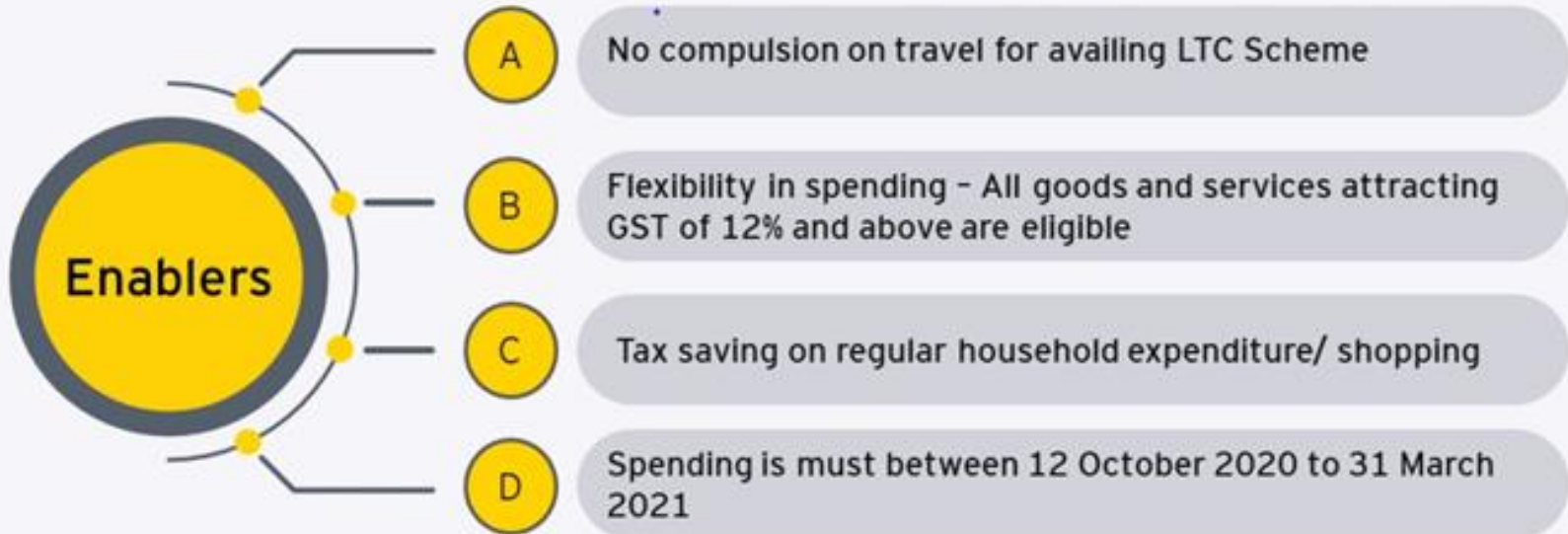
Preconditions with Illustration-Employees

- ▶ Mr. B is an employee of Private company
- ▶ His family consist of 3 members
- ▶ The company has adopted LTC Scheme and offered a deemed LTC fare of Rs 36,000 per family member per round trip
- ▶ He has spent Rs 3,30,000 on product and services during October 30, 2020 to March 31, 2021

Particulars	Reference	Amount (INR)
Eligible deemed LTC fare	$A = 3 \times 36,000$	1,08,000
Amount to be spent	$B = 3 \text{ times of } A$ $[3 \times 1,08,000]$	3,24,000
Amount spent by Mr. B	C	3,30,000
Eligible amount of non taxable allowance receivable	$C \geq B$	1,08,000
Tax savings at 30%		32,400

LTC Scheme benefits for employees

LTC Scheme for employees - An attractive option?



Goods and services attracting list

Goods:

- ▶ Air-conditioning machines
- ▶ Refrigerators
- ▶ Washing machine
- ▶ Vacuum cleaners
- ▶ Digital cameras and video camera recorders
- ▶ TV
- ▶ Power bank
- ▶ Mobile phones
- ▶ Tableware, kitchenware, other household articles and toilet articles
- ▶ Contact lenses, Spectacle lenses and frames for spectacles
- ▶ LED lights or fixtures including LED lamps
- ▶ Motor cars and 2 wheelers
- ▶ Fitness equipment
- ▶ Ready made furniture

Services:

- ▶ Accommodation in hotels, inns, guest houses, clubs etc
- ▶ Transport of passengers by air, in other than economy mode
- ▶ Rental services of transport vehicles
- ▶ Legal and accounting services
- ▶ Maintenance, repair and installation services
- ▶ Interior decoration
- ▶ Phone bills

**List provided above is indicative and subject to change from time to time. Please verify independently before purchasing or availing services*

Case study 1

Facts:

- ▶ Mr. C, an employee of a private sector company incurs the following expenditure on various dates:

Date of Invoice	Nature of Expenditure	Amount
15 October 2020	DTH Recharge (1 year subscription)	10,000
30 October 2020	Renewal of Car insurance	12,000
10 November 2020	Purchase of Electrical Appliances	7,500
24 December 2020	Purchase of Mobile Phone	30,000
20 March 2021	Advance payment of insurance premium which is due on April 30, 2021	75,000
Total		1,34,500

Issues:

- ▶ Can employee submit multiple invoices under LTC Scheme?
- ▶ Is annual subscription of DTH recharge or car insurance qualify for exemption under LTC Scheme?
- ▶ Whether advance payment of insurance will qualify for exemption ?

1. Yes employees can submit the multiple invoices which attract 12% GST and must be incurred between 12th October to 10th January 2020.
2. Any new purchase of goods or service will only be covered. Both payment towards premium for the renewal will not be covered under this scheme. Only new insurance policies which attract 12% GST or more will be covered.
3. Advance payment will be considered subject to proper bills and expenses must be incurred between the above allowable period.

Case study 2

Facts:

- ▶ As per the compensation structure, Mr X is eligible for Rs 1,00,000 as LTA each year
- ▶ Mr X has spent Rs 70,000 and seeking an exemption as per the LTC Scheme

Issues:

- ▶ Whether company needs to have a LTC Scheme to allow the non-taxable allowance?
- ▶ Is 3X spend on LTA eligibility or is it restricted to deemed LTC fare?
- ▶ Can unclaimed LTA be taxable or lapsed?

1. Yes , Employee can avail this LTC scheme as per the guidelines issued by the government.
2. The 3X will be applicable on the deemed LTC amount and not higher than that. But if the employee spends lesser amount than the deemed LTC then he will be given the proportionate tax exemption.
3. The unclaimed LTA will be taxable.

Case study 3

Facts:

- ▶ Mr. L, an employee purchases car worth INR 7 lacs in his name during Diwali festival
- ▶ He makes the payments towards the purchase through the following modes
 - ▶ INR 3,00,000 - from his bank account through cheque
 - ▶ INR 3,00,000 - through wife's bank account vide NEFT
 - ▶ INR 50,000 - through credit card
 - ▶ INR 50,000 - through cash payment

Issues:

- ▶ Does the above transactions qualify for the exemption under the Scheme?
- ▶ Should invoice be in the name of the employee?
- ▶ What is the eligible amount that would qualify under the Scheme?

1. Yes the above transaction is covered under this scheme as it qualifies for all the conditions mentioned.
2. Yes and the invoice must be in the name of the employee.
3. The first 3 payment of 650,000 will be eligible and the payment of 50,000 through Cash will not be eligible under this scheme.

Highlights of the Scheme are as follows

- Buy goods/services worth three times the fare and avail one-time leave encashment on or before 31 March 2021.
- The money must be spent on goods attracting Goods and Service Tax (GST) of 12% or more from a GST-registered vendor.
- The payment must be made through digital mode and the employee must produce a GST invoice.
- Where the amount spent by an employee falls short of the three times of the deemed LTC fare on specified expenditure during the specified period, the tax exemption will be restricted to pro rata amount of the shortfall of LTC fare.
- An individual (employee) need not take leave for availing the Scheme, nor undertake any travel. It is a scheme in lieu of LTC travel.
- The employee should exercise an option for the deemed LTC fare in lieu of the applicable LTC in the current block period of 2018-21
- The Scheme is applicable to the LTC fare unutilized during the block period of 2018-21. So, it will not apply to LTC fare which has already been utilized till 12 October 2020.
- Multiple bills for different purchases will be accepted from employees. But, the purchase should be done from 12 October 2020 to 31 March 2021, should carry a GST of 12% or more and payment should be made in digital mode.
- The invoice submitted for reimbursement under the Scheme should be in the name of the employee availing of the Scheme, even if the digital payment is made by using the credit card of spouse or any other family member.
- There is no limit on the number of transactions but, as far as possible, the number of transactions may be limited to a minimum extent to avoid any difficulty/delay.
- Procurement from e-commerce platforms is also permissible, provided the relevant invoice/details are submitted along with the payment proof.
- Employees who have opted for payment of tax under the new concessional tax regime will not be entitled to this tax exemption since the same is in lieu of the exemption provided for LTC fare.
- The exemption limit of INR36,000 applies on a per person basis. This can be reasonably interpreted to cover the employee and “family” members, as per the existing provision in the ITL where “family” in relation to an individual is defined to mean: (a.) The spouse and children of the individual. (b.) Parents, brothers and sisters of the individual or any of them, wholly or mainly dependent on the individual. The existing rule also provides that the exemption shall not be available to more than two surviving children of an individual after 1 October 1998 except for: (a.) Children born before 1 October 1998. (b.) Multiple births after one child.

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Best Regards,
HR Team

Please reach out to HR for any questions



Thank You