What is House Rent Allowance (HRA): Exemption, Calculation and New Rules 2026

Description

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Quick summary

- HRA is partly or fully tax-free for a salaried employee who pays rent, but only in the old tax regime.
- The exemption is the lowest of actual HRA, 50% (metro) or 40% (non-metro) of salary, and rent paid minus 10% of salary.
- From 01/04/2026 the 50% limit applies to eight cities: Delhi, Mumbai, Chennai, Kolkata, Bengaluru, Pune, Hyderabad and Ahmedabad.
- Landlord PAN is needed if yearly rent exceeds ?1 lakh. Without HRA, rent can be claimed under section 80GG (section 134 in the new Act), up to ?60,000 a year.

How to calculate the HRA exemption

1. Take the actual HRA received in the year

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2. Take 50% (8 metro cities) or 40% (other cities) of salary

?

3. Take rent paid minus 10% of salary

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4. The lowest of the three is the exempt HRA

?

5. The rest of the HRA is taxable as salary

House Rent Allowance (HRA) is a part of salary paid by the employer to meet the cost of rented accommodation. A part of it is exempt from tax if you live in a rented house and pay rent, provided you file under the old tax regime. It cannot be claimed in the new regime.

HRA eligibility: who can claim?

Person	HRA exemption?
Salaried, with HRA in the salary	Yes, in the old regime
Self-employed	No, but section 80GG may apply
Salaried without an HRA component	No, but section 80GG may apply
Paying rent to parents	Yes, with conditions
Paying rent to spouse	No
New tax regime	No

How is the HRA exemption calculated?

The exempt amount is the lowest of:

1. The actual HRA received.
2. 50% of salary if you live in one of the eight metro cities, or 40% of salary elsewhere.
3. Rent paid minus 10% of salary.

Salary here means basic pay plus dearness allowance, but dearness allowance counts only if the terms of employment provide for it. All other allowances and perquisites are left out. Rent and salary are taken only for the months you actually lived in the rented house. The part of HRA that is not exempt is taxed as salary.

New rules from 01/04/2026

The Income-tax Rules, 2026 (notified on 20/03/2026) apply from 01/04/2026. HRA limits are now in Rule 279, which replaces Rule 2A. Two changes matter for HRA:

- The 50% limit, earlier given only to Delhi, Mumbai, Chennai and Kolkata, now also covers Bengaluru, Pune, Hyderabad and Ahmedabad, so eight cities in all.
- The declaration to the employer now asks for the landlord’s relationship to you and other landlord details, The declaration form that replaces Form 12BB is Form 124 (Rule 205 of the 2026 Rules). It asks for the landlord’s name, address, PAN, Aadhaar, relationship with you, if any, and the rent paid.

HRA in the Income-tax Act, 2025

For FY 2025-26 (assessment year 2026-27) HRA is exempt under section 10(13A) of the 1961 Act. From Tax Year 2026-27 it falls under section 11 read with Schedule III of the Income-tax Act, 2025, and the rent deduction for those without HRA (section 80GG) moves to section 134.

Example of HRA calculation

Mr Anwar pays rent of ?18,000 a month in FY 2025-26. His basic salary is ?27,000 a month (?3,24,000 a year) and his HRA is ?1,62,000 a year. He is under the old regime. The calculation below uses the metro (50%) limit and the non-metro (40%) limit.

Particulars	Metro city	Other city
Actual HRA	?1,62,000	?1,62,000
50% or 40% of salary (?3,24,000)	?1,62,000	?1,29,600
Rent paid (?2,16,000) less 10% of salary (?32,400)	?1,83,600	?1,83,600
Exempt HRA (lowest)	?1,62,000	?1,29,600
Taxable HRA	Nil	?32,400

If Mr Anwar opts for the new regime, the whole HRA of ?1,62,000 is taxed at slab rates.

Old regime or new regime?

Choose the old regime only if the total of HRA, 80C, 80D, home loan interest and other deductions is large enough to beat the lower slabs of the new regime. High rent in a metro city and a high HRA make the old regime more attractive. Low rent and few deductions usually favour the new regime.

Documents for HRA

You need not file proofs with the return, but keep them for your employer and for any notice from the department:

1. Rent receipts.
2. Rent agreement.
3. Bank proof of rent payment.
4. The rent declaration given to your employer (Form 12BB until 31/03/2026).
5. Salary slip showing HRA.
6. Landlord’s PAN, if the rent in the year is more than ?1,00,000.

If the landlord has no PAN, get a declaration to that effect from the landlord, as provided in CBDT Circular 8/2013 dated 10/10/2013.

Special cases

Rent paid to parents

You can claim HRA for rent paid to your parents if you genuinely pay it, for example by bank transfer, and your parents declare it as rental income in their return. Rent paid to a spouse is not allowed.

HRA and home loan together

If you own a house in one city and pay rent in another, for example because of a job transfer, you can claim both the HRA exemption and home loan interest. Conditions apply if both are in the same city, so take advice.

Rent deduction if you do not get HRA: section 80GG

Self-employed persons and employees who get no HRA can claim rent paid under section 80GG (section 134 from Tax Year 2026-27), in the old regime only. The deduction is the lowest of:

- ?5,000 a month, that is ?60,000 a year,
- 25% of adjusted total income, or
- rent paid minus 10% of adjusted total income.

You (and your spouse and minor children) must not own a residential house at the place where you live or work, and you must file Form 10BA (Form 31 under the 2026 Rules from 01/04/2026) as a declaration.

Frequently asked questions

Is HRA available in the new tax regime?

No. The HRA exemption can be claimed only under the old tax regime.

Which cities get the 50% HRA limit?

From 01/04/2026: Delhi, Mumbai, Chennai, Kolkata, Bengaluru, Pune, Hyderabad and Ahmedabad.

Is landlord PAN required?

Yes, if the rent paid in the year is more than ?1,00,000. If the landlord has no PAN, a declaration to that effect from the landlord is needed.

Can I claim HRA for rent paid to my parents?

Yes, if you actually pay the rent and your parents show it as income in their return. Rent paid to a spouse is not allowed.

Can I claim HRA and home loan interest together?

Yes, if the conditions are met, for example when you live in a rented house in one city and own a house in another.

Official sources

- Income Tax Department: Income-tax Act, 2025
- Income Tax Department: Section 134, Income-tax Act 2025 (rent paid)
- Income-tax Rules, 2026 (Rule 279 and Forms 31, 124)
- Income Tax Department: Form No. 124

Related reading

- Landlord’s PAN for HRA Exemption: When It Is Mandatory
- Leave Travel Allowance (LTA): Exemption Limit, Rules, How to Claim and Eligibility
- How to Save Tax Other Than 80C: Deductions and Exemptions for 2026-27

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