TRILEGAL

UPDATES

Budget 2022: Tax Relief Proposals in Light of the Covid-19 Pandemic

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The Finance Bill, 2022 has proposed tax relief on certain sums received by taxpayers on account of Covid-19 related illness or death.

In light of the hardships caused by the pandemic, the Finance Ministry had issued a press release on 25 June 2021 stating that amounts received by any person for medical treatment of Covid-19 (including amounts received for the treatment of family members) would be tax-exempt. The press release further stated that *ex-gratia* payments received by family members on the death of any person due to Covid-19 would also be tax-exempt up to specified limits. If the *ex-gratia* payment is made by the employer of the deceased person, the entire amount would be tax-exempt. However, for payments received from other persons, the amount of exemption would be INR 10 lakh in aggregate. Legislative amendments for these exemptions were to be proposed in due course.

In this backdrop, the Finance Bill, 2022 (**Bill**) has proposed certain amendments to the Income Tax Act, 1961 (**ITA**) discussed below.

1 Tax exemption for amounts received for medical expenditure

The Bill proposes to exclude from the definition of 'perquisite' any sum paid by the employer for any expenditure actually incurred by the employee on medical treatment or that of any family member for any illness relating to Covid-19. Therefore, such amounts would not be taxed as salary income in the hands of the recipient-employee.

Similarly, any sum of money received by an individual from any other person for any expenditure incurred on medical treatment or the treatment of any family member for any illness related to Covid-19 would not be taxed as 'other income' in the hands of the recipient.

2 Tax exemption for amounts received by family members of deceased persons

The Bill proposes that any sum of money received by a family member of a deceased person from the employer of the deceased person would be entirely tax-exempt. Further, receipt of such money by a family member of a deceased person from any person other than the employer of the deceased person would be tax-exempt up to INR 10 lakhs (in aggregate). These exemptions will apply if the cause of death is illness relating to Covid-19 and the payment is received within twelve months from the date of death.

These amendments will apply retrospectively from the financial year 2019-20. Therefore, they should provide a measure of relief to many individuals and families that have been adversely impacted by the pandemic in the last couple of years.