

Dearness Allowance (DA): Meaning, Tax Treatment and the 60% Rate from January 2026

Description

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Quick summary

- Dearness allowance (DA) is paid on top of basic pay to offset inflation. It is fully taxable as salary.
- DA counts as “salary” for HRA, gratuity and leave encashment limits only if the terms of employment provide for it.
- For Central Government employees and pensioners the Cabinet approved a 2% rise from 58% to 60% with effect from 01/01/2026, with arrears for January to March 2026.
- Arrears of DA taxed in a later year can qualify for relief under section 157 by filing Form 39.

Dearness allowance (DA) is the part of pay that moves with the price level. It is paid by the Central and State Governments, public sector bodies and some private employers, as a percentage of basic pay, so that the real value of pay is not eaten away by inflation. Pensioners receive the same relief as dearness relief (DR).

The current rate for Central Government employees

The Union Cabinet approved an additional **2%** DA and DR with effect from **01/01/2026**, taking the rate from **58% to 60%** of basic pay and pension. Employees and pensioners get arrears for January, February and March 2026 (SCC Online, 20/04/2026). The Centre revises DA twice a year, with effect from 1 January and 1 July, based on the All-India Consumer Price Index for industrial workers. State governments announce their own rates and dates.

For central employees the DA is paid on basic pay: a basic pay of ?56,100 at 60% gives DA of ?33,660 a month.

Tax treatment of DA

- **Taxable in full as salary.** Under section 16 of the Income-tax Act, 2025, “salary” includes wages, and DA is part of wages. It has no exemption of its own. DR on pension is taxed as pension, which is also

salary.

- **Report it as salary.** It forms part of the salary shown in your TDS certificate (Form 130) and in the return, and should match your payslip.
- **Arrears.** DA revised with retrospective effect is paid as arrears, for example the January to March 2026 arrears above. Taxed in the year of receipt, it can push you into a higher slab. If so, relief under **section 157** is available by furnishing Form 39 (see our post on relief for arrears of salary).

Where DA counts as “salary” for other limits

Several limits are worked out on “salary” rather than on pay as a whole. The Act and Rules say that salary includes **dearness allowance if the terms of employment so provide**, and excludes all other allowances and perquisites:

Use	Where
HRA exemption (old regime): 50% or 40% of salary, and rent paid less 10% of salary	Rule 279
Gratuity: half a month’s salary for each completed year (employees not covered by the gratuity law)	Section 19(2)(b)
Leave encashment: ten months’ average salary	Section 19(2)(b)

If your terms of employment do not provide for DA to count, it is left out of these calculations. For a government employee the pay rules usually do count it. Check the appointment letter or the service rules rather than assume.

Example: basic pay ?60,000 and DA ?36,000 (60%), HRA received ?30,000 a month, rent paid ?35,000 a month, Mumbai, old regime. Salary for HRA is ?96,000 (the terms of service include DA). The exempt HRA is the least of the HRA received (?30,000), rent paid less 10% of salary (35,000 - 9,600 = ?25,400) and 50% of salary (?48,000), so **?25,400** a month.

DA and HRA are different

Point	Dearness allowance	House rent allowance
Purpose	Offsets rising prices	Helps with rent
Paid to	Government and public sector employees mainly, some private employers	Most employers
Tax	Fully taxable	Exempt in part under the old regime, limited by Rule 279
Based on	Basic pay	Basic pay (and DA where the terms provide)

DA for pensioners

Pensioners get DR on the pension at the same rate as the Central DA, and the DR is taxed with the pension as salary.

Before you rely on this

- The Cabinet decision is the source for the 60% rate. Confirm the rate from the Department of Expenditure order that applies to you, and from your State government's order if you are a State employee.
- The revision due from 01/07/2026 is expected to be announced later in the year, so the rate shown here may change with retrospective effect and arrears.

Frequently asked questions

What is dearness allowance?

An allowance paid on top of basic pay to compensate for rising prices. It is calculated as a percentage of basic pay and revised from time to time.

Is dearness allowance taxable?

Yes. It is wages, and so part of salary under section 16 of the Income-tax Act, 2025, and is fully taxable in the year it is due or received, subject to the usual deductions.

Is DA part of salary for HRA and gratuity?

Yes, if the terms of employment so provide. Rule 279 (HRA) and section 19(2)(b) (gratuity and leave encashment) both say "salary" includes dearness allowance if the terms of employment so provide, but excludes other allowances and perquisites.

What is the DA rate for Central Government employees now?

60% of basic pay from 01/01/2026, up from 58%, as approved by the Union Cabinet in April 2026. The revision due from 01/07/2026 had not been announced when this was checked on 06/10/2026.

Do private employees get DA?

Not as a rule. Government and public sector employees receive it. Some private employers and wage settlements also pay a dearness allowance or variable DA, and the same tax rules apply.

What is dearness relief?

The equivalent of DA for pensioners. It is paid on pension and is taxable as pension, which is part of salary.

Official sources

- SCC Online: Cabinet approves additional 2% DA/DR from January 2026 (20/04/2026)
- Income Tax Department: Income-tax Act, 2025 (sections 16, 19 and 157)
- Income Tax Department: Income-tax Rules, 2026 (Rule 279)

Related reading

- What is House Rent Allowance (HRA): Exemption, Calculation and New Rules 2026
- Special Allowance in Salary: How It Is Taxed and Which Allowances Are Exempt
- Transport Allowance: Tax Exemption, Limits for Tax Year 2026-27 and Rules

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