

Government announces special cash package for central government employees

23 October 2020



Summary

Central government employees get leave travel concession (LTC) in a block of four years in which air or rail fare, as per their pay scale, is reimbursed. In addition, they are also entitled to leave encashment¹. Against the backdrop of the COVID-19 pandemic and resultant lockdown as well as disruptions in the transport and hospitality sector, employees across the private and government sectors have not been able to undertake any travel and avail their LTC.

With a view to compensate and incentivise consumption by giving a boost to expenditure, the government recently announced² a scheme for payment of LTC to employees without the need for actual travel, provided prescribed amount is spent on purchase of eligible goods and services. Further, the LTC would not be considered as a taxable benefit.

As per the government's announcement, the benefit is available to both central government and other employees. The Ministry of Finance has issued³ an office memorandum for the LTC scheme applicable for central government employees. This alert provides an overview of the same along with the mechanism for claiming the LTC benefit.

The details applicable for other than central government employees and the corresponding notification for tax exemption is awaited.

Eligibility conditions under the scheme

Coverage

- The special package covers receipt of deemed LTC fare and 10-days leave encashment as per the guidelines. The

¹ as per eligibility

² Press release dated 12 October 2020; Release ID: 1663722

³ Ministry of Finance Office Memorandum F No. 12(2)/2020-EII(A) dated 12 Oct 2020;

employee should spend specified amount on goods and services to be eligible for the scheme.

- Employee may opt for the scheme in lieu of one LTC in the block of calendar years 2018-2021.
- This scheme is applicable only for financial year 2020-21.
- It may be noted that to avail this scheme, an employee should opt for both LTC fare and the corresponding leave encashment.
- In case of LTC fare, the employee should spend up to three times of the below deemed LTC fare:

Categories of employees	Deemed LTC fare per person (round trip)
Employees entitled for business class fare	INR 36,000
Employees entitled for economy class fare	INR 20,000

⁴ i.e. 3 times of deemed fare and one time of leave encashment

Employees entitled to rail fare of any class	INR 6,000
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- Apart from deemed LTC fare, the employee should spend 10 days leave encashment on eligible goods /services.

Eligible goods/services

Eligible goods and services are those which attract Goods and Service Tax (GST) at the rate of 12% or more and are purchased from a GST registered vendor/service provider through digital mode before 31 March 2021.

Employee should obtain a voucher/ bill indicating GSTIN of vendor and the amount of GST paid.

Determination of admissible payment under the scheme

- Maximum amount of LTC entitlement will be the value of deemed fare and leave encashment.
- In case, full eligible amount⁴ is not spent, the entitlement will be calculated

depending upon the actual amount spent by the employee.

Example

Following is an example (as given in the office memorandum) for an employee (having four family members) with pay of INR 1,38,500 with eligibility for economy class air fare:

- **Leave encashment:** The eligible amount of leave encashment would be **INR 54,015** computed as per prescribed formula below:

$$\frac{(1,38,500 * 1.17) * 10}{30}$$

- **Deemed fare:** Eligible amount of deemed fare would be **INR 80,000** (i.e. INR 20,000 * four family members).
- Therefore, the total LTC entitlement would be **INR 1,34,015**⁵. To claim the above amount in full, the employee needs to spend **INR 2,94,015**⁶.
- In case the employee spends part of eligible amount (for example INR

2,40,000 only), his entitlement to LTC and leave encashment would be proportionately computed as under:

- Share of leave encashment in total eligible spending is **18 %** as computed below:

$$\frac{\text{INR } 54,015 * 100}{2,94,015}$$

- Share of deemed fare in total eligible spending is **27%** as computed below:

$$\frac{\text{INR } 80,000 * 100}{2,94,015}$$

- Thus, if the employee spends only INR 2,40,000, he will be allowed leave encashment and deemed fare of INR 1,08,000 as below:
 - INR 43,200 as leave encashment⁷
 - INR 64,800 as deemed fare⁸.
- Thus, tax shall be deducted at source from taxable portion of leave encashment. However, cash reimbursement of deemed LTC fare shall

⁵ i.e. INR 80,000 (add) INR 54,015

⁶ i.e. leave encashment of INR 54,015 (add) 3 times of deemed fare of INR 80,000, i.e. INR 2,40,000

⁷ i.e. 18 % of total spending of INR 2,40,000

⁸ i.e. 27 % of total spending of INR 2,40,000

be exempt from tax as per existing provisions.

Facility to obtain advance by employee

- An advance of up to 100% of leave encashment and 50% of the deemed fare may be paid as advance into the bank account of the employees. This would be settled based on the production of receipts towards purchase of goods/services during FY 2020-21.
- However, non-utilisation/under-utilisation of advance would be recovered as per extant provisions with penal interest.

Our comments

This scheme is a welcome move and is expected to benefit employees who have immediate plans to buy certain goods, such as electronics, home appliances, vehicles. However, the requirement to spend up to three times of the deemed fare amount may prove to be restrictive in availing the tax benefit.

Given that the objective of this scheme is to boost consumer spending, the government may also clarify whether the deduction under LTC scheme may be claimed by the employees opting for the new personal tax regime under Section 115BAC of the Act.

The current guidelines are specific only to central government employees, hence guidelines for private sector employees is eagerly awaited, especially in view of the festival season ahead.

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NEW DELHI National Office Outer Circle L 41 Connaught Circus, New Delhi 110 001 T +91 11 4278 7070	NEW DELHI 6th floor, Worldmark 2, Aerocity, New Delhi – 110 037 T +91 11 4952 7400	AHMEDABAD 7th Floor, Heritage Chambers, Nr. Azad Society, Nehru Nagar, Ahmedabad – 380 015	BENGALURU 5th Floor, 65/2, Block A, Bagmane Tridib, Bagmane Tech Park, C V Raman Nagar, Bengaluru – 560 093 T+91 80 4243 0700	CHANDIGARH B-406A, 4th Floor, L&T Elante office Building Industrial area, Phase-I, Chandigarh 160 002 T +91 172 4338 000
CHENNAI 7th Floor, Prestige Polygon 471, Anna Salai, Teynampet Chennai - 600 018 T +91 44 4294 0000	DEHRADUN Suite No 2211, 2nd Floor Building 2000 Michigan Avenue, Doon Express Business Park, Subhash Nagar, Dehradun 248 002 T +91 135 264 6500	GURGAON 21st Floor DLF Square Jacaranda Marg, DLF Phase II, Gurgaon 122 002 T +91 124 462 8000	HYDERABAD 7th Floor, Block III White House Kundan Bagh, Begumpet Hyderabad 500 016 T +91 40 6630 8200	KOCHI 7th Floor, Modayil Centre Point, Warriam Road Junction, MG Road, Kochi 682 016 T +91 484 406 4541
KOLKATA 10C Hungerford Street 5th Floor, Kolkata 700 017 T +91 33 4050 8000	MUMBAI 16th Floor, Tower II One International Centre SB Marg, Prabhadevi (W) Mumbai 400 013 T +91 22 6626 2600	MUMBAI Kaledonia, 1st Floor, C Wing (Opposite J&J office) Sahar Road, Andheri East, Mumbai - 400 069 T +91 22 6176 7800	NOIDA Plot No. 19A, 7th Floor Sector – 16A, Noida 201 301 T +91 120 4855 900	PUNE 3rd Floor, Unit No 309 to 312, West Wing, Nyati Unitree Nagar Road, Yerwada Pune- 411 006 T +91 20 6744 8800

For more information or for any queries, write to us at contact@in.gt.com



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