

# Evolution and Impact of House Rent Allowance (HRA) Exemptions on Urban Salaried Employees Under Old Tax Regime and New Tax Regime

Bhokare Sanskriti, Pournami S, Shivamsh Vatkari, Yadhunandan V S, Dr Tejaswini S

MBA 2025 – 27, Faculty of Management Studies, JAIN (Deemed-to-be University)

Assistant Professor, Faculty of Management Studies, JAIN (Deemed-to-be University)

## ABSTRACT

One of the crucial and inevitable aspects of the monthly budget of an urban employee is housing expenditure. Within the background of a fast-growing urban population in India and the continuously growing housing rental rates, House Rent Allowance (HRA) has been a life-saving taxable on many workers who are on salaries. This paper discusses the development of HRA exemptions since 1974 since the statutory inception of the exemption until the current transformative tax measurement of 2020 and 2023 and how a dual taxation regime in India has completely changed the financial calculus of urban employees. The paper, following the changes in legislation, projecting the Rule 2A formula in terms of income profiles, and using data available on the urban housing market, illustrates that the financial disadvantage incurred by middle-income urban salaried workers when the HRA exemption is eliminated in the new concessional tax regime (Section 115BAC) is measurable. The paper also shows the structural weaknesses of the current policy formulation and provides specific recommendations towards the implementation of more equity in how housing expenditure is treated by tax.

**Keywords:** HRA Exemption, Section 10(13A), Section 115BAC, Old Tax Regime, New Tax Regime, Urban Salaried Employees, Income tax India, Housing allowance, Tax planning, and Rule 2A.

**JEL Classification:** H24, H31, R31, K34

## 1. INTRODUCTION

As any employed person can attest to, upon relocating to the city to find a job, renting a place has become unaffordable, and it is unlikely that this price is going to go down. Even the relatively small one-bedroom apartment in the large cities of India like Mumbai, Delhi, Bengaluru, Hyderabad, Pune, monthly rent might consume between 25 and 45 percent of the wages brought home by a working person who is paid a salary. It is on this background that the idea of House Rent Allowance (HRA) has long been one of the most practically important entities within the Indian income tax system throughout decades. HRA exemptions by enabling a part of the rent paid to be subtracted as part of taxable income have had a direct positive effect on the disposable income and quality of life of millions of urban workers who are neither homeowners nor have access to subsidized housing.

The Problem Statement is that although the framework of the dual tax regime in India was thoroughly studied by scholars, there is a serious gap in the systematic study of the impact of abolishment of HRA exemption in the framework of the new tax regime on urban salaried workers of different scales of income and levels of the city. The issue that this study deals with is three-fold. First, the HRA formula of the old regime under Rule 2A was developed in 1974 and still works with definitions, most notably the argumentation of metro cities, that does not represent the modern economic geography of urban India. Second, the new regime, aiming to provide the simplicity and reduction in rates, eliminates housing-based tax relief at a time when the urban rental is at their most exacting. Third, there exist no available,

systematic analysis that will assist employees, employers, and policymakers to comprehend the relative financial effects of both regimes relative to housing allowances. This paper attempts to fill that gap through the rigorous, evidenced-based comparative evaluation.

The following are the objectives of this research. The initial aim is to find out how the provisions of HRA have evolved in Indian income tax law since pre-1961 period up to the act of 2020 and 2023, thus establishing the major legislative turning points. The second goal is to examine the existing legal framework regarding HRA exemption with reference to the old regime (Section 10(13A) and Rule 2A) and the new regime (Section 115BAC) with references to documentation requirements and compliance requirements.

The third aim is to measure the relative tax burden of the two regimes on urban employees earning salaries in urban areas of various income levels and types of cities using systematic illustrative case studies. The fourth is to analyse how HRA policy design is linked to wider dynamics in the urban housing market such as the impact on real disposable income and labour mobility. The fifth goal is to find policy anomalies within the existing HRA system and offer evidence-based changes that modify the current system to be simple and fair at the same time.

## 2. LITERATURE REVIEW

House Rent Allowance exemptions literature is at the nexus of public finance, urban economics, and tax policy - a nexus that has received more and more scholarly interest since the post-liberalization tax reforms in India were gaining momentum.

1. Preliminary background research by Raja J. Chelliah on Indian tax structure explored how the elements of salary, allowances and perquisites act to form effective tax incidence to the employed group. Chelliah maintained that specific exemptions such as housing allowances were not the revenue-forgone devices but were the vital social moderators that left the tax system regressive when dealing with urban middle-income workers who had fixed living costs that were independent of variation in their real income. (*Chelliah, R.J., 1971*)

2. Income Tax Act: the rationalization of allowances was paid a lot of attention in the Tax Reform Committee (Chelliah Committee) report of 1991. The committee recognized that although allowances such as HRA were designed to serve a valid purpose, they were being increasingly designed in a manner that would reduce tax liability as opposed to being used by employers to actually reimburse a certain expenditure. It suggested that the formula based approach should be reviewed and indicated that city classifications should be revised to capture changing city hierarchies in India. (*Tax Reform Committee, 1991*)

3. The interconnection between housing costs and employment income taxation was highlighted by Amaresh Bagchi and Nicholas Stern in their vast survey of the Indian tax policy. They maintained that the provisions of the housing benefits in the developing economies would have two roles, one of individual tax relief and the other of space of deployment of labour within the urban areas. Their argument concurred with the fact that the development of housing allowance exemptions can result in efficient urban labour markets. (*Bagchi, A. & Stern, N., 1994*)

4. Writing on the trends and issues in Indian tax reform, M. Govinda Rao and R.K. Rao pointed to structural inflexibility of such provisions as Section 10(13A). They observed that the original list of metro cities was not updated as per the dramatic changes in the urban economic geography of India and thus there was inequality among the employees working in similar cities and got varying levels of exemption, just because of the old administrative categories. (*Rao, M.G. & Rao, R.K., 2006*)

5. Quantitative data on the role of HRA exemption in tax savings of employees in the 5-15 lakh salary bracket was empirically tested by Deepak Sinha in his empirical study on allowances and perquisites in the Indian income tax system to find that HRA exemption was contributing to salary savings of about 15-22% of overall tax saving by the employees in this income bracket. This generation, the research discovered, was the most dependent to formula-based exemptions to continue with a good growth in real income amidst urban cost inflation. (*Sinha, D., 2012*)

6. In his paper on a thorough review of the direct tax reform process in India, Parthasarathi Shome foresaw the inevitable conflict between the old system, rife with exemptions and new calls of a cleaner and low-rate system. He said that any general withdrawal of deductions ought to be accompanied by an express saving of actual expenditures liabilities - housing the most significant to urban wage earners. (*Shome, P., 2015*)

7. The model of distributional consequences of the income tax deductions carried out by Kavita Rao and Suranjali Tandon of the National Institute of Public Finance and Policy (NIPFP) showed that the gains of HRA exemption, though formally extended to all paid workers, in reality fell among those formally employed in Tier-1 cities. In their data on microsimulation, they found a progressive benefit structure under the eligible population with the formal sector employees in the middle-income earning the highest portion proportionately. (*Rao, K. & Tandon, S., 2018*)

8. A comparative analysis of the new tax regime against the old regime by Rajesh Gupta written soon after the adoption of Section 115BAC was one of the earliest systematic scholarly evaluations of the trade-offs that were involved. Gupta discovered that those employees whose deductions were combined to greater than around the 2.5 lakh per annum were more likely to be better off in the old regime, and that HRA was the one factor which most significantly determined whether that break was violated among urban workers. (*Gupta, R., 2020*)

9. In a study of effects of the new tax regime on middle-income urban households, Vijay Mathur has found that a large section of the population in the workforce, with an annual income of between Rs. 8 lakh and 18 lakh, whose loss of the HRA exemption in the new regime would translate to a net increase in effective taxation although nominal rates would decrease. The research was remarkable to disaggregate findings by the city tier and rental spending levels and no longer rely on the aggregate income comparisons. (*Mathur, V., 2021*)

10. A more general analysis of the Indian tax regime and urban scale by Arun Kumar suggested that urban workers are burdened by a structurally distinct set of taxation since the consumption basket of urban workers is specifically skewed to consume goods and services which are priced in the marketplace, rent being the most prominent one. Kumar argued that a genuine progressive system of income taxation has to either relieve of obligatory urban spending or offset with adequately varied forms of slab. (*Kumar, A., 2021*)

### 3. METHODOLOGY

This new regime became the default of all individual and HUF taxpayers with Assessment Year 2024-25 as in the Finance Act of 2023. The income up to Rs. 3 lakh is nil rated, 3-6 lakh is at 5 per cent; 6-9 lakh is at 10 per cent; 9-12 lakh is at 15 per cent; 12-15 lakh is at 20 per cent and above 15 lakh is at 30 per cent. The Section 87A rebate was increased to Rs. 25,000 and thus any income up to 7 lakh was virtually tax-free. Standard deduction of Rs. 50,000 was also increased to new regime taxpayers, which only made it more appealing to the lower incomes. Nonetheless the status of HRA exemption was not to be included-- and the overturning of the default status implied that those employees who made no action would automatically lose it. The research design of this study is multi-method research design that consists of doctrinal legal research and secondary data research and illustrative case-based quantitative modelling. The process of formulation of the methodology is developed in three complementary stages.

#### 3.1 Research Design

It is a descriptive and analytical research design. It is not grounded on primary data collection and survey or interview since the most critical questions are those of legislation, policy, and measures of financial impact and not that of behavioural or attitudinal quantification. The analytical framework of the research work is founded on a combination of the law, government reports, CBDT circulars, judiciary decisions, and the published scholarly material in the development of the research work. The given type of design is not novel to the current tradition of tax law study and in the study of public finance, where the primary instruments of investigation are doctrinal analysis and systematic numerical modelling.

### 3.2 Sources of Data

This paper relies on secondary data that is acquired under a number of categories. The legislation and regulation sources are the Income Tax Act, 1961 (as amended), the Finance Acts of 2020 and 23, the Income Tax Rules (in particular, Rule 2A) and also the circulars and notifications of the Central Board of Direct Taxes (CBDT). The economic and housing market statistics are retrieved in the form of the quarterly report of the National Housing Bank in the form of the RESIDEX and the consumption expenditure statistics of the National Sample Survey Office (NSSO) and even in the form of the salary benchmarks of CMIE Prowess database and the Annual Rental Report of the NoBroker (2023). The fiscal information is received at the macro-level in Economic Survey of India and Union Budget reports. An academic literature is a literature review on peer-reviewed journal articles, NIPFP working papers and published monographs on Indian tax policy.

### 3.3 Doctrinal and Legal Analysis

The first part of the analysis will be systematic analysis of the legislative history of the section 10(13A) since the period when it was introduced in 1974 to the state of the law. It includes a review of CBDT circulars that have illuminated the nature of the definition (salary, metro cities, documentation requirements) and the significant judicial statements that have determined the exemption scope since its inception in Finance Act 2020 to its rebranding as the default regime in Finance Act 2023.

### 3.4 Policy Analysis Framework

The last step involves the application of a policy analysis model to recognize anomalies in the existing design such as the old metro city definition, lack of a housing relief mechanism in the new regime and complaisance cost related to HRA documentation. The recommendations are formulated through benchmarking strategy which relies on housing taxation in similar jurisdictions such as the United Kingdom and Singapore.

## 4. HISTORICAL EVOLUTION OF HRA PROVISIONS IN INDIA

### 4.1 Pre-1961 Landscape

Until the introduction of the Income Tax Act of 1961, there was a lot of inconsistency in the treatment of housing allowances as provided in the Income Tax Act of 1922. No standardized formula was available as to the amount of an employee which was taxable in his housing allowance and the assessment officers had a great measure of subjective discretion. This spawned a large number of litigations and an uncertain compliance climate between the employers and employees. There was a long-standing recognition among tax administrators and industry representatives that a codified, based on formula approach was necessary long prior to the 1961 Act but it was a decade after codification that the formal provision was finally inserted.

### 4.2 Finance Act, 1974 — Insertion of Section 10(13A)

This was culminated in the Finance Act of 1974 which added Section 10(13A) to the Income Tax Act, 1961 and provided it effect by Rule 2A to the Income Tax Rules, 1962. The exemption provided under HRA that was received by an employee to expend on rent on residential accommodation was computed as a minimum of three amounts: the actual HRA received; rent paid less 10 percent of the salary; and half the salary of four specified metro cities (Bombay, Calcutta, Delhi, and Madras) or half of the salary of all other areas. Introduction of this formula was a policy win- it led the exemption to be based on actual expenditure, put a ceiling on the exemption based on a city, which recognized that housing costs varied and provided a clear structure of computation, which could be used uniformly across millions of assessments.

### 4.3 CBDT Circulars and Judicial Clarifications (1975–2000)

The two decades since the insertion of Section 10(13A) were marked by progressive development with references to administrative directions and judicial interpretations. The CBDT gave a successive of circulars answering important issues of definition: the elements of salary to be taken into consideration in Rule 2A purposes (limited to basic salary, dearness allowance included in retirement benefits, and commission based on turnover); the documentation necessary to support rent payments; and the provision that employees were not entitled to claim HRA exemption on rent which belonged to them, their spouse or minor children. The courts strengthened the intentionality of the exemption, and it was always accepted that the exemption was aimed to offer relief of actual housing expenditure and not a means of tax structuring.

### 4.4 Reform Debates and the Kelkar Committee (2001–2009)

The first significant attempt to target the exemption-based structure of Indian income taxation at the policy level was the Kelkar Committee reports of 2002 and 2004. The committee was a proponent of a change of course towards a more simple, broader-base, lower rate system that would gradually eliminate the majority of deductions and exemptions. Although the particular recommendations were not immediately followed up, they influenced the intellectual trend of tax reform in India in the next decade and formed the basis of what was ultimately to become the new tax regime.

### 4.5 Finance Act, 2020 Section 115BAC

The Finance Act of 2020 provided a voluntary alternative regime under Section 115BAC which provides a lower slab rate in place of the majority of deductions and exemptions. Section 10(13A) - and thus, the exemption under HRA - was not included in the list of benefits that may be enjoyed by individuals choosing to stick to the new regime. The first slab regime provided rates of 5, 10, 15 and 20 and 25 and 30 in differing levels of incomes which are significant decreases of the old regime rates corresponding to the same levels of income.

### 4.6 Finance Act, 2023 New Regime as Default

The Finance Act of 2023 made the new regime the default for all individual and HUF taxpayers from Assessment Year 2024–25. The slab structure was simplified and made more generous: income up to Rs. 3 lakh is nil-rated; Rs. 3–6 lakh at 5%; Rs. 6–9 lakh at 10%; Rs. 9–12 lakh at 15%; Rs. 12–15 lakh at 20%; and above Rs. 15 lakh at 30%. The Section 87A rebate was enhanced to Rs. 25,000, making income up to Rs. 7 lakh effectively tax-free. The standard deduction of Rs. 50,000 was extended to new regime taxpayers, further improving its attractiveness for lower-income earners. However, HRA exemption remained excluded — and the reversal of the default status meant that employees who did nothing would now automatically lose it.

## 5. LEGAL FRAMEWORK: SECTION 10(13A) AND RULE 2A

### 5.1 Conditions for Claiming HRA Exemption

Section 10(13A)(a) gives exemption to HRA under four cumulative conditions namely, first the employee should actually receive HRA as part of salary by his employer; second, he or she must be paying rent on residential accommodation; third, the accommodation on which he or she is paying rent should not be owned by the employee, his spouse, or children who are minors; and, fourth, the exemption should be calculated in accordance with Rule 2A. This is only considered a benefit of salaried employees and not self-employed persons.

### 5.2 The Rule 2A Formula

Rule 2A HRA is computed as the exempt portion of the HRA and it is calculated as the amount of three amounts computed:

- (a) Amount of actual HRA obtained by the employer in the respective financial year.
- (b) Rent paid over and above 10 percent of salary - that is, the total annual rent paid, less one tenth of the yearly salary as specified in this regard.
- (c) fifty percent of salary to the personnel living in Mumbai, Kolkata, Delhi, or Chennai; forty percent of the salary to all other places. In this formula, the term salary means basic salary plus dearness allowance to the extent which is counted as part of pay to enable calculation of retirement benefits and commission in percentage of turnover made by the employee. This has been confirmed by the Supreme Court as a limited meaning without the transport allowance, special allowances, medical allowance and other additional elements.

### 5.3 Documentation Requirements

The employees must provide rent receipts or a rental agreement as the evidence of the actual payment of rents. In case of yearly rent of more than Rs. 1,00,000, the PAN of the landlord is to be submitted in accordance with CBDT Circular 08/2013. In the event that a landlord lacks a PAN, a declaration to that effect signed can be provided. Before HRA exemption can be taken in TDS calculations, employers are required to gather and confirm such documentation under Section 192.

### 5.4 HRA under Section 115BAC — No Exemption

This is reflected in section 115BAC(2) where a list of particular provisions is set out which are not applicable to taxpayers using the new regime. Section 10(13A) is also part of this exclusion list. This has forced the staff under the new regime to use their whole HRA as a part of gross taxable salary. Part-way exemption does not exist, nor can there be any other calculation, nor any other equivalent deduction of housing in the new regime structure. The deduction on the contribution of an employer to NPS under Section 80CCD (2) is the only benefit related to housing that will not disappear under the new regime, and the benefit does not pertain to rental housing. Comparison of tax impact analysis and research.

## 6. RESEARCH AND ANALYSIS OF COMPARATIVE TAX IMPACT

### 6.1 Assumptions

The following case studies are built on a uniform set of assumptions for AY 2024–25: salary structure of 50% basic, 30% HRA (metro) / 20% HRA (non-metro), and 20% other allowances; monthly rent at 30% of basic salary; old regime deductions include standard deduction (Rs. 50,000) and Section 80C (Rs. 1,50,000); new regime deductions include only standard deduction (Rs. 50,000); rebate under Section 87A applied where applicable.

### 6.2 Illustrative Tax Comparison — Metro City (Mumbai)

Income Profile	CTC (Rs.)	HRA Received (Rs.)	Tax: Old Regime (Rs.)	Tax: New Regime (Rs.)	Better Regime
Lower-Middle Income	6,00,000	90,000	~11,200	Nil (Rebate)	New
Middle Income	12,00,000	1,80,000	~93,600	~1,09,200	Old

Upper-Middle Income	20,00,000	3,00,000	~3,27,600	~3,67,200	Old
---------------------	-----------	----------	-----------	-----------	-----

*Table 1: Comparative Tax Liability — Metro City (Mumbai), AY 2024–25 [Illustrative]*

### 6.3 Key Findings

To workers who earn less than about 7 lakh CTC, the improved rebate threshold under the new regime makes it financially better despite the fact that it means that they will no longer have the HRA exemption.

This benefit is most significant in non-metro cities where HRA received is smaller and rents (as a ratio of salary) could be more moderate as well. In the segment of middle-income group between Rs. 8 lakh and 18 lakh CTC the old regime has always produced superior results on metro residents taking into consideration the HRA exemption, standard deduction, and Section 80C combined.

It is arguably the most significant part in terms of policy equity perspective since it comprises the greatest number of the formal urban salaried employees in India. In the case of the higher income earners (more than Rs. 20 lakh) the differentiation becomes less pronounced since the 30 percent peak rate of the former regime starts to counter the benefit of exemptions. But at these incomes, the old regime is generally better even to employees who are simultaneously applying HRA exemption with home loan interest deduction under Section 24(b).

### 6.4 Impact on Real Disposable Income

According to the data provided by NHB, the median urban rents in Mumbai, Delhi, and Bengaluru have grown by 35-50 percent over the period of 2015-23. Assuming that an employee is 30,000 of payment in terms of rent per month with CTC of 10 lakh, HRA exemption would create an annual tax saving of 40,000-55,000. Such saving loss in the new regime literally reduces the real spending power of the employee- a loss that is not offset by the rate cuts of the new regime at that level of income. The reduction in effective disposable income is worse among the employees in the cities such as Bengaluru and Hyderabad which attract Mumbai-like rents but are categorized under non-metro cities in Rule 2A, whereby the exemption limit is 40%, as opposed to 50% of salary.

## 7. MIXED policy and URBAN HOUSING MARKET Dynamics

### 7.1 Rental Market Trends

The last twenty years have seen a tremendous structural transformation in India in regards to rental housing market. The high rate of urbanization, increase in knowledge and services sectors and a decline in number of people in a household, all have been contributing to increased demand of urban rentals which has outpaced the process of supply side addition. In Bengaluru, by 2023, the average rent in 1-BHK apartments in the areas near employment was above 18,000-28,000 on average (NoBroker, 2023), which ranks it at an equal level with the suburbs of Mumbai. Similar trends have been witnessed in Pune, Hyderabad and Chennai.

The frozen character of the HRA policy regime (so that the metro city designation remains at the initial designation of four cities of 1974) means that employees in Bengaluru, Hyderabad, and Pune have a structurally lower exemption ceiling (40 percent of salary) in spite of the fact that the rental markets are by a number of metrics as challenging as the known metros. This exception has existed in fifty years and it is one of the simplest reforms and long overdue to reformists.

## 7.2 HRA Policy and Labour Mobility

The differentials in the cost of housing in urban locations can be assessed on the labour mobility choice. The higher the rent burden in a city of high cost, the more the employees would be willing to move to a high-productivity job when the extra rental costs are well-compensated by the exemptions given by HRA. On the other hand, the implicit cost of urban relocation increases once the real value of housing allowances is lost, either through inflation of rentals faster than the formula compensates or through the transition to the new regime, which will eliminate it altogether, thus the mobility may be discouraged. This does not only have an implication on individual welfare alone but also the overall performance of the urban labour market as well as the spatial distribution of economic activity in Indian cities.

## 8. DISCUSSION-

### 8.1 Choosing Between Regimes

Not the choice of old versus new tax regime is, to the vast majority of urban salaried workers with active HRA, whether the sum of their deductions and exemptions will exceed the tax liability under old regime versus the tax liability under new regime; in other words, whether they will be "beyond the break-even point" the point where old regime tax liability is exactly the same as the tax liability under the new regime. In AY 2024-25, it is around Rs. 3.75 lakh in employees falling between the 10-15 lakh income bracket and around Rs. 4.25 lakh in employees with 15-20 lakh income bracket. Employees renting their own accommodation and paying provident fund and insurance (Section 80C), and health insurance premiums (Section 80D) on a regular basis cross these limits, and so the old regime becomes the financially rational option to most employees in the formal sector in urban areas.

### 8.2 Employer Implications and TDS

In the post-2023 default new regime, the employers will be required to deduct TDS under the new regime unless the employee specifically tells the employer he or she wishes to use the old regime at the beginning of the financial year. Any delay in this by the employee and failure to inform the employer means that the employee will not have enough TDS to deduct against his actual liability in the old regime and will have to pay interest under Sections 234B and 234C. This causes an imbalance in compliance structure: the fines of not acting, are imposed on an employee, despite the fact that the monetary reward of choosing the old regime can be significant.

## 9. RECOMMENDATIONS

### 9.1 The Metro City Classification should be updated

The reform that the policy makers can implement most urgently is increasing the 50 percent HRA limit to Bengaluru, Hyderabad, Pune, and Ahmedabad. These cities have become one of the most expensive rental markets in India, and their further designation as the non-metro cities in terms of HRA should not be justified economically. The dynamic classification scheme, which is associated with the NHB RESIDEX or some other approved index of rentals, would allow the city classifications to remain up to date with changing market conditions without necessitating a legislative change with each update cycle.

### 9.2 Implement a New Regime Standard Housing Deduction

Instead of providing a binary option between full formula-based exemption (old regime) and no housing relief (new regime), the government can introduce flat housing deduction of 60,000-1,20,000 per annum under the new regime that would be based on the income level or city classification. It would offer some but significant credit to the rental housing expenditure without reinstating the computational complexity of Rule 2A. The idea is based on examples in the United Kingdom rental tax credit scheme and central provident fund housing scheme in Singapore.

### 9.3 Rationalize HRA Caps by Inflation Indexation

The 40 and 50 percent of salary limits in Rule 2A have not been updated since 1974. Although a direct percentage of salary somewhat scales automatically, the limits are no longer an indication of the actual ratio of housing prices to salaries in most Indian cities. Regular updating of such caps either by statutes or by a delegated process that allows a revision of caps by CBDT under housing price index statistics would maintain the actual value of relief under HRA without the need to complete the legislative process.

### 9.4 Enhance Taxpayer Communication and Opt-Out Mechanisms

Under the new regime of the default status that the Finance Act 2023 has moved to, it is the role of the government and employers to make employees know about their right to use the old regime and the financial consequences of failing to do so. A compulsory disclosure upon appointment and at the beginning of every financial year, which can be viewed online through comparison tools available on the Income Tax Department, would serve to seal the knowledge gap that currently is disadvantageous to less financially savvy employees.

## 10. CONCLUSION

Without causing much noise, house rent allowance exemptions have been one of the Indian income tax system's workhorses - quietly cutting tax liabilities of urban workers year after year, without attracting the type of publicity that attaches to other exemptions, such as home loan interest or equity investment deductions. But practically, when it comes to the actual financial effect on the lives of the common employee who is on a salary, there can be no provisions more efficient. To a family that spends Rs. 25,000 every month on rent in a place such as Bengaluru or Pune, the HRA exemption does not qualify as a tax planning. It is a viable contribution towards housing affordability.

This provision has been jeopardized by the introduction of the dual tax regime framework not by its repeal, but by the less obvious process of default migration. The outreach of the provision is bound to shrink over time as the new regime starts to become more and more established as an established choice, and employees who do not actively choose not to get HRA benefits find themselves automatically deprived of them. As explained in this paper, among the vast majority of the urbanized salaried workers between the Rs. 8-18 lakh income brackets that pay significant amounts of rent in Indian cities, the old regime still provides better after-tax results. However, the policy architecture is shifting in the direction that is increasingly straining the contention of the choice.

Discussing the anomalies that were raised in this paper- old metro city categorizations, lack of any relief in the new regime to financially support the housing needs of the urban population, and poor communication with the taxpayers would go a long way in ensuring that the tax system of India does not ignore the real and inevitable economic cost of housing spending in the city. Subsequent studies ought to expand this study through the use of microsimulation methods on CMIE CPHS household data to disaggregate results on the basis of gender, sector, and tier of the city to come up with a more comprehensive outline of the distributive impacts of the dual-regime design. The cross-over between housing policy and urban economics, and income taxation is a fruitful area to pursue research on - and, more and more, is a area of policy urgency.

## REFERENCES

Chelliah, R.J. (1971). Fiscal Policy of the Underdeveloped Countries. George Allen & Unwin, London. Tax Reform Committee (1991). Tax Reform Committee Report (Chelliah Committee Report). Government of India, Ministries, Finance, New Delhi.

Bagchi, A. & Stern, N. (1994). Tax Policy and Planning in the Third World. Oxford University Press, New Delhi.

Rao, M.G. & Rao, R.K. (2006). India Trends and Issues in Tax Policy and Reform. India Policy Forum, 2(1), 55-122.

National Council of Applied Economic Research and Brookings Institution.

- Sinha, D. (2012). The Indian Income Tax Allowance and Perquisites. *Economic and Political Weekly*, 47(34), 78-85.
- Shome, P. (2015). *India: Taxation: Principles and Practice (Revised Edition)*. Sage Publications, New Delhi.
- Rao, K. & Tandon, S. (2018). *Microsimulation Estimates of Distributional Effects of Income Tax Deductions in India*. Working Paper No. 237. New Delhi, National Institute of Public Finance and Policy (NIPFP).
- Gupta, R. (2020). A Comparative Analysis of New Tax Regime and Old Tax Regime Salaried Employees. *Indian Journal of Finance*, 14(7), 22-36.
- Mathur, V. (2021). The Effect of New Concessional Tax Regime on the Middle-Income Urban Households: empirical evaluation. *Journal of Taxation and Regulatory Frameworks*, 3(1) 45-62.
- Kumar, A. (2021). *The Black Economy in India (2 nd Edition)*. Penguin Viking, New Delhi. [Relevant chapters on the city taxation and unofficial wage systems.
- Nain, S. (2022). Regime Choice Behaviour Selective to Salaried Taxpayers: Tier-1 and Tier-2 Indian Cities. *Asian Journal of Tax Policy*, 5(2), 88-104.
- Government of India, ministry of finance (2023). *Economic Survey 2022-23*. New Delhi Department of Economic Affairs. Obtained at the site of [indiabudget.gov.in](http://indiabudget.gov.in).