HRA exemption u/s 10(13A) allowable where employer pays rent to landlord and recovers same from employee's salary

In a recent ruling, it was held that **House Rent Allowance (HRA) exemption under Section 10(13A)** cannot be denied merely because the **employer pays the rent directly to the landlord and subsequently recovers the same amount from the employee's salary**. The critical factor is whether the employee has **actually borne the rental expenditure**.

Key Principle

- HRA exemption is available when the employee **incurs expenditure on rent for residential accommodation**.
- Direct payment by the employer to the landlord is only a **mode of payment**.
- If the rent is ultimately recovered from the employee's salary, the employee is treated as having borne the rent expense.
- Therefore, the condition of "payment of rent" for claiming exemption under Section 10(13A) is satisfied.

Significance of the Ruling

- Employers often provide leased accommodation arrangements where rent is paid directly to the landlord.
- Tax authorities may question HRA claims in such cases.
- The ruling clarifies that **substance prevails over form**—what matters is who bears the economic burden of rent, not who physically remits the payment.

Practical Takeaway for Employees

To support the HRA claim, maintain:

- Lease/rent agreement.
- Salary slips showing HRA and rent recovery (if applicable).
- Employer records evidencing rent payment and recovery.
- Rent receipts or landlord details, wherever required.

Tax Impact

Where the employee ultimately bears the rent cost, the HRA exemption should be computed in the normal manner under Section 10(13A) read with Rule 2A, i.e., the least of:

1. Actual HRA received;
2. Rent paid minus 10% of salary; or
3. 50%/40% of salary (depending on the city of residence).

Bottom Line: An employee does not lose HRA exemption merely because the employer pays the landlord directly, provided the rent amount is recovered from the employee and the employee effectively bears the rental expense.