

# GMS Flash Alert

## Employment Law

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## India – Draft Income-tax Rules, 2026: Key Updates from a Personal Tax Perspective

India's Central Board of Direct Taxes (CBDT) has released the draft Income-tax Rules, 2026 (the "draft rules") along with the proposed forms, in relation to the Income-tax Act, 2025 (the "Act"), which is scheduled to come into force beginning 1 April 2026.<sup>1</sup> Before then, the draft rules and proposed forms have been placed in public domain.

### WHY THIS MATTERS

The draft rules affecting personal tax propose significant changes, such as increasing previously set values for determining perquisites and the exemption values for certain allowances, as well as introducing new limits for compulsory quoting of a permanent account number (PAN) for certain transactions.

There have been significant changes in the proposed forms as well.

### Changes in the draft rules

Change in perquisite value of motor car provided by an employer are shown below.

| Details                                                                                                   | Taxable value under Income-tax Rules, 1962                              | Taxable value under the draft rules                                       |
|-----------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------|---------------------------------------------------------------------------|
| <b>Motor car owned or hired by employer</b>                                                               |                                                                         |                                                                           |
| <i>Used partly for official and partly for personal purposes, expenses met or reimbursed by employer.</i> |                                                                         |                                                                           |
| Cubic capacity of engine does not exceed 1.6 litres                                                       | INR 1,800 per month (plus INR 900 per month if a chauffeur is provided) | INR 5,000 per month (plus INR 3,000 per month if a chauffeur is provided) |
| Cubic capacity of engine exceeds 1.6 litres                                                               | INR 2,400 per month (plus INR 900 per month if a chauffeur is provided) | INR 7,000 per month (plus INR 3,000 per month if a chauffeur is provided) |

| Details                                                                                                                                                                                                   | Taxable value under Income-tax Rules, 1962                              | Taxable value under the draft rules                                       |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------|---------------------------------------------------------------------------|
| <i>Used partly for official and partly for personal purposes, expenses on personal use met by employee</i>                                                                                                |                                                                         |                                                                           |
| Cubic capacity of engine does not exceed 1.6 litres                                                                                                                                                       | INR 600 per month (plus INR 900 per month if a chauffeur is provided)   | INR 2,000 per month (plus INR 3,000 per month if a chauffeur is provided) |
| Cubic capacity of engine exceeds 1.6 litres                                                                                                                                                               | INR 900 per month (plus INR 900 per month if a chauffeur is provided)   | INR 3,000 per month (plus INR 3,000 per month if a chauffeur is provided) |
| <b>Motor car owned by employee</b>                                                                                                                                                                        |                                                                         |                                                                           |
| <i>Used partly for official and partly for personal purposes and expenses met/reimbursed by employer, then actual value of expenditure incurred by the employer as reduced by amounts provided below:</i> |                                                                         |                                                                           |
| Cubic capacity of engine does not exceed 1.6 litres                                                                                                                                                       | INR 1,800 per month (plus INR 900 per month if a chauffeur is provided) | INR 5,000 per month (plus INR 3,000 per month if a chauffeur is provided) |
| Cubic capacity of engine exceeds 1.6 litres                                                                                                                                                               | INR 2,400 per month (plus INR 900 per month if a chauffeur is provided) | INR 7,000 per month (plus INR 3,000 per month if a chauffeur is provided) |

The value of free or concessional education provided to any member of an employee's household, whether through an employer-owned institution or any other institution, shall be determined based on the actual cost of education in a similar institution or near the locality, reduced by any amount paid by the employee. This valuation applies when the cost or value of the benefit exceeds INR 3,000 per month per child, increased from the previous threshold of INR 1,000 per month per child.

No perquisite value shall be charged if loans are granted by employer to the employee for medical treatment of specified diseases, or when the aggregate amount of such loans does not exceed INR 200,000. The previous threshold was INR 20,000.

The exemption limit for free food and non-alcoholic beverages provided by an employer to an employee has been increased from INR 50 per meal to INR 200 per meal.

The perquisite value of any gift, voucher, or token provided by an employer to an employee shall be treated as nil if the aggregate value of such benefits does not exceed INR 15,000 during the tax year. This limit has been revised from the earlier threshold of INR 5,000.

If a taxpayer claims a foreign tax credit (FTC) of INR 100,000 or more, Form No. 44 must now be verified by a Chartered Accountant holding a Certificate of Practice (COP).

The limits for mandatory quoting of a permanent account number (PAN) have been enhanced for transactions such as purchases of vehicles; deposits with banks or post offices; and payments made to hotels, restaurants, and convention centres.

The exemption condition of leave travel concession (LTC) for air travel has been revised. The exempt amount will now be limited to the fare admissible for the class of travel to which the employee is entitled, based on the shortest route to the destination, replacing the earlier cap that was linked to the economy fare of the national carrier for the same route.

The exemption condition for LTC claims involving bus travel in areas without a recognised public transport system has been revised. Under the draft rules, the exemption will now be calculated at a fixed rate of INR 30 per kilometre, replacing the earlier limit that was linked to air conditioned first-class rail fare.

Ahmedabad, Bengaluru, Hyderabad and Pune have been included in the list of cities eligible for 50 percent salary criterion, instead of the earlier 40 percent, for the purpose of computing the house rent allowance (HRA) exemption.

The exemption for the allowance granted to employees working in any transport system—intended to equal personal expenditures incurred while performing duties in the course of operating the transport and not in receipt of a daily allowance—has been enhanced from INR 10,000 per month or 70 percent of the allowance, whichever is lower, to INR 25,000 per month or 70 percent of the allowance, whichever is lower.

The exemption for the children education allowance has increased from INR 100 per month per child to INR 3,000 per month per child.

The exemption for the children hostel allowance has increased from INR 300 per month per child to INR 9,000 per month per child.

The exemption for a transport allowance granted to a physically challenged employee has been revised by replacing the earlier limit of INR 3,200 per month with an enhanced ceiling of INR 15,000 plus a “dearness allowance” for employees residing in metro cities and INR 8,000 plus a dearness allowance for employees residing in non-metro cities.

The exemption for underground allowance granted to employees working in uncongenial or unnatural conditions in underground mines has been revised by replacing the previous INR 800 per month limit with an exemption equal to 15 percent of basic pay.

## Changes in proposed forms

### 1. Form No. 130 to replace Form No. 16

Form No. 130, the certificate for tax deducted at source on salary paid to employee, pension or interest paid to specified senior citizen, is proposed to replace Form No. 16. While the erstwhile form had two parts, the draft form has three parts with an additional annexure introduced for senior citizens in specific cases.

### 2. Form No. 124 to replace Form No. 12BB

Form No. 124, the statement showing particulars of claims by an employee, is proposed to replace Form No. 12BB. For HRA exemption claims, the relationship with landlord, if any, must be disclosed.

### 3. Consolidation of various TDS return forms

- Form No. 26QB, Form No. 26QC, Form No. 26QD and Form No. 26QE have been consolidated into a single Form No. 141.
- Earlier, separate forms had to be filed for each co-owner, co-buyer, co-seller, co-tenant or co-landlord. This process has now been simplified and can be completed through one unified form.
- Under Schedule A, related to the payment of rent, taxpayers are now required to specify whether the tax has been deducted on account of completion of the tax year or end of tenancy.
- Under Schedule B, related to the purchase of immovable property, detailed information must be provided on each instalment paid, specifying whether it is the first, a subsequent, or the final instalment.

### 4. Form No. 44 to replace Form No. 67

Form No. 44 is proposed to replace Form No. 67, which is required to be filed by taxpayers claiming a FTC. The form must now be verified by a Chartered Accountant holding a COP.

## 5. Change in PAN application form numbers

Form No. 93 and Form No. 95 are proposed to replace erstwhile Form No. 49A and Form No. 49AA, respectively. Details of passport number and citizenship status must be provided by non-residents and “not ordinarily residents.”

## 6. Declaration in Form No. 157 to be filed by individuals leaving India

Individuals domiciled in India who are leaving India, and do not possess a PAN—either because their total income is below the basic exemption limit or they are otherwise not required to obtain a PAN—are now required to file Form No. 157.

### KPMG INSIGHTS

The draft rules introduce several revisions to existing limits to better align the rules with current economic conditions. While enhancements to allowances—such as children education allowance, hostel allowance and interest-free loans—may reduce taxable income for employees, the revised method of valuing car perquisites may increase tax outflows. Additionally, although certain amendments and new forms streamline procedural requirements, the introduction of mandatory accountant certification for claiming FTC may add to compliance efforts. Overall, these updates represent a step toward modernising the tax framework, offering increased clarity and more realistic thresholds for taxpayers.

If assignees and/or their programme managers have any questions or concerns about the scope of the update, its application and potential impacts, and appropriate next steps, they should consult with their qualified tax professional or a member of the GMS tax team with KPMG in India (see the Contacts section).

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## ENDNOTE:

1 Income Tax India, “[Draft Income-tax Rules, 2026](#)” (access may be restricted).

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## RELATED RESOURCE

This article is excerpted, with permission, from “[Draft Income-tax Rules, 2026: Key updates from personal tax perspective](#),” Tax Flash News (13 February 2026), a publication of the KPMG International member firm in India.

## Contacts

For additional information or assistance, please contact your local GMS or People Services professional or the following professional with the KPMG International member firm in India:



**Parizad Sirwalla**  
**National Head**  
**GMS Tax**  
Tel. + 91 22 3989 6000  
[psirwalla@kpmg.com](mailto:psirwalla@kpmg.com)

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