

New house rent allowance exemption rule: How it will affect you

The Central Board of Direct Taxes has now made it mandatory for employees to submit PAN of the landlord to the employer if the annual rent exceeds Rs. 1,00,000 per annum and such an employee is claiming House rent exemption (HRA) under section 10 (13A) of Income Tax Act.

Though CBDT circular, with an aim to tighten its noose around tax evaders, has come up with the new rule, many employees are finding it difficult to arrange for the new formalities while claiming their HRA exemption. In conversation with Reema Sharma of ZeeBiz.com Tarun Gupta, Managing Director, Mangla Consulting explains the details of how to go about claiming the HRA exemption.

HRA exemption of over Rs 8,333 a month will need the landlord`s PAN card details as per the new circular issued by Central Board of Direct Taxes (CBDT). What does the new circular mean?

As per new circular of CBDT vide its Circular No. 08/2013 F.No. 275/192/2013-IT(B) dated 10.10.2013 if you are a salaried and claiming HRA (House Rent Allowance exemption and the rent paid by you is more than Rs.1 Lakh per year then it is compulsory to provide PAN (Permanent Account Number) of your Landlord. Earlier the limit was capped Rs.15,000 per month as against the current limit of Rs.8,333 per month.

Can the new CBDT circular really tighten its grip around tax evaders?

This move has been taken by CBDT to consider those who are living in their own houses and claiming benefits of HRA. It'll also bring those landlords under income tax net who have multiple tenants but don't declare his/her income correctly.

The new law will be troublesome for the people whose landlords are reluctant to provide pan card details. How can these people find an alternative?

In case a landlord doesn't have a PAN, then a declaration needs to be filed by the employee by declaring the name, address & details of landlord. It should be duly signed by landlord. In case a landlord's rental income is assessed in Income Tax then he'll not refuse to provide PAN. But in case he wants to evade tax by not giving PAN that cannot be allowed as per Income Tax Act. One has following options:a) Provide PANb) Provide Declarationc) Pay Rent but do not claim exemptiond) Find out a new landlord who provides PAN

There might be cases where employees pay their rent in cash and landlord refuses to provide any rent receipts. In order to avail tax benefits, employees prepare rent receipts themselves and do forge signatures. Also there might be cases where employees actually do not pay any rent but still prepares rent receipts. These all are covered under forgery cases and offences under giving false evidence and fabricating false evidence of IPC (Section 191 & 192). As per judgement by Delhi High Court in such case, an employer can also dismiss the employee for forging the rent receipts.

Even if an employee pays rent below Rs. 8,333 per month, he/she has to produce the rent receipts for availing deduction under HRA. In the absence of such receipts what can be done?

PAN of landlord is not necessary if assessee is paying rent below Rs.8,333/- per month. However, in that case it is always recommended that rent is paid either by cheque or bank transfer which will be a record for the assessee. Also, in case the Assessing Officer demands proofs, bank entries will prove to be a better substitute than rent receipts.

Those people who are living in a rented accommodation but paying pre-EMI for the soon-to-be possession of their new home, how can they calculate the exemption?

Those who have booked house and have taken home loans from various financial institution must be paying monthly EMI (Equated Monthly Instalments) to their respective financial institutions. They'll get the deduction as per the normal category which is:a) HRA Receivedb) Rent paid Less 10% of Salaryc) 40% of salary (50% for Metro Cities)

However, after getting the possession, they can claim the amount paid as Pre EMI interest in next 5 years equally starting from the year of possession. Suppose A has paid

Pre EMI interest Rs.5Lac

Current Year Interest Rs.40,000

Total benefit which can be claimed under section 10B is Rs.1,40,000 instead of Rs.40,000. But the maximum limit of the section is Rs.1,50,000 which means if your exemption amount exceeds Rs.1,50,000 you can claim Rs.1,50,000 only (if the house is not a rent out).

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