



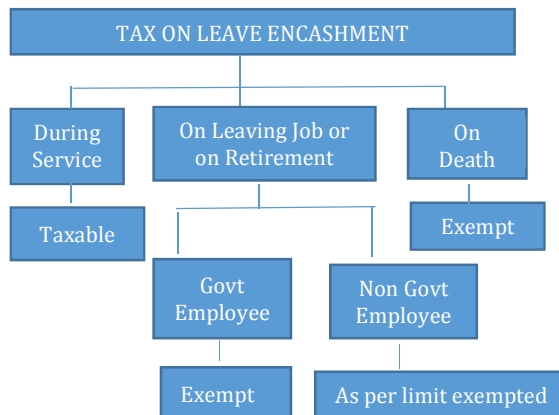
Recent update on
Amendment in Exemption Limit of Leave Encashment w. e. f FY 2023-24

31.05.2023

Leave Salary

Leave salary means the salary for the period of leave not availed by the employee. The encashment of accumulated leave can be at the time of retirement or during the continuation of service.

The provisions relating to taxation of leave salary are as follows.



A. Encashment of leave during the continuation of service

Leave Encashment received during continuation of service by Government or Non-Government employees is charges to

tax in the year of such encashment. However, relief under Section 89 of IT Act is available.

B. Encashment of leave at the time of retirement /resignation

Encashment of leave at the time of retirement can further be classified as (i) leave encashment at the time of retirement by Government employee, and (ii) leave encashment at the time of retirement by non-Government employee

(i) Tax treatment in the hands of Central Government or State Government employees

In case of a Central Government or State Government employee, any amount received encashment of accumulated leave at the time of retirement/superannuation is exempt from tax under Section 10 (10AA)(i).

(ii) Tax treatment in the hands of other employees

In case of Non-Government employees (i.e. other than Central or the State Government employees) leave salary is exempt from tax under Section 10 (10AA) (ii) will be atleast of the following:

1. Period of earned leave in months (*) x
Average monthly salary (**)

2. Average monthly salary (**) x 10 (i.e. 10
months' average salary)

**3. Maximum amount as specified by the
Central Government i.e. Rs. 25, 00,000
w.e.f 01.04.2023.**

4. Leave Encashment actually received at the
time of retirement

**(*)Period of earned leave in months is to be
computed as follows:**

1. Number of completed years of service (i.e.,
ignoring part of the year)

2.No. of days of leave entitlement for each year of
service as per service rules (if leave entitlement as
per service rules exceeds 30 days per year of
actual service, then it should be restricted to 30
days)

3. Gross total leave (in days) (i.e., 1 x 2)

4. Leave encashed or availed during the
continuation of service (in days)

5. Period of earned leave (in days) (i.e., 3 - 4)

6. Period of leave in months (i.e., days derived at 5
above ÷ 30)

()Meaning of Average Monthly Salary is as
follows:**

Average monthly salary means average salary
drawn in past ten months immediately
preceding the retirement (i.e., the day of
retirement). Salary for this purpose will include
following only:

1. Basic Salary

2. Dearness allowance considered

while considering retirement benefits (i.e. DA in
terms)

3. Commission based on fixed percentage of
turnover achieved by the employee.

Apart from above items, salary for this purpose
does not include any other allowance or
perquisites.

C. Encashment of leave at the time of Death

Leave encashment received by the Legal heirs of
the deceased employee will be fully exempt from
tax.

- **Leave Encashment exemption is
increased to ₹25 lakhs w.e.f 01.04.2023
as per CBDT Notification No 31/2023**
- **As per the press release dated 25th May
2023, the amount exempt from income-
tax under section 10(10AA)(ii) of the Act
shall not exceed the limit of ₹ 25 lakh as
reduced by the tax exemption already
allowed in the total income of the
employee under section 10(10AA)(ii) of
any previous year or years.**



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