

Save Tax by Taking Reimbursement of Medical Expenses instead of Medical Allowance.

As a general principle, any perquisite in one form of a medical allowance is typically taxable. On the other hand, reimbursement by an employer of medical expenses incurred by an employee is generally tax-free. Read on below for the full picture

Medical Expenses Allowance

If a fixed allowance is received by an employee for the discharge of medical expenses, it is a taxable perquisite. Hence, an employee should avoid the receipt of an allowance for medical expenses but should rather take medical reimbursement, so that it is tax-free. For greater details reference may be made to MEDICAL TREATMENT IN INDIA OF AN EMPLOYEE'S FAMILY MEMBER.

Medical Expenses: Reimbursement

Where an employee is allowed to get reimbursement for the medical expenses incurred by him at a hospital maintained by the employer or a Government approved hospital, the entire amount of reimbursement is tax-free and is not treated as a taxable perquisite. For greater details, please refer to Medical Treatment in India of an Employee's Family Member.

Medical Reimbursement up to Rs. 15,000

If an employee receives some money for his medical treatment or the treatment of any member of his family or any of his dependant relatives then a sum up to Rs. 15,000 p.a. is not treated as a taxable perquisite as per Clause (b) of the provision to Section 17 (2) of the I.T. Act. This exemption is enjoyed by the employee only if the expenditure is actually incurred on his medical treatment or for treatment of any member of the family or a dependant relative. It may be noted here that there is no condition that the medical treatment should be at any of the approved hospitals. It could be at any place and from any type of doctor belonging to Allopathic, Ayurvedic, Unani or Naturopathy system of medicine. If medical allowance is received then it would be fully taxable.

Medical Treatment Abroad

Foreign medical treatment could be of the employee as well as of any member of his family. We have given details of the exemption available to the employee for a member of his family under the heading MEDICAL TREATMENT ABROAD OF AN EMPLOYEE'S FAMILY MEMBER. "Family" for this purpose means:

- i) The spouse and children of the individual;
- ii) The parents, brothers and sisters of the individual or any of them wholly or mainly dependant on the individual.

Where the medical treatment is of the employee, then also the expenditure incurred by the employer on his medical treatment outside India as well as the expenditure incurred by the employer on the travel or stay abroad of the employee and of one attendant who accompanies the employee is not to be treated as taxable perquisite as per the Proviso (vi) to Section 17(2) of the I.T. Act. This is, of course, subject to the main condition that the gross total income of the employee as computed before including in it such expenditure does not exceed Rs. 2 lakhs.

Medical Treatment Abroad: Allowance

Where an employee is allowed an allowance instead of reimbursement by the employer of the expenditure of medical treatment abroad, it is to be treated as a taxable allowance and a part of the taxable salary of the employee.

Medical Treatment Abroad of an Employee's Family Member

Clause (vi) of the proviso to Section 17(2) of the I.T. Act, 1961 provides that any sum paid by the employer for any expenditure incurred by the employee or any member of the family of such employee outside India, is fully exempt from income tax. Further, the expenditure incurred by the employer on travel or stay abroad of the employee or any member of the family of such employee for medical treatment and travel and stay abroad of one attendant who accompanies the patient in connection with such treatment is also completely exempt from tax and is not treated as a taxable perquisite. This is of course subject to an important condition that the exemption would apply only in the case of an employee whose gross total income as computed before including the said expenditure does not exceed Rs. 2 lakhs. It may also be mentioned here that the expression "hospital" includes dispensary or a clinic or a nursing home as well.

Medical Treatment Abroad: Reimbursement

If an employee gets reimbursement of the expenditure incurred on his medical treatment or of any member of his family outside India or on his travel or stay abroad or of a member of the family and also of one attendant accompanying the patient, then also the amount of reimbursement would not be treated as a taxable perquisite. This is because the reimbursement of the foreign medical treatment would be considered as expenditure incurred by an employer and is described under the head MEDICAL TREATMENT ABROAD OF AN EMPLOYEE'S FAMILY MEMBERS.

Medical Treatment Abroad: Travel & Stay Abroad of Accompanying Attendant

If an employee or his relative is provided with free medical treatment outside India, then the amount of any expenditure incurred by the employer on the medical treatment of the employee or any member of the family of such an employee is exempt. The amount of expenditure incurred by the employer on travel or stay abroad of the employee or any member of the family of such an employee for medical treatment and also on travel and stay abroad of one attendant who accompanies the patient in connection with the treatment is also completely exempt from I.T. Such expenditure is not treated as a taxable perquisite as per Clause (vi) of the proviso to Section 17(2) of the I.T. Act. Of course this

exemption is subject an important condition about the monetary limit of the salary of the employee. Thus, it is provided that this exemption will be enjoyed by the employee whose gross total income, as computed before including the expenditure incurred on medical treatment or on travel and stay abroad, does not exceed Rs. 2,00,000. Thus, proper tax planning requires that an employee who is likely to receive or who is interested in getting this facility of free travel and stay abroad for self and attendant for treatment abroad should see that the gross total income of the employee does not exceed Rs. 2 lakhs.

Medical Treatment at a Hospital Maintained by the Employer

The value of any medical treatment provided to an employee or any member of his family in any hospital maintained by the employer is fully exempt from income tax without any monetary limit under the provisions of Clause (i) of the proviso to Section 17 (2) of the I.T. Act, 1961.

Medical Treatment at a Nursing Home

Nursing home is included within the definition of "Hospital" as per Clause (i) of the Explanation below Section 17 (2) of the I.T. Act. Thus, treatment in a nursing home, or a dispensary or a clinic or a hospital is treated in the same manner as per the proviso to Section 17(2) of the I.T. Act. If the nursing home is maintained by the employer the value of any medical treatment provided to an employee or any member of his family is completely exempt from income tax. Where any sum is paid by the employer in respect of any expenditure actually incurred by the employee on his medical treatment or the treatment of any member of his family in any nursing home maintained by the government or any local authority or any other nursing home approved by the government for the purposes of medical treatment of employees, it is completely exempt from income tax. Likewise, if any sum is paid by the employer in respect of any expenditure on the treatment of the employee or any member of his family in any private hospital or nursing home approved by the Chief Commissioner of Income Tax having regard to the prescribed guidelines for the purpose of medical treatment of prescribed diseases, it is not treated as a taxable perquisite but is completely exempt from income tax as per Clause (ii) (b) of the proviso to Section 17 (2) of the I.T. Act. Hence before getting treatment in a nursing home the employee should make sure that either the nursing home is maintained by the employer or by the government or by a local authority or is an approved one for the treatment of government employees. In the case of private nursing homes the employee should make sure that it is approved for the treatment of certain prescribed diseases or ailments by the Chief Commissioner of Income Tax of the area concerned. If this precaution is taken by the employee, he can get the facility of tax-free medical treatment in a nursing home. Thus, proper tax planning is necessary for getting exemption in respect of medical treatment in a nursing home. The employee should file a certificate from the Hospital regarding the disease and the amount paid. It is advised that the employer should maintain a list of approved nursing homes so that the employees can be treated free of I.T. at such nursing homes and in case of emergency, time is not lost by the employer or employee in ascertaining whether a particular nursing home is approved for the purpose of tax-free medical treatment. Also See: MEDICAL TREATMENT OF PRESCRIBED DISEASES OR AILMENTS AT AN APPROVED HOSPITAL.

Medical Treatment at a Private Hospital

An employee may sometimes be given treatment at a private hospital and not necessarily at a hospital maintained by the Government or any local authority, which may not be approved for the medical treatment of employees of the Government. Such a hospital is normally treated as a private hospital. If such a private hospital is approved by the Chief Commissioner of Income Tax, having regard to the prescribed guidelines for the purposes of medical treatment, any sum paid by the employer in respect of any expenditure actually incurred by the employee on his medical treatment or treatment of any member of his family is completely exempt from income tax under Clause (ii) of the proviso to Section 17 (2) of the I.T. Act. Hence, proper planning should be adopted for getting an employee or a member of his family treated at a private hospital which is approved by the Chief Commissioner for the purposes of such medical treatment by way of attaching a certificate with the I.T. Return from the hospital specifying the disease and the amount paid to the hospital. Also See: MEDICAL TREATMENT AT A NURSING HOME.

Medical Treatment at an Approved Hospital

The expenditure incurred by the employer on the indoor treatment at an approved hospital is not treated as a perquisite within the meaning of Section 17(2) of the I.T. Act. Please see MEDICAL TREATMENT IN INDIA OF AN EMPLOYEE'S FAMILY MEMBER.

Medical Treatment at Hospital: Allowance

If an employee instead of being provided free treatment in a hospital is given an allowance for hospital treatment, the allowance would not be liable to exemption under the Proviso to Section 17 (2) and would be taxed in the hands of the employee. Hence, proper tax planning should be adopted by the employee so that he does not receive any hospital treatment allowance as such but receives reimbursement of expenditure or payment for hospital treatment in full by the employer.

Medical Treatment at Hospital: Reimbursement

Where an employee or any member of his family is provided with free medical treatment in any hospital maintained by the employer, the value of the perquisite is nil. The same is the case where free hospital treatment is either provided or is reimbursed by the employer for an employee or a member of his family in any hospital maintained by the Government or any local authority or any other hospital approved by the Government for the purposes of the medical treatment of its employee or any private hospital approved by the Chief Commissioner of Income Tax for the treatment of prescribed ailments and diseases. This is so under the provisions of the proviso to Section 17 (2) of I.T. Act, 1961.

Medical Treatment at Unrecognized Hospitals

If an employee or a member of his family is provided with free medical treatment in an unrecognized hospital, it is not exempt from income tax under the proviso to Section 17(2) of the I.T. Act. However, by various judicial decisions it has been held that the value of medical reimbursement facility provided by the employer to employee should not be treated as a taxable perquisite. Hence on general grounds without resorting to the specific provisions of the proviso to Section 17(2) of the I.T. Act, the value of the

medical treatment in unrecognized hospitals is also to be treated as tax-free. But this is likely to cause litigation. Hence as far as possible, employers and employees should avoid medical treatment of the employees in unrecognized hospitals or clinics. However, upto Rs. 15,000 p.a. medical treatment at unrecognized hospitals would also not be income.

Medical Treatment in India of an Employee's Family Member

Under the provisions of Section 17(2), a good deal of the expenditure incurred by the employee on medical treatment, paid for by the employer, is not treated as a taxable perquisite. This is secured by the proviso to Section 17(2) of the I.T. Act which says that the value of any medical treatment provided to any member of his family in any hospital maintained by the employer is completely exempt from income tax in the hands of employee. Where any sum is paid by the employer in respect of any expenditure actually incurred by the employee on his medical treatment or the treatment of any member of his family-

(a) in any hospital maintained by the employer, the Government or any local authority or any other hospital approved by the Government for the purpose of medical treatment of his employees;

(b) in respect of the prescribed diseases or ailments, in any hospital approved by the Chief Commissioner having regard to the prescribed guidelines, it is not treated as taxable perquisite at all. In the latter case the employee should file a certificate from the hospital about the disease and the amount paid. Hence the employee should make proper tax planning and see that either the hospital where he or the member of his family is treated is a Government hospital or an approved hospital or is a private one, then it is approved by the Chief Commissioner of Income Tax. This is in addition to a sum up to the maximum extent of Rs. 15,000 paid by the employer in respect of any expenditure actually incurred by the employee on his medical treatment or any member of the family in a previous year. This is also exclusive of the expenditure incurred by the employer on the medical treatment of the employee or any member of the family outside India which is described in a separate heading given below. For the prescribed diseases, etc. refers to MEDICAL TREATMENT OF PRESCRIBED DISEASES & AILMENTS AT AN APPROVED HOSPITAL.

Medical Treatment of Prescribed Diseases or Ailments at an Approved Hospital

We have seen elsewhere that the medical benefits in respect of any sum paid by the employer directly to a hospital on account of treatment of the employee or any member of his family is completely exempt from income tax under the provisions of Clause (ii) (b) of the proviso to Section 17 (2) of the I.T. Act, 1961 provided such a hospital is approved by the Chief Commissioner of Income Tax. In approving such a hospital, the Chief Commissioner of Income Tax has to pay proper regard to the guidelines for medical treatment of prescribed diseases or ailments for the treatment of an employee or any member of his family at such a hospital. Rule 3 A of the I.T. Rules, 1962 lays down the said guidelines. For the sake of easy reference Rule 3 A is reproduced below:

"Rule 3 A (1) In granting approval to any hospital for the purposes of sub-clause (b) of Clause (ii) of the proviso to Clause (2) of Section 17, the Chief Commissioner shall satisfy himself that the hospital is registered with the local authority and fulfills the following requirements, namely:

- (i) the building used for the hospital complies with the municipal bye-laws in force;
- (ii) the rooms are well ventilated, lighted and are kept in clean and hygienic condition;
- (iii) at least ten iron spring beds are provided for patients;
- (iv) at least one properly equipped operation theater is provided, with a minimum floor space of 180 square feet and with a separate sterilization room;
- (v) at least one labour room is provided, with a minimum floor space of 180 square feet, in case the hospital provides medical service for maternity cases;
- (vi) aseptic conditions are maintained in the operation theatre and the labour room;
- (vii) a duty room is provided for the nursing staff on duty;
- (viii) adequate space for storage of medicines, food articles, equipment's, etc, is provided;
- (ix) the water used in the hospital or nursing home is fit for drinking;
- (x) adequate arrangements are made for isolating septic and infectious patients;
- (xi) the hospital is provided with and maintains:
 - (a) high pressure sterilizer and instrument sterilizer;
 - (b) oxygen cylinders and necessary attachments for giving oxygen ;
 - (c) adequate surgical equipment's, instruments and apparatus including intravenous apparatus ;
 - (d) a pathological laboratory for testing of blood, urine and stool ;
 - (e) electro-cardiogram monitoring system ;
 - (f) stand-by generator for use in case of power failure;
- (xii) there is at least one qualified doctor available on duty around the clock for every twenty beds or fraction thereof,
- (xiii) in hospitals providing intensive care unit facilities, there are at least two qualified doctors available on duty around the clock exclusively for such intensive care unit;
- (xiv) one nurse is on duty around the clock for every five beds or a fraction thereof;

(xv) in hospitals providing intensive care unit facilities, there are at least four nurses provided exclusively for every four beds or fraction thereof for such intensive care unit;

(xvi) the hospital maintains a record of health of every patient containing information about the patient's name, address, occupation, sex, age, date of admission, date of discharge, diagnosis of disease and treatment undertaken.

(2) For the purpose of sub-clause (b) of clause (ii) of the proviso to clause (2) of Section 17, the prescribed diseases or ailments shall be the following namely,

(a) cancer;

(b) tuberculosis;

(c) acquired immunity deficiency syndrome;

(d) disease or ailment of the heart, blood, lymph glands, bone marrow, respiratory system, central nervous system, urinary system, liver, gall bladder, digestive system, endocrine glands or the skin, requiring surgical operation;

(e) ailment or disease of the eye, ear, nose or throat, requiring surgical operation;

(f) fracture in any part of the skeletal system or dislocation of vertebrae requiring surgical operation or orthopedic treatment;

(g) gynecological or obstetric ailment or disease requiring surgical operation, cesarean operation or laparoscopic intervention;

(h) ailment or disease of the organs mentioned at (d), requiring medical treatment in a hospital for at least three continuous days;

(i) gynecological or obstetric ailment or disease requiring medical treatment in a hospital for at least three continuous days;

(j) burn injuries requiring medical treatment in a hospital for at least three continuous days;

(k) mental disorder, neurotic or psychotic requiring medical treatment in a hospital for at least three continuous days;

(l) drug addiction requiring medical treatment in a hospital for at least seven continuous days;

(m) anaphylactic shocks including insulin shocks, drug reactions and other allergic manifestations requiring medical treatment in a hospital for at least three continuous days.

Explanation: For the purpose of this rule -

(a) "qualified doctor" means a person who holds a degree recognised by the Medical Council of India and is registered by the Medical Council of any State ;

(b) "nurse" means a person who holds a certificate of a recognised Nursing Council and is registered under any law for the registration of nurses ;

(c) "surgical operation" includes treatment by modern methodology such as angioplasty, dialysis, lithotripsy, laser or cryo-surgery.