

Taxability of HRA depends on following two of factors : –

1. Rented house i.e. the assessee **MUST** be living in a rented house. Deduction of HRA cannot be claimed when one is residing in his own house or is not paying rent at all.
2. Place of residence i.e. in metro cities (Delhi, Bombay, Calcutta & Madras) or other cities.

CALCULATE THE FOLLOWING

1. 50% of Salary* (if assessee is living in metro cities) **OR** 40% of Salary (if assessee is living in other cities)
2. Deduct 10% of salary* from rent paid by the assessee.

Now take the least of the above calculated amounts & compare it with the amount of HRA received by the assessee. **CASE 1** if calculated amount > HRA received then whole of HRA is exempt from tax **CASE 2** if calculated amount < HRA received then the amount chargeable to tax is (HRA – Calculated Amount). Note - * means that salary includes the following

1. Basic Salary 2. Dearness Allowance 3. Commission based on a fixed percentage of turnover (Sales) achieved by the employee as per terms of contract of employment.