

● HRA EXEMPTION

Need to expand the list of metro cities

Uniform deduction formula does not reflect rental realities



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AMONG THE RECOMMENDATIONS for the Interim Budget echoing through the halls of the financial ministry is a proposal that could significantly impact the lives of salaried individuals – a potential expansion of house rent allowance (HRA) deductions.

In fact, HRA serves as a tool for salaried individuals residing in rented accommodations to mitigate their tax liabilities. The current formula for HRA deduction is the minimum of three criteria:

(a) Actual HRA received by the employer or company; (b) 50% of basic salary + DA (40% for non-metros), or (c) actual rent paid minus 10% of salary.

Currently, the definition of metro cities encompasses Delhi, Mumbai, Chennai, and Kolkata. However, anticipation surrounds the possibility of this definition expanding to include burgeoning urban hubs like Bengaluru, Pune, Hyderabad, and Ahmedabad. The impetus behind this expansion is to afford residents of these cities a higher HRA deduction, potentially catalysing migration and urban growth.

Gap in metros

Yet, as we delve into the house rental trends in these cities, a noticeable gap emerges. Mumbai, for instance, boasts the highest average rental of ₹30,000-50,000 per month for a 1,000 sq feet apartment. Delhi

follows closely behind with rentals ranging from ₹20,000-30,000 per month for the same space. Further, this disparity continues across cities, with Bengaluru, Pune, Hyderabad, and Kolkata falling in the range of ₹17,000-25,000 per month. Ahmedabad and Chennai stand out as the most affordable cities in terms of rent – ₹17,000-19,000.

The question that arises is whether it is equitable for HRA deductions to remain uniform across all cities or if differentiation based on actual average rentals is more justifiable.

Expand definition of metro cities

Consider an individual earning ₹10 lakh per annum (basic salary plus DA). At the 50% tax limit, this individual is eligible for a tax deduction of ₹5 lakh per annum or ₹41,667 per month. However, in Mumbai, this deduction might only secure a 1,000 sq feet apartment, while in Chennai, it could afford double the space. This apparent tax advantage unintentionally favours residents in cities with lower average rentals.

The recommendation to include Bengaluru, Pune, Hyderabad, and Ahmedabad as metros for HRA calculation is undoubtedly overdue, as their rental landscapes mirror those of current metro cities. However, a more nuanced approach is imperative for HRA deduction, particularly when considering the diverse property rental rates across cities, with Mumbai and Delhi standing out as hotspots.

As we await the Finance Budget 2024, it is crucial for policymakers to deliberate on a recalibrated HRA framework that aligns with the economic realities of each city.

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