

Tax Flash News

26 May 2023

Exemption for leave encashment raised to INR 2,500,000

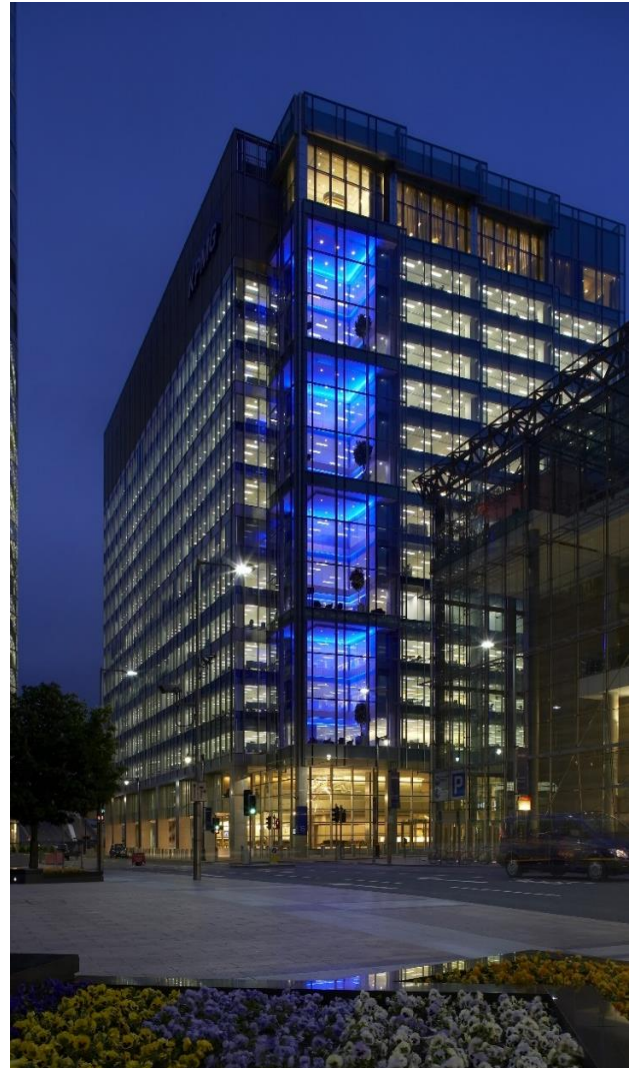
During Budget 2023, the Finance Minister had proposed to increase the tax exemption of leave encashment for non-government salaried employees from INR 300,000 to INR 2,500,000. In this regard, the Central Board of Direct Taxes (CBDT) has issued a press release¹ to notify for the increase in tax exemption of the leave salary encashment limit to INR 2,500,000.

As per the notification, the CBDT vide its press release, has clarified the following:

- The income tax exemption limit² on earned leave encashment for non-government employees is enhanced to INR 2,500,000 from INR 300,000.
- The relief applies to the period of earned leave in the credit of the employee at the time of retirement whether on superannuation or otherwise.
- The aggregate amount exempt² from income-tax should not exceed the limit of INR 2,500,000 where any such payments are received by a non-government employee from more than one employer in the same previous year.
- Further, such amount exempt² shall not exceed the limit (INR 2,500,000) as reduced by the tax exemption already allowed in the total income of the employee in any previous year or years.
- This notification shall be deemed to have come into force with effect from the 1st day of April 2023, effective tax year 2023-24.

Our comments

In case of non-government employees, the earlier limit of INR 300,000 for tax exemption on leave encashment on retirement or resignation was fixed in year 2002. The current revision in the tax exemption limit to INR 2,500,000 for leave encashment will offer relief to non-government employees.



¹ Notification No. 31/2023 dated 25 April 2023

² under section 10(10AA)(ii) of the Income-tax Act, 1961

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