

New income tax rules from April 1, 2026: 10 major changes every taxpayer should know

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A new set of income-tax rules will come into force from April 1, 2026, replacing the existing Income-Tax Act, 1961. The new tax laws are set to bring several changes that may impact salaried employees, middle-class taxpayers and businesses, according to the draft Income-tax Rules, 2026. The draft rules were placed in the public domain for a 15-day period till February 22, 2026.

According to the draft rules, the new tax laws among several other measures will also aim to provide clearer methods for calculating taxable salary perks, employer benefits and certain types of income. They also lay down formulas and thresholds that tax authorities will use while assessing income.

The draft states: "These rules may be called the Income-tax Rules, 2026... They shall come into force on the 1st day of April, 2026."

While many provisions simply codify existing practices, some rules clarify how benefits like company accommodation, employer gifts, loans and retirement contributions will be taxed.

Here are 10 key changes and clarifications taxpayers should know before the new rules take effect.

1. New tax rules will apply from FY 2026-27

The Income-tax Rules, 2026 will apply starting April 1, 2026, meaning they will be relevant for financial year 2026-27 and assessment year 2027-28.

These rules support the Income-tax Act, 2025, and explain the procedures, valuation methods and calculation formulas used for taxation.

2. Employer contributions above Rs 7.5 lakh will attract tax

One of the important provisions relates to employer contributions to retirement funds. The rules provide a formula to calculate taxable perquisite when employer contributions exceed Rs 7.5 lakh in a year.

These contributions typically include: Provident Fund (PF), National Pension System (NPS), Superannuation funds. The taxable amount will include income earned on contributions above the Rs 7.5 lakh threshold.

3. Company-provided housing will have fixed taxable valuation

The draft rules also clarify how employer-provided accommodation will be taxed as a perquisite. For private sector employees, the taxable value will depend on the city population:

-10% of salary in cities with population above 40 lakh

-7.5% of salary in cities with population between 15 lakh and 40 lakh

-5% of salary in other locations

This value will be reduced by any rent paid by the employee. The draft specifies different salary percentages depending on city population.

4. Clear rule when employer rents the house

If the employer provides accommodation by renting a house or apartment, the taxable value will be calculated differently.

In such cases, the perquisite value will be actual lease rent paid by the employer or 10% of salary, whichever is lower. This rule applies widely to employees working in metros where companies often provide leased housing.

5. Employer-provided cars will have fixed monthly taxable values

The draft rules specify standard values to calculate taxable benefit when employees use company cars partly for personal purposes.

For cars used for both official and personal purposes:

- Rs 5,000 per month for cars up to 1.6 litre engine capacity
- Rs 7,000 per month for cars above 1.6 litre engine capacity
- Rs 3,000 extra per month if chauffeur is provided

These fixed values will be used for calculating the perquisite under salary income.

6. Gifts from employer tax-free only up to Rs 15,000

Another provision relates to gifts provided by employers.

The rules state that gifts, vouchers or tokens given by employers will be tax-free if the value is below Rs 15,000 in a financial year and fully taxable if the value exceeds Rs 15,000. The draft rules say the value of such gifts will be “nil if the value... is below Rs 15,000 in aggregate during the tax year.”

This rule is relevant during festive seasons when companies distribute gifts or vouchers.

7. Free office meals allowed up to Rs 200 per meal

Employer-provided meals during office hours will remain tax-free within a specified limit.

According to the draft rules, free food or beverages will not be taxed if the value does not exceed Rs 200 per meal. This includes office canteen food, meal vouchers, corporate meal programs. The exemption applies when food is provided during working hours and the value remains within the limit.

8. Interest-free employer loans may become taxable

If employers give interest-free or concessional loans, the benefit may be taxed. The rules say the taxable value will be calculated based on the interest rate charged by State Bank of India for similar loans.

However, there are exceptions. No tax if the total loan amount is up to Rs 2 lakh, loans for specified medical treatment may also be exempt. The taxable value will be calculated using the interest rate charged by SBI for similar loans.

9. Formula for expenses related to tax-free income

The draft rules also define how to calculate expenditure related to income that is exempt from tax.

For example, if a taxpayer earns tax-free income from certain investments, the rule states that 1% of the annual average investment value will be treated as related expenditure. However, the disallowed amount cannot exceed the total expenditure claimed by the taxpayer. The rule prescribes an amount equal to “one per cent of the annual average... value of investment.”

10. Digital businesses may be taxed if revenue crosses Rs 2 crore

The rules also define when foreign digital businesses will be considered to have a significant economic presence in India.

According to the draft, transactions with Indian users exceeding Rs 2 crore, or 3 lakh or more users in India may trigger tax liability in India. The rule sets thresholds of Rs 2 crore payments or three lakh users for determining such presence.

Tax experts say the draft rules mainly aim to standardise the valuation of salary perks and employer benefits.

What taxpayers should do

With the rules expected to apply from April 1, 2026, taxpayers—especially salaried employees—should review how salary perks, employer benefits and retirement contributions are structured. Changes in valuation methods could affect taxable income calculations in salary slips and Form 16 in future years.
