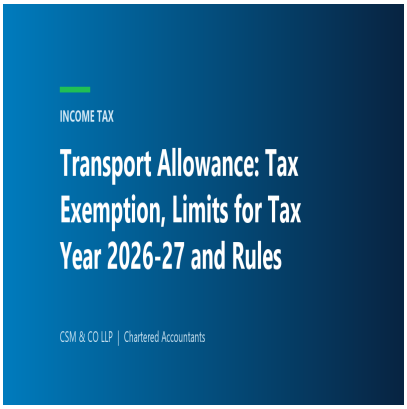

Transport Allowance: Tax Exemption, Limits for Tax Year 2026-27 and Rules

Description

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Quick summary

- A transport allowance for travel between home and office is fully taxable for most employees. The old ?1,600 a month exemption ended with the standard deduction in FY 2018-19.
- Employees who are blind, deaf and dumb, or orthopaedically disabled get an exemption: ?3,200 a month up to FY 2025-26, and from 01/04/2026 ?15,000 a month plus dearness allowance in metro cities or ?8,000 plus dearness allowance elsewhere.
- Employees of a transport business can exempt 70% of the allowance, up to ?10,000 a month until FY 2025-26 and ?25,000 a month from 01/04/2026, in the old regime.
- The disability transport exemption works in both tax regimes.

A transport allowance is an amount an employer pays so an employee can travel between home and the place of work. For most employees it is fully taxable. A special exemption applies to employees with certain disabilities, and a separate one to employees of a transport business.

Up to FY 2025-26 the exemption was under section 10(14) of the Income-tax Act, 1961 and Rule 2BB. From Tax Year 2026-27 it is in Schedule III of the Income-tax Act, 2025, with the amounts in Rule 280 of the Income-tax Rules, 2026.

Why is it taxable for most employees?

Until FY 2017-18 every employee could exempt ?1,600 a month of transport allowance. From FY 2018-19 that exemption was withdrawn and replaced by the standard deduction on salary, which now stands at ?50,000 in the old regime and ?75,000 in the new regime. So an ordinary employee pays tax on the whole allowance and gets the standard deduction instead.

Exemption for employees with disability

The exemption is for an employee who is blind, or deaf and dumb, or orthopaedically handicapped with disability of the lower extremities (from 01/04/2026, the lower or upper extremities), for travel between home

and the place of duty.

Period	Exempt amount per month
Up to FY 2025-26	?3,200
From 01/04/2026, metro cities	?15,000 plus dearness allowance on it
From 01/04/2026, other cities	?8,000 plus dearness allowance on it

This is available in both the old regime and the new regime. The part above the limit is taxable.

Transport business employees

An employee of a transport system who gets an allowance to meet personal expenses while on duty during the journey, and who does not get a daily allowance, can exempt 70% of the allowance, up to ?10,000 a month until FY 2025-26 and up to ?25,000 a month from 01/04/2026. This is allowed in the old regime only.

Transport allowance and conveyance allowance

Basis	Transport allowance	Conveyance allowance
For	Travel between home and office	Travel in the performance of duties, with no free conveyance from the employer
Exemption	Only for disability or transport business, as above	Actual expense incurred
Regimes	Disability: both. Transport business: old only	Both

Example

Mr D is an orthopaedically handicapped employee in Mumbai and gets ?20,000 a month as transport allowance in FY 2026-27, with no dearness allowance on it. The exemption is the lower of ?20,000 and ?15,000 (plus DA on it, nil here), so ?15,000 a month, ?1,80,000 a year, is exempt. The balance of ?5,000 a month is taxable.

Another employee with no disability and the same allowance pays tax on the whole ?2,40,000 a year.

How to claim

Your employer applies the exemption when calculating TDS and shows it in Form 16. Give the employer a disability certificate. If it was missed, you can still claim the exemption when you file your return, in the exempt allowances part of the salary schedule.

Central Government employees

Transport allowance for Central Government employees under the 7th Pay Commission depends on pay level and city class (for example ?7,200 plus dearness allowance for pay level 9 and above in the highest cities). It is taxable unless the employee has a disability and qualifies for the exemption above.

Frequently asked questions

Is transport allowance taxable?

Yes, for most employees it is fully taxable. The exemption for commuting allowance was withdrawn from FY 2018-19 when the standard deduction was introduced.

Who gets a transport allowance exemption?

An employee who is blind, deaf and dumb, or orthopaedically handicapped with disability of the lower or upper extremities, for travel between home and work.

How much is exempt for a disabled employee from 01/04/2026?

?15,000 a month plus dearness allowance in metro cities, and ?8,000 a month plus dearness allowance in other cities (up to FY 2025-26 the limit was ?3,200 a month).

Is it available in the new tax regime?

Yes, the transport allowance for disabled employees is allowed in both regimes. The transport business exemption is old regime only.

Is transport allowance the same as conveyance allowance?

No. Transport allowance is for travel from home to office. Conveyance allowance is for travel in the performance of duties and is exempt to the extent of the actual expense.

Official sources

- Income-tax Rules, 2026 (Rule 280)
- Income Tax Department: Income-tax Act, 2025 (as amended by Finance Act 2026), Schedule III and section 202
- Income Tax Department: e-Filing portal

Related reading

- 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
- Uniform Allowance: Tax Exemption, Limit and Rules

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