

Tax Planning for Salaried Employees - Know the Rules on Allowances

Salaried employees can save taxes by meticulously utilising the gamut of exemptions and deductions available under various sections in the Income Tax India Act, 1961.

This part covers the exemption of allowances.



A House Rent Allowance



✓ What is allowed?

Any payment towards rent is allowed as an exemption, the salaried individual has to produce rent receipts / Leave and License agreement to claim this exemption.

📄 How much is allowed?

The least of the following is allowed as HRA exemption:

- I. Total HRA received from your employer.
- II. Rent paid less than 10% of Salary*
- III. 40% of salary for non-metros and 50% of salary for metros.

*Salary for the purpose of HRA calculation is defined as Basic salary + Dearness Allowance as per the Income Tax India Act, 1961.

👤 Who is eligible?

Any salaried individual who stays in rented accommodation can benefit from HRA.

B Standard Deduction



✓ What is allowed?

The standard deduction is a flat deduction from the total salary. It was introduced in place of transport and medical allowance. The standard deduction is allowed from salary income only if the taxpayer files for taxes under the old regime. It is not allowed to the taxpayer for filing of return in the new tax regime.

📄 How much is allowed?

₹50,000 is allowed as a standard deduction for all salaried individuals and pensioners.

👤 Who is eligible?

Salaried individuals and pensioners are eligible to claim the standard deduction by default. There is no requirement of any proof to claim this allowance.

C Leave Travel Allowance (LTA):



✓ What is allowed?

LTA covers domestic travel and not international travel. You can claim LTA two times in a block of 4 calendar years. There is an option to carry forward one out of the two journeys in the next LTA block period.

📄 How much is allowed?

LTA is restricted to the travel expenses incurred during the travel. The mode of travel should be either through railway, air travel or public transport. Available for employee and his family.

👤 Who is eligible?

A salaried employee who has travelled by availing leaves at his workplace.

D Food coupons



✓ What is allowed?

This is a form of perquisite which is extended by the employer, it could be in the form of meal coupons. These food coupons are taxable as perquisites in the hands of the employee.

📄 How much is allowed?

Meal coupons are exempt up to ₹50 per meal, on a per-day basis.

👤 Who is eligible?

Salaried individuals whose employer provides food coupons are eligible to claim this allowance.

E Children Tuition Fee Allowance



✓ What is allowed?

Any education allowance for your children received as part of your salary will be allowed for an exemption. The allowance has to be provided by the employer as part of your salary stack.

📄 How much is allowed?

The employee is allowed to claim a maximum of ₹100 per month as exemption or ₹1200 per annum. The exemption is available for a maximum of 2 children.

👤 Who is eligible?

Salaried employees who are provided education allowance as part of their salary by the employer are eligible.

Please consult a tax advisor/consultant to better understand income tax rules, applicable basis individual circumstances.

Sources: 1. <https://www.financialexpress.com/money/income-tax/top-10-list-of-income-taxdeductions-for-ay-2021-22-for-salaried-employees-tax-benefits-on-payments-investments-and-incomes/2291512/>
2. <https://www.incometax.gov.in/iec/foportal/help/individual/return-applicable-1>

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