**House Rent Allowance**

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**1. What is House Rent Allowance?**

An employee receives a house rent allowance (commonly referred to as HRA in India) from their employer as part of their gross salary. The employee can use it for claiming exemption for rent paid to his landlord for residential accommodation taken on rent. This exemption cannot be used by the self-employed worker and the worker who does not get paid the house rent allowance from the employer.

Therefore, people owning a house cannot take the benefit of claiming tax deductions under the HRA exemption section even if they get HRA from their employer.

**2. How is HRA Determined?**

The house rent allowance is equivalent to 50% of their basic salary for employees living in a metropolitan city. HRA should equal 40% of their basic salary for employees living in any other city. In general, the HRA ranges from 40% to 50%.

The minimum amount from the below three calculations shall be considered for calculating the HRA amount to be claimed under the tax rebate.

1. The difference between actual rent paid annually and 10% of the annual basic salary.
2. The actual amount of HRA paid.
3. 50% of the basic salary in the case of a metropolitan city/40% of the basic salary in case of any other city. Basic salary should be taken for the period for which accommodation is taken on rent.

**3. HRA Calculation**

HRA is a part of a taxpayer’s salary that reduces the tax liability if the person lives in leased accommodation.

When filing tax returns, the landlord's PAN number must be given if an employee claims a rental expense of more than 1,00,000 per year.

**Illustration:**

A salaried person lives in Delhi and pays the rent of ₹15,000 per month; the annual cost of rent comes out to be ₹1,80,000. A professional tax of ₹500 and a Provident Fund of ₹1800 are deducted from the monthly salary. The salary break-up is given below.

Basic Salary ₹42,000

HRA ₹20,000

Medical ₹1,250

Special Allowance ₹1,250

LTA ₹5,000

**Total ₹69,500**

Calculation of the HRA that can be claimed from the salary:

1. Actual rent paid annually minus 10% of annual basic salary = (₹15,000 x 12) - ₹50,400 = ₹1,29,600

2. Actual HRA given by the employer annually = ₹20,000 x 12 = ₹2,40,000

3. 50% of annual basic salary (as Delhi is a metropolitan) = ₹2,52,000

In the above illustration, the minimum amount of the three calculations above is ₹1,29,600. Therefore, ₹1,29,600 can be claimed for tax exemption.

**In case you are not receiving HRA**

If you pay rent for living in a residential accommodation (furnished or unfurnished) but do not receive an HRA from your employer, you can still claim the deduction under Section 80GG. Conditions that must be fulfilled to claim this deduction:

1. You are self-employed or salaried
2. You have not received HRA at any time during the year for the period for which you are claiming 80GG
3. You or your spouse or your minor child or HUF (Hindu Undivided Family) of which you are a member – do not own any residential accommodation at the place where you currently reside, perform duties of office, or employment or carry on business or profession.
4. The assessee should not own any residential accommodation in his or her own occupation, at any other place, whose value is to be determined as per Sec 23(2)(a) or Sec 23(4)(a).
5. Form 10BA needs to be filed with the Income Tax Department for claiming the deduction.

**How to claim deduction under section 80GG**

The least of the following will be exempted from tax:

* ₹5,000 per month
* 25% of adjusted total income
* Actual rent paid minus 10% of adjusted total income

\*The adjusted total income means: -

Gross Total Income less

Long Term Capital Gain less

Short Term Capital Gain subject to tax at 10% less deductions under sections 80C to 80U.

It is to be noted that 80GG shall not be included in the above deductions from 80C to 80U.

**4. HRA Deduction Rules to Consider for Tax exemption**

1. HRA exemption cannot be claimed if one pays house rent to one’s spouse.
2. HRA can be claimed if one pays rent to one’s parents with a caveat that the payee should obtain proof of rent in the form rent receipt.
3. HRA exemption in income tax can be availed even if one has taken a home loan.
4. Submission of PAN details of one’s landlord is mandatory if one’s annual rent exceeds ₹1,00,000.
5. If the landlord is an NRI, a TDS (tax deducted at source) of 31.2% is to be deducted from the rent before paying. The tenant has to obtain Tax deduction and Collection Account number (TAN) from the Income Tax Department for the same.

**5. City Compensatory Allowance**

Some public establishments or private companies pay City Compensatory Allowance (CCA) to employees for the increased cost of living in Tier-1 or metro areas. In some circumstances, employees at Tier-2 locations may be qualified for CCA. It depends on an employee's grade and pay scale, not just their base salary. So, it differs depending on the city. For instance, a worker in Mumbai would be compensated more than a worker in Delhi.

While an employee's employer provides House Rent Allowance (HRA) to cover living expenses in rented accommodation, City Compensatory Allowance (CCA) is given to cover the high cost of living in a metropolis or Tier-1 city. In the case of HRA, a person may claim a tax exemption of up to ₹1,00,000, whereas, for CCA, the benefit is entirely taxable.