

# Key Changes in Income Tax Rules 2026

Income-tax Act, 2025 & Draft Income-tax Rules, 2026 | Effective April 1, 2026

## 1. New Income-tax Act, 2025 Replaces the 1961 Act

The Income-tax Act, 2025 (Act 30 of 2025) replaces the six-decade-old Income-tax Act of 1961. The new Act is designed to simplify tax law, reduce litigation, improve transparency, and align India's tax framework with global standards. It comes into effect on **April 1, 2026**.

The CBDT released the **Draft Income-tax Rules, 2026** on February 7, 2026, reducing the framework to approximately **333 rules** and **190 forms** (down from ~750+ rules and 300+ forms under the old regime). The draft was open for public consultation until February 22, 2026.

## 2. Introduction of 'Tax Year' Concept

The new Act replaces the dual 'Assessment Year / Financial Year' model with a single unified **Tax Year**. This simplifies compliance by eliminating confusion between the two periods, aligns with global tax practices, and enhances data reconciliation across government departments including the Income Tax Department, GST, and financial institutions.

## 3. Income Tax Slabs – No Change for FY 2026-27

The Union Budget 2026 (presented on February 1, 2026) **did not revise income tax slabs** under either the new or old regime. The existing slab structure introduced in Budget 2025 continues for FY 2026-27.

### New Tax Regime Slabs (Default) – FY 2026-27

Income Slab	Tax Rate
Up to ₹4,00,000	Nil
₹4,00,001 – ₹8,00,000	5%
₹8,00,001 – ₹12,00,000	10%
₹12,00,001 – ₹16,00,000	15%
₹16,00,001 – ₹20,00,000	20%
₹20,00,001 – ₹24,00,000	25%
Above ₹24,00,000	30%

**Key points:** Income up to ₹12 lakh is effectively tax-free under the new regime (via rebate u/s 87A). For salaried individuals, the tax-free threshold extends to ₹12.75 lakh after the ₹75,000 standard deduction. Old regime slabs (with deductions under 80C, 80D, etc.) remain unchanged.

## 4. Smart Forms & Simplified ITR Filing

The draft rules introduce redesigned **'Smart Forms'** with pre-filling of data, automated reconciliation, and centralized processing. Common data fields are standardized across all forms to minimize repetitive disclosures, significantly reducing the time and effort for compliance.

ITR forms (ITR-1 through ITR-7) are being restructured with tighter eligibility and a digital-first approach. Formulas for salary income, perquisites, capital assets, and foreign income are explicitly spelled out to reduce confusion during return filing.

## 5. Revised Perquisite Valuation for Salaried Employees

Valuation rules for employer-provided benefits have been updated comprehensively:

- **Housing:** Taxed based on city population and employee salary, with updated formulas.
- **Company cars:** Categorized as official, personal, or mixed use, with fixed monthly taxable values.
- **Other perks:** Detailed rules for meals, gifts, credit card expenses, club memberships, and concessional loans.

## 6. HRA Exemption & Allowance Changes (Old Regime)

Under the draft rules, the HRA exemption framework has been updated:

- **50% HRA cities expanded:** Now includes 8 cities – Mumbai, Delhi, Kolkata, Chennai, Bengaluru, Hyderabad, Pune, and Ahmedabad (previously only 4 metros).
- All other cities continue at the **40% HRA exemption** limit.
- **Transport allowance:** Enhanced to up to 70% of the allowance, capped at **₹25,000** (up from **₹10,000**).
- HRA exemption remains available **only under the old tax regime**.

## 7. Capital Gains – Holding Period & ULIP Changes

The draft rules explicitly define methods for calculating holding periods in complex cases such as asset conversions, restructurings, and declaration schemes. This reduces ambiguity around long-term vs. short-term capital gains classification.

**ULIPs** with annual premiums above **₹2.5 lakh** are now taxed as capital gains. The Section 87A rebate is **not available** on capital gains from equity (LTCG/STCG from equity MFs and shares).

## 8. Virtual Digital Assets (Crypto/NFT) Formally Recognised

The Income Tax Bill 2026 formally recognises **Virtual Digital Assets (VDAs)** – including cryptocurrencies, NFTs, and digital tokens – under a dedicated taxation category, bringing greater clarity and formalising the existing 30% flat tax on crypto gains.

## 9. NRI & Cross-Border Taxation

- **Significant Economic Presence (SEP):** Clear thresholds defined, bringing more non-resident digital businesses into India's tax net based on revenue or user base, even without physical presence.
- **Income attribution:** Income from assets located in India – even when transferred overseas – will be more precisely attributed and taxed.
- **Global talent exemption:** Non-India-sourced income of non-resident experts exempt for 5 years under notified schemes, to attract global talent.
- **MAT exemption:** All non-residents paying tax on a presumptive basis are exempt from Minimum Alternate Tax (MAT).

## 10. TDS/TCS Simplification

Budget 2026 introduces a rule-based, automated compliance framework aimed at easing the burden on small taxpayers. TDS rates are being rationalised, with a push to consolidate the numerous existing rates into fewer, standardised categories. STT on futures is now 0.05% and on options is 0.15%.

## 11. ITR Filing & Revised Return Changes

- Staggered ITR due dates introduced for individuals and non-audit businesses.
- **Revised returns** can now be filed up to **March 31** of the assessment year after paying a nominal fee.
- The old and new tax regimes **continue to co-exist**; taxpayers can switch annually (for non-business income).

## 12. Other Notable Changes

- **100% FDI** allowed for insurers reinvesting in India.
- **Section 80C, 80D, 10(10D)** deductions remain unchanged under the old regime.
- **MAT credit:** Domestic companies under the concessional tax regime for TY 2026-27 can set off MAT credit (up to 25% per year, carried forward up to 15 years).
- Cooperative society dividends allowed as deduction under the new regime to the extent distributed to members.
- Further **decriminalisation** of income tax provisions continuing from Budget 2025.
- **Stricter documentation** requirements for travel claims, company car usage, and reimbursements.

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*Disclaimer: This summary is for informational purposes only, based on the Union Budget 2026 announcements (February 1, 2026) and the Draft Income-tax Rules, 2026 (February 7, 2026). The draft rules are subject to revision after stakeholder consultation. Actual provisions will depend on final notifications by the Government of India. Please consult a qualified tax professional for personalised advice.*

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