



HRA Just Got Bigger: 50% Exemption Now Covers 8 Cities

From FY 2026-27, Bengaluru, Hyderabad, Pune and Ahmedabad join the metro club. Effective 1 April 2026 under the Income-tax Rules, 2026.

[INCOME TAX](#)

[HRA](#)

[PAYROLL](#)

[OLD REGIME](#)

What Changed

4 to 8

Cities now eligible for 50% HRA exemption

For the first time in over four decades, the 50% HRA exemption city list expands.

Key Details

- Effective: FY 2026-27, for salary earned on or after 1 April 2026.
- Driven by the Income-tax Rules, 2026, which replaced the Income-tax Rules, 1962, to operationalise the Income-tax Act, 2025.
- This is a recurring increase in tax-free salary for employees in India's largest employment hubs.
- Changes monthly TDS computation for every employer from April 2026.

The 8 Cities

Every other city in India continues at 40%. This is a one-time expansion of the list, not a blanket increase.

Existing Four (50% Before FY 2026-27)	Newly Added Four (50% from FY 2026-27)
Delhi	Bengaluru
Mumbai	Hyderabad
Kolkata	Pune
Chennai	Ahmedabad

 All cities not listed above remain at 40% HRA exemption. This expansion applies only to the eight cities named here.

The Law Behind It

Old Framework (FY 2025-26 and Earlier)

- Section 10(13A), Income-tax Act 1961
- Read with Rule 2A, Income-tax Rules 1962

New Framework (FY 2026-27 Onwards)

- Income-tax Act 2025, Schedule III (Table, Serial No. 11)
- Read with the Income-tax Rules 2026

Declaration Form Change

Form 12BB Replaced

Form 12BB is replaced by Form 124 from 1 April 2026, under Section 392(5)(b) of the Act 2025, read with Rule 205 of the Rules 2026.

New Disclosure Requirement

Form 124 now requires disclosure of the employee's relationship with the landlord. Rent-to-relatives claims face sharper scrutiny.

The Three-Limb Test (Unchanged)

HRA exemption is the **least** of these three amounts. Only the third limb percentage moves with the new city expansion.

1

Actual HRA Received

Actual HRA received from the employer during the year.

2

Rent Minus 10% of Salary

Rent paid minus 10% of salary for the relevant period.

3

Percentage of Salary


50% of salary if you live in one of the 8 cities. **40% of salary** for all other cities.

- ☐ Salary here means basic salary plus dearness allowance (where it forms part of retirement benefits) plus fixed commission on turnover.

Worked Example: A Bengaluru Employee

Assume Basic Rs 1,00,000 per month, HRA Rs 50,000 per month, Rent paid Rs 40,000 per month.

Limb	FY 2025-26 (40%)	FY 2026-27 (50%)
Actual HRA received	Rs 50,000	Rs 50,000
Rent minus 10% of salary	Rs 30,000	Rs 30,000
40% / 50% of salary	Rs 40,000	Rs 50,000
Exempt HRA (least of three)	Rs 30,000	Rs 30,000

 Key lesson: the third limb is often NOT the binding constraint. The 50% rate only helps where the third limb is actually the lowest, typically when rent is high relative to salary. Run the three-limb test on real numbers before promising anyone a higher exemption.

Three Traps to Avoid

Trap 1: Old Regime Only

The new (default) tax regime allows no HRA exemption at all, in any city. The 50% expansion is relevant only to employees who have opted for the old tax regime.

Trap 2: Period Matters

For the ITR you file for FY 2025-26 (AY 2026-27), the four new cities are still at 40%. The 50% rate applies only to income earned from 1 April 2026 onwards.

Trap 3: New Disclosure

Form 124 requires you to declare your relationship with the landlord. Rent-to-relatives claims face sharper scrutiny under the new rules.

What to Do Now

01

Employers

Re-run salary TDS computation for the 4 new cities from April 2026 payroll. Update declaration collection from Form 12BB to Form 124.

02

Employees

Re-run the old-versus-new regime comparison. The expanded 50% list is a reason to compare, not an automatic win. Run the three-limb test on your actual numbers.

03

Founders

Review CTC and rent-allowance structuring for teams in Bengaluru, Hyderabad and Pune, India's biggest startup hubs. The change affects your payroll cost modelling from April 2026.

- ✔ Talk to an Expert: CA Adityavikram Banka, Founder, A S Banka Advisors Private Limited.