All you need to know about claiming tax break on HRA

For most employees, House Rent Allowance (HRA) is a common component of their salary structure. Although it is a part of the salary, HRA, unlike basic salary, is not entirely taxable. Subject to certain conditions, a part of HRA gets exempted under Section 10 (13A) of the Income-tax Act.

The amount of HRA exemption is deductible from the total income before arriving at a taxable income. This helps the employee in saving tax. Remember, the HRA received is fully taxable if an employee is living in his own house or if he does not pay any rent.

Who can avail HRA?

The tax benefit on HRA is available only to a salaried individual who has the HRA component as part of his salary structure and is staying in a rented accommodation. Self-employed professionals cannot avail the deduction.

How much is exempted?

The exemption for HRA benefit is the minimum of:

i) Actual HRA received
ii) 50% of salary if living in metro cities, or 40% for non-metro cities; and
iii) Excess of rent paid annually over 10% of annual salary

For calculation purpose, the salary considered is 'basic salary'. In case 'Dearness Allowance (DA)' (if it forms a part of retirement benefits) and 'commission received on the basis of sales turnover' is applicable, they too are added to compute the minimum HRA exemption available.

The tax benefit is available to the person only for the period in which the rented house is occupied.

Example of HRA calculation

Let's say an individual, with a monthly basic salary of Rs 15,000, receives HRA of Rs 7,000 and pays Rs 8,400 rent for an accommodation in a metro city. The tax rate applicable to the individual is 20 percent of his income.

To avail HRA benefit, the least of the following amount (yearly) is exempted, rest is taxable:

i) Actual HRA received = Rs 84,000
ii) 50% of salary (metro city) = Rs 90,000 (50% of Rs 1,80,000)
iii) Excess of rent paid annually over 10% of annual salary = Rs 82,800 (Rs 1,00,800 - (10% of Rs 1,80,000))

It shows that of Rs 84,000 actually received as HRA, Rs 82,800 gets tax exemption and only the balance of Rs 1,200 gets added to the employee's income, on which a tax of Rs 240 (20 per cent slab) gets payable.

Documents
HRA exemptions can be availed only on submission of rent receipts or the rent agreement with the house owner.

It is mandatory for the employee to report the Pan Card of the 'landlord' to the employer if the rent paid is more than Rs 1,00,000 annually, or if it exceeds Rs 15,000 per month.

Special cases

There could special scenarios in claiming HRA tax benefit, such as:

1. Paying rent to family members

The rented premises must not be owned by the person claiming the tax exemption. So if you stay with your parents and pay rent to them then you can claim that for tax deductions as HRA. However, you cannot pay rent to your spouse. As, in the view of the relationship, you are supposed to take the accommodation together. Thus, these transactions can invite the scrutiny from the Income -tax Department.

2. Own a house, but staying in a different city

One can avail the simultaneous benefit of deduction available for the home loan against 'interest paid' and 'principal repayment' and HRA in case your own home is rented out or you work in another city.

Individuals who don't get HRA but pay rent

There may be some employees who might not have HRA component in their salary structure. Also, a non-salaried individual might be paying rent. For them, Section 80 (GG) of the Income-tax Act offers help.

An individual paying rent for a furnished/unfurnished accommodation can claim the deduction for the rent paid under Section 80 (GG) of the I-T Act, provided he is not paid HRA as a part of his salary by furnishing Form 10B.

How much

The least of the following is available for exemption from tax under Section 80GG:

(i) Rent paid in excess of 10% of total income
(ii) 25% of the total of the total income*
(iii) Rs 5,000 per month

*Under this section, the total income is calculated as gross total income minus long-term capital gains, the short-term capital where Securities Transaction Tax (STT) has been paid and deductions available under Sections 80C to 80U, except Section 80GG.

Conditions
While claiming a tax deduction, one must remember that the individual himself or his/her spouse, or minor child, or as a member of the Hindu Undivided Family (HUF) must not own any accommodation.

Also, if the individual owns any residential property at any place and earns rent from it then no deduction is allowed.

One can avail the simultaneous benefit of deduction available for the home loan against 'interest paid' and 'principal repayment' and HRA in case your own home is rented out or you work in another city. However, the same is not available in case of Section 80GG.

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