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Pre-Budget 2019: Dire need to amend provisions of Leave Travel Allowance (LTA)



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Introduction

1. Leave Travel Allowance (LTA) is an allowance provided by the employer to his employee who is travelling while on leave. In private organisations it generally forms part of CTC (*i.e.*, cost to the company). LTA is eligible for income-tax exemption subject to the conditions prescribed under section [10\(5\)](#), read with rule 2B of the Income-tax Act, 1961.

- ◆ Broadly, the conditions for tax exemption include:
- ◆ Actual journey is a must to claim the exemption.
- ◆ Travel should be while the employee is on leave.
- ◆ Only domestic travel is considered for exemption, *i.e.*, travel within India.
- ◆ The benefit of LTA can be availed by the employee on his travel and travel of his family.
- ◆ The exemption is available only for the actual travel costs, *i.e.*, the air/rail/bus fare incurred by the employee. No other expenses would be eligible for exemption.
- ◆ Amount of exemption shall be restricted to the fare by the shortest route to the place of destination
- ◆ LTA exemption is available for only two journeys performed in a block of four calendar years.
- ◆ The proof of travel is required to be submitted with the employer

Comments

2. Claiming LTA exemption has become a big challenge not only for employees but it is a hercules task for employers as well. The rules have not been amended and updated with the passage of time and changes in scenario. Few practical issues have been highlighted in this article:

- ◆ LTA is allowed for two journeys performed in a block of four years. A block year is different from a financial year and is decided by the Government for LTA exemption purposes. It comprises of 4 years each. The block applicable for the current period is the calendar year 2018-21. The employee is free to opt for any two journeys and is also allowed to carry forward it to succeeding block. An employer is duty-bound to deduct taxes by the end of each financial year on the amount paid to employee. Accordingly, the application of this rule becomes very cumbersome and almost redundant for private organisations. It is recommended to align the rules with financial year and to do-away with the concept of block of years.
- ◆ An employee is entitled to claim exemption for the leave travel allowance granted to him by his employer for the purpose of going on a vacation anywhere within India. This exemption is still allowed only for vacations within India. This provision may help to promote Indian tourism but it is not in *pari-materia* with current scenario as travelling to some overseas destinations is cheaper than visiting tourist destinations in India. Therefore, it is recommended that the exemption should be allowed for both Indian destinations and for foreign travel.
- ◆ The benefit of LTA for the family is given only in cases where the employee is accompanying his family. The rule may be liberally interpreted/suitably modified to allow the benefit even if the employee is unable to travel.
- ◆ Employees can claim LTA if they travel while on leave. The Corporates allow long weekends clubbed with official holidays and the travel is generally planned for those days. It is recommended to suitably amend the law and relax this condition.
- ◆ Supreme Court in its decision rendered in the case of *Larsen & Toubro*, held that the employer need not collect any supporting documents with respect to LTC/LTA while computing the quantum of tax deducted at source. Finance Act, 2015 introduced a new section 192(2D) by virtue of which the person responsible for making the payment of salary, *i.e.*, the employer is obliged to collect the necessary evidence or proof in the prescribed form and manner to allow any claim for any deduction and/or tax. The employer becomes a watchdog in this whole exercise. It is recommended that the onus of genuinity of bills/proofs should be with employee.

Concluding Remarks

3. To sum up, the present provisions of LTA as contained in IT Act have become ineffective and, therefore, there is need of re structuring of these provisions. Aforesaid are a few suggestions that may be considered by the Government to make this exemption more meaningful.

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