

# **Leave travel allowance (LTA) to be tax exempt only for domestic travel**

Tax exemption on leave travel allowance or LTA can be claimed only on domestic travel and cannot be clubbed with an overseas journey. If an air ticket comprises Indian and overseas components, no exemption will be provided either on the entire cost or on partial Indian travel.

This was clarified in a recent ruling by the Chandigarh bench of the Income Tax Appellate Tribunal (ITAT) while hearing an appeal of a PSU bank employee. The employee, Om Prakash Gupta, had argued that since the final destination was India, the entire airfare claimed by him should be tax exempt. His travel included visits to Singapore and Malaysia.

Gupta further appealed that if not the entire amount, at least the cost incurred on the Indian leg of the journey should be considered for tax exemption. But the ITAT bench denied his appeal. "Section 10 (5) of the Income Tax Act and Rule 2B do not stipulate that journey to any place in India would be made via a place outside India.

The intention of the legislature was certainly not to grant exemption for reimbursement of the value of the LTA where the journey was performed via a foreign country," the bench observed, ruling out any exemption.

The LTA exemption is available for travel expenses (comprising air, road or rail fare) by the employee and his family for two journeys performed in a block of four calendar years, subject to fulfilling various conditions. The current block of four years expires in December this year.

Under the tax laws, even for domestic travel, where the journey is performed in a circular form touching different places, the exemption is limited to the travel expenses that would be admissible from the place of origin to the farthest point reached in India, by the shortest route.

The Central Board of Direct Taxes in its October 5, 2012 circular relating to TDS from salary income for 2012-13, had made LTA claim processing norms stringent. It was made mandatory for employers to satisfy themselves that the LTA claimed was treated as tax exempt in accordance with the laws. Further, employers were required to collect and preserve supporting evidence of LTA claims made by employees.

These strict processing norms are likely to continue for current financial year. "As the Chandigarh ITAT has clarified that even the India portion of the airfare is not eligible for tax exemption, due care must be taken while computing TDS against employees' salaries," claims a vice-president (payroll) of an IT company.

(Economic Times)