



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

### 2 April 2026

The government has notified Income-Tax Rules, 2026 and related Forms which are effective from 1 April 2026.

### 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 came 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 certain provisions of ITA 2025. We had issued a tax alert on the earlier Draft Rules<sup>1</sup>.

The Government has now **notified** the final rules (2026 Rules), after considering stakeholder comments, which replace the Income-tax Rules, 1962 (1962 Rules) with effect from 1 April 2026.

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 2026 Rules signal a decisive move towards simplification, digitisation, and trust-based compliance.

CBDT has issued a comprehensive set of Frequently Asked Questions (FAQs) clarifying the interplay and transitional provisions between the Income-tax Act, 1961 (ITA 1961) and ITA 2025, which has come into force from 1 April 2026. The FAQs address key issues relating to tax payments, return filing, TDS compliance, reassessment, appeals, carry forward of losses, NRIs, and other procedural matters to ensure continuity and a smooth transition to the new tax regime.

This alert highlights key differences in Final Rules vis-a-vis Draft Rules, 1962 Rules and Forms along with key takeaways from FAQ issued by the CBDT<sup>2</sup>.

<sup>1</sup> <https://www.deloitte.com/content/dam/assets-zone1/in/en/docs/services/tax/2026/in-tax-gbt-draft-income-tax-rules-20261.pdf>

<sup>2</sup> CBDT – Central Board Direct Taxes

## Key Highlights:

- **Additional changes in 2026 vis-a-vis the Draft Rules**

- **Rule 158 – Changes in details/documentation for Permanent Account Number (PAN) application**

- The Draft Rules suggested changes in the details/documentation to be submitted for PAN application. The notified Rule 158 of the 2026 Rules and PAN application Forms have eased certain additional requirements suggested in the Draft Rules:
  - The draft Form 96 required the Representative Assessee / Authorised Assessee (of the PAN applicant, being a foreign company/entity incorporated or formed outside India) to quote Aadhaar where he/she did not possess a PAN.  
The said requirement has been relaxed in the case of Foreign Portfolio Investors (FPIs), and the Representative Assessee / Authorised Assessee of the FPI(s) now has an option to furnish a passport copy.
  - In the Draft Rules, furnishing a birth certificate was prescribed as a mandatory requirement for Indian Citizens born on or after 1 October 2023. This requirement has now been done away with.
- The Directorate of Income-tax (Systems) has also prescribed Forms and procedures in relation to furnishing application for changes or correction in PAN data through notification F. No. ADG(S)-1/PAN/M/3699/2026 dated 1 April 2026.

**Comment:** The relaxations provided w.r.t. details / documentation for furnishing PAN application, is a welcome move.

- **Rule 159 – Change in threshold for quoting PAN**

The Draft Rules stipulate quoting of PAN for transaction of commencement of account-based relationship with an insurer, as defined in section 2(9) of the Insurance Act, 1938 (4 of 1938) without any premium threshold. In the notified rules, a premium threshold aggregating to more than INR 50,000 in a financial year has been prescribed.

**Comment:** Introduction of threshold would exempt smaller transactions from the requirement of quoting PAN.

- **Rule 128 - Applicability of General Anti-Avoidance Rules (GAAR)**

- Rule 128(2) which provides for applicability of GAAR provisions to any arrangement in respect of which tax benefit arises on or after 1 April 2017, irrespective of the date on which the arrangement has been entered into. The same has been amended<sup>3</sup> to specifically exclude from the applicability of GAAR, income which
  - accrues or arises to, or
  - deemed to accrue or arise to, or
  - is received or deemed to be received by,  
any person from transfer of such investments which were made before 1 April 2017 by such person.
- The notification amending the notified Rule 128(2) of the 2026 Rules comes in force on 1 April 2026.
- Similar amendment is made to Rule 10U(2) of 1962 Rules.

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<sup>3</sup> Amended through Notification No. 55/2026/F. No. 370142/15/2026-TPL dated 31 March 2026

*Comment: Before the amendment notification<sup>4</sup>, there was ambiguity on whether the exclusion provided in Rule 128(2) could override the provisions of Rule 128(1)(d). With the exclusion being reiterated under Rule 128(2) one would now have more clarity while implementing the exclusion. Considering that the date of effect of amendments to Rule 10U(2) would be with effect from 31 March 2026, one would need to evaluate whether the GAAR provisions could be invoked prior to the said date i.e. 31 March 2026.*

#### – Rule 200 - Application for obtaining an advance ruling

- Draft Rule 200 permitted applications for advance rulings to be furnished through the registered email address.

The notified Rule 200 requires such applications to be furnished electronically.

- Draft Rule 200 aligned the rules for signing an application for advance ruling with those applicable to the signing of income-tax returns.

In the notified Rule 200 of the 2026 Rules, this requirement has been relaxed for applicants who are not required to furnish a return of income. In such case, the application and accompanying documents may be signed, manually or digitally, by a duly authorised person for this purpose and holding a valid power of attorney.

Documents can now be furnished electronically using a digital signature (if return of income is required to be furnished under digital signature) or through an electronic verification code.

*Comment: The notified Rules now enable a taxpayer (who is not required to furnish return of income) to furnish AAR application electronically through an electronic verification code.*

#### – Rule 15 – Perquisite value for electric vehicle

The notified Rule 15 of the 2026 Rules stipulates the valuation rules for a **motor car** being an **electric vehicle**. This was not provided in the Draft Rules. The valuation mechanism for electric vehicle is aligned with the valuation of a motor car with the cubic capacity engine not exceeding 1.6 litres.

*Comment: The introduction of perquisite rules for electric vehicles is long pending and brings clarity to its valuation.*

### • Changes in Final Rules to align with 1962 Rules:

#### – Rule 158 - Timeline for PAN application

Rule 114 of Rules 1962 stipulated that where a person's income is above the tax-free slab and they don't have PAN, they must apply for PAN by 31 May of the assessment year.

Draft Rule 158 stated that such person must apply for PAN on or before 31 May of the tax year for which such income is assessable.

In the notified Rule 158 of 2026 Rules, this timeline has now been aligned with Rule 114 of Rules 1962, requiring such person to make the PAN application on or before 31 May of the tax year immediately succeeding the tax year, for which such income is assessable.

*Comment: The alignment of timelines ensures practical implementation.*

#### – Rule 76 – Foreign Tax Credit (FTC)

Earlier, Form 67 prescribed under Rule 128 of 1962 Rules required reporting of income earned outside India (on which FTC is available) but was silent on the manner of reporting i.e. gross or net basis. Draft Rules, 2026 required reporting of income earned outside India and had proposed a change, whereby

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<sup>4</sup> Amended through Notification No. 55/2026/F. No. 370142/15/2026-TPL dated 31 March 2026

Form 44 under Draft Rule 76 required reporting of FTC on a net income basis. It could create mismatch in the rate of tax where income has been offered to tax outside India, on gross basis.

Under notified 2026 Rules, the reporting of income earned outside India is aligned to 1962 Rules.

*Comment: The alignment of reporting of income earned outside India in line with the 1962 Rules, would enable appropriate reporting of the tax paid outside India, the income on which such tax is paid and the rate of tax.*

- **Clarifications issued in FAQs on Interplay and Transition from Income-tax Act, 1961 (ITA 1961) to Income-tax Act, 2025 (ITA 2025)**

- **General philosophy governing the transition**

- **Core principle**

- The transition from ITA 1961 to ITA 2025 ensures continuity of law, certainty of outcomes and no gaps or overlaps.
- Rights, obligations, liabilities and proceedings are governed by the law applicable to the relevant tax year or triggering event, notwithstanding the repeal of the ITA 1961.

- **Concept of “Tax Year”**

- Income continues to be assessed after the end of the tax year under ITA 2025.
- The Tax Year generally runs from 1 April to 31 March.
- For a newly set-up business or source of income coming into existence, the Tax Year begins from the date of set up/ source of income coming into existence and ends on 31 March of that financial year.

- **Shift from assessment year to tax year – no missing year**

- The transition does not result in income escaping assessment or double taxation.
- Income earned up to 31 March 2026 is governed by ITA 1961; income earned from 1 April 2026 onwards is governed by ITA 2025.

Period of income	Governing law	Reference
1 April 2025 – 31 March 2026	ITA 1961	AY 2026-27
1 April 2026 – 31 March 2027	ITA 2025	Tax Year 2026-27

- **Repeals, savings and pending proceedings**

- Section 536 of ITA 2025, read with section 6 of the General Clauses Act, 1897, preserves actions, rights and liabilities arising under ITA 1961.
- All proceedings relating to tax years beginning before 1 April 2026 – whether pending as on that date or initiated thereafter – continue to be governed by the ITA 1961 and would be disposed of as if the ITA 2025 had not been enacted.

- **Administrative continuity**

- Circulars, notifications, instructions, approvals and authorisations issued under ITA 1961, remain valid, to the extent not inconsistent with ITA 2025.
- Existing faceless assessment and faceless appeal frameworks continue seamlessly.

- ITA 1961 continues to govern all tax years commencing prior to 1 April 2026, irrespective of filing or disposal dates.
- **Tax Deduction at Source (TDS) compliance**
  - **Governing principle**
    - TDS provisions apply based on the **date of payment or credit**, whichever is earlier.
  - **Key clarifications**
    - Payments or credits made **up to 31 March 2026** are governed by **ITA 1961**.
    - Payments or credits made **on or after 1 April 2026** are governed by **ITA 2025**.
    - TDS **deposit timelines remain unchanged** during the transition.
    - TDS returns for **Q4 of FY 2025-26** continue under ITA 1961; returns from **Q1 of Tax Year 2026-27 onwards** fall under ITA 2025.
    - Correction statements relating to periods up to FY 2025-26 must continue to be furnished under ITA 1961. Such correction statements can be furnished within a period of two years from the end of the tax year in which the original statement was due.
    - From 1 April 2026, deductors are required to **quote section references under ITA 2025**; incorrect section mapping may lead to system validation failures.
    - Existing faceless and system-based TDS compliance infrastructure (including TRACES and return utilities) will support both regimes during the transition.
- **Tax payments and refunds**
  - **Governing principle**
    - The nature of tax payment determines the applicable law.
  - **Key clarifications**
    - Self-assessment tax relating to FY 2025-26 remains governed by ITA 1961, even if paid after 1 April 2026.
    - Advance tax payments for Tax Year 2026-27 are governed by ITA 2025.
    - Accumulated MAT / AMT credits under ITA 1961 remain valid and may be carried forward for the balance eligible period.
    - Recovery of arrears relating to pre-2026 periods is preserved and may be enforced using mechanisms under the ITA 2025.
    - Refund entitlements arising from periods prior to 1 April 2026 continue to be processed under ITA 1961. As per the Explanatory Memorandum to the amendments to the Finance Bill 2026, rate of interest on refunds will be as per ITA 2025 on or after 1 April 2026.
- **Furnishing of return of income**
  - **Return framework during the transition**
    - Assessment Year 2026-27 and Tax Year 2026-27 represent **two distinct and independent compliance obligations**.
  - **Key clarifications**

- Return for **income earned during FY 2025-26** is to be filed for **AY 2026-27 under ITA 1961**, even if the filing takes place after 1 April 2026.
  - Return for **Tax Year 2026-27** will be governed by **ITA 2025** and filed after the end of the tax year.
  - Non-compliance with either obligation attracts consequences under the **respective applicable statute**.
  - Belated, revised and updated returns relating to AY 2026-27 or earlier years continue to be governed exclusively by ITA 1961, irrespective of the filing date.
  - ITR forms prescribed under ITA 1961 will continue to be available on the e-filing portal for filing returns for AY 2026-27 or earlier years on or after 1 April 2026.
  - Notices for defective returns for AY 2026-27 or earlier years continue to be responded to under ITA 1961 even if issued after 1 April 2026.
- **Search, reassessment of income escaping assessment**
    - **Key clarifications**
      - Reassessment provisions under ITA 2025 apply only to **Tax Year 2026-27 and onwards**.
      - For tax years beginning before 1 April 2026, reassessment continues under ITA 1961, even where notices or filings occur after that date. The return of income (ROI) in response to reassessment notice issued for such tax years will correspond to the forms under ITA 1961, even where the ROI filed is on or after 1 April 2026.
      - Where a search under section 132 of the ITA 1961 is initiated before 1 April 2026 or requisition is made under section 132A prior to commencement of ITA 2025, the taxpayer is required to file his return for the block period as per the provisions of ITA 1961, even if the notice for filing the block period return is issued after 1 April 2026. Proceedings connected with such search/requisition continue to be governed entirely by the ITA 1961.
- **Appeals, revision and advance rulings**
    - **Continuity of proceedings**
      - Appeals, revisions and advance ruling applications **pending as on 1 April 2026** are to be disposed of as if ITA 2025 had not been enacted.
    - **Key clarifications**
      - Appeals relating to AY 2026-27 or earlier years remain governed by **ITA 1961**, even if filed after 1 April 2026.
      - Limitation periods continue to be determined with reference to ITA 1961 for aforesaid years.
      - Applications for revision under section 264 of ITA 1961 and pending advance ruling matters continue under ITA 1961.
- **Set-off, carry forward of losses and deductions**
    - **Preservation of tax attributes**
      - Losses, unabsorbed depreciation and deductions earned under ITA 1961 are preserved in their **original character**.
    - **Key clarifications**

- Carry forward and set-off rules under ITA 2025 broadly mirror the existing framework.
  - Losses computed under ITA 1961 may be carried forward and set off under ITA 2025, subject to original limitations.
  - Unabsorbed depreciation continues to be carried forward without time limit.
  - Deductions and exemptions granted for multi-year periods under ITA 1961 continue for the residual eligible period, subject to compliance with original conditions.
  - Multi-year amortisation under ITA 1961 continue for the remaining period under the ITA 2025.
  - Failure to file a return within prescribed timelines under ITA 1961 continues to bar carry forward of losses under ITA 2025.
  - Violations of conditions attached to earlier deductions or exemptions trigger tax consequences under ITA 2025.
- Other forms and compliance statements**
- **Governing principle**
    - Procedural Forms and compliance statements are governed by the law **in force on the date of the relevant transaction or compliance event**, unless specifically saved under the repeal and savings provisions.
  - **Key clarifications**
    - **PAN and TAN applications**
      - Applications for PAN or TAN pending as on **31 March 2026** continue to be processed under **ITA 1961**.
      - No fresh application is required merely due to the transition to ITA 2025.
      - Revised PAN and TAN application Forms apply for applications made on or after **1 April 2026**.
    - **Lower / Nil TDS certificates**
      - Certificates issued under **section 197 of ITA 1961** remain valid for payments made on or after 1 April 2026, where such certificates relate to projected income for **Tax Year 2026-27**.
      - Fresh applications for lower or nil deduction on or after 1 April 2026 are required to be filed in the prescribed form under ITA 2025.
    - **Self-declaration Forms (Form 15G / Form 15H)**
      - Form 15G and Form 15H have been consolidated into a **single combined form** under the 2026 Rules.
      - A **single Unique Identification Number (UIN)** is to be generated per PAN per tax year, replacing the payer-wise multiple UIN mechanism under the Rules 1962.
      - Eligibility conditions remain unchanged.
    - **Charitable trust and institution registration**
      - Applications for registration or approval filed on or after **1 April 2026** are to be made in the new prescribed forms under ITA 2025.

- Applications already filed and pending as on 31 March 2026 continue to be governed by **ITA 1961**, with no requirement for refiling.
- **Relief under section 89 (salary arrears / advance)**
  - Form 39 replaces Form 10E with a simplified, system-driven structure.
  - Although no statutory time limit is prescribed, the FAQs clarify that the form should ideally be furnished **well in advance of claiming the relief** in the return of income (at least 3 months prior to date of filing) and, where applicable, before the employer computes TDS for the relevant tax year.
- **Foreign remittance Forms**
  - Forms 15CA and 15CB have been replaced by **Form 145 and Form 146** respectively.
  - The applicable procedural requirement is determined by the **law in force on the date of remittance**, while the taxability of the underlying income continues to be governed by the law applicable to the year of accrual.
  - Form 145 now has structured parts and if an AO certificate is furnished, a CA certificate is no longer required.
  - Form 146 now includes a mandatory Unique Document Identification Number (UDIN), enabling real-time ICAI verification and preventing misuse of CA certificates, thereby strengthening authenticity and compliance.
- **Tax audit reporting**
  - For **FY 2025-26 (AY 2026-27)**, tax audit reports continue to be furnished in Forms **3CA / 3CB / 3CD** under ITA 1961.
  - From **Tax Year 2026-27 onwards**, a **single consolidated audit Form 26** applies under ITA 2025.
  - The due date for filing the tax audit report for Tax Year 2026-27 is **30 September 2027**.

## Comments

The notification of 2026 Rules marks a significant step in operationalising relevant provisions of ITA 2025. The final Rules largely preserve established tax principles while introducing targeted simplifications and clarity in key areas.

Overall, the notified Rules reflect a pragmatic and taxpayer-friendly approach enhancing compliance efficiency and digitisation while maintaining the continuity of well-settled tax positions as the new regime comes into effect from 1 April 2026.



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