



**“What’s
New?”**

August 28, 2023

“Rule 3 amended to lower taxable value of Rent Free Accommodation (“RFA”)”

When an employer provides RFA benefit to its employees, then the value of RFA computed as per Rule 3 of the income-tax Rules, 1962 is added to the taxable salary as “perquisite”. The government has amended Rule 3 to lower the taxable value of RFA w.e.f September 1, 2023.

In this alert, we have discussed these revised limits.

Source: CBDT Notification No. 65/2023, dated August 18, 2023.

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Revised limits of Rule 3 for valuation of RFA

S.no	Circumstances	Taxable value of RFA before amendment	Taxable value of RFA after amendment
(I)	Where Accommodation is provided by Central Government or any State Government	License fee determined by the Central Government or State Government as reduced by the rent actually paid by the employee.	Same as earlier
(II)	Where employer is non government entity and accommodation is owned by employer (in case of unfurnished accommodation)	(i) 15% of salary in cities having population exceeding 25 lakhs as per 2001 census; (ii) 10% of salary in cities having population exceeding 10 lakhs but not exceeding 25 lakhs as per 2001 census; (iii) 7.5% of salary in other areas. As reduced by the rent, if any, actually paid by the employee.	(i) 10% of salary in cities having population exceeding 40 lakhs as per 2011 census; (ii) 7.5% of salary in cities having population exceeding 15 lakhs but not exceeding 40 lakhs as per 2011 census; (iii) 5% of salary in other areas. As reduced by the rent, if any, actually paid by the employee.
(III)	Where employer is non government entity and accommodation is taken on lease by employer (in case of unfurnished accommodation)	Actual amount of lease rental paid or payable by the employer or 15% of salary, whichever is lower, as reduced by the rent, if any, actually paid by the employee.	Actual amount of lease rental paid or payable by the employer or 10% of salary, whichever is lower, as reduced by the rent, if any, actually paid by the employee.
(IV)	Where accommodation is provided by employer in hotel	24% of salary paid or payable for the previous year or the actual charges paid or payable to such hotel, which is lower, for the period during which such accommodation is provided as reduced by the rent, if any, actually paid or payable by the employee.	Same as earlier

- In case the accommodation is furnished, then the value of perquisites will be the value of perquisite as determined above in case of unfurnished accommodation and increased by 10% per annum of the cost of furniture (like television sets, radio sets, refrigerators, other household appliances, air-conditioning plant or equipment or other similar appliances or gadgets) or if such furniture is hired from a third party, by the actual hire charges payable for the same as reduced by any charges, actually paid or payable for the same by the employee during the previous year.

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