

Income Tax Rules 2026: 10 Key Changes Every Employee, Employer, and CA Must Know

EFFECTIVE: APRIL 1, 2026

SECTION 533 OF INCOME-TAX ACT, 2025

CBDT NOTIFICATION NO. G.S.R. 198(E), MARCH 20, 2026

1 HRA Exemption Expansion

Four New Metro Cities Get 50% HRA Exemption

Previously only Delhi, Mumbai, Kolkata, Chennai qualified for 50% HRA exemption. Now added: **Bengaluru, Pune, Ahmedabad, Hyderabad** — Total: 8 metro cities at 50% exemption rate. All other cities: continue at 40% exemption.

Note: Old tax regime only. Not available under the new default regime.

Impact: Lakhs of salaried employees in these 4 cities get higher tax savings on rent.

2

Motor Car Perquisite Valuation (Revised)

Employer-Provided Cars: New Monthly Perquisite Values

| Component | Old Rate | New Rate | Increase |
|---|----------------|-----------------------|----------|
| Car up to 1.6L engine (employer pays running costs) | Rs 1,800/month | Rs 5,000/month | 178% |
| Car above 1.6L engine (employer pays running costs) | Rs 2,400/month | Rs 7,000/month | 192% |
| Chauffeur provided by employer | Rs 900/month | Rs 3,000/month | 233% |

Electric Vehicles: Treated at par with up to 1.6L vehicles (Rs 5,000/month concessional rate). Higher perquisite values mean higher taxable salary unless companies restructure CTC.

3

Education, Hostel, Gift, and Meal Exemptions

Major Increases in Common Employee Exemptions

- Children Education Allowance: Rs 100/month → **Rs 3,000/month** per child (max 2 children)
- Children Hostel Expenditure: Rs 300/month → **Rs 9,000/month** per child (max 2 children)
- Annual potential for 2 children in hostels: up to **Rs 2,88,000 tax-free**
- Gift and Voucher Exemption: Rs 5,000 → **Rs 15,000** per tax year (covers festival gifts, Diwali bonuses)
- Meal Exemption: Rs 50 → **Rs 200 per meal** (free food during working hours)

4

PAN Quoting Thresholds Updated

Revised PAN Requirements for High-Value Transactions

| Transaction | Old Threshold | New Threshold |
|---------------------------|---------------|--|
| Motor vehicle purchase | All vehicles | Above Rs 5 lakh only |
| Cash deposits/withdrawals | Rs 50,000/day | Rs 10 lakh/financial year (aggregate) |
| Immovable property | Rs 10 lakh | Rs 20 lakh |

Fewer transactions now require PAN quoting, reducing compliance burden for individuals and businesses.

5

SFT Reporting and ITR Form Changes

Statement of Financial Transactions (SFT) Reporting Overhaul

- Insurance premiums: Report if exceeding **Rs 5 lakh** (with PAN) or **Rs 2.5 lakh** (without PAN)
- Mutual fund reporting: **Removed entirely** (was Rs 10 lakh threshold per investor/year)

ITR Form Consolidation: 399 forms reduced to just 190 forms

- ITR-1 and ITR-2 deadline: July 31 (unchanged)
- ITR-3 and ITR-4 deadline: **Extended to August 31** (was July 31)
- New terminology: "Previous Year" and "Assessment Year" replaced by "**Tax Year**"

Stakeholder Impact: Who Needs to Act and How

For Salaried Employees

- Review HRA claims if in new metro cities
- Check if employer car perquisite affects your tax
- Maximize education/hostel allowance claims for children
- File ITR-3/4 by August 31 instead of July 31

For Employers and HR Teams

- Update payroll systems for new perquisite values before April 1
- Restructure CTC components to minimize employee tax impact
- Update gift/meal voucher policies to new thresholds

For CAs and Tax Professionals

- Master the new 190-form regime (down from 399)
- Update all client advisory letters for Tax Year 2026-27
- Prepare for August 31 extended deadline for business returns

Key Deadlines and Action Plan

01

Before April 1, 2026 — Update payroll systems for revised perquisite values

02

Before April 1, 2026 — Review HRA regime for employees in 8 metro cities

03

April 1, 2026 — New rules effective for Tax Year 2026-27

04

Q1 FY27 — Update SFT reporting systems for insurance/mutual fund changes

05

July 31, 2027 — ITR-1/ITR-2 filing deadline for salaried individuals

06

August 31, 2027 — ITR-3/ITR-4 filing deadline for business/profession income

10 Changes, One Deadline: April 1, 2026

The Income Tax Rules 2026 are the most comprehensive update in decades. From HRA expansion to form consolidation, every taxpayer is affected.

Key numbers: 4 new metro cities · 178–233% perquisite increases · 399 to 190 forms · Rs 15,000 gift threshold · Rs 200 per meal

Do not wait until July. Start preparing now.

Source: taxupdate.in | CBDT Notification G.S.R. 198(E), March 20, 2026