Leave Travel Allowance (LTA)

LTA is one of the most common elements of compensation offered by employers to employees mainly due to the tax benefits attached to LTA. This is also known as Leave Travel Concession [LTC]

Section 10(5) of the Income-Tax Act, 1961, read with Rule 2B, provides for the exemption and outlines the conditions for exempting LTA.

Who can claim exemption:-

LTA exemption can be claimed by an employee for his travel to any place in India with or without his family.

What is exempt:-

Only fare charges are exempt from tax. This means that expenses such as food, hotel stay etc. not eligible for exemption.

Exemption available every year ?

No. The tax rules provide for exemption only in respect of two journeys performed in a block of four calendar years. This means that one can claim exemption for his travel performed in two times in a block of 4 years.

The current block runs from 2010-2013. Next block is 2014-2017. If an individual does not use his exemption during any block on any one or on both occasions, their exemption can be carried over to the next block and used in the calendar year immediately following that block.

To put it differently, if a taxpayer has not able to claim both the exemption in a block of 4 years or he has claimed only one exemption in a block of 4 years, he can carry forward the exemption to the next block and this is to be claimed in the 1^{st} year of the next block.

Example:- Mr. X claimed only one LTA for the block 2010-2013. In this case he can carry forward the balance one LTA to the next block of 2014-17 and this carry forward LTA to be claimed in 2014 itself. In this case, Mr. X can avail tax exemption to 3 LTAs during the block 2014-17; ie two regular exemptions for the block 2014-17 + one carry forward from the previous block.

Actual Travel is necessary for claiming exemption?

Yes. For getting the exemption, actual travel is necessary.

Proof of travel is required to be given to the employer?

No. Supreme Court has held in the case of **Larsen & Toubro** that employers are under no statutory obligation to collect bills and details to prove that the employees had utilized the LTA amount.

Employers while assessing the travel allowance claims do not need to collect proof of travel to submit to the tax authorities. Though it is not mandatory for employers to demand proof, they still have the right to demand documentary proof depending on their internal policy. The Judgment of Supreme Court has only moved the responsibility from the employer to the employee. The assessing officer can ask for proof of travel and expense details from the employee on the employee's tax assessment.

How the taxable income is calculated?

LTA received from the employer	xxxx
Less exemption	xxxx
Amount chargeable to tax [balance if +ve]	xxx

LTA exemption scheme in brief:-