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Claiming HRA

Under section 10(13A) of Income Tax Act, 1961, House Rent Allowance granted by an employer to the employee towards meeting expenses actually incurred on rent payment for the residential accommodation of the employee is exempt from income tax. This exemption is not available to an employee who is residing in his/her owned house.

HRA benefit is computed by taking the lowest of the following under the Income-tax Act, 1961:

1) Actual HRA received;
2) Rent paid minus 10 per cent of salary;
3) 50 per cent of salary for individuals living in Delhi, Mumbai, Kolkata or Chennai and 40 per cent of salary for individuals residing in any other city.

While claiming HRA benefit, an employee is required to provide certain documents to the employer like rent receipts, copy of lease agreement, etc. These can vary from employer to employer.

Central Board of Direct Taxes (CBDT) has vide CIRCULAR NO. 8/2013, Dated: Dated: October 10, 2013 said if annual rent paid by the employee exceeds Rs 1,00,000 per annum, it is mandatory for the employee to report PAN of the landlord to the employer.

As per the circular, individuals who are drawing House Rent Allowance up to Rs 3,000 per month need not provide any documents. The exemption is provided to reduce administrative difficulties for the employer. However, employees may be required to substantiate their case if the tax officer raises any queries.

In case the landlord does not have a PAN, a declaration to this effect from the landlord along with the name and address of the landlord should be filed by the employee. Copy of a sample declaration is given below.

RENT RECEIPT

Date:

To

Name & Address

DECLARATION

I ____________(Full name and address of the declarant) aged ____ do hereby declare that I have leased the Flat No.________________________________ From 1st April'2013 to 31st March'2014 to ___________(Name of lessor) at a monthly rent of Rs. _______/- (__________________ only). Further I do hereby declare that my total income during the financial year 2013-2014 did not exceed the statutory limit prescribed under Income tax Act,1962 and have not assessed to tax and does not have a PAN card.

VERIFICATION

I,_________________ do hereby declare that what is stated above is true to the best of my knowledge and belief.

Verified today, the _____________ day of _________________ at ________.

Signature

Extract from the circular no. 8/2013, dated October 10, 2013 related to HRA

Under section 10(13A) of the Act, any special allowance specifically granted to an assessee by his employer to meet expenditure incurred on payment of rent (by whatever name called) in respect of residential accommodation occupied by the assessee is exempt from Income-tax to the extent as may be prescribed, having regard to the area or place in which such accommodation is situated and other relevant considerations. According to Rule 2A of the Rules, the quantum of exemption allowable on account of grant of special allowance to meet expenditure on payment of rent shall be the least of the following:

(a) The actual amount of such allowance received by the assessee in respect of the relevant period i. e. the period during which the accommodation was occupied by the assesse during the financial year; or

(b) The actual expenditure incurred in payment of rent in excess of 1/10 of the salary due for the relevant period; or

(i) Where such accommodation is situated in Bombay, Calcutta, Delhi or Madras, 50% of the salary due to the employee for the relevant period; or

(ii) Where such accommodation is situated in any other places, 40% of the salary due to the employee for the relevant period,

For this purpose, "Salary" includes dearness allowance, if the terms of employment so provide, but excludes all other allowances and perquisites.

It has to be noted that only the expenditure actually incurred on payment of rent in respect of residential accommodation occupied by the assessee subject to the limits laid down in Rule 2A, qualifies for exemption from income-tax. Thus, house rent allowance granted to an employee who is residing in a house/flat owned by him is not exempt from income-tax. The disbursing authorities should satisfy themselves in this regard by insisting on production of evidence of actual payment of rent before excluding the House Rent Allowance or any portion thereof from the total income of the employee.

Though incurring actual expenditure on payment of rent is a pre-requisite for claiming deduction under section 10(13A), it has been decided as an administrative measure that salaried employees drawing house rent allowance up to Rs.3000/- per month will be exempted from production of rent receipt. It may, however, be noted that this concession is only for the purpose of tax-deduction at source, and, in the regular assessment of the employee, the Assessing Officer will be free to make such enquiry as he deems fit for the purpose of satisfying himself that the employee has incurred actual expenditure on payment of rent.

Further if annual rent paid by the employee exceeds Rs 1,00,000 per annum, it is mandatory for the employee to report PAN of the landlord to the employer. In case the landlord does not have a PAN, a declaration to this effect from the landlord along with the name and address of the landlord should be filed by the employee.