Income Tax Changes From 1st April 2026

Target: Tax Year 2026-27 onwards

An executive summary of the major structural, compliance, and rate reforms introduced under the landmark **Income-tax Act, 2025** and **Income Tax Rules 2026**.

1. Core Structural Framework Redesign

Effective 1st April 2026, the decades-old Income Tax Act, 1961 is entirely replaced by the **Income Tax Act, 2025**, aimed at simplifying language and eliminating redundant provisions. Alongside, the **New Income Tax Rules 2026** supersede previous rules.

> **Key Paradigm Shift:** The traditional concepts of "Financial Year" (FY) and "Assessment Year" (AY) have been officially abolished and unified into a single term: **"Tax Year"**.

2. Enhanced Deduction Limits & Perquisites (Rules 2026)

The new rules introduce substantially modernized allowances and perquisite valuations reflecting current economic realities:

Allowance / Perquisite Item	Old Rules (Before)	New 2026 Rules (After)
Children Education Allowance	₹100 / month per child	**₹3,000 / month per child**
Hostel Allowance	₹300 / month per child	**₹9,000 / month per child**
Free Meals (Per meal exemption)	₹50 per meal	**₹200 per meal**
Non-Cash Gifts Exemption	₹5,000 per year	**₹15,000 per year**
Car Lease Perquisite (< 1.6L Engine)	₹1,800 + ₹900 (Driver) / mo	₹5,000 + ₹3,000 (Driver) / mo
Car Lease Perquisite (> 1.6L Engine)	₹2,400 + ₹900 (Driver) / mo	₹7,000 + ₹3,000 (Driver) / mo
Overseas Medical Treatment	Tax-free only if Income < ₹2 Lakh	**Tax-free if Income < ₹8 Lakh**

3. New Tax Slab Structure (Tax Year 2026-27)

While slab rates remain identical to the previous budget cycle, a significant **Section 87A rebate of up to ₹60,000** is applicable, rendering annual income up to **₹12 Lakh effectively tax-free** under the New Tax Regime.

Income Slab Range	New Tax Regime Rate
Up to Rs. 4 Lakh	**Nil**
Rs. 4 Lakh to Rs. 8 Lakh	5%
Rs. 8 Lakh to Rs. 12 Lakh	10%
Rs. 12 Lakh to Rs. 16 Lakh	15%
Rs. 16 Lakh to Rs. 20 Lakh	20%
Rs. 20 Lakh to Rs. 24 Lakh	25%
Above Rs. 24 Lakh	**30%**

4. Critical Compliance, Form & Timeline Revisions

- **ITR-3 & ITR-4 Due Dates:** Extended from 31st July to **31st August** for non-audit taxpayers. ITR-1 and ITR-2 remain at 31st July; Audit cases remain at 31st October.
- **Revised Returns:** Window extended to **12 months** from the end of the tax year (deadline 31st March). However, an additional fee applies if filed after 31st December.
- **Form Re-numbering:** Core tax compliance forms have been fully renamed:
    - Form 16 → **Form 130** | Form 16A → **Form 131**
    - Form 12BB → **Form 124** | Form 26AS → **Form 168**
- **HRA 50% Metro Benefit:** Extended to 4 new cities: **Bengaluru, Pune, Hyderabad, and Ahmedabad** (joining Delhi, Mumbai, Kolkata, Chennai). Landlord relationship disclosure is now mandatory.

5. Transactional Tax Adjustments (TCS, STT, and Investment Changes)

Securities Transaction Tax (STT): Drastically increased for F&O segments. Sale of options (premium/intrinsic) rises to **0.15%** (from 0.1% / 0.125%), and Sale of Futures climbs to **0.05%** (from 0.02%).

Tax Collected at Source (TCS): Standardized to **2% flat rate** across multiple categories including liquor, scrap, minerals, and LRS remittances (education, medical, and overseas tour packages without thresholds).

Other Investment Rules: (1) *Share Buybacks* are now taxed as Capital Gains instead of deemed dividends. (2) *Sovereign Gold Bonds (SGB)* tax exemptions on maturity apply strictly to primary market buyers, secondary market gains are now taxable. (3) Deductions for interest expenditure against dividend/mutual fund income are completely discontinued.

6. Impact Assessment

Salaried Employees	Investors & Traders	Businesses & Prof.
Significantly higher disposable income through multi-fold hikes in monthly education, hostel, and meal perquisite limits, plus 50% HRA expansion.	F&O trading costs spike due to sharp STT hikes. Buybacks pivot to capital gains regime, while secondary SGB investors lose maturity exemptions.	Substantial relief via an extra month (till 31st August) to file non-audit ITR-3/ITR-4 returns alongside streamlined digital utility tools.