

Income Tax Rules, 2026

Draft (February 7, 2026) vs Final Notified Rules (March 20, 2026)

Comprehensive Comparative Analysis of All Changes in Direct Tax Rules

Effective: April 1, 2026 | Notification: G.S.R. 198(E) | CBDT, Ministry of Finance

1. Background & Overview

The Central Board of Direct Taxes (CBDT) released the Draft Income Tax Rules, 2026 on February 7, 2026, as part of the implementation framework for the newly enacted Income Tax Act, 2025. The draft was open for public consultation for 15 days (up to February 22, 2026). The CBDT officially notified the final Income Tax Rules, 2026 via Notification No. G.S.R. 198(E) dated March 20, 2026. These rules come into force on April 1, 2026, replacing the decades-old Income-tax Rules, 1962.

1.1 Key Dates & Status

Event	Date	Status
Draft released for public feedback	February 7, 2026	✓ Released
Public consultation closed	February 22, 2026	✓ Completed
Final rules approved & notified (G.S.R. 198(E))	March 20, 2026	✓ Notified
Rules come into force	April 1, 2026	🕒 Effective

The Income-tax Rules, 1962 contained 511 rules and 399 forms. The new rules reduce this to 333 rules and 190 forms through consolidation and removal of redundant provisions.

2. Employee Allowances & Perquisites — Retained from Draft

The following key provisions proposed in the February 7 draft have been carried forward unchanged.

2.1 Summary Table — Allowances & Perquisites

Perquisite / Allowance	Old Limit	New Limit	Change
Meal vouchers	₹50 per meal	₹200 per meal	NEW 4x increase
Employer gifts/vouchers	₹5,000 per year	₹15,000 per year	NEW 3x increase
Employer loan (medical)	₹20,000	₹2,00,000	NEW 10x increase
Children Education Allowance	₹100/month/child	₹3,000/month/child	NEW 30x increase
Hostel Allowance	₹300/month/child	₹9,000/month/child	NEW 30x increase

Education facility in employer institution	₹1,000/month/child	₹3,000/month/child	NEW 3x increase
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2.2 House Rent Allowance (HRA) — Expanded City List

- 50% HRA exemption now applies to 8 cities: Mumbai, Delhi, Chennai, Kolkata, Bengaluru, Hyderabad, Pune, and Ahmedabad.
- New additions: Bengaluru, Hyderabad, Pune, Ahmedabad — previously eligible only for 40%.
- **HRA exemption remains available only under the Old Tax Regime.**
- Rule reference changes from Rule 2A (1962) to Rule 279 (2026).

3. Transport Allowances — Major Changes

This section covers two critical transport-related changes that deserve special attention. These represent some of the most significant revisions in absolute monetary terms.

3.1 Transport Allowance for Disabled Employees — Landmark Revision

This is one of the most significant changes in the new rules.

Category	Old Limit (Rule 2BB)	New Limit (Rule 15(1), 2026)	Change
Metro cities (8 cities)	₹3,200/month	₹15,000/month + DA	NEW 4.7x increase
Non-metro cities	₹3,200/month	₹8,000/month + DA	NEW 2.5x increase
Transport sector employees	₹10,000/month	₹25,000/month or 70% (lower)	NEW Enhanced

- Eligible employees: Blind, deaf, mute, or orthopedically handicapped employees.
- **Available under BOTH old and new tax regimes — one of very few allowances that survive across both regimes.**
- Rule reference changes from Rule 2BB(1)(b) in Income-tax Rules, 1962 to Rule 15(1) in Income-tax Rules, 2026.
- Metro cities for this rule: Mumbai, Delhi, Chennai, Kolkata, Bengaluru, Hyderabad, Pune, and Ahmedabad.

3.2 Transport Allowance for Transport Sector Employees

- Applies to employees of any transport system (railway, airlines, road, etc.) including drivers, pilots, guards.
- New limit: ₹25,000 per month OR 70% of the allowance received — whichever is lower.
- Old limit: ₹10,000/month (increased by 150%).

4. Motor Car Perquisite Valuation — Higher Tax for Employees

This is a significant change that will increase taxable income for many senior employees. The draft proposed steep increases in the notional taxable value of employer-provided cars. These are now confirmed in the final rules.

4.1 Revised Motor Car Perquisite Values – Employer Owned (Rule 15 — Rule 3 earlier)

Scenario	Old Taxable Value	New Taxable Value	Impact
Employer car, expenses by employer, CC ≤ 1.6L	₹1,800/month	₹5,000/month	▲ Higher tax
Employer car, expenses by employer, CC > 1.6L	₹2,400/month	₹7,000/month	▲ Higher tax
Employer car, private expenses by employee, CC ≤ 1.6L	₹600/month	₹2,000/month	▲ Higher tax
Employer car, private expenses by employee, CC > 1.6L	₹900/month	₹3,000/month	▲ Higher tax
Chauffeur facility (all cases)	₹900/month	₹3,000/month	▲ Higher tax

- This change applies under BOTH old and new tax regimes.
- Higher perquisite value increases taxable salary and monthly TDS obligations.
- Employees must still maintain records of official use to claim the mixed-use (official + personal) valuation.
- Employers need to update payroll systems and Form 16 formats to reflect new perquisite values.

Revised Motor Car Perquisite Values – Employee Owned (Rule 15 — Rule 3 earlier)

Scenario	Old Non Taxable Value	New Non Taxable Value	Impact
Employee car, expenses by employer, CC ≤ 1.6L	₹1,800/month	₹5,000/month	▲ Lower tax
Employee car, expenses by employer, CC > 1.6L	₹2,400/month	₹7,000/month	▲ Lower tax
Employee car, private expenses by employee, CC ≤ 1.6L	₹600/month	₹2,000/month	▲ Lower tax
Employee car, private expenses by employee, CC > 1.6L	₹900/month	₹3,000/month	▲ Lower tax
Chauffeur facility (all cases)	₹900/month	₹3,000/month	▲ Lower tax

- Low perquisite value decreases taxable salary and monthly TDS obligations.
- Employees must still maintain records of official use to claim the mixed-use (official + personal) valuation.
- Employers need to update payroll systems and Form 16 formats to reflect new perquisite values.

Revised Motor Car Perquisite Values – Electric Car

Electric vehicles (EVs) do not have cubic capacity (cc) like petrol or diesel cars. As per the CBDT-notified Income-tax Rules (Where Cubic capacity of engine does not exceed 1.6 litres or the motor car is an electric vehicle), the following perquisite rates are applicable.

Employer Owned Car		
Scenario	Old	New (Effective 1 April 2026)
Expenses met by Employer	INR 1,800 + INR 900 (Driver)	INR 5,000 + INR 3,000 (Driver)
Expenses met by Employee	INR 600 + INR 900 (Driver)	INR 2,000 + INR 3,000 (Driver)

Employee Owned Car		
Scenario:	Expenses met by Employer	
Component	Old	New Effective 1 April 2026)
Car Reimbursement	Reimbursement Restricted to INR 1,800 (Excess Reimbursement treated as perquisite)	Reimbursement Restricted to INR 5,000 (Excess Reimbursement treated as perquisite)
Driver Reimbursement	Reimbursement Restricted to INR 900 (Excess Reimbursement treated as perquisite)	Reimbursement Restricted to INR 3,000 (Excess Reimbursement treated as perquisite)

5. Leave Travel Allowance (LTA) — Revised Exemption Conditions

Leave Travel Allowance (LTA), also referred to as Leave Travel Concession (LTC), has undergone meaningful structural changes under the Income Tax Rules, 2026 — both in how the exemption is calculated (mode-wise ceilings) and how it must be claimed (documentation and form requirements). These changes were present in the February 7 draft and are confirmed in the final rules.

Mode of Travel	Old Rule (Rule 2B, 1962)	New Rule (Rule 278, 2026)
By Rail (destination connected)	AC First Class fare by shortest route	AC First Class fare by shortest route
By Road (public transport available)	First class or deluxe bus fare by shortest route	First class or deluxe bus fare

5.1 Mode-Wise Exemption Ceilings — Clarified and Codified

The draft and final rules explicitly prescribe mode-wise ceilings, reducing interpretational disputes that existed under the 1961 regime:

Mode of Travel	Old Rule (Rule 2B, 1962)	New Rule (Rule 278, 2026)
By Air	Economy class fare of national carrier (Air India) by shortest route	Economy class fare of ANY scheduled airline by shortest route — national carrier restriction removed
By Road (no recognised public transport)	Not explicitly prescribed — subject to interpretation	Capped at ₹30 per kilometre by shortest route — explicitly codified

5.2 LTA Documentation & Claim Process — Significantly Strengthened

- Form 12BB (old declaration form) is replaced by the new Form No. 124 under Rule 205 of the Income Tax Rules, 2026.
- Employees must now submit more detailed expenditure proof to employers.
- Annexure A-2 is introduced, mandating verifiable travel evidence: tickets, boarding passes, and digital payment confirmations.
- If proper documentation is not submitted, employers are required to deduct TDS on the full LTA component — no exemption allowed.
- **This shifts LTA from a 'declaration-based' to an 'evidence-based' exemption process.**

6. Critical Form Changes — Form 130, Form 124 & Form 157

Three forms deserve special attention as they directly impact every salaried employee, employer payroll team, and departing resident. These are structural upgrades, not just renumbering exercises.

A. Form 130 — Replaces the Iconic Form 16 (TDS Certificate for Salary)

Form 16 is perhaps the most widely known income tax document in India, issued by every employer to every salaried employee. Under Income Tax Rules, 2026, it is replaced by Form 130 effective April 1, 2026.

Feature	Old Form 16 (Rules, 1962)	New Form 130 (Rules, 2026)
Structure	Two parts: Part A (TDS summary) + Part B (salary breakup)	Three parts: Part A + Part B + New Part C (additional annexure for senior citizens)
Coverage	Salary TDS only	Salary TDS + Pension + Interest income for specified senior citizens under Section 393(1)

Issuance Requirement	Form 16 + separate perquisite statement	Form 130 for salary ≤ ₹1.5 lakh; Form 123 for salary above ₹1.5 lakh (includes detailed perquisite statement)
Statutory reference	Section 203 of Income Tax Act, 1961	Section 392 / Section 393(1) of Income Tax Act, 2025
Issue deadline	June 15 each year	June 15 each year — no change
Core content	Salary breakup, HRA, standard deduction, TDS, net taxable income	Same core content retained — updated statutory references under new Act

- **During the transition period, Form 16 (old number) remains valid for periods before April 1, 2026. From Tax Year 2026-27 onwards, only Form 130 applies.**
- Payroll software vendors, HRMS systems, and CA firms must update templates before June 15, 2026 (first issuance deadline under new rules).
- Form 26AS (Annual Information Statement) is simultaneously renamed to Form 168 — both form numbers may coexist during the transition for old vs new tax years.
- In the case of an Individual, the first, middle and last name shall be provided in full without any abbreviations. In any other case, the name shall be provided in full.
- The address shall contain the following details: i) Country / Region ii) Flat / Door /Block Number iii) Road / Street / Sector iv) PIN / ZIP Code v) Post Office vi) Area /Locality vii) District viii) State.
- Part C (Annexure-I) of the certificate in Form No.130 may be issued by each of the employers or the last employer at the option of the assessee
- Deductor shall duly fill details, where available, in item numbers 2(c) and 10(h) before furnishing of Part C (Annexure-I) to the employee..

7. Form 124 — Replaces Form 12BB (Employee Investment Declaration)

Form 12BB was the standard declaration form employees submitted to employers at the beginning of each financial year to declare investments, rent, LTA, and other deductions for TDS computation. Under Income Tax Rules, 2026, it is replaced by the significantly upgraded Form 124 under Rule 205.

Feature	Old Form 12BB (Rules, 1962)	New Form 124 (Rules, 2026)
Process type	Declaration-based — employee declares intended investments	Evidence-based — employee must submit supporting proof, not just declare
HRA claim	Rent amount + landlord name/PAN (if rent > ₹1 lakh/year)	Rent amount + landlord name/PAN + mandatory disclosure of relationship with landlord, if any, (if rent > ₹1 lakh/year)

LTA claim	Journey details submitted informally	Mandatory: class of travel, mode of transport, tickets/boarding passes via Annexure A-2
Housing loan	Interest and principal declared	Both interest and principal repayment mandatorily declared with lender details
Other deductions	Section 80C, 80D, etc. declared	All deductions and exemption claims with granular breakup and proof
AI scrutiny	Manual employer verification only	Data is structured for automated AI-based cross-matching with landlord's ITR, ticket databases, etc.
Employer liability	If declaration accepted in good faith, employer not liable	If documentation insufficient, employer must deduct TDS on full amount — no exemption allowed

- **This is a paradigm shift — from self-declaration to structured, evidence-based disclosure. It effectively closes the window for inflated HRA claims from relatives and LTA claims without actual travel.**
- HR and payroll teams must update their ESS portals and employee communication processes before April 1, 2026.
- Employees renting from parents or relatives must ensure rent is paid via bank transfer and the landlord declares it as income in their own ITR.

8. Complete Form Renumbering Reference Table

The following table maps all major commonly-used forms from the old to the new numbering system:

Old Form (Rules, 1962)	New Form (Rules, 2026)	Purpose
Form 16	Form 130	TDS Certificate — Salary / Pension / Senior Citizen Interest
Form 16A	Form 131	TDS Certificate — Non-Salary
Form 12BB	Form 124	Employee Investment Declaration
Form 26AS	Form 168	Annual Information Statement (Tax Passbook)
Form 3CA + 3CB + 3CD (Tax Audit)	Form 26 (Single Consolidated)	Tax Audit Report — all three merged into one

Form 26QB/QC/QD/QE	Form 141 (Single Consolidated)	TDS on Property / Rent — all merged
Form 49A	Form 93	PAN Application (Resident Indians)
Form 49AA	Form 95	PAN Application (Foreign Nationals)
Form 67	Form 44	Foreign Tax Credit (now requires CA certification)
Form 10AB	Form 105	Non-Profit / Trust Registration
Form 36 / 36A	Form 115 / 116	ITAT Appeals
Not applicable (NEW)	Form 157	Declaration for departing residents without PAN
Not applicable (NEW)	Form 123	Perquisite Statement — Salary above ₹1.5 lakh

Note: Old form numbers remain valid for tax periods before April 1, 2026. During the transition, both old and new form numbers may coexist — verify the Tax Year on each form rather than relying solely on the form number.

9. Other Notable Changes

- Loss carry-forward: Losses can still be carried forward for 8 Tax Years (unchanged in substance).
- Sovereign Gold Bonds (SGBs): Exemption on maturity now restricted to original issue subscribers only. Secondary market SGB buyers face capital gains tax on maturity.
- Non-residents filing: Must now provide passport number and citizenship status in PAN application forms.
- Voluntary disclosure window: A one-time 6-month window for residents (including returning NRIs/students) to voluntarily disclose small foreign assets/income previously missed — without severe penalties.