

CORPORATE OFFICE, TAXATION SECTION  
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BHARAT SANCHAR NIGAM LIMITED  
[A Government of India Enterprise]

No. 1001-04/2011-12/Taxation/BSNL/LE/196

Dated: 4/05/2012

To  
All Heads of Telecom Circles/  
Metro Districts/ Maintenance Regions/  
Projects/Stores/BRBRAITT/ ALTTC,  
All other Administrative Units, BSNL.

**Sub.: TDS on Leave encashment amount at the time of retirement-Reg.**

Several Telecom Circles, individual employees of BSNL as well as executive associations have sought clarifications relating to deduction of Tax at Source on Leave encashment amount payable at the time of retirement to the BSNL employees.

The subject matter has been examined in Corporate Office and it was decided to refer to our corporate tax consultant for opinion. Keeping in view the opinion of tax consultant relating to TDS on leave encashment, the following guidelines are issued:

1. The full amount received by a retiring absorbed employee 'as the cash equivalent of the leave salary in respect of the period of earned leave at his credit at the time of his retirement', under sub-clause (i) of Section 10(10AA), Income Tax Act, 1961, calculated as per the accepted norm adopted for calculating the Amount due for the Government service period, **will be eligible for full exemption, on the date of absorption, in BSNL from DOT.**
2. As per sub clause (ii) of the Section 10(10AA) of Income Tax Act, 1961, subject to the exemption limit of Rs. 300,000/-, amount calculated equivalent to leave salary drawn by the employee on or after the date of absorption in BSNL (i.e., PSU Service) is taxable.
3. Keeping in view the above position,
  - (a) If BSNL absorbed employee already had 300 days standing to his credit at the time of his retirement from Service i.e., his permanent absorption into BSNL, the entire amount of leave encashment is eligible for full exemption under section 10(10AA) sub clause (i) of Income Tax Act, 1961, at the time of payment on superannuation /retirement etc. of the employees.
  - (b) If an absorbed employee has less than 300 days standing to his credit at the time of his retirement from Government Service i.e., his permanent absorption into BSNL, leave encashment amount for the balance period (**not exceeding 300 days in total as prescribed**) subject to the exemption limit of Rs. 3,00,000/- will be taxable

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under sub clause (ii) of section 10(10AA) of Income Tax Act, 1961, at the time of payment on superannuation /retirement etc. of the employees.

4. Taking into consideration the above guidelines,


(a) The earned leave account of Government Service at their credit as on the date of permanent absorption into BSNL is to be calculated proportionately as per service records and to allow the full exemption upto 300 days on the date of superannuation/retirement etc. as an employee of the Central Government under sub clause (i) of section 10(10AA) of Income Tax Act, 1961.

(b) If leave encashment at credit is less than 300 days at the time of absorption, the balance leave earned during BSNL (PSU) service will be taxable subject to exemption limit of Rs. 3,00,000/- under section 10(10AA) sub clause (ii) of Income Tax Act, 1961, at the time of superannuation/retirement etc.

5. For directly recruited employees by BSNL on or after 1/10/2000, the TDS on leave encashment will be made as per Section 10(10AA) sub clause (ii) i.e., leave encashment amount exceeding Rs. 3,00,000/- (which is exempted) is taxable.

All the Heads of offices/DDOs are requested to ensure that the TDS is regulated as above before making the payment of Leave Encashment.

This is issued with the approval of competent authority.

  
(K Jothi)  
DGM (Taxation)