

# *Niti*

## *Income Tax Rules, 2026 - Key Highlights*



*"Krishna controls the Finite and the Infinite with inconceivable supernatural transcendental force.  
This is the power of inner energy."*

*.....Bhagavad Gita*



## A. Foreword

The Government of India has introduced the Income Tax Act, 2025 (“**ITA 2025**”) to replace the existing Income Tax Act, 1961 (“**ITA 1961**”), with the objective of creating a simpler, more transparent, and efficient tax framework. The new law was introduced in Parliament on February 13, 2025 and was passed by Parliament and received the President’s assent on August 21, 2025. ITA 2025 is set to come into force from April 1, 2026.

While this is being referred as “ITA 2025” it is important to understand that it is not a complete overhaul of the tax system, but rather a simplified and better-structured version of the existing law, aimed at improving clarity, reducing complexity, and making compliance easier.

In line with this, the Income Tax Department released the draft Income Tax Rules, 2026 (“**New Rules**”) along with the new Income Tax Forms (“**New Forms**”) on February 7, 2026, which were subsequently notified on March 20, 2026. These rules will also be effective from April 1, 2026 and have been significantly simplified compared to the existing Income Tax Rules, 1962 (“**Old Rules**”) along with existing Income Tax Forms (“**Old Forms**”).

It is important to note that for Financial Year 2025-26 (Assessment Year 2026-27), the provisions of the Old Rules will continue to apply

## B. Simplified Structure of the Law

Particulars	Old Rules	New Rules
Rules	511	333
Forms	399	190

## C. Key Changes

### 1. Allowances and Perquisites

Item	Old Rules	New Rules
Children Education Allowance	₹100/month per child	₹3,000/month per child
Hostel Allowance	₹300/month per child	₹9,000/month per child
School fees in employer’s School	₹1,000/month per child	₹3,000/month per child
Free Meals	₹50 per meal	₹200 per meal
Value of Gifts (non-cash) from employers	₹5,000/year	₹15,000/year
Car (≤1600 cc)	₹1,800 + ₹900 (driver)	₹5,000 + ₹3,000 (driver)
Car (>1600 cc)	₹2,400 + ₹900 (driver)	₹7,000 + ₹3,000 (driver)
Overseas Medical Treatment	Exempt if income < ₹2 lakh	Exempt if income < ₹8 lakh
Loan from Employer	Exempt up to ₹20,000	Exempt up to ₹2,00,000



Item	Old Rules	New Rules
Foreign Tax Credit (FTC)	No CA certification required	Mandatory CA certification if FTC $\geq$ ₹1 lakh
Transport Allowance (General Employees in Transport Sector)	Lower of ₹10,000 per month OR 70% of allowance received	Lower of ₹25,000 per month OR 70% of allowance received
Transport Allowance (Disabled Employees)	₹3,200/month	₹15,000 (metro) / ₹8,000 (non-metro) + dearness allowance
Underground Allowance (Mining Workers)	₹800/month	15% of basic salary
Accommodation Perquisite (where accommodation is owned by the employer)	- 15% of salary (population > 40L) - 10% of salary (population 15L-40L) - 7.5% of salary (population < 15L)	- 10% of salary (population > 40L) - 7.5% of salary (population 15L-40L) - 5% of salary (population < 15L)

## 2. Leave Travel Concession (LTC) Changes

Scenario	Old Rules	New Rules
Air Travel	Limited to economy fare of national carrier	Limited to entitled class fare* (shortest route)
No Public Transport Area (Bus Travel)	Based on AC first-class rail fare	Fixed ₹30 per km

\*The fare of the class of travel that you are eligible for is as per employer/ company rules or travel policy

## 3. Changes in relation to Permanent Account Number (PAN)

### Additional document for PAN:

As per New Rules, a Birth Certificate is mandatory as proof of date of birth for individuals born on or after October 1, 2023 while applying for PAN. The Birth Certificate must be issued by the Registrar or Indian Consulate. Earlier, submission of a Birth Certificate was not mandatory.

The New Rules revise the requirements related to quoting of PAN, focusing more on high-value transactions while easing smaller compliance burden.

Nature of Transaction	Old Rules	New Rules
Motor Vehicle Purchase	All vehicles (except 2-wheelers)	Above ₹5 lakh (includes motorcycles, excludes tractors)
Hotel/ Restaurant Cash Payment	Above ₹50,000 (single payment)	Above ₹1,00,000



Nature of Transaction	Old Rules	New Rules
Life Insurance Premium	Above ₹50,000/year	PAN required at account opening (all transactions)
Immovable Property	Above ₹10 lakh	Above ₹20 lakh
Cash Withdrawal	≥ ₹20 lakh/year	≥ ₹10 lakh/year
Cash Deposit	Above ₹50,000/day	Above ₹10 lakh/year

#### 4. House Rent Allowance (HRA) – Benefit Extended to More Cities

Cities	Old Rules	New Rules
Ahmedabad, Bengaluru, Hyderabad, Pune	40% of salary	50% of salary

#### 5. Other Key changes:

##### a) Extended Due Dates for Non-Audit cases

Taxpayers engaged in business or profession, and partners of a firm whose accounts do not require audit under law, will now get more time to file their returns to ensure accurate reporting.

Sr. No.	Category of Taxpayer	Existing Due Date	Proposed Due Date
1	Assessee, partners of firm, or spouse of partner, if Transfer Pricing applies	30 <sup>th</sup> November	30 <sup>th</sup> November
2	Company, or assessee (other than company) whose accounts require audit, or partner of firm whose accounts require audit	31 <sup>st</sup> October	31 <sup>st</sup> October
3	Assessee having business / professional income not requiring audit, or partner / spouse of such partner	31 <sup>st</sup> July	31 <sup>st</sup> August
4	All other individuals	31 <sup>st</sup> July	31 <sup>st</sup> July

##### b) Buy-Back of Shares

The gains from buy-back will be taxed under “Capital Gains,” with a special provision for promoters, whose effective tax liability on such gains will be capped at 30% (including applicable tax and additional tax), while promoter companies will face an effective rate of 22% (including applicable tax and additional tax).



Stakeholder	Category of Taxpayer	Effective Rate	Key Benefit / Change
Companies	No buy-back tax; standard compliance	Not Applicable	No change
Non-promoter Shareholders	Capital Gains on net gain	Varies (e.g. 12.5% LTCG)	Cost deduction allowed
Corporate Promoters	Capital Gains + Additional Tax	22%	Higher than standard, but uniform
Individual/ Non-Corporate Promoters	Capital Gains + Additional Tax	30%	Higher than standard, but lower than the maximum marginal rate

### c) TCS Rates Rationalization

Sr. No.	Nature of Receipt	TCS Rate as per ITA 1961	TCS Rate as per ITA 2025
1	Remittances under Liberalised Remittances Scheme (LRS) exceeding Rs. 10 lakhs	5% (educational medical); 20% (other purposes)	2% (educational medical); 20% (other purposes)
2	Sale of overseas tour programme package (including travel, hotel stay, boarding, lodging, or similar expenses)	5% (amounts $\leq$ Rs. 10 lakh); 20% (amounts $>$ Rs. 10 lakh)	2% (irrespective of amount)

### d) Change in STT rates

STT levied on transactions in specified securities has been revised to address speculation in derivatives as under:

- Sale of an option in securities: 0.1% increased to 0.15% of option premium.
- Sale of exercised option: 0.125% increased to 0.15% of intrinsic value.
- Sale of a future in securities: 0.02% increased to 0.05% of traded price.

### e) Rent scrutiny – Mandatory Landlord relationship disclosure:

A revised format for HRA declarations has been introduced, replacing Form 12BB with a new Form 124. Under this change, employees claiming House Rent Allowance are required to furnish additional particulars, including the mandatory disclosure of the nature of their relationship with the landlord if annual rent exceeds Rs. 1,00,000.



**6. Illustrative list of New Forms 2026 along with its description/ purpose:**

<https://www.incometaxindia.gov.in/faqs-and-guidance-notes-on-forms-as-per-income-tax-rules-2026>

**a) Certificates and Statements**

<b>Form No. (New Rules)</b>	<b>Description</b>
Form No. 15	Form 15 is a mandatory statement under Section 45(4)(a) filed by Research Association, University, College or Other Institution to report donations received.
Form No. 16	Form 16 is a certificate issued under Section 45(4)(a) issued by eligible institutions to donors specifying the amount of donation, enabling them to claim tax deduction.
Form No. 45	Form 45 is a statement under Rule 76 of the New Rules filed by the assessee with the Income-tax Department to intimate settlement of foreign tax for which credit has not been claimed
Form No. 75	Statement of income paid or credited by Venture Capital Company or Venture Capital Fund to be provided to the person who is liable to tax under Section 222
Form No. 167	Form 167 is a statement filed by the crypto-asset service provider with the Income-tax Department to report details (including nil statements) of reportable crypto-asset users by May 31 following the relevant year.

**b) Audit / Valuation Reports**

<b>Form No. (New Rules)</b>	<b>Description</b>
Form No. 32	Form 32 is a format of the Audit Report under Section 46, 138, 139, 140(8), 141, 142, 143 and 144 of the ITA 2025, which will have to be certified by an Accountant and required to be furnished by an assessee to claim specific deductions
Form No. 170	Report of Valuation of Asset under Section 514 of the ITA 2025.



### c) Transfer Pricing / APA Related Forms

Form No. (New Rules)	Description
Form No. 46	Form 46 is for exercising option under Section 166(9)(a) of the ITA 2025 filed by the assessee with the Transfer Pricing Officer to apply arm's length price determination for multiple years in a single proceeding.
Form No. 47	Form 47 is a Certificate under Section 166 of the ITA 2025 read with New Rules, furnished by an accountant and submitted along with Form 46 to the Transfer Pricing Officer certifying the validity of the option for multiple-year arm's length price determination.
Form No. 54	Application for Renewal of an Advance Pricing Agreement (APA)

### d) Applications / Registrations / Approvals

Form No. (New Rules)	Description
Form No. 136	Application for allotment of Accounts Office Identification Number (AIN)
Form No. 169	Application for registration as a Valuer under Section 514 of the ITA 2025.
Form No. 188	Application for approval of superannuation fund or gratuity fund

### e) Declaration / Compliance

Form No. (New Rules)	Description
Form No. 157	Form is in the nature of a declaration form to be filed by individuals domiciled in India who are leaving the country and are otherwise not required to obtain a PAN.
Form No. 162	Annual Statement required under Section 505 of the ITA 2025, specifically for non-resident entities operating a liaison office (LO) in India.

## 7. TDS/ TCS Returns

Old Forms	Purpose	New Forms
Form 13	Nil or lower deduction certificate	Form 128



Old Forms	Purpose	New Forms
Form 24Q	TDS on Salary	Form 138
Form 26Q	TDS on Domestic Payments	Form 140
Form 27Q	TDS on payments to Non-Residents (Non-Salary)	Form 144
Form 27EQ	TCS Return	Form 143
Form 26QB / QC / QD / QE	TDS on property purchase, rent payments by individuals/ HUF, payments to contractors/ professionals, and transfer of virtual digital assets	Form 141
Form 16	TDS Certificate (Salary)	Form 130
Form 16A	TDS Certificate (Other)	Form 131
Form 16B / C / D / E	TDS Certificates	Form 132
Form 27D	TCS Certificate	Form 133
Form 26AS	Annual Tax Statement	Form 168
Form 12BB	Employee Deduction Declaration	Form 124
Form 15CA	Foreign Remittance Information	Form 145
Form 15CB	CA Certificate for Remittance	Form 146

## 8. Audit, Accounts, Returns and Reports

Old Forms	Purpose	New Forms
3CA / 3CB / 3CD	Tax Audit Report	Form 26
3CEB	Transfer Pricing Report	Form 48
29B	MAT Computation	Form 66
29C	AMT Computation	Form 67
ITR-U	Updated Return	ITR-UN

## 9. Business Reorganization

Old Forms	Purpose	New Forms
5C	Details of amount attributed to capital asset remaining with the specified entity after dissolution or reconstitution.	Form 27
3CEA	Report of an accountant to be furnished by an assessee under Section 77(4) relating to the computation of capital gains in the case of Slump Sale	Form 28
62	Certificate from the principal officer of the amalgamated company and duly verified by an accountant regarding achievement of the prescribed level of production and continuance of such level of production in subsequent years	Form 29



## 10. International Tax and DTAA

Old Forms	Purpose	New Forms
10F	Information to be provided to claim relief under DTAA	Form 41
10FA	Application to be filed by non-residents to obtain tax residency certificate	Form 42
10FB	Tax residency certificate issued by the Assessing Officer of the Indian Income-tax Department, certifying that a person is a resident of India	Form 43
67	Statement of income from a country or region outside India and Foreign Tax Credit	Form 44

## 11. Transfer Pricing / APA / Safe Harbour

Old Forms	Purpose	New Forms
3CEFA/B/C	Application for opting for Safe Harbour	Form 49
3CEC	To apply for a pre-filing consultation with regards to an APA	Form 50
3CED / 3CEDA	Application for an Advance Pricing Agreement (APA)	Form 51
3CEF	Annual Compliance Report on Advance Pricing Agreement	Form 52
3CEAA-AE	CbCR reporting	Form 56-60

## 12. Non-Profit Organization (Trust)

Old Forms	Purpose	New Forms
10A	Registration	Form 104
10AB	Approval	Form 105
10AC	Provisional Approval	Form 106
10AD	Final Approval	Form 107
9A	Option for Application	Form 108
10	Accumulation of Income	Form 109
10B / 10BB	Audit Report	Form 112
10BD	Donation Statement	Form 113
10BE	Donation Certificate	Form 114



### 13. PAN / TAN other related Forms

Old Forms	Purpose	New Forms
49A	PAN (India)	Form 93 / 94
49AA	PAN (Foreign)	Form 95 / 96
49B	TAN Application	Form 134 / 135
60	No PAN Declaration	Form 97
61	Statement of Form 60	Form 98

### 14. Appeals and Litigation

Old Forms	Purpose	New Forms
35	Appeal before the JCIT(A) or CIT(A) against a relevant order passed by an Income-tax Authority	Form 99
36	Appeal before the ITAT against order appealable under Section 362(1) of the ITA 2025	Form 115
36A	Filing of memorandum of cross-objection before the ITAT against an appeal filed by the opposite party	Form 116
34BC	Filing an application before DRC under Section 379 of the ITA 2025	Form 119
34C-EA	Filing of application before the Board for Advance Rulings (BAR) to seek a determination on legal or factual issues related to proposed or completed transactions.	Form 120

### 15. Statements and Reporting

Old Forms	Purpose	New Forms
61A	SFT	Form 165
61B	Reportable Accounts	Form 166
26AS	AIS	Form 168



## 16. Frequently Asked Questions ('FAQ's)

The Central Board of Direct Taxes has issued a compendium of FAQs dated March 23, 2026 on the interplay and transition from ITA 1961 to the ITA 2025, which is going to be effective from April 1, 2026.

### a) Year of Taxation

The concept of a 'Tax Year', aligning the financial reporting and tax assessment period with global standards has been introduced. Unlike the current Assessment Year and Financial Year model, the new framework simplifies compliance by having a single unified period i.e., the Tax Year.

Tax Period of Income	Act	Reference
April 1, 2025 - March 31, 2026	ITA 1961	AY 2026-27
April 1, 2026 - March 31, 2027	ITA, 2025	Tax Year 2026-27

The tax return (original, revised, belated, or updated) filing obligation will be determined accordingly. Thus, the prescribed forms under ITA 1961 must be used to report income up to the previous year 2025-26, irrespective of the date of filing of the tax return.

The tax audit report for the previous year 2025-26 (AY 2026-27) will be filed in the existing forms 3CA, 3CB and 3CD prescribed under ITA 1961 (i.e., Forms 3CA, 3CB, and 3CD).

A similar approach shall be followed for form filing requirements for claiming relief in respect of salary received in arrears or in advance, i.e., Form No. 10E under ITA 1961 for relief claimed in AY 2026-27 and the corresponding form under ITA 2025 for Tax Year 2026-27.

The e-filing portal will continue to support the older forms for earlier years even after April 1, 2026.

### b) Continuity of administrative framework

Existing PAN and TAN shall continue to remain valid. Pending applications as on March 31, 2026 shall be processed under ITA 1961. Approvals, registrations, recognitions, circulars, and notifications issued under ITA 1961 shall continue to remain valid under ITA 2025, unless inconsistent. Faceless Schemes and Advance Pricing Agreements shall also continue, subject to consistency with the new provisions.

### c) Deduction of tax at source (TDS)

The applicability of TDS provisions depends on the earlier of payment or credit to the payee's account, regardless of the deposit date with the Government. If this earlier event occurs on or before



31 March 2026, the provisions of ITA 1961 (including existing challans and payment codes) will apply, otherwise, the provisions of ITA 2025 will apply.

**d) Validity of lower/ nil TDS certificate**

A lower/ nil TDS certificate issued by the tax officer under Section 197 of ITA 1961 will remain valid for payments/ credits made on or after April 1, 2026 provided it is issued in respect of projected receivable for Tax Year 2026-27.

**e) TDS/ TCS compliances**

Returns and statements for periods prior to April 1, 2026 shall continue to be filed under ITA 1961 formats, and existing systems shall support such filings. The transition principles applicable to TDS compliances shall apply, mutatis mutandis, to TCS compliances.

**f) Self-assessment and Advance tax**

Interest on shortfall in advance tax and payment of self-assessment tax for previous year 2025-26 (AY 2026-27) shall be governed by ITA 1961. This is because the applicable law is determined by the year of income, not the date of payment, even if such tax is paid on or after April 1, 2026.

**g) Compliances relating to overseas remittance**

If an overseas remittance is made on or after April 1, 2026 for a liability that accrued before April 1, 2026, the form filing requirements (Filing of Form No. 145 and 146 (corresponding to Form No. 15CA and 15CB) will apply as per the tax law in force on the date of remittance (i.e., ITA 2025). However, the taxability of the underlying income will be governed by ITA 1961, being the tax law applicable in the year of accrual.

**h) Tax proceedings**

The provisions of ITA 1961 will continue to apply to any proceeding in respect of previous year 2025-26 or earlier years whether pending as on April 1, 2026 or initiated on or after that date (Section 536(2) of ITA 2025). This includes notices, assessment, reassessment, re-computation, rectification, penalty, reference, revision and appeals.

**i) Transitional issues regarding appeals**

Any appeal, rectification, or other proceeding relating to AY 2026–27 or earlier years shall be governed by ITA 1961, even if initiated or continued after the commencement of ITA 2025. In line with Section 536(2)(c), the provisions of the repealed Act shall continue to apply to proceedings



pending as on the commencement date. Accordingly, reassessment proceedings initiated under ITA 1961 shall also continue under that Act.

Further, where the time limit for filing an appeal, revision, or reference had expired before the commencement of ITA 2025, such right shall not be revived merely due to a different or extended limitation period under the ITA 2025.

Where the Income-tax Appellate Tribunal remands a case on or after April 1, 2026 for any earlier tax year, such remand proceedings shall also be governed by ITA 1961, being a continuation of the original proceedings.

#### **j) Tax holidays, deductions and exemptions**

The profit-linked deduction allowable under ITA 1961 will continue to be allowable for the remaining period and in the manner provided in ITA 1961. If, on or after 1 April 2026, there is any violation of condition attached to any deductions or exemption, the amount of deduction claimed in earlier years shall be deemed to be income for the tax year in which such violation takes place and taxed under ITA 2025.

#### **k) Impact of transition on computation base for deduction of business income**

For tax years beginning on or after April 1, 2026, business income is computed under ITA 2025, even where the deduction is grandfathered under ITA 1961. While the entitlement to claim the deduction continues under ITA 1961, the amount of eligible profit is determined in accordance with the computation provisions of ITA 2025. Accordingly, the deduction is calculated on the business income as computed under ITA 2025.

For instance, where an undertaking eligible for deduction under Section 80-IA of ITA 1961 has two years of deduction remaining after April 1, 2026, the deduction for these two tax years will be computed on the business income determined under ITA 2025, and not on the income as computed under ITA 1961.

If a deduction was partly disallowed under ITA 1961 and the appeal is decided after April 1, 2026, the appellate authority will determine the entitlement strictly under ITA 1961. However, if the decision has consequences for subsequent tax years (for instance, affecting quantum of losses to be carried forward or amount of unabsorbed depreciation, Minimum Alternate Tax ('MAT') credit), the forward impact for tax year beginning from April 1, 2026 and onwards will operate within the computational framework of ITA 2025.



#### **l) Minimum Alternate Tax credit**

Any unutilised credit for MAT allowed to be carried forward under ITA 1961 are treated as eligible credits under ITA 2025, subject to the conditions prescribed in ITA 2025.

#### **m) Carry forward of losses**

Losses determined for AY 2026-27 or earlier years under ITA 1961 can be carried forward and set off in tax year 2026-27 and subsequent tax years in the manner provided under ITA 1961. The transition does not interrupt or restart the carry-forward period.

#### **n) Violation of conditions for carry forward of loss in case of amalgamation**

In case of amalgamation, section 72A of ITA 1961 allows carry forward and set-off of accumulated loss and unabsorbed depreciation in the hands of the amalgamated company subject to the prescribed conditions. However, in case of violation of any of these conditions, the loss set-off or depreciation allowed in earlier years is deemed to be taxable income of the amalgamated company in the year in which the conditions are not complied with.

Where an amalgamation occurred in a previous year beginning before April 1, 2026 (say, previous year 2024-25) and the prescribed conditions under Section 72A of ITA 1961 are violated in tax year 2026-27, the deemed income arising in tax year 2026-27 will be taxable under ITA 2025 as per Section 536(2)(o) of ITA 2025.

#### **o) Violation of conditions pertaining to capital gains exemption**

In case of violation of prescribed conditions for capital gains exemption availed under ITA 1961 on conversion of firm / proprietary concern to company or a company to LLP, the previously exempted capital gains shall be deemed to be taxable under ITA 2025 in the year of violation.

Where the capital gains exemption was claimed under Section 54 of ITA 1961, and the new asset is transferred after April 1, 2026 but within the prescribed lock-in period, the amount earlier claimed as exempt shall be deemed to be income in the year of violation, taxable under ITA 2025, but the triggering condition and quantum will be determined as per ITA 1961.

Where capital gain deposited in the Capital Gains Account Scheme under ITA 1961 before April 1, 2026 is not utilised within the prescribed period, the unutilised portion shall be taxed in the year in which the time limit expires. While the taxability arises under ITA 2025, the computation follows the provisions of ITA 1961.



**p) Residential status of an individual**

Residential status is determined separately for each tax year. For previous year 2025-26, it will be determined under ITA 1961 based on stay in India up to 31 March 2026. For tax year 2026-27, it will be determined under ITA 2025 based on stay from April 1, 2026 onwards. However, for applying the '60 days plus 365 days' test, stay in earlier years, including previous year 2025-26, shall also be considered where relevant.



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Compiled by: CA Shruti Mehta, CA Nandita Nevatia. CA Rutuja Parkar,  
CA Jappan Mehta

For more information, please feel free to write to us at:  
Innergize Solutions Private Limited,  
A-2, 1<sup>st</sup> Floor, A Wing, Barodawala Mansion,  
81, Dr. Annie Besant Road,  
Worli, Mumbai 400 025, India.  
Tel: +91-22-6662 1393

Email: [kiran.mankodi@innergize.in](mailto:kiran.mankodi@innergize.in), [shruti.mehta@innergize.in](mailto:shruti.mehta@innergize.in), [nandita.nevatia@innergize.in](mailto:nandita.nevatia@innergize.in),  
[rutuja.parkar@innergize.in](mailto:rutuja.parkar@innergize.in), [jappan.mehta@innergize.in](mailto:jappan.mehta@innergize.in)

Or visit [www.innergize.in](http://www.innergize.in)