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House Rent Allowance (HRA)

What is House Rent Allowance (HRA):

Employees generally receive HRA from their employers being part of their monthly salary structure fixed by the employer. HRA is given to meet the cost of a rented house taken by the employee for their stay. The Income Tax Act, 1961 provides certain deduction in respect of the HRA paid by companies to their employees. The HRA exemption is covered under Section 10(13A) of the Income Tax Act. It is important to note that the entire HRA is not deductible. HRA is an allowance and is subject to income tax.

An employee can claim exemption on his House Rent Allowance (HRA) under the Income Tax Act if he stays in a rented house and is in receipt of HRA from his/her employer. In order to be eligible for this deduction, an employee must actually pay rent for the house which he or she occupies.

The rented premises must not be owned by the employee. In case one stays in an own house, nothing is deductible and the entire amount of HRA received is taxable. If the rented house is not owned by the assessee, HRA exemption would be available to the least of the following:

1. Actual House Rent Allowance (HRA) received
2. Actual house rent paid by employee minus 10% of the basic salary plus DA
3. 50% of your basic salary plus DA for metro cities or 40% of basic salary plus DA for non-metro.

This minimum of above is allowed as income tax exemption on house rent allowance.

Salary here means basic salary which includes dearness allowance if the terms of employment provide for it, and commission based on a fixed percentage of turnover achieved by the employee. The deduction will be available only for the period during which the rented house is occupied by the employee and not for any period after that.

Meaning of Salary for calculation the exemption of HRA

- ✓ Salary means (Basic + D.A + Commission based on fixed percentage on turnover).
- ✓ Salary is to be taken on due basis in respect of the period during which the period accommodation is occupied by the employee in the previous year.

Example: ABC has received following amount during the previous year.

1. Basic Salary – INR (10,000*12) – INR 120,000/-
2. Dearness Allowance (D.A) – INR (2000*12) – INR 24,000/-
3. House Rent Allowance (HRA) – INR (4,000*12) – INR 48,000/-
4. Actual Rent Paid – INR. (5,000*12) – INR 60,000/-

Minimum of the following amount shall be exempt:

1. Actual HRA received (4,000*12) – INR 48,000/-
2. Rent Paid in excess of 10% of salary (60,000-14,400) – INR 45,600
3. 50% of Salary – INR 72,000