
THE INCOME-TAX ACT, 2025 AND RULES, 2026: A STRUCTURAL, PROCEDURAL AND COMPLIANCE ANALYSIS

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I. ABSTRACT

The rollout of the Income-tax Act, 2025, and the Income-tax Rules, 2026, is far more than a simple legislative refresh; it is a ground-up redesign of India's direct tax landscape. Effective from 1st April 2026, this new framework aims to strip away decades of accumulated complexity in favor of a system built for a digital-first economy. This paper analyzes the core pillars of this transformation, specifically how the "compression" of laws and rules is intended to bridge the long-standing gap between tax administration and taxpayer ease.

The research focuses on several high-impact structural shifts. Most notable is the move to a single "Tax Year," which finally ends the confusing dual-year system that has defined Indian tax filing for generations. We also examine the streamlining of TDS and TCS provisions, the drastic reduction in the number of tax forms, and the updated methods for valuing workplace perks—a change designed to reflect modern economic realities rather than outdated benchmarks.

However, a reform of this scale inevitably brings friction. This paper addresses the practical "growing pains" of the transition, including the technical overlap between old and new laws and the persistent ambiguity of navigating two concurrent tax regimes. While these reforms represent a major leap toward a more transparent and efficient system, this study concludes that their ultimate success hinges on how well businesses, individuals, and tax professionals can adapt to a framework that demands higher digital precision and a total departure from traditional compliance habits.

Keywords: Income Tax Act, 2025, Income Tax Rules, 2026, New TDS framework, Taxation of Salaried Persons.

II. Quantitative and Qualitative Dimensions of Structural Reform

The 2025 Act targets legislative simplification at a scale unprecedented in Indian direct-tax history. Approximately **1,200 provisos** and **900 explanations** that previously qualified substantive law in the 1961 Act have been eliminated. Provisos — which Indian jurisprudence reads restrictively as exceptions to the main enactment — have been converted into standalone sub-sections, representing a profound interpretive shift analysed further in Section V below. The CBDT has notified Income-tax Rules, 2026 also, with a reduction of 511 rules into 333 and rationalising 399 forms into 190, substantially reducing the compliance surface area for both taxpayers and practitioners.

Table 1: Statistical Summary of Legislative Reform (Act and Rules Combined) as per Official data by Central Board of Direct Taxes

Parameter	Income-tax Act / Rules, 1961/1962	Income-tax Act/ Rules, 2025/2026	Change
Word Count	5,12,535	2,59,676	49% Reduction
Sections	819	536	283 Reduction
Chapters	47	23	24 Merged
Rules (Subsidiary)	511	333	178 Consolidated
Forms	399	190	209 Merged/Retired
Provisos and Explanations (approx.)	More than 2100	Nil	Either removed or Converted to sub-sections or clauses
Tables	18	57	+39 New Tables
Formulae	6	46	+40 New Formulae

Source: CBDT Notifications; Income-tax Act, 2025; Income-tax Rules, 2026; Income Tax Executive Summary and FAQs

III. Core Structural Innovations of the Act

A. Introduction of the ‘Tax Year’

One of the most practical and welcome changes in the new law is the move away from the old, confusing dual-year system. Earlier, taxpayers had to deal with two different concepts —the “Previous Year” (when income was earned) and the “Assessment Year” (when that income was taxed). This often caused unnecessary confusion, especially for those not deeply familiar with tax terminology.

The Income-tax Act, 2025 simplifies this by introducing a single concept called the “**Tax Year.**” This replaces the earlier system entirely.

Under this new approach, the Tax Year is simply a 12-month period from **1st April to 31st March**, aligning the time when income is earned with the time it is reported and taxed. In simple words, what you earn and what you report now fall within the same period—making the process much more straightforward.

This change is not just about renaming things. It removes the long-standing confusion caused by the one-year gap between earning income and paying tax on it.

Further, the Income-tax Rules, 2026 support this shift by removing references to “Financial Year” and “Assessment Year” from related provisions. The result is a more consistent, transparent, and user-friendly tax system that also aligns better with global practices.

B. Consolidation of TDS and TCS Provisions

Under the 1961 Act, Tax Deducted at Source (TDS) and Tax Collected at Source (TCS) provisions were fragmented across approximately **69 separate sections**. Section 393 of the 2025 Act consolidates virtually all TDS provisions into a single, unified framework. Key operational improvements include:

- Uniform threshold limits for TDS deduction on interest payments across all categories of securities.
- Extension of lower-deduction certificates to all TDS provisions, reducing the compliance burden on high-volume deductors.

- Rationalisation of TCS rates: a flat 2% rate is now applied on overseas tour packages, education and medical remittances, and alcoholic drinks, replacing the previous multi-rate structure.

C. Unified Framework for Non-Profit Organisations (NPOs)

The legal landscape for NPOs, previously dispersed across six distinct chapters of the 1961 Act (including the parallel regimes under Sections 11 and 10(23C)), is now consolidated within **Chapter XVII, Part B (Sections 332–355)** of the 2025 Act. A single “**registration**” concept under Section 332 replaces the prior bifurcated regime, eliminating interpretive disputes over which regime applied to a given entity and streamlining the exemption-seeking process for charitable organisations.

IV. Notified Rules, 2026: Impact on Salaried Individuals

While the 2025 Act does not alter income-tax slab rates — the existing slab structure introduced by the Finance Act, 2023 and the enhanced Section 87A rebate keeping effective tax nil for taxable income up to ₹12 lakh under the new regime are retained — the **Income-tax Rules, 2026** introduce a series of substantive and procedural reforms that materially affect the net taxable salary of individuals. The following sub-sections address each category of change.

A. Expansion of HRA Cities Eligible for 50% Exemption (Rule 279)

Under Rule 2A of the Income-tax Rules, 1962, only four metropolitan cities — Mumbai, Delhi, Kolkata, and Chennai — qualified for the 50% House Rent Allowance (HRA) exemption. Rule 279 of the notified Income-tax Rules, 2026 expands this list to **eight cities**, adding Bengaluru, Hyderabad, Pune, and Ahmedabad. The statutory computation formula is preserved: the exempt amount is the **least of** (i) actual HRA received, (ii) actual rent paid minus 10% of salary, or (iii) 50% of salary (for the eight listed cities) or 40% of salary (for all other cities).

Critically, **Rule 279 also introduces mandatory disclosure requirements**: where annual rent exceeds ₹1,00,000, the employee must disclose the landlord’s name, Permanent Account Number (PAN), and the nature of their relationship with the landlord — particularly where rent is paid to family members such as parents, a spouse, or siblings. This is captured via the revised **Form 124** (replacing Form 12BB). The HRA exemption continues to be available **exclusively under the Old Tax Regime** and is unavailable to taxpayers who opt for the concessional new

regime under Section 202 of Income Tax Act, 2025 (Section 115BAC of Income Tax Act, 1961).

B. Allowance Recalibration (Rule 280)

Rule 280 of the Rules, 2026, governing the quantification of exempt allowances under the Old Tax Regime, introduces the most significant inflation-linked revisions since the 1962 Rules were first enacted. The changes reflect decades of price-level adjustment and are expected to meaningfully alter payroll structuring decisions:

- **Children Education Allowance:** Increased from ₹100 per month per child to ₹3,000 per month per child (maximum two children) — a 30-fold increase.
- **Hostel Expenditure Allowance:** Increased from ₹300 per month per child to ₹9,000 per month per child (maximum two children) — likewise a 30-fold increase.

Both allowances remain claimable across all cities in India and are not restricted to metropolitan areas. Employers who offer structured education or hostel reimbursements as part of cost-to-company packages are advised to review and revise their salary templates to fully utilise these enhanced limits.

C. Perquisite Valuation Adjustments (Rule 15)

Rule 15 of the Income-tax Rules, 2026, serves as the **master rule** for the valuation of all employer-provided perquisites, replacing Rule 3 of the 1962 Rules. It consolidates perquisite computation provisions (previously spread across multiple sub-rules) into a single, table-driven framework, significantly improving clarity. The following specific valuations have been revised:

1. Employer-Provided Vehicles

The monthly perquisite value attributable to a company car used partly for personal purposes has been revised upward: **₹5,000 per month** for vehicles with engine capacity up to 1,600cc, and **₹7,000 per month** for vehicles exceeding 1,600cc. Where a chauffeur is additionally provided, a further **₹3,000 per month** is added to the taxable perquisite value. These figures represent a significant revision from the nominal values under the 1962 Rules and bring the

notional benefit closer to prevailing market realities.

2. Meal Vouchers

The per-meal tax-exempt threshold for meal vouchers or meal cards provided by employers has been raised from ₹50 per meal to **₹200 per meal** — a fourfold increase. This revision is expected to benefit a broad cross-section of salaried employees and is likely to prompt employers to re-evaluate and enhance structured meal benefit programmes.

3. Employer Gifts and Festival Vouchers

The annual tax-exempt threshold for gifts, festival allowances, and vouchers provided by employers has been tripled: from ₹5,000 per annum to **₹15,000 per annum**. Any employer-provided gift or voucher above this aggregate annual limit will continue to be treated as a taxable perquisite in the employee's hands.

4. Concessional and Interest-Free Loans

Under the 1962 Rules, employer-provided interest-free or concessional loans were treated as non-taxable perquisites only if the aggregate loan balance did not exceed ₹20,000. Rule 15 of the 2026 Rules raises this threshold to **₹2,00,000**. Loans for specified medical emergencies continue to be non-taxable perquisites regardless of quantum. This change is of particular relevance for employers who offer emergency or welfare loans to employees.

5. Residential Accommodation

The perquisite valuation for employer-provided residential accommodation has been restated in Rule 15 in a **standardised, tabular format** replacing the more complex computational provisions previously found in Rule 3 of the 1962 Rules. For non-government employers, the applicable percentages of salary — 15% (cities with population exceeding 25 lakh), 10% (cities with population between 15–25 lakh), and 5% (all other areas) — are retained, but presented with enhanced clarity. Furnished accommodation attracts an additional 10% of furniture cost per annum.

Table 2: Consolidated Summary of Salaried Taxpayer Changes (Rules, 2026)

Item	Pre-2026 Position	Post-2026 Position (Rules, 2026)	Relevant Rule / Remark
HRA — 50% Exemption Cities	4 cities (Mumbai, Delhi, Kolkata, Chennai)	8 cities (+ Bengaluru, Hyderabad, Pune, Ahmedabad)	Old Regime only; Rule 279
Children Education Allowance	₹100/month per child	₹3,000/month per child (max 2 children)	Rule 280 — 30x increase
Hostel Expenditure Allowance	₹300/month per child	₹9,000/month per child (max 2 children)	Rule 280 — 30x increase
Meal Vouchers	₹50 per meal	₹200 per meal	Rule 15 — 4x increase
Employer Gift / Festival Vouchers	₹5,000 per annum	₹15,000 per annum	Rule 15 — 3x increase
Concessional / Interest-Free Loans	Up to ₹20,000 (non-taxable)	Up to ₹2,00,000 (non-taxable)	Rule 15 — 10x increase
Company Car Perquisite (up to 1.6L)	~₹1,800/month	₹5,000/month	Rule 15 — revised upward
Company Car Perquisite (above 1.6L)	~₹2,400/month	₹7,000/month	Rule 15 — revised upward
Chauffeur Perquisite Add-on	₹900/month	₹3,000/month	Rule 15 — revised upward

TDS Certificate	Form 16	Form 130	Renumbered — content same
Investment/HRA Declaration	Form 12BB	Form 124	Renumbered + expanded
Annual Tax Credit Statement	Form 26AS	Form 168	Aadhaar no. removed
ITR-3 & ITR-4 Filing Deadline	31 July	31 August (non-audit)	Extended by one month
ITR-1 (Sahaj) Scope	One house property only	Up to two house properties	Widens eligibility

Source: Income-tax Rules, 2026 (CBDT Notification, March 2026)

V. Procedural and Compliance Changes

A. Comprehensive Form Rationalisation

One of the most operationally significant dimensions of the Rules, 2026 is the wholesale renumbering and consolidation of tax forms. The total number of prescribed forms has been reduced from 399 to 190. This is not merely a cosmetic exercise: several high-use forms have been substantively redesigned to align with the new Act’s framework, to capture expanded data fields, and to support the CBDT’s vision of pre-filled, automated returns.

Table 3: Key Form Renumbering Under Income-tax Rules, 2026

Form Purpose	Old Form Number	New Form Number	Applicable To
TDS Certificate (Salary)	Form 16	Form 130	Salaried employees
TDS Certificate (Non-Salary)	Form 16A	Form 131	Contractors, professionals
Salary TDS Return	Form 24Q	Form 138	Employers (quarterly)

Non-Salary TDS Return	Form 26Q	Form 140	Payers of non-salary income
TDS on Special Transactions	Form 26QB, QC, QD, QE	Form 141	TDS on purchase of immovable property, payment of rent by individual/HUFs and payments by individuals/HUFs to contractors and professionals, Transfer of Virtual Digital Assets
TDS on Non-Residents	Form 27Q	Form 144	Cross-border payments
Tax Credit Statement	Form 26AS	Form 168	Aadhaar removed from display
Investment Declaration	Form 12BB	Form 124	HRA + Section 80 claims
Tax Audit Report	Forms 3CA / 3CB / 3CD	Form 26 (single)	55 clauses; GST linkage added
Low Deduction Certificate	Form 13	Form 121	Consolidated 15G & 15H
Transfer Pricing Report	Form 3CEB	Form 48	MNC compliance
Foreign Tax Credit	Form 67	Form 44	Cross-border taxpayers

Source: CBDT Notifications and FAQs on Interplay and Transition

B. Consolidated Tax Audit Report — Form 26

Forms 3CA, 3CB, and 3CD under the 1962 Rules — which collectively constituted the tax audit report for businesses — are consolidated under the Rules, 2026 into a single, modernised **Form 26**. The new form contains approximately **55 segment-wise clauses** (compared to 44 in the earlier Form 3CD) and introduces several categories of expanded disclosure that transform the audit report from a narrow reconciliation instrument into a broader compliance and risk analytics tool. New disclosure requirements include:

- Digital infrastructure: details of accounting software used, cloud service providers, server IP addresses, and data backup locations, in furtherance of electronic books compliance.
- Cross-tax linkage: reconciliation fields aligning direct tax data with Goods and Services

Tax (GST) records, and the allocation of expenses between registered and unregistered suppliers.

- Income Computation and Disclosure Standards (ICDS) reporting: granular line-item disclosures showing the adjustments required to convert accounting profit to taxable income.
- Enhanced transaction analytics: expanded questions on high-value cash transactions, related-party dealings, loans, and cross-border items.

C. Form 168: Revised Annual Tax Credit Statement (Successor to Form 26AS)

Form 26AS, the annual tax credit and information statement, is renumbered as **Form 168** under the Rules, 2026. While it retains its core function of presenting all TDS, TCS, advance tax payments, and high-value transactions linked to a taxpayer's PAN, Form 168 introduces a notable privacy protection: it will **not display the taxpayer's Aadhaar number**, reinforcing PAN-based identification and reducing the exposure of sensitive biometric identifiers in routine downloads.

D. Extended Filing Deadlines and Expanded ITR-1 Scope

Two procedural reliefs of immediate practical significance have been introduced:

- **Scope of ITR-1 (Sahaj):** ITR-1, the simplest return form, widely used by salaried individuals and pensioners, now permits the reporting of income from up to two house properties, removing the previous single-property restriction. This is expected to significantly reduce the number of salaried taxpayers who are compelled to file the more complex ITR-2.
- **ITR-3 and ITR-4 Filing Deadline (Non-Audit):** The due date for ITR-3 and ITR-4 for non-audit taxpayers is extended from 31st July to 31st August of the Tax Year, effective from FY 2026-27. This extension also applies to AY 2026-27 (FY 2025-26).

E. PAN Reporting and Documentation Changes

The Rules, 2026 rationalise the threshold triggers for mandatory PAN quotation. Notably, the threshold for mandatory PAN disclosure on cash deposits is revised to an **annual aggregate**

of ₹10 lakh (replacing the earlier per-transaction limit of ₹50,000). Mandatory PAN quotation on immovable property transactions now applies at ₹20 lakh. Vehicle purchases up to ₹5 lakh are exempted from mandatory PAN quotation. Additionally, **Form 15G and Form 15H** (declarations for non-deduction of TDS by individuals) are consolidated into a single **Form 121**, enabling a single submission across dividend income, interest on bonds, and units of mutual funds.

F. Digital Asset Reporting and Virtual Digital Space

The 2025 Act codifies the definition of “**Virtual Digital Space**” to expressly include computer systems, cloud servers, online trading accounts, and associated digital infrastructure. Cryptocurrencies, Non-Fungible Tokens (NFTs), and other government-notified digital assets are explicitly brought within the definition of **Virtual Digital Assets (VDAs)**. The Rules, 2026 introduce mandatory transparent reporting obligations for all VDA transactions, with tighter disclosure norms in capital gains schedules of the applicable ITR forms.

VI. Implementation Challenges and Interpretive Discontinuities

A. The Proviso-to-Sub-Section Conversion

The elimination of approximately 1,200 provisos — their substantive content re-enacted as standalone sub-sections — creates a **significant shift in statutory interpretation**. In established Indian jurisprudence (*Ram Narain Sons Ltd. v. CIT*; *CIT v. Indo Mercantile Bank Ltd.*), a proviso is construed restrictively as an exception to or limitation upon the main operative provision. A sub-section, by contrast, is read as an independent, substantive provision. Cases that were decided on the basis of proviso-based carve-outs from the 1961 Act may no longer be directly applicable where the corresponding provision has been re-enacted as a sub-section, potentially reopening settled positions.

B. Form Transition Compliance Risk

The comprehensive renumbering of forms creates a transitional compliance risk for employers, payroll vendors, and ERP systems that have been configured around the 1962 form numbers. Submission of salary TDS certificates using the old Form 16 format post-April 2026 (rather than the new Form 130) or failure to adopt Form 124 for employee investment declarations

may trigger defective return notices and processing delays. **Payroll systems and HR processes need to be updated before the commencement of FY 2026-27.**

C. New Regime vs. Old Regime Structural Relevance

The implementation of the Income Tax Rules, 2026, has fundamentally shifted the math for Indian taxpayers choosing between the Old and New Tax Regimes. By drastically expanding legacy exemptions—most notably through a 30-fold increase in children's education and hostel allowances and a fourfold rise in tax-exempt meal vouchers—these revisions restore the Old Regime's viability for taxpayers. This shift is further strengthened by the expansion of the 50% HRA exemption to include major tech hubs like Bangalore, Hyderabad, Pune, and Ahmedabad, alongside a tenfold increase in the threshold for tax-free employer loans. For employees with structured benefit plans and high qualifying expenditures, the cumulative impact of these revised limits creates a "tipping point" where the Old Regime often yields better after-tax outcomes, effectively challenging the government's recent momentum toward a simplified, deduction-free tax environment.

D. Ongoing Litigation Under the 1961 Framework

During the transition to the new Income-tax Act, 2025 (effective from 1 April 2026), it is important to understand that all ongoing matters relating to earlier years will continue under the old law. In other words, any assessments, reassessments, appeals, rectifications, or other proceedings pertaining to financial years prior to FY 2026–27 will be governed by the provisions of the Income-tax Act, 1961 until they reach their final conclusion. This ensures continuity and avoids disruption in cases that are already in progress.

Further, taxpayers filing their returns for Assessment Year 2026–27—covering income earned during FY 2025–26—will still be subject to the old legal framework. Accordingly, such returns must be prepared and filed using the prescribed forms and procedures laid down under the Income-tax Rules, 1962, as the new Act will not apply to that year's income.

However, this overlap of two tax regimes—the old Act continuing for past years and the new Act applying prospectively—creates a layer of practical complexity. Tax professionals, especially those involved in litigation and advisory, will need to simultaneously interpret and apply two different sets of provisions. This dual framework may lead to challenges in areas

such as consistency of positions, interpretation of similar provisions across the two laws, compliance management, and client communication.

In effect, the transition period will demand greater diligence, careful analysis, and clear documentation to ensure that the correct legal provisions are applied to the relevant assessment years without ambiguity.

VII. Conclusion

The **Income-tax Act, 2025**, read with the notified **Income-tax Rules, 2026**, represents a monumental structural reform — a once-in-a-generation legislative exercise designed to align India's direct tax administration with global best practices of simplicity, transparency, and digital-first compliance. The reduction of nearly half the Act's word count, the compression of forms from 399 to 190, the long-overdue inflation-linked revision of employee allowances and perquisite thresholds, and the consolidation of scattered provisions into coherent frameworks together produce a materially improved legislative product.

For **salaried taxpayers**, the revisions to HRA city eligibility, children's education and hostel allowances, meal vouchers, employer gifts, and concessional loan thresholds offer tangible relief — relief that has been awaited since the original limits were set decades ago. These changes, however, are exclusively available under the Old Tax Regime and require careful payroll restructuring to realise.

From a **compliance perspective**, the wholesale form rationalisation — from Form 16 to Form 130, Form 26AS to Form 168, and 3CA/3CB/3CD to Form 26 — demands immediate systems updates from employers, payroll vendors, and tax practitioners. The expansion of Form 26 (tax audit) to 55 clauses and the introduction of GST-linkage and digital infrastructure disclosures signal a move toward integrated, data-driven compliance that will reshape the practice of tax audit in India.

The Act's long-term success will ultimately depend on the seamless integration of its digital compliance mechanisms, the efficient transition of pre-2026 litigation under the old framework, and the judiciary's approach to the interpretive shift caused by the conversion of provisos into sub-sections. Scholars, practitioners, and taxpayers must engage closely with the new framework as jurisprudence develops.

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