



LTA

# Go on a holiday to save tax

If you are entitled to leave travel allowance, you can claim it to reduce your tax. Find out when and how to claim it before you catch your next flight.

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If you were planning a trip to the hills this summer, it's a cinch that you will enjoy it more after reading this story. For, we shall tell you how you can reduce your taxable income even as you have fun with your family. Yes, you can do this by availing of the leave travel allowance (LTA) that is part of your salary. "The amount paid by an employer to an employee for travelling anywhere in India, along with his family, is exempt from tax subject to certain provisions," says Sunil Talati, former president of the Institute of Chartered Accountants of India.

Read on to know how you can make the best use of your LTA.

## What you are entitled to

You may be entitled to a high LTA, but only the expenses you have incurred on travelling with your family within the country can be claimed as exemption under Section 10(5) of the Income Tax Act. Expenses on hotel rooms, sightseeing, food, etc, cannot be included. This means that you cannot claim exemption for the money you spent on your stay at a five-star hotel.

The family can comprise your spouse, two children, brothers, sisters and parents, if they are dependent on you.

"You cannot claim for more than two children unless the second birth has resulted in multiple children," says chartered accountant

Paras Savla.

Don't think you can outsmart the taxman by taking a circuitous route to reach your destination. Expenses can only be claimed for travel by the shortest possible route. "Though it's difficult to crosscheck the route, the claim amount should reflect this. So, you can go from Tamil Nadu to Kerala, but you cannot go to Delhi from Tamil Nadu and then take a flight to Kerala to claim your expenses," says Rajesh Srinivasan, leader, global employer service, Deloitte India.

The tax exemption is limited to the fare component, which is economy class air fare, first class AC rail fare or first/deluxe class bus fare. However, if there is no public transport, you can hire a taxi or rent a car and claim for expenses equivalent to first class AC rail fare.

While most companies ask their employees to furnish proof of travel, such as boarding passes, tickets and rental receipts, some don't. Srinivasan says, "The Supreme Court has stated that the employer does not need to collect bills from his employees as proof to make the allowance tax-exempt." Your employer will certify the LTA exemption in Form 16.

## When you can claim

Though you are paid the travel allowance in your salary every financial year, it can be claimed for only two journeys in a block of four calendar years, which are fixed. "The block of four years are considered according

## Actual expenses of LTA exempt up to



**Air**  
Economy class fare.



**Rail**  
First class AC fare.



**Road**  
Equivalent to first class AC rail fare.

Only for the shortest route.

to the Income Tax Act and the current one is from 2010 to 2013," says Mumbai-based chartered accountant Mehul Sheth. "So, if you are eligible for an annual LTA of ₹20,000, you can claim exemption up to ₹40,000 in a block. You cannot claim exemption of ₹2 lakh even if you have actually spent that much," he says.

You can claim for two journeys in the same year, provided you make no more LTA exemption claims for the rest of the block. "The Act says twice in a block of four years," says Srinivasan.

If, however, you have not been able to travel during a block, you can carry forward the LTA exemption to the first year of the next block. This means you can claim for even three journeys. "One can claim for three journeys subject to certain conditions. It is allowed for the first year of the new block, when you have carried forward exemption from the previous block. So, in

the present situation you can claim in the first year of block that is 2010-2011, for a journey of previous block that is 2009. Plus you can make two more claims for this block (2010-2013)," says Srinivasan.

If both you and your spouse are eligible for LTA, you can claim exemption for separate journeys. What if there are only two journeys undertaken by the family in a block? You could consider dividing the expenses. "The husband and wife can split the cost of the journey and claim them separately. However, there should be no duplication," says Talati. So, the husband can book the air tickets for one way and the wife can do so for the return journey.

The split can also be determined by the income slab of the husband and wife. "If the claim is to be made, it is better that the one who has a lower income does so. This is because it will not make much of a difference for the person with the higher salary to reduce his taxable income," says Srinivasan.

## What if you don't claim LTA?

It's important to remember that when you are claiming exemption for LTA, it should be for the period when you were on leave. After all, you can hardly travel to Coimbatore while sitting in office. You can avail of the privilege or unpaid leave. Typically, the leave is sanctioned for five to eight days.

"If you do not provide a declaration to your employer to claim LTA, it will be added to your salary and taxed according to the

relevant income tax rates," says Srinivasan. However, if you forget to submit the proof of travel and your employer deducts tax on the LTA amount, you can claim exemption in your income tax return and you will get a refund.

## Maximise the benefit

Getting a higher LTA entitlement can help reduce your taxable income. Says Srinivasan: "It makes sense for people who travel to far off places to have a bigger travel allowance as part of their salary."

Though LTA can be claimed only for journeys within India, many tour organisers offer trips where they integrate foreign holidays with LTA plans without letting you lose out on the tax benefit. For instance, Air India Holidays offers 'LTC Bonanza' from Chennai/Bangalore to Kashmir with a trip to Dubai included in the package. The 8-night, 9-day tour costs about ₹1 lakh for a couple.

There are others operators who offer a Delhi-Thiruvananthapuram-Delhi trip, which includes a 3-night stay at either Singapore or Malaysia for ₹52,500 per person, stating clearly that you are entitled to a ₹40,900 exemption for the air fare to and from Thiruvananthapuram.

Be it Kashmir or Kuala Lumpur, make sure you claim your tax exemption in this block year.

Secure your house when on a holiday.  
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