



Tax alert: Key Highlights of Draft Income-tax Rules, 2026

16 February 2026

The government has released the Draft Income-Tax Rules, 2026, for public feedback.

Background

The Income-tax Act, 2025 (“ITA 2025”) represents a significant step in reforming and simplifying India’s direct tax framework. Having received Presidential assent in August 2025, ITA 2025 is set to come into force on 1 April 2026. On 7 February 2026, the Government released the draft Income-tax Rules and Forms, 2026 (“Draft Rules”) to operationalise the new Income-tax Act, 2025.

Consistent with the simplification approach adopted in overhauling the Income-tax Act, 1961 (“ITA 1961”), the Draft Rules framework consolidates, streamlines and rationalises several existing rules and forms. It also eliminates a number of obsolete provisions from the Income-tax Rules, 1962 (“1962 Rules”). At the same time, new rules, Forms and documentation requirements have been introduced to give effect to the substantive changes and to strengthen compliance obligations under the ITA 2025. The Draft Rules also revisit long-standing thresholds and prescribed limits, updating them where necessary.

Notably, the total number of rules has been reduced from 511 under the 1962 Rules to 333 under the proposed framework, while prescribed number of Forms have been streamlined from 399 to 190.

An important structural reform under the new income-tax framework is the shift of certain operative conditions, procedural requirements, and administrative mechanisms from the primary legislation (the Act) to subordinate legislation (the Rules). This move provides the Government with the necessary flexibility (through CBDT) to refine and recalibrate procedures without requiring Parliamentary amendment of the Act.

Another standout feature of the new framework is the modern design of the accompanying Forms which have been simplified to ease compliance and reduce errors. Common information fields have been standardised, ensuring consistency; several Forms have been consolidated, reducing the need for repetitive entries and associated compliance effort.

Additionally, the Forms have been re-engineered to support pre-fill functionality and automated reconciliations for easier compliance, reducing manual efforts. This design supports centralised processing and shifts the compliance system towards a more technology-driven and user-friendly model.

Overall, the Draft Rules signal a decisive move towards **simplification, digitisation, and trust-based compliance**.

To facilitate transition, two detailed “navigators”¹ have also been introduced to map the existing rules and Forms to their counterparts under the new regime. As part of the consultative approach, stakeholder

¹ Link to Draft Rules Navigator - [navigator-income-tax-rules-2026.pdf](#)
Link to Forms Navigator - [navigator-income-tax-forms-2026.pdf](#)

comments on the Draft Rules have been invited until 22 February 2026. The Government is expected to notify the final rules, after considering stakeholder comments, following which they will replace the 1962 Rules with effect from 1 April 2026.

This alert highlights key areas of the Draft Rules and outlines major differences from the 1962 Rules and Forms.

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Key Highlights:

I. Conceptual changes:

1. Adoption of “Tax Year” terminology in the Draft Rules

- ITA 2025 replaces the concept of “previous year” with the term “tax year” for the period in which income is earned and eliminates the concept of “assessment year” altogether.
- The Draft Rules follow this updated terminology by substituting references to “previous year” and “assessment year” in the 1962 Rules with “tax year” and “the financial year succeeding the relevant tax year,” ensuring alignment with the new statutory framework.”

2. Certain provisions shifted to Rules

Certain procedural and operational elements which form part of the sections contained in the ITA 1961 have been shifted to Rules under the new ITA 2025 framework. These include the procedure for faceless assessments, tax recovery mechanism, criteria for defective returns and similar operational matters. This aligns with the structural framework of ITA 2025 and provides flexibility for future process refinements.

3. Information to be submitted in the draft Forms

The revised Forms eliminate the erstwhile option of submitting Aadhaar in lieu of PAN, with all corresponding Aadhaar references now omitted from the Forms. Further, the revised Forms now mandate furnishing of the taxpayer’s email ID and contact number, which were not required under the 1962 Rules.

II. Additional Rules introduced:

1. Rules 241 to 244 - Framework for furnishing information related to crypto assets

These Rules have been introduced to operationalise section 509 of ITA 2025 (which mandates the furnishing of information relating to crypto-asset transactions by prescribed reporting persons) and to establish a due-diligence framework for crypto-asset transparency.

- **Rule 241 — Definitions for the purpose of Rules 242, 243 and 244**
 - Defines key terms for crypto asset reporting such as ‘Anti Money Laundering or Know Your Customer (AML/KYC) Procedures’, Excluded persons, Custodial/depository institutions, Central Bank digital Currency (CBDC), Electronic money products, Crypto-assets, Reporting Crypto Asset Service Providers, Reportable users, etc.
 - These definitions form the foundation for Rules 242–244.
- **Rule 242 — Obligation for reporting and due diligence requirements (Who must report)**
 - Reporting and due diligence requirements apply if Reporting Crypto Asset Service Provider (RCASP), amongst others, is an entity or an individual resident for tax purposes in India, or an entity incorporated/organised in India, or managed from India, or an entity/ individual that has a regular place of business in India. Further the RCASP is subject to reporting and due diligence requirements with respect to relevant transactions effected through an Indian branch.
 - Reporting and due diligence requirements may not be required in India if such requirements are completed by the RCASP in a partner jurisdiction, subject to conditions.

- **Rule 243 — Reporting Requirements**

- RCASP must report annually (for each calendar year beginning on or after 1 January 2026) user identity details and aggregated crypto-asset transaction data as prescribed.
- Reporting covers acquisitions, disposals, exchanges, transfers, and large retail payments.
- All values to be reported in Indian Rupees using prescribed conversion rules.
- Statement shall be furnished in Form 167 by 31st May of the calendar year following the year to which the information relates.

- **Rule 244 — Due Diligence procedures**

- RCASPs are amongst others, required to obtain and confirm the following from crypto asset users and controlling persons:
 - a self-certification to determine the tax residency and
 - reasonableness of such self-certification based on the information obtained, including any documentation collected pursuant to AML/KYC Procedures.
- Documentation must be kept for at least 7 tax years from the end of year of reporting.

Comment - *The introduction of a comprehensive crypto-asset reporting and due diligence framework marks a significant and forward-looking step in reporting of digital assets. The evolving compliance landscape will require RCASPs to streamline internal processes, adopt technology-enabled reporting systems, and build resilient governance mechanisms.*

2. **Rule 176 - Codifying the detailed workflow for Faceless Assessments under section 273**

- Draft Rule 176 sets out the operational framework for conducting faceless assessments, reassessments, and recomputations under section 273(1) of the ITA 2025. Unlike section 144B of the ITA 1961 which embeds the faceless assessment workflow within the section itself, section 273 of the ITA 2025 does not mention the procedural architecture and instead delegates these operational details to CBDT.
- Draft Rule 176 now prescribes the end-to-end process that mirrors the existing faceless regime, including automated case allocation across assessment, technical, verification and review units; issuance of draft/ final orders; and provision for personal hearings through video conferencing.
- It is pertinent to mention that Finance Bill, 2026 proposes a common assessment-cum-penalty order for under-reporting and misreporting of income, whereas Draft Rule 176 retains the earlier procedure for passing the final assessment order and issuance of a penalty initiation notice.

Comment - *Codifying the faceless assessment process under Rule 176 ensures continuity of the existing framework while providing flexibility for future updates by the CBDT in place of Parliamentary amendment to the Act. It is pertinent to note that, the retention of the earlier penalty initiation process under the Draft Rules needs alignment with the changes proposed in Finance Bill, 2026.*

3. **Rule 166 – Criteria for treating a return of income as Defective return**

Draft Rule 166 prescribes the following criteria for treating a return of income as a defective return:

- Improper and incomplete filling of the return Form [scope expanded to all applicable fields, parts, schedules in addition to statements and columns in the return form]
- Non-furnishing of tax audit report (where applicable) prior to filing of the return of income

- The details of tax payment as required for filing an updated return are not duly filled in the return (revised criteria)
- The brought forward MAT/AMT credit claimed in the return is not in accordance with the carry forward amount as per the latest return allowed to the assessee (new criteria).

Comment - Taxpayers should exercise greater vigilance when filing their returns to minimise the risk of defects and ensure smooth processing under the revised framework.

Similar to the approach adopted for faceless assessments, shifting the defective-return criteria from the statute to the Rules provides administrative flexibility, allowing the framework to be refined by the CBDT as compliance evolves.

4. Rule 225 - Procedure for recovery of tax

Under the ITA 1961, the detailed procedure for tax recovery is set out in the Second Schedule, which prescribes the legal framework and step-by-step process to be followed when an assessee defaults on payment of tax dues.

Under the ITA, 2025, this execution framework is not included in the statute and transposed into a new Rule 225, while preserving the substantive workflow with no material changes.

5. Rule 45 – Non-resident rendering services or providing technology in India to eligible resident company [setting up electronics manufacturing facility, or manufacturing electronic goods, article, etc. in India] and wanting to opt for presumptive taxation – conditions to be satisfied by the resident company prescribed

- Draft Rule 45 prescribes the eligibility conditions to be satisfied by a ‘resident company’. As per this rule, a resident company must:
 - (a) be engaged in establishing or operating an electronics manufacturing facility, or a connected facility for manufacturing or producing electronic goods, articles or things in India, under schemes notified by the Ministry of Electronics and Information Technology as amended from time to time; and
 - (b) not be rendered ineligible under any of the above-mentioned schemes at any time of the tax year for which tax is to be calculated for the income of the non-resident.

6. Rule 66 - Furnishing of audit report for claiming various deductions such as related to start-ups, infrastructure facility, etc.

- A common audit report has been prescribed (i.e. Form 32) which is required to be furnished electronically for claiming certain deductions² including those for capital expenditure for certain specified business and deduction for eligible start-ups.
- Supporting documents, as applicable to each provision, must be uploaded along with the prescribed common audit report.

7. Rule 31 – Deduction for sum paid for scientific research

- Donations eligible for deduction related to expenditure on scientific research paid to Research Association, Company, National laboratory, University, Institute or any other specified person is

² Under section 46 or 138 or 139 or 140 or 141 or 142 or 143 or 144 of the ITA 2025 corresponding to sections 35AD, 10AA, 80-IA, 80-IAB, 80-IAC, 80-IB, 80-IBA and 80-IE of the ITA 1961.

proposed to be allowed under section 45(4)(a) of ITA 2025 only if the recipient entity files Draft Form 15 and issues Draft Form 16 to donors by 31 May following the tax year.

Comment - Recipient must comply with reporting timelines and also issue relevant forms to the donor. Donor would need to ensure receipt of relevant forms from Recipient to protect deductibility.

III. Changes in existing Rules:

Corporate taxation

1. Rule 10 and 11 - Indirect transfer Rules

Currently, a combined rule is provided for definitions and the valuation mechanism of indirect transfers. Under the new framework, these elements have been separated; Rule 10 now houses the definitions, while Rule 11 sets out the valuation methodology. While the valuation mechanics remain largely unchanged, the definition of “accountant” has undergone a change. The change in qualifying condition to the definition of ‘accountant’ is as follows -

Category	Old Rules	Draft Rules
Individuals (Domestic)	<i>No specific qualification conditions prescribed</i>	<ul style="list-style-type: none"> • ₹50 lakh+ cost-certification receipts • 10+ years’ experience
Non-individuals (Domestic Entities/Affiliates)	<i>No qualification conditions prescribed</i>	<ul style="list-style-type: none"> • ₹3 crore+ cost-certification receipts
Individuals (Foreign)	<ul style="list-style-type: none"> • Valuation receipts ≥ ₹1 crore • 10+ years’ experience 	<ul style="list-style-type: none"> • ₹50 lakh+ cost-certification receipts • 10+ years’ experience
Non-individuals (Foreign Entities/Affiliates)	<ul style="list-style-type: none"> • Valuation receipts ≥ ₹10 crore • Presence in >2 countries 	<ul style="list-style-type: none"> • ₹3 crore+ cost-certification receipts • Presence in >2 countries

Additionally, Rule 10 has introduced a new definition - “foreign company or entity” to mean a company or entity registered or incorporated outside India.

Comment - Qualifying foreign professionals can now undertake valuations in all categories, instead of being restricted only to valuing foreign companies and domestic valuers who earlier had no qualification requirements must now meet monetary and experience thresholds.

2. Rule 56 - Meaning of expressions used in determination of fair market value (FMV)

- The existing Rule 11U of 1962 Rules defines several terms for FMV computation, including a special clause for balance sheets tied to valuation-date availability, a wealth tax-based definition of “registered valuer,” and a single valuation-date definition linked only to receipt of property or consideration.
- Draft Rule 56 streamlines this by adopting a simpler balance-sheet definition for Indian/foreign companies, replacing the “registered valuer,” reference with section within such commercial activity shall be treated as if it is entity separate from the registered non-profit organisation the ITA, and

introducing a section-specific table of valuation dates for section 92 (specified receipts/transfers), section 79 (full value of consideration for transfer of unquoted share), and section 26(2)(j) (conversion of inventory into capital asset).

3. Rule 282 - Notification of pension fund and other conditions to be satisfied by the pension fund

- This rule specifies conditions for notification and compliance by a foreign pension fund investing in India. There is no substantive change in the Rule. However, there are certain changes in the Forms required to be filed by the Pension Fund such as in the application for notification in Form 174, communication address in India is required to be provided.

Employment income

4. Rule 15 – Perquisite valuation rules

Rule 15 of the Draft Rules corresponds to Rule 3 of the 1962 Rules and sets out the methodology for valuing perquisites provided by an employer such as motor cars, residential accommodation, and other facilities. The key changes proposed under the draft rule are as follows:

Particulars	Key Changes
Motor car owned by the employer and provided to employee for official and personal purposes - expenses on running and maintenance is met / reimbursed by the employer	For motor cars with CC<1.6 ltrs Existing - INR 1,800 plus INR 900 for driver Proposed - INR 5,000 plus INR 3,000 for driver
	For motor cars with CC>1.6 ltrs Existing - INR 2,400 plus INR 900 for driver Proposed - INR 7,000 plus INR 3,000 for driver
Motor car owned by the employer and provided to employee for official and personal purposes -expenses on running and maintenance for personal use is fully met by the employee	For motor cars with CC<1.6 ltrs Existing - INR 600 plus INR 900 for driver Proposed - INR 2,000 plus INR 3,000 for driver
	For motor cars with CC>1.6 ltrs Existing - INR 900 plus INR 900 for driver Proposed - INR 3,000 plus INR 3,000 for driver
Provision of interest free / concessional loan	Tax free limit of provision of loan increased from INR 20,000 to INR 2,00,000
Provision of free food and non-alcoholic beverages / Meal vouchers	Tax free limit is increased from INR 50 per meal to INR 200 per meal. Existing Rule provides that this benefit is not available under new regime. However, under the Draft Rules, this benefit is available to taxpayer option for old and under both old and new regimes.
Value of tax free gift, voucher or token	Increase in limit from INR 5,000 to INR 15,000

5. Rule 278 – Conditions to avail exemption on leave travel allowance [Schedule III (Table: Sl. No. 8)]

This rule provides the conditions to avail exemption for leave travel allowance provided by the employer to employee. The draft rule is similarly worded as the existing one, except for the following changes:

The threshold of ‘air economy fare of the national carrier’ for travel by air is proposed to be replaced as ‘fare admissible for the class of travel to which the employee is entitled’; thus, the employee may be eligible for air fare claim as entitled.

In the absence of a recognised public transport system, the LTC limit—currently based on AC first-class rail fare—is proposed to be revised to a **uniform INR 30 per km** for the shortest route.

6. Rule 279 – House Rent Allowance exemption – [Schedule III (Table: Sl.No 11)]

This rule provides the limits for claiming exemption for house rent allowance provided by the employer to employee. The Draft Rules are similarly worded as the existing one, except for the following changes:

- Threshold of 50% of salary earlier applicable only to the four metros (Delhi, Mumbai, Chennai and Kolkata), is now proposed to be extended to Ahmedabad, Bengaluru, Pune and Hyderabad.
- The 50%/40% salary thresholds are now subject to an additional condition that the accommodation must be located at the place of employment, a requirement not provided for in the existing rule.
- The Draft Form require employees to disclose any relationship with the landlord when claiming HRA. They also mandate that the employer, as deductor, obtain the House Rent Agreement while verifying the HRA claim.

7. Rule 280 –Prescribed employee allowances – [Schedule III (Table: Sl No. 12 & 13)]

The Draft Rule 280 deals with exempt duty-linked and personal allowances granted to employees and proposes substantial upward revisions to several long-standing exemption limits under these provisions. The key changes are summarised in the table below:

Category	Old Rule 2BB	New Rule 280
Children Education Allowance	₹100 per month per child (upto max two children)	₹3,000 per month per child (upto max two children)
Hostel Allowance	₹300 per month per child (upto max two children)	₹9,000 per month per child (upto max two children)
Transport allowance to a blind or deaf and dumb employee or orthopedically handicapped with disability of lower extremities	₹3,200 per month	₹15,000 (Metro) + Dearness Allowance thereon ; ₹8,000 + Dearness Allowance thereon(Other cities) It seems that the words “ per month” has been omitted which seems to be an inadvertent error. This exemption is allowed even under the New regime.
Transport running allowance (working in transport system)	70% of allowance up to ₹10,000	70% up to ₹25,000

Comments - The draft rules propose to increase limits and scope of coverage for employee exemptions and deductions (under the old tax regime) such as house rent allowance, children’s education allowance, hostel

allowance. With the increased exemption and deduction limits under the proposed rules, taxpayers may want to evaluate opting for old tax regime (new regime being the default tax regime).

Extending 50% salary threshold to more cities offers relief, however, the “place of employment” condition and landlord relationship disclosure add increased governance.

Revising LTA thresholds for air travel to reflect actual travel entitlements is a welcome move.

Employers may need to strengthen HRA verification protocols, modify systems, update payroll policies along with revising related travel and documentation requirements to align with the revised benchmarks.

8. Rule 204 – Furnishing particulars of TDS on salaries

- Currently, Rule 26A of 1962 Rules allows an employee to furnish details of salary received from other employers and requires the employer to provide a statement of perquisites or profits in lieu of salary in Form 16 or Form 12BA, depending on salary level. Similarly, Rule 26B of 1962 Rules allows an employee to furnish particulars of *other-head* income and TDS/ TCS for the same financial year to the employer.
- Rule 204 of Draft Rules consolidates both Rule 26A and 26B disclosures into a single unified reporting mechanism. The forms proposed under this Rule are Form 122 to be submitted by employee and Forms, 123 and 130 are to be issued by the employer.
- In Form 123/ 130, there is a requirement to provide PAN of the authorised signatory. Besides this, these forms also require the employer to fill in details about his and employees email id, contact number.

Comment - Consolidating TDS reporting into a single mechanism reduces compliance for employees.

Tax Deducted at Source (TDS)

9. Rule 216 – Changes in application for allotment of a tax deduction and collection account number

	Rule 114A (1962 Rules)	Draft Rule 216
Forms Prescribed	Form 49B for all applicants seeking a Tax Deduction and Collection Account Number (TAN).	Two distinct forms: <ul style="list-style-type: none"> • Form 134 – Government entities-government entities • Form 135 – non-government entities
Documentary Requirements	No specific documentation requirements prescribed under the Rule.	Documentation required, including: <ul style="list-style-type: none"> • Proof of identity • Proof of address • Proof of date of birth (for individuals) or date of incorporation (for entities)

10. Rule 211 (Form 121)- Declaration for receipt of income without TDS

- Draft Form 121, which replaces the existing Form 15G/15H under the 1962 Rules, introduces requirement to furnish additional details of previous two years’ Income Tax Returns under Part A, to be filled by payee.

- Further, under Part B, payer has to record payee's details and verify income details declared by payee under Part A. Further, there is specific mention of date on which income has been paid/credited under existing Form 15G/15H, which seems missing in Draft Form 121.

11. Rule 219 - Due date for furnishing quarterly statements for Tax Collected at Source

- The due date for furnishing the quarterly statement for tax collected at source is proposed to be aligned with the due dates for furnishing quarterly statement for tax deducted at source i.e., last day of the month following the end of the quarter (31 Jul, 31 Oct, 31 Jan, 31 May). Earlier dates were 15 Jul, 15 Oct, 15 Jan and 15 May.

Comment – *Aligning TCS with TDS cycles simplifies compliance calendars; taxpayers would need to align their resources and systems to comply by the common due date.*

Procedural

12. Form 26 (Rule 47) - Key changes in Tax audit report

- Erstwhile tax audit forms 3CA, 3CB and 3CD are now consolidated into into a single, expanded reporting form i.e. Form 26 with 55 clauses instead of earlier 44 clauses.
- Following are certain key changes in new Form 26 vis-a-vis the existing Form 3CD:
 - PAN of partners required in case of a partnership firm;
 - Details of the accounting software used for maintenance of books of account in computer system, any cloud or any other software used for storage of books of account along with location (internet protocol address and country) of such storage maintained on a server located in India with daily backups;
 - In cases where there are any statutory audit qualifications then quantification of the financial impact (decrease/increase) on the tax year's net profit to be reported by tax auditor.
 - Certain past requirements—like reporting on GAAR³ and country-by-country reporting—have been removed, while new disclosures have been added including MAT/AMT⁴ credit utilisation, transactions in unquoted shares, and disallowable expenses related to exempt income even if such income has not accrued or been received.
 - Introduces mandatory reporting of foreign remittances under Part-D of Form 145 (Form 15CA under 1962 Rules and Forms) during the relevant tax year.

Comment - *The expanded tax audit report disclosures enhances transparency, particularly through disclosures on software and digital books of account storage locations and foreign-remittance reporting (Part-D), but also raises expectations on data readiness, along with the need to validate systems, strengthen controls and ensure smooth adoption of the revised reporting framework.*

13. Rule 46 - Maintenance of books of accounts

- The threshold for maintaining original bills and payment vouchers for receipts and expenditure respectively has been increased from INR 25 to INR 250.
- Books of account and other documents maintained in electronic mode shall always remain accessible in India. Back-up of such books of account and other documents kept in electronic mode, shall be kept in servers physically located in India, and shall be updated on daily basis.

³ General Anti Avoidance Rules

⁴ Minimum Alternate Tax/Alternate Minimum Tax

Comment - Requirement of having back up of digital books of accounts in a server physically located in India seems aligned with provisions of Companies Act,2013.

14. Rule 158 - Key changes in PAN application process

- Rule 158 introduces a new set of prescribed forms for submitting PAN applications as tabulated below:

Category of PAN Applicant	Rule 114 (1962 Rules)	Draft Rule 158
Indian citizen (individual)	Form 49A	Form 93
Indian company / Entity incorporated or formed in India	Form 49A	Form 94
Foreign individual	Form 49AA	Form 95
Foreign company / Entity incorporated or formed outside India	Form 49AA	Form 96

- Rule 114 of the 1962 Rules stipulated that where a person’s income is above the tax-free slab and they don’t have a PAN, they must apply for PAN by 31 May of the assessment year. Draft Rule 158 states that such person has to apply for PAN on or before 31 May of the tax year for which such income is assessable.
- As per Rule 114(1A) of the 1962 Rules, a person without a PAN who furnishes their Aadhaar number will be considered to have applied for a PAN, and no separate application or documents are needed. Draft Rule 158 does not provide such an exception from application of PAN.
- The documentation requirements for application of PAN have undergone a change such as:
 - Birth certificate made mandatory for Indian Citizens born on or after 1 October 2023,
 - Foreign nationals will also be required to provide proof of date of birth
 - Limited Liability partnerships (LLPs) in India will have the option to provide LLP identification number allotted in India by Registrar
 - The newly prescribed PAN application Forms require documentary proof of identity and address of the representative assessee/ authorised representative.

Comment - New forms and documentary proof tighten identity controls

15. Rule 159 - Transactions in relation to which permanent account number (PAN) is to be quoted or applied for the purposes of section 262(1)(f), 262(10)(c) and 262(10)(e) of the Act.

- Draft Rule 159 (corresponding to existing Rule 114B of the Income-tax Rules, 1962) retains the overall framework of quoting/ applying for PAN but makes notable changes in transaction thresholds, scope of applicability, compliance obligations. The following are the key changes proposed under the draft Rule 159:

Nature of transaction	Rule 114B (1962 Rules) (value of transaction)	Draft Rule 159 (value of transaction)	Key Changes
Purchase or sale of Immovable property	₹10,00,000	₹20,00,000	Threshold increased. Gift or joint development agreement included
Sale or purchase of motor vehicle	No threshold	₹5,00,000	Threshold introduced, motorcycle included and tractors excluded
Payment of hotel bills	₹50,000	₹1,00,000	Threshold increased; payment to convention centre, banquet hall or to any person engaged in event management, also included in the draft rule
Deposits with Banking company or post office	Exceeding ₹50,000 in any one day	Aggregating to ₹10,00,000 or more in a financial year	Frequency redesigned from daily to annual
Withdrawal with a banking company or post office	-	Aggregating to ₹10,00,000 or more in a financial year	Withdrawals also added
Commencement of account-based relationship with an insurer as defined in section 2(9) of the Insurance Act, 1938 (4 of 1938)	-	-	Existing rule provide for payment as life insurance premium to an insurer for amount aggregating to more than fifty thousand rupees in a financial year. Customer KYC to become more stringent as PAN required at the time of onboarding without any premium threshold.

- Any person (not being a company or firm) without a PAN must apply for PAN when entering into certain specified transactions like sale or purchase of motor vehicle, deposits or withdrawals from bank, etc., or; immovable property transactions over ₹45,00,000. In case said person enters into any transaction in purchase or sale of immovable property for value less than ₹45,00,000 but ₹20,00,000 or above, declaration in Form 97 is required with particulars of such transaction.

16. Rule 164 - Revised eligibility criteria for return of income forms

- The Draft Rules propose a relaxation in the eligibility criteria for filing ITR-1 and ITR-4, permitting eligible individuals to use these Forms even if they own up to two house properties, subject to prescribed conditions. This marks a change from the current framework, which limits eligibility to persons owning only one house property.
- It is now expressly clarified that ITR-1 and ITR-4 cannot be filed where the taxpayer has any income taxable under the special provisions contained in Part A of Chapter XIII of ITA 2025, such as income from Global Depository Receipts, carbon credits, virtual digital assets, royalty from patents developed and registered in India, undisclosed income, online gaming, block-assessment in search cases, among others to which special tax rates apply.
- An additional restriction is introduced for ITR-4, under which a taxpayer claiming a deduction under the head ‘Income from Other Sources’ (other than family pension) will not be eligible to file ITR-4.
- These changes are proposed to apply to return of income to be furnished for the tax year commencing on 1 April 2026.

17. Rule 136 – Single unified rule for exercising or withdrawal of option for new tax regime

- Unlike the framework under the 1962 Rules, which requires filing separate prescribed Forms electronically on or before the due date under section 139(1) of the ITA 1961 for opting new tax regime, the new rule provides that the option or withdrawal shall be exercised in the return of income furnished under section 263(1) of the Act, thereby eliminating the need for standalone filings, simplifying procedures and reducing compliance burden.

Comment - *Eliminating standalone filings streamlines compliance by integrating the election directly within the return, reduces procedural complexities.*

18. Rule 75 – Additional information for availing tax treaty benefit mandatory

For availing tax treaty benefit, it is proposed that non-residents need to provide additional information in Form 41 along with tax residency certificate. Existing rule allows non-filing of Form 10F if the information is already available in tax residency certificate.

19. Rule 76- Overhaul of FTC Form architecture - New Forms, Standardized timelines

Key procedural, structural and compliance changes to FTC rules are tabulated below:

	1962 Rules Framework (Rule 128 / Form 67)	Draft Rule 76 (Forms 44 & 45)
Forms Prescribed	Form 67	Two separate forms: <ul style="list-style-type: none"> • Form 44 – FTC claims • Form 45 – Disputed foreign tax credits Includes more structured documentation requirements.
Computation of FTC	Form 67 does not specifically provide for computing FTC on net income basis	Form 44 proposes for computing FTC on net income basis

Certification Requirement	No explicit rule level mandate for accountant certification.	Accountant verification mandatory when the taxpayer is a company or when foreign tax exceeds ₹1 lakh, increasing assurance and compliance rigour.
Resubmission Requirement	Refiling of Form 67 required mainly for loss carry back adjustments.	Refiling of Form 44 expanded to cases where a revised return or updated statement results in a foreign tax refund, ensuring Indian FTC reflects the final foreign tax liability.

Comment – Additional reporting and certification requirements along with the manner of computation, enhances ability to identify eligible FTC.

20. Rule 129 – Notice, Forms for reference under section 274 (GAAR Panel)

- Draft Rule 129 lays down the procedure for handling cases where the Assessing Officer proposes to invoke Chapter XI (GAAR) under ITA 2025. The Rule introduces a new compliance requirement, mandating that the Commissioner must seek a specific factual report from the IFSC Authority before referring GAAR related cases to the Approving Panel, where the assessee is located in an IFSC. This requirement does not exist under 1962 Rules.

Comment - Requiring pre-panel fact-finding by the IFSC Authority introduces a new procedural safeguard; thus, the factual documentation available with the IFSC Authority may be relevant.

21. Form 99 prescribed under Rule 167 - A smarter, digital First appeal filing mechanism

- Draft Form 99, which replaces the existing Form 35 under 1962 Rules, introduces a more structured and tech enabled appeal filing framework for appeals filed to Joint Commissioner (Appeals) or Commissioner (Appeals).
- Draft Form 99 provides auto population of information fields to the extent of information available with the Tax Department. These fields are proposed to be editable enabling necessary corrections.
- The Form also requires disclosure of appeals adjudicated on the same grounds of appeal previously in the appellant’s case and allows uploading of the corresponding appellate orders, thereby facilitating a more informed adjudication.
- Another significant enhancement is a new field enabling the appellant to provide details of any declaration for repetitive appeals under section 375 of the ITA, 2025, where identical questions of law are pending before the High Court or Supreme Court.

Comment – The introduction of tech-enabled, pre-filled appeal forms together with structured issue-wise data and linkage to past precedents should help shorten adjudication timelines in case there are same grounds of appeal.

22. Rule 200 - Application for obtaining an advance ruling

- Draft rule 200 simplifies the procedure by prescribing a single Form (Form 120) for all categories of applicants instead of five different Forms (Forms 34C, 34D, 34DA, 34E and 34EA) depending on the class of the person applying for the advance ruling) under the 1962 Rules.
- The fees payable for a determining a resident applicant's tax liability arising from a transaction they have carried out or plan to carry out, where the amount of transaction is less than INR 1 billion, the fees are reduced to INR 10,000 from earlier INR 200,000. There is no change in the fee structure for other transactions.

23. Rule 237 - Key changes in reporting requirements

- The existing Rules require reporting of specified financial transactions [section 285BA of ITA 1961 and Rule 114E of the 1962 Rules] using a single, uniform monetary threshold structure that applied identically to all persons, without distinguishing between PAN-holders and non-PAN-holders.
- The draft Rule 237 updates this framework under section 508 of ITA 2025 by introducing PAN-based differential thresholds, adding new reportable categories, widening the scope and threshold for immovable-property reporting, removing legacy one-time demonetisation entries.

24. Rule 238 - Updated Definitions for FATCA/CRS Reporting

- Draft Rule 238 corresponds to existing Rule 114F of the 1962 Rules, which defines key terms used for reporting financial accounts under the Foreign Account Tax Compliance Act (FATCA) and the Common Reporting Standard (CRS).
- However, Rule 238 updates these definitions to reflect modern financial products and digital developments. It expands the meaning of depository accounts and depository institutions to include specified electronic money products and central bank digital currencies, and it treats relevant crypto-assets as financial assets for non-U.S. reportable accounts.
- The rule also updates the investment-entity definition to cover crypto-asset-related activities, introduces new excluded accounts such as small-value electronic money wallets and temporary accounts used during company formation or capital increase, and adds a new category of non-reporting financial institution called a qualified non-profit entity. Overall, the changes simplify and modernise the earlier framework to ensure that digital assets and new financial products are appropriately captured for FATCA/CRS reporting.

25. Rule 239 - Updated FATCA/CRS Reporting Obligations

- Draft Rule 239 corresponding to existing Rule 114G, i.e. lays down the information, a reporting financial institution must maintain and report for each FATCA/CRS reportable account, but introduces a few important additions.
- Non-U.S. reportable accounts now requires reporting of self-certification status, joint-account details, the account type, and whether the account is pre-existing or new, as well as the role by which a person qualifies as a controlling person or equity-interest holder.
- It also incorporates crypto-asset reporting by allowing exclusion of gross-proceeds information where the same data is covered under the Crypto-Asset Reporting Framework. Overall, while the core framework remains the same, Rule 239 modernises and expands the data-fields required to be reported.

26. Rule 240 - Key changes to FATCA/CRS Due-Diligence requirement

- Draft Rule 240 corresponds to Rule 114H of the 1962 Rules and sets out the due-diligence steps financial institutions must follow to identify FATCA/CRS reportable accounts.
- Rule 240 largely preserves the original framework, but introduces targeted updates to align with the revised Common Reporting Standard. The key changes are: (i) the definitions of “new account” and “pre-existing account” are expanded to cover accounts that become financial accounts only because of the 2026 CRS amendments; (ii) for non-U.S. reportable accounts, Rule 240 now requires additional verification where self-certification cannot be obtained on time and mandates substantially similar procedures when Prevention of Money Laundering (PMLA) data is not legally required; and (iii) Rule 240 incorporates crypto-asset reporting by permitting reliance on information already reported under the Crypto-Asset Reporting Framework.

Comment - *The introduction of new data attributes such as self-certification status, joint-account details, and account-type indicators together with crypto-asset coordination may help provide more data insights.*

Non-profit organisations (NPO)

Key changes

27. Rule 182- Manner of Computation of income from permissible commercial activities

- Income of registered NPOs from business undertaking held as property eligible for exemption, commercial activity incidental to the attainment of the objectives of the NPO and commercial activity undertaken in the course of actual carrying out of advancement of any object of the general public utility where the aggregate receipts from such commercial do not exceed 20% of the total receipts are considered as permissible commercial activities.
- Draft rule provides for the manner of computation of income from permissible commercial activities as below:
 - such commercial activity shall be treated as if it is entity separate from the registered NPO;
 - separate books of accounts are maintained for such activities; and
 - Income to be computed as per the provisions of ‘Profits and Gains of Business or Profession’.

28. Rule 183 - Manner of computation of any portion of income applied by a registered non-profit organisation, directly or indirectly, for the benefit of any related person

Section 13(2) of the ITA 1961 entails prescribed transactions with related parties which shall constitute a ‘benefit’ to such related parties. The prescribed transactions do not form part of ITA 2025 and have moved to Rules. It is also proposed that income from such transactions shall be the value of any benefit or facility granted or provided free of cost or at concessional rate to the related person.

Further, details of related party transactions are now sought in the updated audit report, irrespective of whether the transaction is undertaken for adequate consideration.

29. Rule 187- Books of account and other documents to be kept and maintained by a registered non-profit organisation.

The period for maintenance of prescribed books of accounts has been reduced from 10 years from the end of Assessment year to 6 years from the end of tax year.

Procedural relaxations

30. Rule 181- Common Application for registration of non-profit organisation or for approval for the purposes of deduction under section 133(1)(b)(ii) of the Act

- The assessee now has the option to surrender the registration / approval subject to satisfaction of prescribed conditions. Where applicant surrenders the registration, such registration or approval shall be deemed to have never been granted.
- An option is now introduced for withdrawing the registration / approval application within 7 days of filing of application.
- An option has been introduced to request for correction of the application for final registration / approval form only in case of specified circumstances. The request for correction can be made at any time before passing of order.
- It has been specifically clarified that if the registration / approval has been rejected or cancelled or both, in certain circumstances, the assessee can re-apply for registration / approval within 1 month from end of month in which order is passed, subject to prescribed conditions. It is also clarified that the opportunity for re-application shall be provided only once.
- It is now proposed that the application for provisional registration or provisional approval shall not be further proceeded with where the activities have commenced or the trust has been registered under any specified provision.
- Forms subsumed - Currently, under ITA 1961, there are separate applications for registration / renewal u/s 12AB (Section 332 under ITA 2025) and approval / renewal u/s 80G (Section 354 under ITA 2025). As per the Draft Rules, the applications for registration and approval under Section 12AB and 80G are now subsumed under a 'common application'.

31. Rule 186- Application for change of purpose for which income has been accumulated or set apart.

In case of 5-year accumulation of income, NPOs are required to file a form with prescribed details including the purpose for which such accumulated income is proposed to be applied. ITA 2025 introduced an option for changing the purpose of such accumulation by applying to the Assessing Officer. The Draft Rules now prescribe the form and manner of such application.

32. Rule 188- Report of audit in the case of registered non-profit organisations under section 348 of the Act.

The audit report of charitable trusts under the 1962 Rules were required to be furnished in Form No. 10B (where prescribed thresholds were met) or Form No. 10BB (in other cases). As per the Draft Rules, the two forms have been replaced with a single audit report in Form 112.

Comment - *The draft NPO rules and forms strengthen transparency and compliance by formalising computations, related-party oversight, consolidated forms and audit procedures.*

Transfer Pricing

The key transfer pricing-related changes and updates proposed in the Draft Rules are summarised in our alert titled "*Tax Alert: Key Highlights of Draft Income-tax Rules, 2026 – Transfer Pricing*".

Comments

The Income-tax Rules and Forms, 2026 are expected to be finalised ahead of the 1 April rollout of the new Income-tax regime. Overall, the Draft Rules signal a decisive move towards a more streamlined, simpler, technology-driven and transparent direct-tax framework.

- The introduction of standardised, pre-filled, consolidated and system-validated Forms, including those for appellate filings, unified salary TDS reporting and a common audit Form, is expected to minimise data duplication, reduce manual intervention and mitigate clerical inaccuracies. This, in turn, should streamline end-to-end processing timelines, improve data consistency across filings and lower the incidence of post-filing adjustments and rectifications.
- At the same time, the Rules are forward-looking. The integration of crypto-asset transparency requirements under the Crypto-Asset Reporting Framework (CARF) and alignment with the CRS 2026 updates position the regime to respond to evolving global information-exchange standards.
- Revised perquisite valuation slabs and higher allowance thresholds will help to modestly enhance taxpayer relief.

It would be imperative for taxpayers to familiarise themselves with the new rules before they come into effect on 1 April 2026.



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