Salaried employees who get HRA can’t claim deduction under Section 80GG on rent paid

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- Deduction under Section 80GG is available only to those employees who do not get HRA or to self-employed persons
- The deduction limit under the section is Rs.60,000 per year

The income tax department recently sent notices to a number of salaried employees for claiming deduction for rent paid under Section 80GG of the Income-tax Act, 1961, even though they were receiving house rent allowance (HRA) from their employers.

When it’s available

Deduction under Section 80GG is available only to those employees who do not get HRA (for instance, because they work in very small firms or in the informal sector) or to self-employed persons. The deduction limit under the section is Rs.60,000 per year.

When it’s not

Section 80GG is not available to a person who owns a house but lives in a rented house in the same city. For example, if you own a house in Mumbai but choose to stay in a rented accommodation in the same city, you won’t get the benefit under Section 80GG.

Similarly, the benefit is not available to a person who owns a house in another city, and claims tax benefit, such as tax deduction under Section 24(b) for home loan interest, for that house.

Deduction under this section is allowed for the least of 25% of total income (excluding capital gains), actual rent minus 10% of income and Rs.60,000 per year. So, if you have a monthly income of Rs.50,000 and pay Rs.12,000 per month in rent, the deduction will be the least of 25% of Rs.50,000 (Rs.12,500); actual rent minus 10% of income (Rs.7,000) and Rs.60,000 per annum (Rs.5,000 per month). In this case, the least amount is Rs.5,000 per month, so you will be able to claim a deduction of Rs.60,000 from your annual income.

What if you get HRA

Employees who get HRA are subject to a different set of rules under Section 10 (13A) of the Act. There is no upper limit for deduction under this section, unlike the Rs.60,000 limit under Section 80GG .

However, such employees can only claim the least of the following—50% of the basic salary (40% for those residing in non-metro cities), actual HRA received and actual rent paid minus 10% of basic salary.

For example, assume that an employee has a basic salary of Rs.60,000 per month, gets an HRA of Rs.15,000 per month and his rent is Rs.20,000 per month. In such a scenario, his HRA deduction will be the minimum of 50% of basic salary (Rs.30,000); actual HRA received (Rs.15,000) and rent paid minus 10% of the basic salary (Rs.14,000). Here the least is the sum of Rs.14,000 per month, which comes to Rs.1.68 lakh per annum, which is far above the Rs.60,000 limit under Section 80GG.

Thus, if you actually receive HRA, in many cases, your deduction under Section 10 (13A) will be far more than the Rs.60,000 limit under Section 80GG.

You can’t claim deduction under both sections. If you are confused about exactly which section you are governed by, consult a chartered accountant to do it right.