

Personal Finance

How is Covid related financial relief granted by employer taxed?

Mukesh Kumar | Updated on September 30, 2021



Here are a few nuances concerning Covid relief and the government's clarification on taxation.

It is vital to know the tax treatment for money received for treatment, ex-gratia to family in case of death of employees

The pandemic had created significant havoc in the lives of the people. Corporates, charities and well-wishers have shown compassion towards the affected people by contributing in various forms. However, this act of humanity has its uncertainty from an income-tax standpoint. The government was gracious enough to take cognizance of a few uncertainties and issued a press release dated June 25, 2021 to clarify the taxation standpoint on some accounts. These reliefs are subject to an amendment to the Income Tax Act, though. Against this backdrop, we have discussed few nuances concerning Covid relief and the press release of the government. The imaginary conversation between Yaksha and Yudhishthira explains some aspects.

Yaksha – Hi Yudhi, is the money received from an employer/others for medical treatment taxable?

Yudhishthira - Medical reimbursements provided by the employer for a prescribed ailment in an approved hospital will not be treated as a taxable perquisite. However, Covid-19 is not a prescribed ailment/disease to date under Rule 3A(2). Therefore, the reimbursement could be treated as a perquisite. To address this concern, a press release was issued to clarify that any amount received from an employer for medical treatment due to Covid-19 will not be subject to tax in the hands of employees. This relief mentioned in the press release does not differentiate between employees opting for the old or new taxation regimes.

For amounts received from anyone other than employers, Sec. 56(2)(x) (a.k.a “Gift Tax”) taxes the recipient if the aggregate amount exceeds ₹50,000 in a year (excludes receipts from prescribed relatives). Therefore, there was a question about what would happen if a person received money for medical expenses beyond the limit. Would it trigger taxation ? The press release has clarified that receipt for Covid-19 treatment will not be subject to tax.

Yaksha – Does the relief mentioned above include assistance in financial and non-financial forms?

Yudhishthira – The non-financial assistance from the corporates/charities include donating oxygen cylinders, ventilators, ICU Beds, testing kits, medicines, etc. The press release has addressed only financial aid by employers to employees or their family members and is silent on non-financial assistance.

Yudhishthira – Sec.17(2)(iii) r.w. Rule 3A(2) refers only to reimbursement of medical treatment, and there is an apprehension that vaccination is only preventive care. Therefore, vaccination costs could be treated as perquisite. However, one can refer to Section 80D, wherein the deduction for health insurance premium is granted to preventive health check-ups up to a specific limit. We need to see what happens on this front.

Yaksha – Can you explain the taxability of gratuitous payment received by the deceased family from the employer or others?

Yudhishthira –Sec. 56(2)(x) is equally applicable in this situation. To relieve the grieving families, the press release has clarified that the exgratia paid by the employer to the deceased family is fully exempt. If the exgratia is received from a person other than an employer, the amount is exempt up to ₹10 lakh.

Yaksha – For which financial year(s), is the relief proposed for taxpayers?

Yudhishthira – The press release had mentioned relief for the Financial Year 2019-20 and subsequent years. The timeline for filing original/revised/ belated return of income for the FY 2019-20 has already expired, and the taxpayers would have filed the return taking a specific position on the taxability of various assistances. For FY 2020-21, the return filing deadline is extended to December 31, therefore the press release could be relied on. Taxpayers are advised to maintain sufficient documentation to support the relief are received towards Covid-19 medical expenses.

Yudhishthira – Yaksha, the agony that the family and the employees felt on Covid-19 is unfathomable. The tax consequences, if any, will only add to such agony. The government somewhat addresses this aspect in the press release, as you say. But one has to wait for the actual amendment to see whether the above aspects are addressed in the law per se, right?

Yaksha - That's right.

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