

Income Tax: Increase in the leave encashment exemption limit**Introduction**

Section 10(10AA) of the Income-tax Act, 1961 ('the Act') exempts income received by any employee on retirement, superannation, etc. from the employer to a maximum extent of INR 3 lakh. Clause (1) applies to the employees of Central and State governments. Clause (ii) applies to private sector employees where the exemption is restricted to the lesser of the following:

1. Actual leave encashment received
2. 10 months average salary preceding retirement
3. INR 3 lakh

Increase in the exemption limit

On 25 May 2023, the Ministry of Finance notified an increase in the limit by replacing it with INR 25 lakh. This will take effect from 1 April 2023.

Thus, any amount received on account of leave encashment by private sector employees on or after 1 April 2023, will be exempted to a maximum of INR 25 lakh instead of the erstwhile INR 3 lakh.

Weblink

<https://egazette.nic.in/WriteReadData/2023/246047.pdf>

<https://www.pib.gov.in/PressReleasePage.aspx?PRID=1927265>

Therefore

As per our honourable finance minister, the tax exemption under section 10(10AA) on leave encashment on the retirement of non-government salaried employees was last fixed in the year 2002, when the highest monthly basic pay in the government was INR 30,000. The aforesaid notification is issued to align the exemption limit to the current salary rates and hence provides a realistic base for the exemption calculation.