

## **What are the tax exemption limits for allowances, reimbursements paid to employees? Find out**

Many of the allowances, reimbursements paid to us as a part of salary are tax-exempt up to a certain limit but the tax exemption is subject to certain conditions. This limit determines how much of these allowances/reimbursements are taxable or otherwise in our hands.

Consequently, it is important to know these limits and the conditions attached for claiming tax exemption. Further, some allowances are fully taxable and it is important to know this too in order to calculate one's tax properly.

Following is a list of some allowances and reimbursements which are often paid to employees as part of salary along with which are fully taxable, which are partially tax-exempt and the limits up to which these are exempted from tax.

**1. House Rent Allowance (HRA):** If you are receiving HRA as part of your salary and also pay rent for residential accommodation then you can claim the HRA paid to you as exempt from tax subject to certain limits and restrictions. These are as follows:

Minimum of the following HRA is exempt from tax:

- (i) Actual HRA received
- (ii) 50% of annual salary\* if living in metro cities or else 40%
- (iii) Excess of annual rent paid over 10% of annual salary\*

*\*Salary here is considered as basic plus dearness allowance (if it forms part of retirement benefits) and commission received on the basis of sales turnover.*

However, if no rent is paid by you, then whole HRA received is taxable.

**2. Dearness Allowance (DA):** Dearness Allowance or DA is mostly received by Government employees. However, it is fully taxable for every salaried taxpayer irrespective of whether he/she is a government or non-government employee.

**3. Transport Allowance:** If receiving transport allowance from employer, a taxpayer can claim up to Rs 1600 per month or Rs 19,200 per annum as exempt from tax before arriving at gross income chargeable to tax. In case of Blind, deaf and handicapped employees the exemption limit is Rs 3200 per month.

This allowance does not require you to submit bills to your employer for claiming it. However, there is a caveat to this benefit. This exemption can only be availed if no free conveyance is provided by the employer.

**4. Leave Travel Allowance (LTA):** Employees who receive LTA from their employers can claim exemption. An employee, here, can be an Indian or foreigner.

However, this exemption is subject to the following rules:

- (i) The exemption is available on 2 journeys in one block of 4 years.
- (ii) The amount of exemption available is lower of the actual amount spent to reach the destination via shortest route or the amount received from the employer.
- (iii) To claim exemption, the cost of reaching the destination can be taken as A/C first class (for railways) or economy class of national carrier (for air travel).
- (iv) Exemption is allowed only if actual expenditure has been incurred for travelling anywhere in India.

**5. Medical Reimbursement:** Any reimbursement given by an employer to his/her employee for any medical expenditure incurred for himself/ herself or family can be claimed as exempt from tax up to Rs 15, 000 annually. However, exemption is available only if you submit actual bills to your employer. Similarly, any medical insurance premium paid or reimbursed by the employer is not chargeable to tax. The premium paid comes under the overall limit of Rs 15,000 annually.

**6. Fixed Medical Allowance:** One should not confuse between the terms 'medical allowance' and 'medical reimbursement'. Taxation of both is different as per the Income Tax Act. Medical Allowance received by you is fully taxable whereas medical reimbursement mentioned above is exempted up to a certain exempt. However, you are not required to submit bills to claim medical allowance.

**7. City Compensatory Allowance:** This is one of the common components of salary structure. It is similar to DA as it is offered to employees to compensate for high cost of living in cities. Just like DA, it is also fully taxable in an employee's hands.

**8. Special Allowance:** Any Allowance received by an employee which does not fall under any other allowances head, is fully taxable in his/her hands.

**9. Overtime Allowance:** Some employers compensate for the overtime done by their employees. This allowance is taxable in the employee's hands.

**10. Children Education Allowance:** If you are receiving children education allowance from your employer then you are eligible to claim a tax exemption under the Income Tax Act. However, the maximum amount exempted is Rs. 100 per month or Rs. 1200 per annum for maximum of up to 2 children. Along with this, you can also claim deductions for fees paid for your children under section 80C.

**11. Hostel Expenditure Allowance:** Similarly, any hostel expenditure allowance received by you for your children from employer is eligible for exemption up to Rs. 300 per month or Rs. 3600 per annum for maximum up to 2 children.

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