

House Rent Allowance (HRA)

Introduction

House rent allowance is the allowance given by an employer to an employee to pay the rent of the house in which he/she lives, during the year in which the employee provides services to employer. So HRA is taxable if the employee lives in a house for which he pays no rent or lives in his own house. To prove that one has paid the rent to landlord one should take

- The rent receipt from landlord
- If rent paid during the year is more than Rs. 1,80,000/- p.a. (Rs. 15,000/-p.m.) one has to take PAN card details from landlord and that should be given to employer with the income declaration for the current year.
- To avoid any future problems related to HRA, one must enter into a rent agreement with the landlord for house rent which will act as evidence at the time of assessment with income tax authority.

HRA Exemption

The exemption of HRA is available under section 10(13A) as per the limits specified in Rule 2A of the Income tax act, 1961, which are as follows:

- Actual house rent allowance received from your employer.
- Actual house rent paid by you minus 10% of the salary for the relevant period.
- 50% of your salary if you live in a metro (Mumbai, Delhi, Kolkata and Chennai) or 40% of your salary if you live in a non-metro.

The minimum of the three will be allowed as exemption under section 10(13A)

Note:

1. Relevant period means the period during which the said accommodation was occupied by the assessee during the previous year.
2. Here Salary means Basic Pay and Dearness Allowance which forms part of the salary as per the terms of employment. Other allowances and perquisites should not be included.

Calculations

Mr. A has received the following amount during the previous year.

Basic Salary – Rs. (20,000*12) – Rs. 2,40,000/-

Dearness Allowance (D.A) – Rs. (4,000*12) – Rs. 48,000/-

House Rent Allowance (H.R.A.) – Rs. (10,000*12) – Rs. 1,20,000/-

Actual Rent Paid – Rs.(7,000*12) – Rs. 84,000/-

The minimum of the following amount shall be exempt

Actual HRA received (10,000*12) = Rs. 1,20,000/-

Rent Paid in excess of 10% of salary (84,000 -28,800) = Rs. 55,200/-

[10% of salary = 10%(2,40,000+48,000)]

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40% of Salary – Rs. 1,15,200/-

Therefore, Rs. 55,200/- shall be exempt and the balance of Rs. 64,800/- shall be included in gross salary.

It has been observed that people generally come up with the question that can they pay rent to their parents?. The answer is Yes, they can pay rent to their parents and claim exemption for the same only on the condition that the rent so paid should be shown under 'Income from the house property' in the ITR of the parent to whom the rent is paid.