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House Rent Allowance (HRA) as Tax Planning Tool for Salaried class:

What is House Rent Allowance (HRA):

House Rent Allowance is part of gross salary which is second most important component in a salary slip after basic salary. This is one of the most important and top most contributor for salaried classes to save tax. This benefit can be availed only by salaried class who reside in rented house during his/her employment.

Income Tax Department has made it mandatory to submit rent receipts and provide PAN of landlord if annual rent paid by employee to his/her landlord exceeds INR 100,000 per annum.

There are lot of questions and doubt which hovers around HRA exemption which we will try to cover in this article as under:

➤ **Why claim House Rent Allowance (HRA) Exemption???**

It is claimed to meet expenditure actually incurred by an employee on account of rent payment in respect of residential accommodation.

➤ **Act under which House Rent Allowance (HRA) Exemption is given???**

Section 10(13A) of the Income Tax Act,1961 provides for the exemption from HRA.

➤ **Are there any conditions to claim HRA Exemption???**

Yes, an employee must fulfil following conditions to avail exemption: -

- a) He/she must stay in rented House during the period for which HRA exemption is claimed.
- b) He/she must have actually paid the rent.

➤ **How to calculate HRA Exemption???**

HRA exemption is regulated by the Rule 2A of the Income tax Rules, 1962 which says that minimum amount of the following three shall be exempt:

- a) Actual HRA Received
- b) Rent Actually paid minus 10% of Basic Salary plus DA
- c) 50% of Basic Salary plus DA in case of Metro cities or 40% of Basic Salary plus DA in case of Non-Metro cities.

➤ **If employee stays at parent house; can he claim exemption for HRA???**

Yes, if he/she paid the rent actually to his/her parent.

➤ **HRA Exemption is part of deduction allowed u/s 80C???**

No, HRA exemption is different from deduction u/s 80C and it should not be included in the amount eligible for deduction u/s 80C which is maximum of INR 150,000.

➤ **Can an employee avail tax benefit of HRA and deduction for Interest on Home loan both together???**

Yes, Tax treatment of both is under different sections and both can be availed simultaneously. Contact us at V R Singh & Associates LLP for smart tax planning.

If a person has earned 9 months' salary during a financial year due to job break, is that person entitled for HRA exemption for the entire 12 months or only for 9 months???

Exemption for HRA allowance can only be claimed for the period in which month HRA has been received, however you can claim deduction u/s 80GG for remaining period.