

Definitions, Architecture, and Interpretation of the Income Tax Act, 2025

Index

1. Background
2. What has changed (At a Glance)
3. Architecture of Income Tax Act 2025
4. Definitions & Interpretations
5. Rules - Key changes in Rules and Forms
6. Interesting facts on 2026 Rules
7. Procedural changes
8. Transitions & FAQ’s

Income Tax Act 2025 and Rules, 2026 – Origin and Genesis

- As part of the Budget announcements in July 2024, the Finance Minister ('**FM**') announced a significant initiative of a time bound comprehensive review of the Income-tax Act, 1961 ('**ITA 1961'**) to make it concise, lucid, easy to read and understand with an aim to reduce disputes and litigation and provide tax certainty to taxpayers.

- The government formally notified the Income-tax Act, 2025 ('**ITA 2025'**) on 21 August 2025.

- The new legislation seeks to simplify India's income tax framework primarily through linguistic changes and removal of redundant provisions, while remaining substantively aligned with the ITA 1961—including scope of total income, heads of income, computation of income, and tax rates—with limited substantive changes.

- ITA 2025 is set to come into force on 1 April 2026.

- To operationalise the new Act, the Government released the Income-tax Rules and Forms, 2026 ('**Draft Rules'**) on 7 February 2026 for public consultation.

- Consistent with the simplification approach adopted in overhauling the ITA 1961, the new Rules framework simplifies, consolidates, streamlines, renumbers and standardizes the existing rules and forms, while largely retaining the overall framework and compliance timelines.

- Notably, the total number of rules has been reduced from 511 under the 1962 Rules to 333 under the proposed framework, while prescribed number of Forms have been streamlined from 399 to 190.

Enactment of 2026 Rules

- CBDT notified the new Income-tax Rules, 2026 and related forms ('**2026 Rules**') under ITA 2025 on 20 March 2026. The new Rules will replace the 1962 Rules with effect from 1 April 2026.
- The CBDT has also issued FAQs and Guidance Notes for each of the 190 forms prescribed under the Rules, 2026.
- These FAQs and Guidance Notes, made available on the income tax website, are intended to serve as educational resources to assist taxpayers in understanding and navigating the new forms.
- The CBDT has also issued a 99 pager FAQ document titled as '**interplay and transition from the ITA 1961 to ITA 2025' -** These FAQs *inter alia* cover miscellaneous residuary transitional issues including applicability of the new Rules and Forms and applicability to pending applications, transactions which were undertaken under the 1961 Act.

Architecture of New Income Tax Act 2025

Comparison of Old vs New Income Tax Act

Particulars	1961 Act	2025 Act
Chapters	47	23
Sections	819 (298)	536
Tables	18	57
Formulae	6	46
Word Count	5.12 lacs	2.60 lacs
Pages	823	622
Schedules	14	16
Exemptions	30000	13500
TDS / TCS	27453	14606
NPOs	12800	7600

KEY FOCUS & RESULT

Key Focus

- Simplified language
- Continuity while enhancing usability
- Removal of Obsolete provisions
- Structurally, tables, formulae

Result

- Significant reduction in provisos and explanations through consolidation
- Exemption provisions earlier scattered in Section 10 reorganised into structured Schedules (tabular format)
- Multiple fragmented provisions consolidated into fewer sections supported by tables (e.g., TDS, exemptions, deductions)

Other changes

- “Notwithstanding anything contained,” replaced with “irrespective of anything contained”
- “in accordance with,” replaced with “as per”
- “as may be prescribed,” with “prescribed”
- Use of active voice instead of passive voice.
- Breaking up long sentences into shorter ones.
- Consolidation of related provisions at one place. For instance, the exemption for certain terminal salary payments is moved to salary chapter as deductions.
- Simplified cross referencing between different provisions. For example, “sub-clause (ii) of clause (b) of sub-section (1) of section 133” in existing ITA 1961 is changed to reader friendly “section 133(1)(b)(ii)

Tax year

Assessment Year



Heads of Income and Computation of Total Inc

Chapter IV of the Act governs the computation of total income — the process by which gross income is reduced to taxable income through allowable deductions and set-offs. **Sec 15 - 95**



Salaries

Provisions governing employment income, allowances, perquisites, and retirement benefits. The 2025 Act retains the standard deduction and clarifies the taxability of various allowances with updated reference values and digital salary structures.

Sec 15 - 19



House Property

Income from let-out and deemed let-out properties. The Act simplifies the annual value computation and updates provisions for interest on borrowed capital, making the deduction framework cleaner and more predictable for both residential and commercial property owners.

Sec 20 - 25



Business & Profession

Profit and gain computation for businesses and professionals. Updated rules for depreciation, business expenses, and digital income streams make this the most extensively revised head for practicing professionals and their commercial clients.

Sec 26 - 66



Capital Gains

Taxation of asset transfers, with updated treatment for virtual digital assets. The 2025 Act provides clearer definitions for holding periods, cost of acquisition, and exempt transfers, reducing the scope for interpretational disputes in this highly litigation-prone area.

Sec 67 - 91



Other Sources

The residual head covering dividends, interest, gifts, and miscellaneous income. The Act updates provisions for taxation of gifts, online winnings, and interest from various instruments, with clearer TDS implications for each category.

Sec 92 - 95

Chapters and Arrangement of Sections

Chapter	Heading	Sub Heading	Sections
1	Preliminary		1-3
2	Basis of Charge		4-10
3	Incomes Which Do Not Form Part Of Total Income	A.—Incomes not to be included in total income B.—Incomes not to be included in total income of political parties and electoral trusts	A - 11 Sch. (II to VII) B – 12 Sch (VIII)
4	Computation of Total Income	A.—Heads of income	13-14
		B.—Salaries	15-19
		C.—Income from house property	20-25
		D.—Profits and gains of business or profession	26-66
		E.—Capital gains	67-91
		F.—Income from other sources	92-95

Chapter	Heading	Sub Heading	Sections
5	Income of Other Persons, Included in Total Income of Assessee		96-100
6	Aggregation Of Income		101-107
7	Set Off, or Carry Forward and Set Off of Losses		108-121
8	Deductions to be made in Computing Total Income	A.—General	122
		B.—Deductions in respect of certain payments	123-137
		C.—Deductions in respect of certain incomes	138-152
		D.—Deductions in respect of other incomes	153
		E.—Other deductions	154

Chapter	Heading	Sub Heading	Sections
9	Rebates and Reliefs	A.—Rebates and reliefs	155-158
		B.—Double taxation relief	159-160
10	Special provisions relating to avoidance of Tax		161-177
11	General Anti-avoidance Rule		178-184
12	Mode Of Payment in Certain Cases		185-189
13	Determination of Tax in Special Cases	A.—Determination of tax in certain special cases	190-195
		B.—Special provisions relating to tax on capital gains	196-198
		C.—New tax regime	199-205
		D–Special provisions relating to MAT & AMT	206
		E.—Special provisions relating to non-residents & foreign company	207-220
		F.—Special provisions relating to pass-through entities	221-224
		G.–Special provisions relating to income of shipping companies	225-235

Chapter	Heading	Sub Heading	Sections
14	Tax Administration	A.—Authorities, jurisdiction and functions	236-245
		B.—Powers	246-261
15	Return of Income	A.–Allotment of permanent account number	262
		B.–Filing of return of income and processing	263-267
16	Procedure for Assessment	A.—Procedure for assessment	268-291
		B.—Special procedure for assessment of search cases	292-301
17	Special provisions relating to certain persons	A.–Association of persons, firm, Hindu undivided family, etc.	302-331
		B.–Special Provisions for Registered non-profit organization	332-355

Chapter	Heading	Sub Heading	Sections
18	Appeals, Revision and Alternate Dispute Resolutions	A.—Appeals	356-374
		B.—Special provisions for avoiding repetitive appeals	375-376
		C.—Revision by the principal commissioner or commissioner.	377-378
		D–Alternate dispute resolutions	379-389
19	Collection and recovery of tax	A.—General	390-391
		B.—Deduction and collection at source	392-402
		C.—Advance payment of tax	403-410
		D–Collection and recovery	411-422
		E.–Interest chargeable in certain cases	423-430

Chapter	Heading	Sub Heading	Sections
20	Refunds		431-438
21	Penalties		439-472
22	Offences and prosecution		473-498
23	Miscellaneous		499-536

FAQs on Interplay and Transition From the Income Tax Act, 1961 to the Income Tax Act, 2025

TOPIC 1: GENERAL PHILOSOPHY OF TRANSITION

A. OBJECTIVE AND SCOPE OF THE NEW ACT

Q1.1 What is the primary objective of replacing the Income-tax Act 1961 with the Income-tax Act, 2025?

- **Ans:** The Income-tax Act, 2025 has been enacted to provide a streamlined, simplified, and modern tax code with reduced compliance burden, consolidated provisions, and clear definitions. Over six decades, the Income-tax Act, 1961 had accumulated numerous amendments, provisos, and explanations making it complex and difficult to navigate. The new Act aims to present the same tax policy in a more logical, accessible, and reader-friendly format. The Act further advances taxpayer -centric approach by making compliance simpler, promoting ease of doing business, and aligning the Indian tax system with contemporary global standards.

Q1.2 Does the Income Tax Act, 2025 completely replace the Income Tax Act, 1961?

- **Ans:** Yes. The 1961 Act stands repealed on the 01.04.2026. However, certain transitional provisions specify continuation of proceedings under the old Act to avoid disruption in pending matters and ensure a smooth transition.

Q1.3 Is the Income Tax Act 2025 introducing new taxes or increasing tax burden?”

- **Ans:** No. The income Tax Act, 2025 does not impose any new tax. The intent behind replacing the old Act with the new Act is to:
- Simplify statutory language
- Improve structural clarity
- Reduce interpretational disputes
- Align drafting style with modern legislative standards
- Enhance voluntary compliance

- The reform is aimed at making the tax law more predictable, transparent, and easier to comply with, rather than increasing the financial or compliance burden on taxpayers.

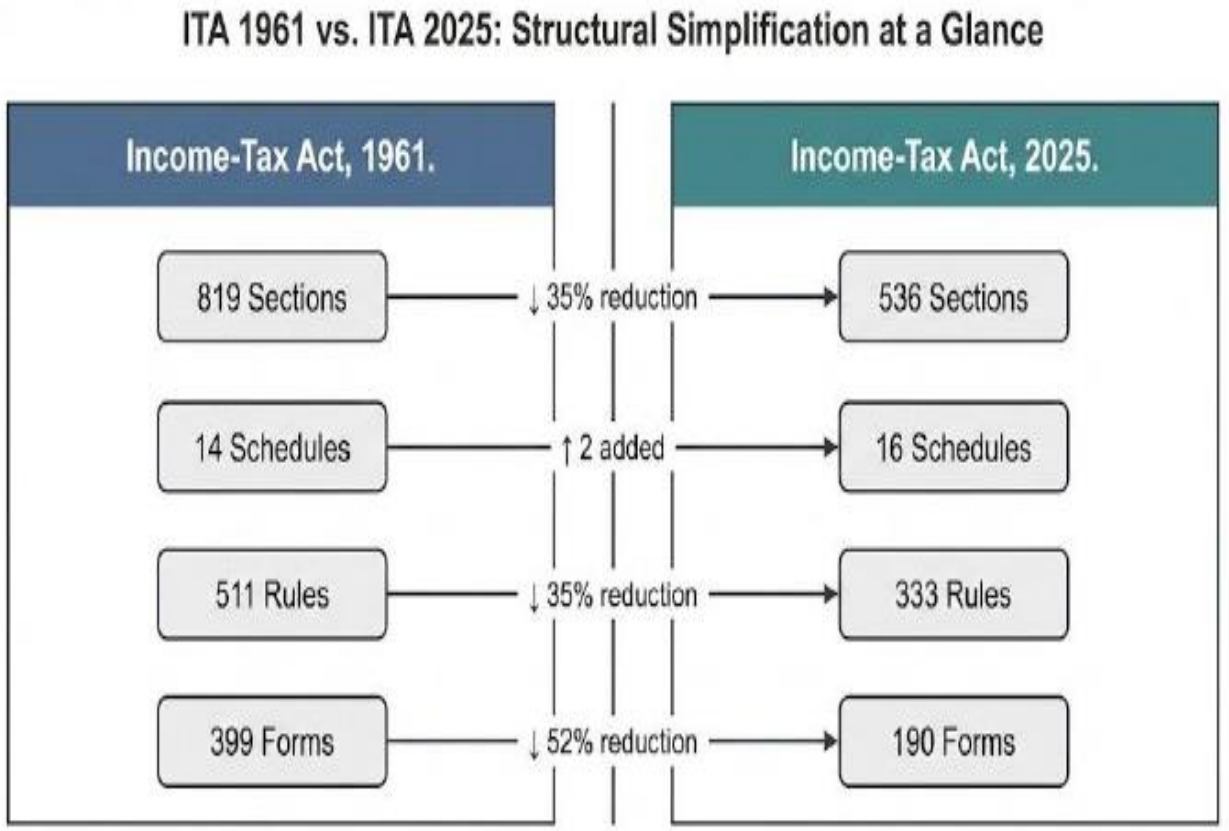
Q1.4 As a small taxpayer, how does this change help me?

- **Ans:** One of the key shifts is readability and ease of understanding. Under the 1961 Act, compliance often required expert interpretation because of its layered drafting. The 2025 Act aims to:
- Use simpler language
- Reduce excessive cross-referencing
- Consolidate scattered provisions
- Improve digital integration
- The long-term goal is lowering compliance friction and dependency on complex interpretation.



Q1.5 How has the volume and complexity of the legislation changed in the new Act?

- **Ans.** The Income-tax Act, 2025 contains 536 sections and 16 schedules compared to the 819 sections and 14 schedules of the 1961 Act. In the new Act, the overall complexity has been reduced because:
- (i) Explanations and provisos have been incorporated into the main text of the sections;
- (ii) Tables and formulas replace verbose narrative provisions;
- (iii) Redundant and obsolete provisions have been removed; and
- (iv) Cross-references are clearer and more direct.
- Similarly, the Income-tax Rules have been reduced from 511 rules with 399 forms to 333 rules with 190 forms.



Q1.6 Is the structure of chapters reorganised in the Income Tax Act, 2025?

- **Ans:** Yes. The Income-tax Act, 2025 reorganises the chapter structure compared to the Income-tax Act, 1961 by regrouping provisions in a more logical sequence, simplifying language, and integrating provisos and explanations into the main text. The 1961 Act had a fragmented structure due to decades of amendments, while the 2025 Act presents a cleaner, more coherent layout.

- Q1.7 Since the Income Tax Act,1961 is repealed and a new Income Tax Act comes into force on 01.04.2026, does everything done under the old Act become invalid?

- **Ans:** No. The repeal of the 1961 Act does not disturb anything relating to tax years before April 1, 2026. For example, if taxpayer's assessment for the assessment year 2023–24 was completed under the old Act, that assessment will continue to be valid even after the new Act comes into force. Similarly, any pending proceedings relating to earlier years will continue as per the relevant transitional provisions.

Definitions & Interpretations

New Definitions Introduced in the 2025 Act

Advancements in Compliance Technology

New definitions focus on faceless assessments and automated verifications to modernize tax compliance processes.

Digital and Virtual Assets

Definitions related to digital and virtual assets reflect the digitization of tax administration and emerging economic activities.

Modern Governance Structures

New institutional definitions align with restructured authorities and committees supporting real-time reporting and risk-based scrutiny.

Globalization and Compliance

Definitions address cross-border digital transactions and BEPS-aligned reporting compliance to meet global tax standards.



Definitions & Interpretations

1. Section-specific definition – highest priority
2. Chapter-specific definition
3. General definition (Definitions section)
4. Judicial meaning / common parlance, if undefined

Section 2 - Definitions

Old Income Tax Act 1961:

Section 2 (Definitions)

Contained about 89 definition clauses, numbered from 2(1) to 2(48), with many intermediate insertions like:

- 2(1A), 2(1B)
- 2(14), 2(14A), 2(14B), etc.
- 2(24), 2(24)(iia), 2(24)(xviii)

New Act (Income Tax Act, 2025)

- Section 2 contains 112 definition clauses
- 26+ New definitions
- Numbered cleanly and No alphabetical insertions (no 5(1A), 5(1B), 5(24)(ii), etc.)
- Explanations and provisos are integrated directly into the clause text rather than added as new sub-clauses.

Definitions:

What Has Changed

- Under the **old Income-tax Act**, many commonly used financial, regulatory, and institutional terms were **not explicitly defined**.
- The **new Income-tax Act, 2025** introduces **a large set of formal definitions** under Section 2 to remove ambiguity.
- Most definitions are **aligned with existing laws** such as:
  - FEMA, 1999
  - RBI Act, 1934
  - Banking Regulation Act, 1949
  - SEBI Act, 1992
  - SEZ Act, 2005

S.261 - Interpretation

Section 261(e)

"**computer system**" means computers, computer networks, computer resources, communication devices, digital or electronic data storage devices, used on stand-alone mode or part of a computer system, linked through a network, or utilised through intermediaries for information creation or processing or storage or exchange, and includes the remote server or cloud server or virtual digital space;

Section 261(j)

"**virtual digital space**" means an environment, area or realm, that is constructed and experienced through computer technology and not the physical, tangible world which encompasses any digital realm that allows users to interact, communicate and perform activities using computer systems, computer networks, computer resources, communication devices, cyberspace, internet, worldwide web and emerging technologies, using data and information in the electronic form for creation or storage or exchange and includes—

(i) email servers;

(ii) social media account;

(iii) online investment account, trading account, banking account, etc.;

(iv) any website used for storing details of ownership of any asset;

(v) remote server or cloud servers;

(vi) digital application platforms; and

(vii) any other space of similar nature.

Issue:

Draconian Digital Search Powers: The most controversial provision allows tax officials to search and seize "virtual digital space," including emails, social media, cloud storage, and phone data, even bypassing passwords. Critics argue this violates the fundamental right to privacy.

- **Section 247(1)(b)(ii)**
  Empowers tax officers to require any person to provide“technical assistance including access codes” (passwords, encryption keys) to inspect electronic records
- Section 247 does NOT require a judicial warrant or magistrate approval prior to digital search. Authorisation is internal (tax department–based). [believersias.com], [livelaw.in]

Privacy Violations: The law allows access to personal digital records (Gmail, X, Instagram) without strict judicial oversight, raising concerns about the government having easy access to sensitive personal and professional data. Allows tax officials to override passwords, access emails, social media accounts, messaging apps, and cloud storage. No requirement for judicial (court) approval before accessing personal digital devices. Raises serious privacy concerns under Puttaswamy (2017).

Digital Focus: The Act specifically targets, with higher scrutiny, those using cryptocurrency, offshore accounts, and digital assets

Overview of Structural Changes in Definitions



Coherent Definition Grouping

Definitions are organized into conceptual clusters to improve clarity and reduce interpretational difficulties.

Harmonization with Modern Laws

Definitions reference updated legislations like Companies Act 2013 and Bharatiya Nyaya Sanhita 2023 for legal integration.

Inclusion of Technology Terms

New definitions include cloud records, electronic hearings, NFTs, and distributed ledger instruments reflecting tech advancement.

Preservation of Core Tax Principles

Key definitions like income, assessee, and capital asset remain stable to uphold legal continuity and taxpayer confidence.

Administrative Definitions – Continuity and Renumbering



Continuity of Administrative Roles

Key administrative definitions maintain consistency to ensure stability in tax authority and jurisdiction across Acts.

Updated Legal References

The 2025 Act updates section references to reflect structural changes while preserving the essence of roles.

Integration of New Titles

New titles like Principal Chief Commissioner are integrated to unify administrative definitions in the 2025 Act.

Legislative Restraint for Stability

The Act modernizes tax law without disrupting the administrative hierarchy essential for governance.

Agricultural Income – Preservation of Classical Definition



Classical Definition Retained

The 2025 Income-tax Act preserves the classical definition of agricultural income from the 1961 Act with near textual fidelity.

Judicial Interpretations Importance

Decades of judicial rulings define agricultural income clearly, protecting settled legal principles from disruption.

Refinement in Exclusion Clauses

Enhanced clarity on land within municipal limits and population proximities addresses urbanizing village ambiguities.

Consistency in Land Transfers

Clarifications ensure land transfers align with capital-asset definitions, maintaining legal and tax consistency.

Impact – Rental income from Urban Agricultural Land is taxed

Documentation: Stricter documentation is required to prove that land is actively used for agricultural purposes.

Capital Asset, Capital Gains, and Transfer – Substantive and Modern Additions



Expanded Capital Asset Definition

The 2025 Act broadens capital asset definition to include certain ULIPs and IFSC securities reflecting regulatory evolution.

Comprehensive Transfer Definition

Transfer definition includes sale, exchange, extinguishment, and codifies foreign share transfers impacting Indian property.

Holding Period Rules Retained

Holding period thresholds for short and long-term capital assets remain unchanged ensuring regulatory consistency.

Slump Sale and Demerger Updates

Definitions now include Indian Accounting Standards for better valuation and statutory clarity in capital gains.

Dividend – Retained Structure with IFSC-Specific Exception



Deemed Dividend Framework

The 2025 Act retains the traditional deemed dividend framework to prevent disguised profit distributions through various financial transactions.

IFSC-Specific Exception

The Act introduces an exception for inter-entity loans within IFSC-based treasury units to support modern multinational finance structures.

Safeguards and Compliance

The exception applies only if the parent company is listed in approved foreign jurisdictions, ensuring anti-abuse safeguards remain intact.

Global Competitiveness Alignment

This modernization aligns Indian tax laws with international treasury norms promoting cross-border corporate finance competitiveness.

Digital and Technology-Driven Definition Updates



Expanded Books of Account

The 2025 Act includes cloud-stored records and digital files in books of account definitions, modernizing accounting systems.

Electronic Hearing Inclusion

Hearing now includes video conferencing and electronic communication, enabling faceless assessments and remote proceedings.

Legal Recognition of Electronic Documents

Documents now include electronic records, emails, and digital signatures under the Information Technology Act.

Inclusion of Virtual Digital Assets

Virtual digital assets such as crypto-assets, NFTs, and tokenized assets are codified and regulated under the 2025 Act.

Business, Profession, Trusts, and Institutional Definitions



Business and Profession Definitions

Business includes trade and commerce, maintaining judicial interpretational continuity. Profession has a broad, vocation-inclusive meaning for income governance.

Goodwill Exclusion Refinement

Goodwill is explicitly excluded as a depreciable intangible asset, reflecting Supreme Court rulings and legislative amendments.

Charitable Purpose Definitions

Charitable purposes remain unchanged, including relief of poor, education, yoga, medical aid, environment, history preservation, and public utility.

Trusts and Regulatory Compliance

Business, electoral trusts, and approved funds are retained with updated references ensuring alignment with modern legal and SEBI regulations.

Overall Conclusion – Degree of Continuity and Modernization



Preservation of Core Structure

The 2025 Act maintains nearly 90% of the original 1961 Act's definitions, preserving conceptual stability.

Technological and Structural Updates

Updates focus on digital assets, electronic documentation, and cloud-based accounting reflecting modern realities.

Harmonization with Regulations

Tax terminology aligns with contemporary laws like Companies Act, FEMA, and SEBI enhancing regulatory coherence.

Balanced Legislative Approach

The Act balances modernization and preservation, reducing litigation and improving global tax competitiveness.

Financial & Banking Terms – New Definitions

- **Convertible Foreign Exchange** – *Clause (30)* (linked to FEMA, 1999)
- **Co-operative Bank** – *Clause (31)* (Banking Regulation Act, 1949)
- **Currency** – *Clause (33)* (FEMA, 1999)
- **Foreign Currency** – *Clause (47)* (FEMA, 1999)
- **Indian Currency** – *Clause (54)* (FEMA, 1999)
- **Non-Banking Financial Company (NBFC)** – *Clause (71)* (RBI Act, 1934)
- **Public Sector Bank** – *Clause (87)*
- **Stamp Duty Value** – *Clause (105)*



Tax Administration & Compliance – New Definitions

- Accountant – Clause (1) (reference to section 515(3)(b))
- Income Computation and Disclosure Standards (ICDS) – Clause (50)
- Joint Commissioner (Appeals) – Clause (63)
- Permanent Account Number (PAN) – Clause (76)
- Notification – Clause (73)

Regulatory & Institutional Authorities – New Definitions

- Recognised Stock Exchange – Clause (92)
- Reserve Bank of India (RBI) – Clause (95)
- Securities and Exchange Board of India (SEBI) – Clause (99)
- Valuation Officer – Clause (110)

Persons, Status & Liability – New Definitions

- Liable to Tax – Clause (66)
- Person of Indian Origin (PIO) – Clause (78)
- Senior Citizen – Clause (100)

Business & Partnership Structures – New Definitions

- **Partner – Clause (74)**

  Includes minors admitted to benefits Includes LLP partners

- **Partnership – Clause (75)**

  Explicitly includes LLPs

Special Economic & Emerging Areas:

- International Financial Services Centre (IFSC) – Clause (61)
- Special Economic Zone (SEZ) – Clause (104)
- Virtual Digital Asset (VDA) – Clause (111)

Key Expansions

Capital Asset – Clause (22)

Includes:

- Unit Linked Insurance Policies (ULIPs) not exempt under Schedule II
- Securities held by investment funds (section 224(10)(a))
- Removes exclusion for:Gold Bonds (1977/1980)
- National Defence Gold Bonds, 1980
- Special Bearer Bonds, 1991
- Agricultural land exclusion now tabulated
- Explicit statement that “property includes rights in or in relation to an Indian company (including management/control rights)”.(Old Act included this by Explanation; new Act retains/modernises it.

Impact: Broadens capital gains tax base significantly.

Charitable Purpose – Clause (23)

Lists purposes in clear sub-clauses (a)–(g)Removes detailed proviso relating to trade/commerce for general public utility – 20% condition to Section 346.

Impact: Simplification; restrictions likely handled separately.

Definition: Total Income

Tax Year, ITA 2025	Previous Year, ITA 1961
(108) “total income” means the total amount of income referred to in section 5, computed in the manner as laid down in this Act;	(*45*) "total income" means the total amount of income referred to in section 5, computed in the manner laid down in this Act ;

Definition - Person

Tax Year, ITA 2025	Previous Year, ITA 1961
(77) “person” includes— (a) an individual; (b) a Hindu undivided family; (c) a company; (d) a firm; (e) an association of persons or a body of individuals, whether incorporated or not; (f) a local authority; and (g) every artificial juridical person, not falling within any of the preceding sub-clauses, whether or not such an association of persons or a body of individuals or a local authority or an artificial juridical person was formed or established or incorporated with the object of deriving income, profits, or gains;	(*31*) "person" includes— (i) an individual, (ii) a Hindu undivided family, (iii) a company, (iv) a firm, (v) an association of persons or a body of individuals, whether incorporated or not, (vi) a local authority, and (vii) every artificial juridical person, not falling within any of the preceding sub-clauses. *Explanation.*—For the purposes of this clause, an association of persons or a body of individuals or a local authority or an artificial juridical person shall be deemed to be a person, whether or not such person or body or authority or juridical person was formed or established or incorporated with the object of deriving income, profits or gains;

Key Expansions

Short-term Capital Asset – Clause (101):

- General holding period reduced: From 36 months → 24 months
- 12-month rule continues for
  - listed securities
  - Expanded rules for:
    - Electronic Gold Receipts
    - Sweat equity shares
    - Segregated portfolios

Impact: No major changes

Transfer – Clause (109):

- Adds wide anti-avoidance sub-clause (h):
- Includes any disposal, parting with, or creation of interest directly or indirectly Immovable property definition integrated directly.
- Impact: Strengthens taxability of indirect & complex transfers.

Virtual Digital Assets: A New Frontier

The Income Tax Act, 2025 makes a significant advance over its predecessor in the treatment of **Virtual Digital Assets (VDAs)**. While the 1961 Act was amended in 2022 to introduce a basic VDA taxation framework, the 2025 Act embeds these provisions within the main legislative body with greater coherence and comprehensiveness. For professionals advising clients with cryptocurrency portfolios, DeFi investments{Decentralized Finance}, or NFT holdings, this is among the most operationally critical sections of the new law.

Expanded Definition

The Act provides a broad, technology-neutral definition of virtual digital assets — encompassing cryptocurrencies, non-fungible tokens, and any other digital representation of value. The definition is intentionally expansive to capture future innovations without requiring fresh legislation.

Undisclosed Income Expanded

The definition of "undisclosed income" has been expanded to explicitly include virtual digital assets. This means that VDA holdings identified during search operations, surveys, or information matching exercises can be treated as undisclosed income — with consequential penalty and prosecution exposure.

Flat Rate Taxation Retained

The flat 30% tax on VDA gains (introduced in 2022) has been retained and codified within the new Act. No deduction other than cost of acquisition is available, and losses from VDA transactions cannot be set off against any other income — a harsh but clearly stated rule.

TDS on VDA Transfers

The Act retains the 1% TDS obligation on transfers of VDAs above specified thresholds. The 2025 Act clarifies the application of TDS provisions to peer-to-peer transfers, decentralized exchange transactions, and gift transfers — areas that remained ambiguous under the 1961 Act amendments.

Reporting and Compliance

The Act strengthens reporting obligations for VDA exchanges operating in India and introduces enhanced information exchange provisions to assist tax authorities in identifying undisclosed VDA holdings.

Hard Forks and Airdrops

One of the most significant improvements over the 2022 amendments is the Act's guidance on the tax treatment of hard forks (where a blockchain splits and creates new coins) and airdrops (free distribution of tokens). These are now addressed within the framework rather than relying on informal guidance.

Implications for Practitioners

Professionals advising clients with VDA holdings should conduct a comprehensive portfolio identifying unreported gains, assessing the impact of the undisclosed income expansion, and ensuring all

Key Takeaway:

Digital Search Powers (Section 247)

Allows tax officials to override passwords, access emails, social media accounts, messaging apps, and cloud storage. No requirement for judicial (court) approval before accessing personal digital devices. Raises serious privacy concerns under Puttaswamy (2017).

Frequent Use of Anti-Avoidance Clauses

The Act includes stronger GAAR-like principles embedded in sections.

Issues: Increased discretion for tax officers Higher litigation on “substance over form” Uncertainty for genuine business transactions.

C. CONTINUITY AND TRANSITION FRAMEWORK

Q1.14 Will the existing administrative frameworks such as Permanent Account Number (PAN), Tax Deduction Account Number (TAN), faceless proceedings, etc. continue under the Income Tax Act 2025?

- **Ans:** Yes, existing Permanent Account Number, Tax Deduction Account Number (TAN), faceless assessment, faceless appellate framework, etc., shall continue under the Income Tax Act 2025.

Q1.15 How does the Income Tax Act, 2025 ensure continuity and smooth transition from the Income-tax Act, 1961?

- **Ans:** Tax law does not operate strictly within annual boundaries. While some compliances such as TDS, TCS, Advance tax payments, etc., occur within the financial year, others—such as return filing, assessments, reassessments, appeals, penalties, and refunds—often extend well beyond the year, sometimes for many years in select cases. Therefore, when a new tax law comes into force, the old and new laws must coexist for a transitional period. The Income Tax Act, 2025 acknowledges this practical reality and handles the transition through

Section 536, the repeal and savings clause.

- Section 536 of the Income Tax Act, 2025:
- Contains 22 sub clauses addressing various transitional situations.
- Ensures the old tax framework continues to apply to earlier years
- Aligns terminology between the two Acts,
- Allows the law to be modernised without unsettling established positions.

- Q1.16 There may be some circumstances or situations which may not be directly covered under the specific savings clauses enumerated in Section 536? How does the Act ensure that there are no unintended gaps in handling such cases?

- **Ans:** Sub-section (2) of section 536 is broadly structured to leave as little uncertainty as possible. However, in order to cover any unforeseen situation which is not directly covered by the situations specified under sub-section (2) of section 536 of the Income Tax Act, 2025, the subsection (4) provides that Section 6 of the General Clauses Act, 1897 shall apply with regard to the effect of the repeal of 1961 Act. This provision upholds rights and obligations even beyond what is explicitly stated. By applying broad principles that safeguard established rights and obligations, it guarantees that unforeseen circumstances are also covered.

Q1.17. If someone had a right or benefit under the old Act, does that right disappear when the new Act comes into force on 01.04.2026?

- **Ans:** No. Rights, benefits, obligations or liabilities that arose under the old Act continue to exist. For instance, if a taxpayer was entitled to claim a refund under the old Act for any tax year prior to the commencement of the new Act, he still remains entitled to that refund even after the new Act comes into force.

Q1.18 How will pending proceedings and notices issued under the Income-tax Act, 1961 be treated after the new Act comes into force?

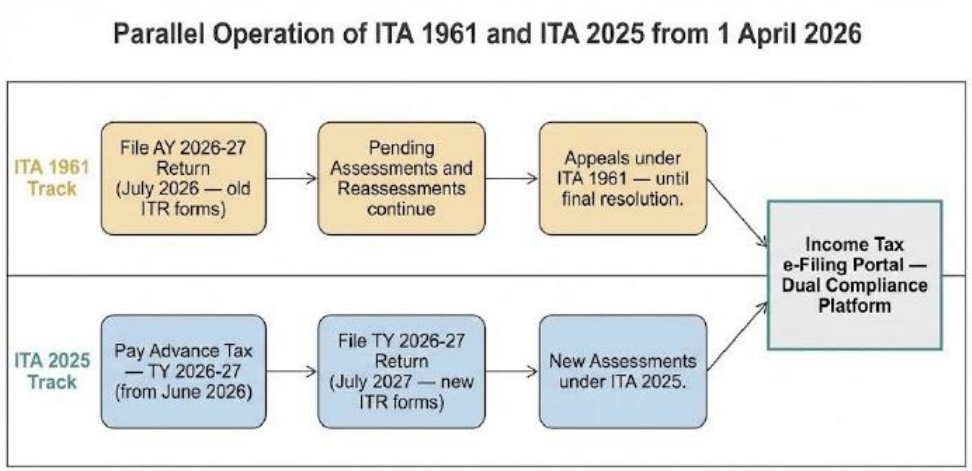
- **Ans.** 536(2)(c) of the new Act provides that the provisions of the repealed Income-tax Act shall continue to apply to any proceeding pending on the date of commencement of this Act and to any proceedings initiated on or after the 1st April, 2026 (including notices, assessment, re-assessment, recomputation, rectification, penalty, reference, revision and appeals) in respect of any tax year beginning before the 1st April, 2026 and such proceedings shall be carried out as per the procedure specified in the repealed Income-tax Act. For instance, if the assessing officer initiated assessment of a taxpayer's income for assessment year 2024–25 before the new Act comes into force, that entire assessment and other proceedings will be completed under the provisions of old Act.

Q1.20 Do old circulars, instructions and notifications issued by the tax department continue even after the new Act comes into force?

- **Ans:** Yes. As per the provisions of section 536(2)(j) of the Income Tax Act, 2025, circulars, notifications, instructions, approvals, etc, issued under the old Act will remain valid as long as they do not conflict with the new Act.
- **Example:** TDS provisions (Section 194C of old Act → Section 393 of new Act)
- A circular clarifying the term “work” under section 194C of the old Act will continue to apply to section 393 of the ITA 2025, where the intent remains unchanged.

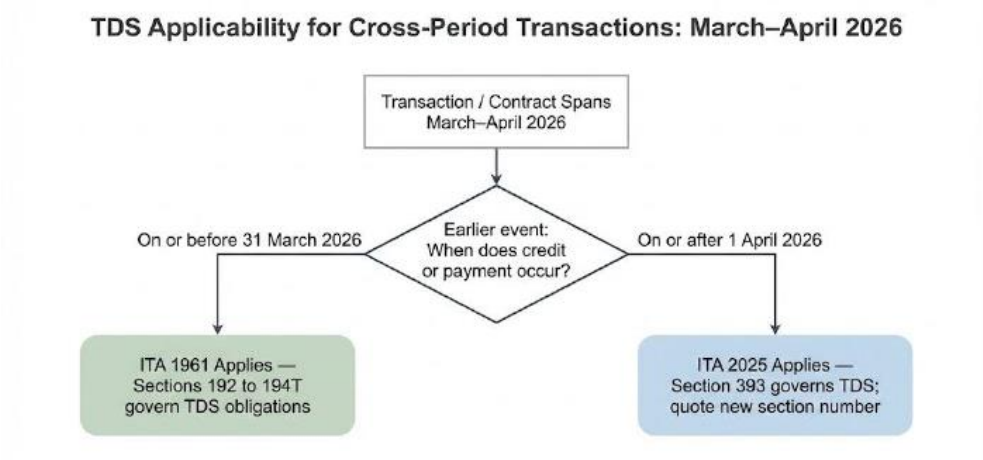
Q1.22 For how long will the old and new Acts run in parallel? What does this mean for taxpayers practically?

- **Ans.** Effective 1 April 2026, the 1961 Act will be repealed. However, its provisions will continue to govern all tax years beginning before 1st April, 2026. Accordingly:
- The Income-tax Department's e-filing portal will facilitate compliance under both the old and the new Acts concurrently.
- Taxpayers filing returns for AY 2026–27 (pertaining to the period governed by the old Act) in July 2026 will do so using the forms prescribed under the old Act. At the same time, advance tax payments for Tax Year 2026–27, commencing from June 2026, will be made in accordance with the new Act.
- All assessments, appeals, and other proceedings relating to earlier years will continue to be conducted under the old Act until their final resolution.
- The Government is implementing necessary measures to ensure that both legislative frameworks operate seamlessly and simultaneously on the income tax portal.



Q2.6 How is TDS determined for contracts or services spanning over the period of March-April 2026?

- **Ans:** Similar to the provisions under the repealed Income Tax Act, 1961, TDS applicability in Income Tax Act, 2025 also depends on the mechanism of “event earlier of credit or payment”.
- If earlier event of credit or payment lies on or before 31 March 2026 → TDS provisions under the Income Tax Act, 1961 apply.
- If earlier event of credit or payment lies on or after 01 April 2026 → TDS provisions under section 393 of Income Tax Act, 2025 apply.



Q2.25 What happens to Minimum Alternate Tax (MAT)/Alternate Minimum Tax (AMT) credits allowable to be carried forward under the old Act but not yet utilised before 1 April 2026?

Ans: Any unutilized credit for MAT/AMT allowed to be carried forward under the provisions of section 115JAA or 115JD of the Income Tax Act, 1961, are treated as eligible credits under the Income Tax Act, 2025.



For instance, if a taxpayer has carried forward MAT credit from AY 2024-25, that credit will be available under the new Act and can be used in future years, subject to the conditions prescribed in the Income Tax Act, 2025.

Q2.26 For how long can such carried-forward tax credits from the old Act be used under the new Act?

- **Ans:** Unutilised credits can be carried forward for a total of 15 years from the year they first became available. The un-utilised MAT credit can be set off for a tax year commencing on or after 01.04.2026, subject to the conditions prescribed in the Income Tax Act, 2025.

Q3.14 What are the key provisions regarding updated returns (ITR-U) under the new Act?

- **Ans.** Section 263(6) of the Income-tax Act, 2025 provides for filing of updated returns. The key provisions are:
- (i) An updated return may be filed within forty-eight months from the end of the financial year succeeding the relevant tax year;
- (ii) It is available whether or not the person has furnished an original, belated, or revised return;
- (iii) The updated return cannot result in a return of enhanced loss, or decrease in total tax liability, or increase in refund;
- (iv) Only one updated return can be filed per tax year;
- (v) Additional income-tax is payable under Section 267 at prescribed rates along with the updated return.

These provisions are substantively the same as under Section 139(8A) of the old Act.

Anti-Avoidance and Special Tax Regime s

General Anti-Avoidance Rules (GAAR)

Chapter X of the Act houses the General Anti-Avoidance Rules. The GAAR provisions under the 2025 Act retain the fundamental architecture established under the 1961 Act while **incorporating refinements** that reflect a decade of application experience.

Impermissible Avoidance Arrangements

The Act clearly defines arrangements that **lack commercial substance** or misuse tax treaty provisions as impermissible avoidance arrangements. The definition has been tightened to reduce the subjectivity that characterized early GAAR applications.

Threshold for GAAR Invocation

The tax benefit **threshold** required for GAAR to be invoked has been updated in the new Act, with clearer procedural safeguards including mandatory approval from the Principal Commissioner before GAAR can be applied. This procedural clarity is a significant improvement for taxpayers and practitioners.

GAAR vs. Specific Anti-Avoidance Rules (SAARs)

The 2025 Act clarifies the relationship between GAAR and Specific Anti-Avoidance Rules (SAARs) — confirming that GAAR can apply even where a SAAR exists, if the arrangement goes beyond what the SAAR was designed to address. This is a critical nuance for planning transactions involving layered structures.

Special Tax Regimes and International Taxation

The Act updates provisions for sector-specific special tax regimes — including those applicable to infrastructure projects, shipping companies, offshore fund managers, and entities operating in Special Economic Zones. Professionals advising clients in these sectors must carefully map the new section references against the 1961 Act provisions relied upon in existing contracts, approvals, and tax positions.

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International Taxation: Transfer Pricing

The Act enhances India's transfer pricing framework with updated arm's length standard provisions, clearer documentation requirements, and updated dispute resolution mechanisms. The Advance Pricing Agreement (APA) program — which has been highly successful in reducing transfer pricing litigation — is expressly codified and expanded in the new Act.

GAAR /SAAR – Key Changes:

Substance Over Form Requirement: Under the new regime, the focus on commercial substance (i.e., genuine business operations, not just tax saving) is intensified. Arrangements that are technically legal but lack economic rationale (e.g., shell companies, round-tripping) will face higher scrutiny under GAAR.

Treaty Override: The new framework strengthens the ability of domestic law to override tax treaties (Double Taxation Avoidance Agreements - DTAA) if the primary purpose of the structure is to obtain a tax benefit.

Shift to New Regime (115BAC): The new regime, which is now the default, lowers tax rates but removes most deductions (80C, 80D, HRA). Because tax planning opportunities are reduced, taxpayers might focus on corporate restructuring to reduce tax liability, which increases the likelihood of GAAR scrutiny.

Reporting Requirements: Tax auditors are now required to report on GAAR-related matters in Form 3CD – New Form 26 (Clause 30C), assessing whether transactions are IAAs.

Key changes in 2026 Rules and Forms vis-à-vis 1962 Rules and Forms

Part I: General

Replacing “previous year” and “assessment year” with “tax year” and “financial year”

Redefining a tax period

Substantive change

1962 Rules vs. 2026 Rules

- ITA 1961 refers to previous year and assessment year for the purpose of chargeability of tax vs ITA 2025 which refers to a tax year.
- ITA 2025 replaces the concept of “previous year” with the term “tax year” for the period in which income is earned and eliminates the concept of “assessment year” altogether.
- 2026 Rules follow this updated terminology by substituting references to “previous year” and “assessment year” in the 1962 Rules with “tax year” and “the financial year succeeding the relevant tax year,” ensuring alignment with the new statutory framework.”

Comments

- 2026 Rules are effective from 1 April 2026.
- The Repeal and savings clauses provides the applicability of law in various situations
  - For procedural matters, ITA 1961 continues to apply for a previous year beginning on or before 1 April 2026 (i.e. upto PY 2025-26)
  - ITA 2025 to apply with respect to interest on demand or refund falling due on or after 1 April 2026.
  - ITA 1961 will apply to proceedings connected to search or requisition made prior to 1 April 2026

Key points to converse

- For procedural matters, generally, the ITA 1961 will continue to apply upto previous year 2025-26 with an exception for search matters which straddle both periods.
- Certain Rules specifically state applicability such as for Tax return forms which is mentioned to apply to tax year 2026-27
- Needs dual alignment of internal software system and documentation for compliances under the ITA 2025 and those under ITA 1961

Part II: Salary

Rule 15 - Perquisite valuation rules

Corresponds to Rule 3 of 1962 Rules

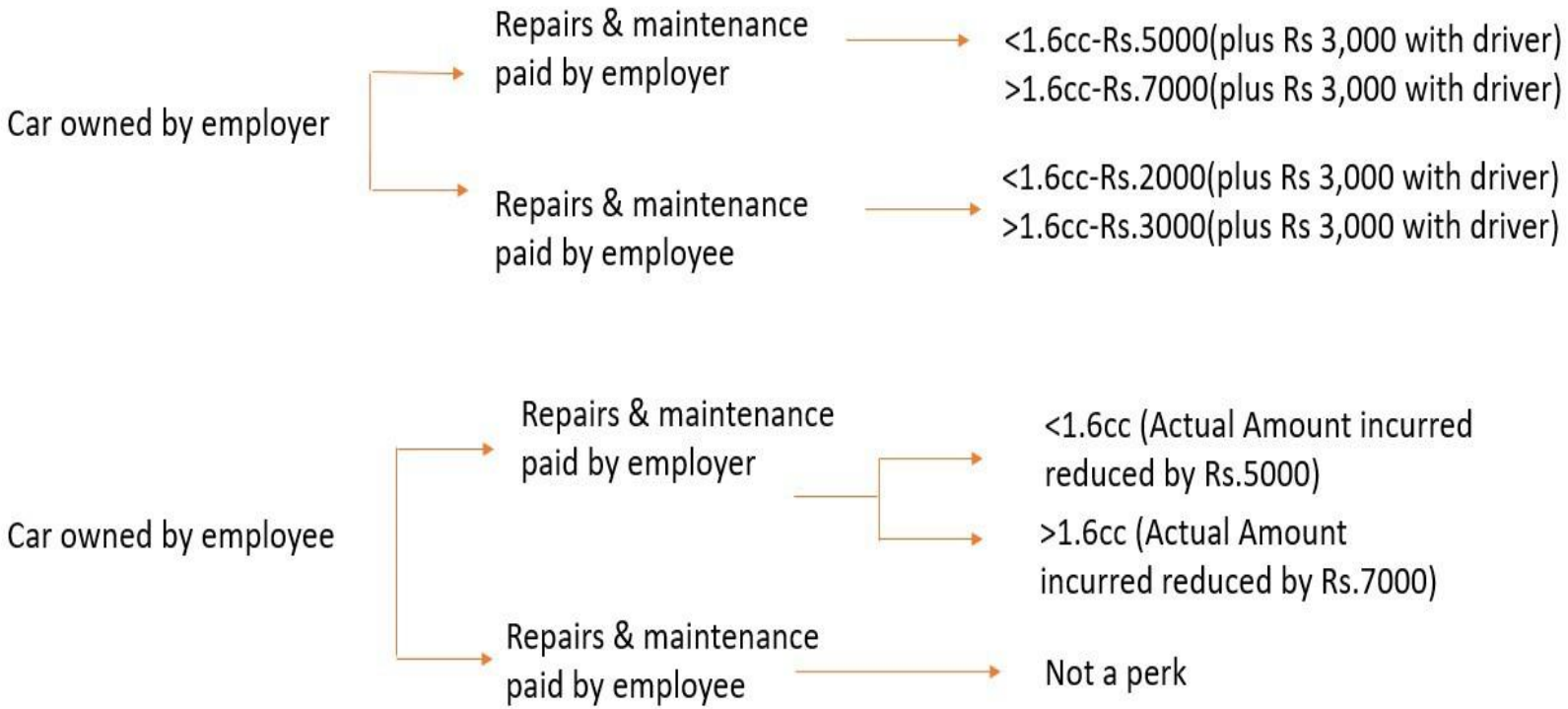
Substantive change

1962 Rules vs. 2026 Rules

- Rule 15 of the Rules corresponds to Rule 3 of the 1962 Rules and sets out the methodology for valuing perquisites provided by an employer such as motor cars, residential accommodation, and other facilities.

Motor car owned by the employer and provided to employee for official and personal purposes - expenses on running and maintenance is met / reimbursed by the employer	For motor cars with CC<1.6 ltrs Existing - INR 1,800 per month plus INR 900 per month for driver Revised INR 5,000 per month plus INR 3,000 per month for driver
	For motor cars with CC>1.6 ltrs Existing - INR 2,400 per month plus INR 900 per month for driver Revised - INR 7,000 per month plus INR 3,000 per month for driver
Motor car owned by the employer and provided to employee for official and personal purposes - expenses on running and maintenance for personal use is fully met by the employee	For motor cars with CC<1.6 ltrs Existing - INR 600 per month plus INR 900 per month for driver Revised - INR 2,000 per month plus INR 3,000 per month for driver
	For motor cars with CC>1.6 ltrs Existing - INR 900 per month plus INR 900 per month for driver Revised - INR 3,000 per month plus INR 3,000 per month for driver
Provision of interest free / concessional loan	Tax free limit of provision of loan increased from INR 20,000 to INR 2,00,000. If interest free loan > 2,00,000, the entire loan would be considered for calculation of perquisite. Perquisite value is calculated by applying the SBI lending rate (as on the first day of the relevant tax year) to the maximum outstanding monthly balance, reduced by any interest actually paid by the employee.

Salaries – Key Updates



Rule 15 - Perquisite valuation rules

Corresponds to Rule 3 of 1962 Rules

Substantive change

Provision of free food and non alcoholic beverages / Meal vouchers	Tax free limit is increased from INR 50 per meal to INR 200 per meal. Existing Rule provides that this benefit is not available under new regime. However, under the Rules, this benefit is available to taxpayer under both regimes i.e. old and new regimes.
Value of tax free gift, voucher or token	Increase in limit from INR 5000 to INR 15,000

Comments

- Significant increase in perquisite value for employer owned motor car
- Tax free threshold for interest free/ concessional loan increased 10 times
- Revision in tax free meal benefits could improve employee take-home pay
- Increase in tax free gift limit gives flexibility to employers to plan for festivals, recognition and reward awards, etc.

Key points to converse

- Employers may want to evaluate cost impact on the company and restructure employee's compensation to avail benefits of the revised rules
- Update payroll systems to reflect new exemptions once Rules are notified
- Employees may want to re-evaluate the old tax regime, if opted for default tax regime

Rule 278 – Conditions to avail exemption on leave travel allowance [Schedule III (Table: Sl. No. 8)]

Corresponds to Rule 2B of 1962 Rules

Substantive change

1962 Rules vs. 2026 Rules

- This rule provides the conditions to avail exemption for leave travel allowance provided by the employer to employee. The rule is similarly worded as the existing one, except for the following changes:

  - The threshold of 'air economy fare of the national carrier' for travel by air is Revised to be replaced as 'fare admissible for the class of travel to which the employee is entitled';
  - In the absence of a recognised public transport system, the LTC limit—currently based on AC first-class rail fare—is Revised to be revised to a uniform INR 30 per km for the shortest route.

Comments

- Revising LTA thresholds for air travel to reflect actual travel entitlements is a welcome move

Key points to converse

- Possibility to claim exemption basis the entitlement of the employee

Rule 279 – House Rent Allowance exemption – [Schedule III (Table: Sl.No 11)]

Corresponds to Rule 2A of 1962 Rules

Substantive change

1962 Rules vs. 2026 Rules

- This rule provides the limits for claiming exemption for house rent allowance provided by the employer to employee. The Rules are similarly worded as the existing one, except for the following changes:
  - Threshold of 50% of salary earlier applicable only to the four metros (Delhi, Mumbai, Chennai and Kolkata), is now Revised to be extended to Ahmedabad, Bengaluru, Pune and Hyderabad.
  - The 50%/40% salary thresholds are now subject to an additional condition that the accommodation must be located at the place of employment, a requirement not provided for in the existing rule.
  - The Form require employees to disclose any relationship with the landlord when claiming HRA. They also mandate that the employer, as deductor, obtain the House Rent Agreement while verifying the HRA claim.

Comments

- Extending 50% salary threshold to more cities offers relief, however, the “place of employment” condition and landlord relationship is additional disclosure add increased governance.

Key points to converse

- Employers may need to strengthen HRA verification protocols basis the Revised Rules.

Rule 204 – Furnishing particulars of TDS on salaries

Corresponds to Rule 26A, 26B of 1962 Rules

Substantive change

1962 Rules vs. 2026 Rules

- Currently, Rule 26A of 1962 Rules allows an employee to furnish details of salary received from other employers and requires the employer to provide a statement of perquisites or profits in lieu of salary in Form 16 or Form 12BA, depending on salary level. Similarly, Rule 26B of 1962 Rules allows an employee to furnish particulars of other-head income and TDS/ TCS for the same financial year to the employer.

- Rule 204 of Rules consolidates both Rule 26A and 26B disclosures into a single unified reporting mechanism. The forms Revised under this Rule are Form 122 to be submitted by employee and Forms, 123 and 130 are to be issued by the employer.

- In Form 123/ 130, there is a requirement to provide PAN of the authorised signatory. Besides this, these forms also require the employer to fill in details about his and employees email id, contact number.

Comments & Key points to converse

- Consolidating TDS reporting into a single mechanism reduces compliance for employees

- The requirement of furnishing PAN could expose the signatory to misuse of his PAN data. This raises serious data privacy and security concerns. Possibility of using masked PAN to avoid misuse needs to be explored/ represented.

Rule 280 –Prescribed employee allowances – [Schedule III (Table: Sl No. 12 & 13)]

Corresponds to Rule 2BB of 1962 Rules

Substantive change

1962 Rules vs. 2026 Rules

- The Rule 280 deals with exempt duty-linked and personal allowances granted to employees and proposes substantial upward revisions to several long-standing exemption limits under these provisions. The key changes are summarised in the table below:

Category	Old Rule 2BB	New Rule 280
Children Education Allowance	₹100 per month per child (upto max two children)	₹3,000 per month per child(upto max two children)
Hostel Allowance	₹300 per month per child (upto max two children)	₹9,000 per month per child (upto max two children)
Transport allowance to a blind or deaf and dumb employee or orthopedically handicapped with disability of lower extremities	₹3,200 per month	₹15,000 per month (Metro) + Dearness Allowance thereon ; ₹8,000 per month + Dearness Allowance thereon(Other cities) This exemption is allowed even under the New regime.
Transport running allowance (working in transport system)	70% of allowance up to ₹10,000 per month	70% up to ₹25,000 per month

Salaries – Key Updates

₹200

Meal Exemption

Per meal limit for free food & non-alcoholic beverages

₹3K

Monthly Cap

Educational facility tax concession limit per month

₹9K

Hostel Allowance

Per month per child (max 2 children)

₹15K

Gift / Voucher Cap

Annual exemption limit on employer gifts and tokens

50% HRA Exemption — Metro Cities

Earlier - Delhi, Mumbai, Chennai, Kolkata,
Newly added - Hyderabad, Ahmedabad, Pune, and **Bengaluru**.

Rule 280 –Prescribed employee allowances – [Schedule III (Table: Sl No. 12 & 13)]

Corresponds to Rule 2BB of 1962 Rules

Substantive change

Comments & Key points to converse
• With the increased exemption and deduction limits under the Revised rules, taxpayers may want to evaluate opting for old tax regime (new regime being the default tax regime).

Part VII: Business & Profession

Rule 31 - Donation and certificate to the donor under section 45(4)(a)

Relates to expenditure on scientific research under section 35 of the ITA 1961

New Rule

Moderate change

1962 Rules vs. 2026 Rules

- This rule is newly inserted under 2026 Rules for the purpose of availing deduction for donations.

Comments

As per section 45 (3) of ITA 2025, deduction is allowed on scientific research paid to research association or a University , college or Institution, company, national laboratory, Indian Institute of technology, specified person, etc. As per 45(4), such deduction is allowed subject to conditions and furnishing documents as prescribed under new Rule 31. This deduction is allowed only if the recipient donee entity files Form 15 and issues Form 16 to donors by 31 May of following the tax year.

Key points to converse

- This added filing to be done as per timelines mentioned by recipient entity and issue certificate to the donor.
- It will be imperative that donee comply with the timeline.

Business and Profession: Key Updates

Sections 26 through 65 of the Act govern the computation of profits and gains from business or profession — the most complex and frequently litigated area of income tax law for most practicing professionals.

1 Depreciation: Updated Rules

The Act consolidates and updates depreciation provisions with clearer asset classifications, revised block-of-assets methodology, and updated rates for technology assets including software, servers, and digital infrastructure. Practitioners advising businesses with significant capital expenditure must re-examine depreciation planning under the new framework.

2 Deductible Expenses: Clearer Guidelines

The Act provides clearer guidelines on allowable business expenses, reducing the scope for ad hoc disallowances by assessing officers. Provisions governing payments to related parties, cash payment restrictions, and deductibility of provisions versus actual payments have been restated with greater precision. The expanded use of digital payment trails for substantiating expense claims is also addressed.

3 Tax Audit: Expanded Scope

The 2025 Act also reinforces the accountability of tax auditors, with clearer responsibilities for reporting discrepancies and furnishing prescribed particulars — an important update for Chartered Accountants in public practice.

Presumptive Taxation Schemes

The Act retains and updates presumptive taxation schemes for small businesses and professionals. Updated turnover limits, expanded eligible categories, and clearer provisions for opting in and out of the scheme reflect the growing role of small and medium enterprises in the Indian economy.

Profession-Specific Provisions

Updated provisions address income characterization for emerging professions — including digital consultants, content creators, and technology service providers — whose income streams did not fit neatly within the 1961 Act's categories. This reduces reliance on circulars and rulings for routine compliance.

Books of Account & Audit Trail

The Act updates requirements for maintaining books of account, with specific provisions for electronic records, digital audit trails, and cloud-based accounting systems — reflecting the reality of modern business operations and the government's broader push toward digital compliance infrastructure.

Part VII: Capital Gains

Valuer eligibility – Shift from Rule 11UB (old) to New Rule 10

Definition of “accountant” and qualification thresholds revised

Substantive change

1962 Rules vs. 2026 Rules

- Old Rule (11UB): Relied on section 288(2) for defining “accountant”; same definition applied for all valuation categories.
- Only sub-rule (6) (valuation of assets of foreign company/entity) allowed a *foreign valuer*, subject to recognition by the government of the country where such foreign company/entity was incorporated.
- Qualification thresholds:
  - Entities/affiliates – valuation receipts ≥ ₹10 crore and presence in >2 countries
  - Individuals – valuation receipts ≥ ₹1 crore and ≥10 years’ experience
- New Rule (10): "Accountant” defined with reference to section 515(3)(b) (same meaning as old section 288(2)), and this applies uniformly across all valuation categories.
- No carve-out similar to old sub-rule (6) which only allowed valuation of foreign companies by foreign valuers.
- Revised thresholds:
  - Individuals (domestic/foreign): valuation receipts ≥ ₹50 lakh and ≥10 years’ experience
  - Non-individuals (domestic): valuation receipts ≥ ₹3 crore
  - Non-individuals (foreign): valuation receipts ≥ ₹3 crore and presence in >2 countries

Comments

- Foreign professionals meeting the revised criteria can now undertake all categories of valuation, not only valuation of foreign companies.
- Domestic valuers subjected to monetary thresholds based on cost-certification receipts, conditions that did not apply earlier.
- Earlier rule imposed additional conditions only for foreign valuers; new rule applies criteria uniformly.

Key points to converse

- New Rule (10) keeps the same “accountant” definition but removes foreign-valuer restrictions and introduces uniform eligibility thresholds (receipts + experience) for all valuers, unlike Old Rule (11UB) which had limited foreign participation and no thresholds for domestic valuers.

Rule 54 – Slump Sale – Net Worth Certificate
(Specified date)

Substantive change

1962 Rules vs. 2026 Rules

- Rule 6H of the 1962 Rule required the report of an accountant for a slump sale (under section 50B(3) of the ITA 1961) to be furnished along with the return of income.
- This conflicted with the ITA 1961, which contemplated furnishing the report one month prior to the due date for filing of return of income.
- Resulted in an Act–Rules mismatch and uncertainty on the correct filing timeline for the net-worth certificate.

Comments

- Rule 54 of 2026 Rules provides that in case of a slump sale under section 77(4) of ITA 2025, the assessee must furnish a report of an accountant before the “specified date” referred to in section 63 of ITA 2025.
- Section 63 of ITA 2025 defines “specified date” as one month prior to the due date for furnishing the return of income.

Key points to converse

- The earlier inconsistency under Rule 6H has been rectified under 2026 Rules
- Removes ambiguity and provides certainty on compliance timelines.

Rule 56 – Meaning of expressions used in determination of FMV

(Definitions relevant for FMV computation

Substantive change

1962 Rules vs. 2026 Rules

- Existing Rule 11U of the 1962 Rules defines various terms for FMV computation, including:
  - a balance-sheet clause tied to valuation-date availability – redundant date tied to omitted section (56(2)(viib) deleted
  - a wealth-tax–based definition of "registered valuer," and
  - a single valuation-date concept linked only to receipt of property or consideration.
- Rule 56 streamlines this by:
  - adopting a simpler balance-sheet definition for Indian and foreign companies,
  - replacing the "registered valuer" reference with the definition under the ITA,
  - introducing a section-specific table of valuation dates for:
    - section 92 (specified receipts/transfers), - date of receipt of property / consideration
    - section 79 (full value of consideration for transfer of unquoted share), - date on which capital asset (unquoted shares) is transferred
    - section 26(2)(j) (conversion of inventory into capital asset). - Date on which the inventory is converted / treated as a capital asset

Comments

- Rule 56 consolidates and simplifies valuation definitions.
- Valuation date is no longer a single concept — now aligned with specific sections.
- Wealth-tax based "registered valuer" reference removed.

Key points to converse

- Balance-sheet definition simplified for FMV.
- "Registered valuer" reference aligned with ITA definition.
- Section-wise valuation dates newly introduced.

Capital Gains and Other Income Sources

Capital Gains: Updated Provisions

Capital gains taxation under the 2025 Act introduces meaningful clarifications in several areas:

Virtual Digital Assets (VDAs)

The Act explicitly includes cryptocurrencies, NFTs, and other blockchain-based assets within the definition of capital assets, with specific provisions governing their acquisition cost, holding period determination, and applicable tax rates.

Immovable Property

Updated provisions govern the indexation benefit, full value of consideration, and stamp duty value references for property transactions. The Act clarifies the treatment of joint development agreements, slum rehabilitation projects, and affordable housing transfers.

Listed vs Unlisted Securities

Clearer delineation of rates and holding period requirements for listed shares, unlisted shares, mutual fund units, and other securities. Professionals advising HNI investors and family offices will need to restate their capital gains planning frameworks.

Exemptions: Sections 54 Series

The reinvestment exemptions (equivalent to Sections 54, 54EC, 54F of the 1961 Act) have been retained with updated investment limits and time windows, bringing them in line with current real estate and bond market realities.

Income from Other Sources: Expanding the Net

The residual head has been significantly updated in the 2025 Act to capture income streams that grew in economic significance but were inadequately addressed under the 1961 framework:

Online Winnings

The Act consolidates provisions for taxation of winnings from online gaming platforms, fantasy sports, and digital contests — an area that saw rapid legislative evolution in the last years of the 1961 Act regime. Flat rate taxation, no deduction for losses, and specific TDS obligations are clearly codified.

Gifts

Updated provisions govern the taxation of monetary gifts, immovable property received without consideration or at inadequate consideration, and deemed gifts — with updated fair market value determination rules and clearer exemption categories for gifts from relatives.

Interest

Provisions governing interest from savings accounts, fixed deposits, infrastructure bonds, and government securities have been restated with updated TDS thresholds and clearer deduction availability — simplifying the most common income computation challenge for individual taxpayers.

Dividend

Post-abolition of the Dividend Distribution Tax regime, the 2025 Act clearly codes the gross-up, TDS, and deduction provisions for dividend income — eliminating the interpretational gaps that existed during the transition period under the 1961 Act.

Part X: Procedural

Q4.14 In what format should Form 15G/15H be submitted for Tax Year 2026-27?

- **Ans.** For a tax year beginning on or after 01.04.2026, such declaration must be furnished in Form No. 121 as prescribed under the Income-tax Rules, 2026

- Q4.23 What is the purpose of Form 15CA and Form 15CB under the Income Tax Act, 1961 and what are the corresponding provisions in the Income Tax Act, 2025?

- **Ans.** Form 15CA is a declaration by the remitter (person making a payment to a non-resident) for furnishing information regarding the nature of remittance and applicable TDS. Form 15CB is a certificate from a Chartered Accountant certifying the nature of remittance, the applicable DTAA provisions, and the TDS rate. Under the old Act, these were governed by Section 195(6) of the Income Tax Act, 1961.
- Under the Income-tax Act, 2025, the corresponding provision are contained in Section 397(3)(d). The corresponding Forms under the new Act are Form No. 145 (equivalent to old Form 15CA) and Form No. 146 (equivalent to old Form No. 15CB).

Q4.25 For remittances made on or after 1st April, 2026, which forms and provisions will apply?

- **Ans.** For remittances made on or after 1st April, 2026, the provisions of the Income-tax Act, 2025 will apply. The prescribed forms (Form No. 145 and 146) under the Income-tax Rules, 2026 are required to be used. The substantive requirements — furnishing information about the remittance, obtaining CA certificate for amounts exceeding the prescribed threshold, ensuring TDS compliance — remain the same.

Q4.31 What is the requirement for tax audit under the Income-tax Act, 2025, and has the threshold changed?

- **Ans.** Section 63 of the Income-tax Act, 2025 (corresponding to Section 44AB of the old Act) prescribes the requirement of audit of accounts. The thresholds for tax audit remain the same as were in the old Act:
- (i) Business: Total sales, turnover, or gross receipts exceed Rs. 1 crore (Rs. 10 crore where cash transactions do not exceed 5% of total receipts and 5% of total payments);
- (ii) Profession: Gross receipts exceed Rs. 50 lakhs;
- (iii) Persons opting out of presumptive taxation and declaring income below the prescribed threshold.

Q4.33 What form will be used for tax audit for Tax Year 2026-27 under the Income Tax Act, 2025?

- **Ans.** For Tax Year 2026-27, the tax audit report must be filed using the Form No. 26 as prescribed under the Income Tax Rules 2026. Form No. 26 merges erstwhile Form No. 3CA, Form 3CB and Form 3CD. The due date for filing the tax audit report for Tax Year 2026-27 shall be 30th September, 2027.

Tax Audit Report Forms — AY 2026-27 vs. Tax Year 2026-27

AY 2026-27 (ITA 1961)	Tax Year 2026-27 (ITA 2025)
Three separate forms: Form 3CA + Form 3CB + Form 3CD	Single unified Form 26 — merges all three forms
Section 44AB, ITA 1961	Section 63, ITA 2025
Due date: 30 September 2026	Due date: 30 September 2027
Item-wise disallowance reporting — detailed and fragmented	Single consolidated disclosure — rationalised and ITR-aligned

Q4.35 Is the provisional approval granted to a charitable institution under the Income Tax Act 1961 valid after 01.04.2026?

- **Ans.** As per provisions of sections 536 (2) (j) of the Income Tax Act 2025, any approval given or recognition granted under any provision of the Income Tax Act 1961 shall, so far as it not inconsistent with the corresponding provisions of 2025 Act, shall continue to be in force. Thus, a provisional approval granted to a charitable organisation under the old Act shall not be invalid merely because the new Act commences on 01.04.2026.

Q4.40 What is the consolidated mapping of the key forms between the old and new Acts?

- The following table provides the mapping for some frequently used forms:

Purpose	Forms under Old Act/Rules	Forms under New Act/Rules
PAN application – Indian Individual	Form 49A	Form 93
PAN application – Indian Company/Entity	Form 49A	Form 94
PAN application – Foreign Individual	Form 49AA	Form 95
PAN application – Foreign Entity	Form 49AA	Form 96
TAN application – Government	Form 49B	Form 134
TAN application – Other than government	Form 49B	Form 135
Declaration where PAN not available	Form 60	Form 97
Half-yearly statement of declarations	Form 61	Form 98
Lower/nil withholding certificate	Form 13	Form No.128
Self-declaration for no TDS (below 60 yrs)	Form 15G	Form No.121
Self-declaration for no TDS (60 yrs+)	Form 15H	Form No.121
Relief for salary arrears	Form 10E	Form 39
Foreign remittance information	Form 15CA	Form No.145
CA certificate for foreign remittance	Form 15CB	Form No.146
Tax audit report (audited under other law)	Form 3CA	Form 26
Tax audit report (others)	Form 3CB	Form 26
Statement of particulars (audit)	Form 3CD	Form 26
Provisional registration (Charitable trust)	Form 10A	Form 104

A. REASSESSMENT FRAMEWORK UNDER THE NEW ACT

Q5.1 What are the provisions for reopening of assessment (income escaping assessment) under the Income-tax Act, 2025?

- **Ans.** The provisions for assessment or reassessment of income which has escaped assessment are contained in Sections 279 to 286 of the Income-tax Act, 2025. These correspond to Sections 147, 148, 148A, 148B, 149, 150, 151, and 153 of the Income-tax Act, 1961. The framework has been streamlined and made more structured:

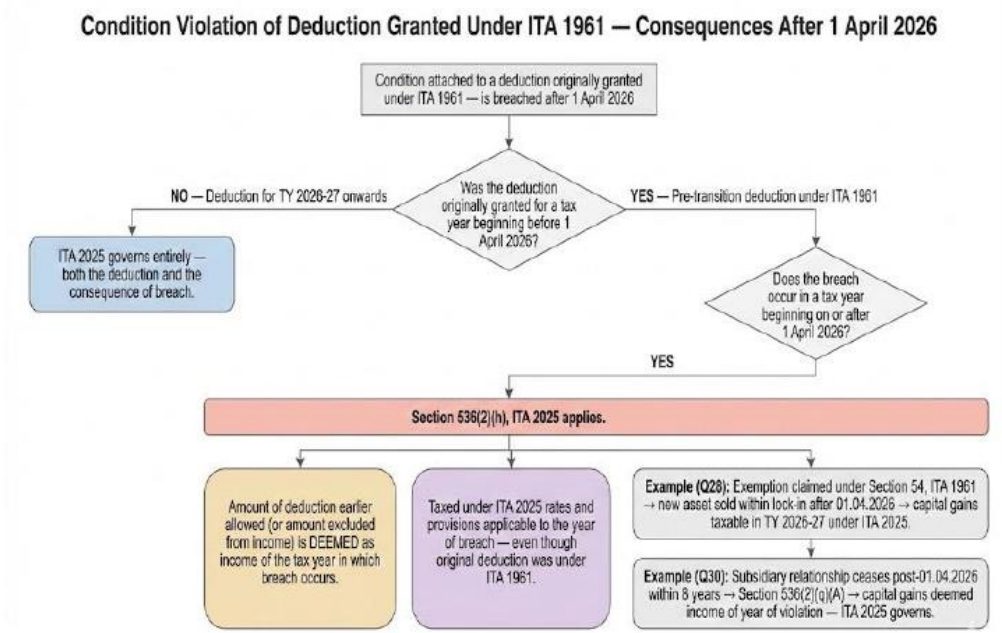
Subject	Old Act Section	New Act Section
Power to assess/reassess escaped income	147	279
Issue of notice for reassessment	148	280
Procedure before issuance of notice (show cause)	148A	281
Time limit for notices	149	282
Assessment in pursuance of appellate/court orders	150	283
Sanction for issue of notice	151	284
Other provisions (rate of tax, dropping of reassessment proceedings)	152	285
Time limit for completion of assessment, reassessment and recomputation	153	286

Q5.16 Which Act will govern the penalty proceedings relating to any tax year beginning before 1st April, 2026?

- **Ans.** Section 536(2)(d) expressly provides that any proceeding for imposition of penalty for any tax year beginning before 1st April, 2026 may be initiated and the penalty imposed under the old Act, as if the new Act had not been enacted. Therefore, penalties arising from reassessment of earlier years will follow the framework for penalties as provided in the Income Tax Act, 1961.

- Q8.14 If conditions attached to a deduction claimed under the Income Tax Act, 1961 are violated after 1 April 2026, under which Act will the tax consequences arise?

- **Ans:** The issue is specifically governed by Section 536(2)(h) of the Income-tax Act, 2025 (Repeal and Savings). This clause provides that where, under the repealed Act, such sum would have been required to be included in total income upon violation, the same shall be deemed to be the income of the assessee for the tax year in which the violation takes place and shall be included under the same head of income as it would have been included under the repealed Act.



Rule 237 – Key changes in reporting requirements

Corresponds to Rule 114E of 1962 Rules

Substantive change

1962 Rules vs. 2026 Rules
• The existing framework under section 285BA of the ITA 1961 and Rule 114E of the 1962 Rules prescribed uniform monetary thresholds for all specified financial transactions, without distinguishing between PAN-holders and non-PAN-holders. • Rule 237 issued under section 508 of the ITA 2025 introduces PAN-based differential reporting thresholds, adds new reportable transaction categories, widens the scope and thresholds for reporting of immovable-property transactions, and removes legacy demonetisation-related one-time reporting items.
Comments
• Reporting obligation becomes broader and more granular, especially for high-value property transactions. • Removal of demonetisation-related entries reflects clean-up of obsolete rules. • Explanation added to define terms like - "designated director"; "principal officer", "regulator"
Key points to converse
• Differential thresholds now apply based on availability of PAN. • New categories of transactions to be reported under SFT. • Enhanced reporting for immovable-property transactions under the rules.

Rule 46 – Key changes in requirement to maintain books of accounts

Corresponds to Rule 6F of 1962 Rules

Procedural change

1962 Rules vs. 2026 Rules
• The existing Rule 6F of the 1962 Rules prescribes the list of books of accounts and other documents to be maintained under section 44AA of the Income-tax Act, 1961. • Rule 46 of the 2026 Rules now requires such books of accounts to be always accessible in India.
Comments
• Rule 46 also prescribes that back-up of such books of account and other documents shall be kept in electronic mode and be kept on daily basis in servers physically located in India.
Key points to converse
• The requirement of having back up of digital books of accounts in a server physically located in India is aligned with provisions of Companies Act, 2013

Rule 47 – Key changes in reporting requirements

Corresponds to Rule 6G of 1962 Rules-Report of audit of accounts to be furnished under section 44AB

Procedural change

1962 Rules vs. 2026 Rules

- The existing framework under Rule 6G of the 1962 Rules prescribes Form 3CA, Form 3CB and Form 3CD as prescribed forms for furnishing Tax Audit report under section 44AB of the ITA 1961.
- Rule 47 of the 2026 Rules now prescribes consolidated Form 26 (single form) for furnishing such Tax Audit report under corresponding section 63 of the ITA 2025. **Form 3CA (for persons audited under another law), Form 3CB (for all others), and Form 3CD (statement of particulars of tax audit report).*

Comments

- Form 3CA, Form 3CB and Form 3CD combined into a single Form 26. Form 26 has 53 clauses vs 44 clauses in Form 3CD
- Tax auditor to report on accounting software used for maintenance of books of account in computer system
- Reporting on location of the server in India where the books of account are maintained with daily back-ups
- Reporting on GAAR and clause on country by country removed.
- Expenses to be disallowed for earning exempt income to be reported even if such income **has not been accrued or received during the year**
- Reporting for (i) transaction in unquoted shares, (ii) remittances in Part-D of Form 145 (earlier Form 15CA) and (iii) MAT/AMT credit utilization introduced
- Auditor to quantify the impact of qualification on Net Profit earned during the year

Key points to converse

- Disclosures on software and digital books of account storage locations and foreign-remittance reporting (Part-D) enhances tranparancy but shall also require robust data reporting system.

Rule 48 – Electronic modes of payment

Corresponds to Rule 6ABBA of 1962 Rules

Procedural change

1962 Rules vs. 2026 Rules
• The existing framework of Rule 6ABBA of the 1962 Rules prescribes the list of acceptable “other electronic modes” of payment for various provisions of the Income-tax Act, 1961 where payments must be made through banking channels to claim deductions or avoid penalties. • Rule 48 of the 2026 Rules prescribes the list of acceptable “other electronic modes” of payment for various provisions of the Income-tax Act, 2025 where payments must be made through banking channels to claim deductions or avoid penalties
Comments
• Rule 48 of the 2026 Rules now also prescribes Tier-III: Full KYC Central Bank Digital Currency wallets, P-CBDC, Wholesale/Cross-border CBDC recognized as an additional acceptable electronic payment method
Key points to converse
• Enables business to receive payment under the additional payment method as prescribed

Rule 211 - Declaration by person claiming receipt of incomes without deduction of tax

Corresponding to Rule 29C

Substantive change

1962 Rules vs. 2026 Rules

- Under 1962 Rules, Form 15G / Form 15H is filed for Declaration by person claiming receipt of certain incomes without deduction of tax under section 197A(1) or 197(1A) . Such declaration is to effect that tax on estimated income will be Nil .This has been replaced by Form 121 under Rule 211 of 2026 Rules.

Comments

Additional Past ITR Reporting Requirements (Part A)

- Part A of Form 121 requires to furnish details of previous 2 years ITR specifically acknowledgment number of return filed and Returned income for each 2 prior years.

Introduction of Payer Accountability (Part B)

- Form 121 introduces a major shift by introducing mandatory verification obligations thereby increasing the liability of the declarant (payer). Payer must record declarant's details and must verify income columns (10, 12, 13) related to estimated income declared. This was **not** required in Forms 15G/15H increasing compliance responsibility

Items Present in Forms 15G/15H but Missing in Form 121

- Section under which tax is deductible - In Form 15G/15H (Part I, Point 18), the declarant had to specify the relevant TDS section. Form 121 does not contain this field.
- Date on which income is paid/credited - In the payer's section (Part II) of Forms 15G/15H, the payer was required to specify the date of payment/credit. This item is not present in Form 121.

Rule 211- Declaration by person claiming receipt of certain incomes without deduction of tax

Corresponding to Rule 29C

Substantive change

Points to Converse
• Form 121 requires significantly expanded disclosure, particularly prior-year ITR details, strengthening the eligibility verification framework. • Mandatory payer verification of income-related declarations is introduced for the first time, signalling a policy realignment toward payer-level accountability. • Certain earlier granular disclosures—such as TDS section reference and date of payment—are absent in the new format and may need reconsideration for audit trail completeness.

Rule 219 - Quarterly Statements for TDS and TCS

Corresponding to Rule 31A & 31AA

Substantive change

1962 Rules vs. 2026 Rules

- Under 1962 Rules, Form 27EQ is filed as Statement of deduction or collection of tax at source under section 206(3) . This has been replaced by Form 143 under Rule 219 of 2026 Rules

Comments

- The Rule 31A and Rule 31AA of the old rules have been combined into new Rule 219.
- Form 143 includes a new mandatory disclosure requiring the collector to state whether the collectee has a PE in India. The same did **not** exist in earlier TCS statements.
- The due dates for filing quarterly TCS statements under new Rule 219 are Revised to be **aligned with the due dates applicable for TDS statements**
  - ✓ New dates : 31 Jul, 31 Oct, 31 Jan, 31 May.
  - ✓ Earlier dates :15 Jul, 15 Oct, 15 Jan and 15 May.

Key points to converse

- Consolidation into Rule 219 simplifies the compliance structure by merging two separate rules into a single, comprehensive reporting rule for TDS and TCS.
- Form 143's new PE disclosure requirement strengthens information reporting, particularly for non-resident collectees, and may assist in cross-verification with withholding norms and treaty provisions.
- Alignment of due dates with TDS provides uniformity in timelines for TDS and TCS reporting and reduces procedural inconsistencies across withholding mechanisms.

Defective return of income

Criteria prescribed

New Rule

Substantive change – New Rule introduced

1962 Rules vs. 2026 Rules

- Explanation to section 139(9) lays down the conditions subject to which a return of income shall be regarded as **defective.**
- Under ITA 2025, section 263 states that the conditions for treating a return as defective to be prescribed - moved from statute to delegated legislation.
- Rule 166 of 2026 Rules prescribes the following criteria for treating a return of income as a defective return:
  - Improper and incomplete filling of the return Form [**scope expanded** to all applicable fields, parts, schedules in addition to statements and columns in the return form]
  - Non-furnishing of tax audit report (where applicable) prior to filing of the return of income
  - The details of tax payment as required for filing an updated return are not duly filled in the return (**revised criteria**)
  - The brought forward MAT/AMT credit claimed in the return is not in accordance with the carry forward amount as per the latest return allowed to the assessee (**new criteria**)

Key points to converse

- Applies to tax returns filed for tax year 2026-27 and onwards.
- FAQs clarify that notice of defective return for AY 2026-27 after the new Act comes into force and response thereto - governed by ITA 1961
- Shifting the defective-return criteria from the statute to the Rules provides administrative flexibility, allowing the framework to be refined by the CBDT as compliance evolves.
- Taxpayers should exercise greater vigilance when filing their returns to minimise the risk of defects and ensure smooth processing under the revised framework.

Application for Permanent Account Number (PAN)

New forms and documentary proof tighten identity controls

1962 Rules vs. 2026 Rules				
Category of PAN applicant	Rule 114 (1962 Rules)	Rule 158 (2026 Rules)	Key Changes in details requested	Common changes across all forms
Indian citizen (individual)	Form 49A	Form 93	• Residential status to be provided • Aadhar card to be provided for minors too • No option to provide Aadhar enrolment number • For RNOR/NR - Passport number and Representative assessee mandatory	• No option to provide abbreviated name • No requirement to provide details of earlier name • Taxpayer Identification number for NR/NROR • Indian address is mandatory for Representative Assessee ('RA')/Authorized representative ('AR') (except in case of FPIs) • RA/AR to provide Proof of Identity, Proof of address and PAN/Aadhar. • In case of FPIs, RA/AR may provide passport instead of PAN/Aadhar • Individuals have option to select Address of Representative Assessee for communication
Indian company / Entity incorporated or formed in India		Form 94		
Foreign individual	Form 49AA	Form 95	To provide : • Type of citizenship to be provided • Passport Number • Proof of date of birth *Appears that it is not mandatory to have Representative Assessee / Authorised Representative*	
Foreign company / Entity incorporated or formed outside India		Form 96	• Proof of date of incorporation to be provided • KYC details which were to be provided by FII/QFI no longer required	

Application for Permanent Account Number (PAN) (contd..)

New forms and documentary proof tighten identity controls

Substantive change

1962 Rules vs. 2026 Rules
• As per Rule 114(1A) of the 1962 Rules, a person without a PAN who furnishes their Aadhaar number will be considered to have applied for a PAN, and no separate application or documents are needed. Rule 158 of 2026 Rules does not provide such an exception from application of PAN.
Key points to converse
• It may be challenging in certain cases for NR to have a Representative Assessee/Authorized representative with an Indian address

Form 10F and Form 10FA – Corresponding new Form 41, 42

Some changes and additional requirements for filing Form 10F. Form 10FA

Substantive change

1962 Rules vs. 2026 Rules

Filing of Form 41 (corresponding form 10F) compulsory for availing treaty benefit even if details available in Tax Residency Certificate (TRC). Existing rule allows non-filing of Form 10F if the required information is already available in TRC.

Old Form 10F (New Form 41) – Additional details required to be furnished

- E-mail ID, contact number and country code, Communication address in India required to be furnished, if available.
- In old Form 10F – With regard to individuals, country of nationality was required to be furnished. In new Form 41 - W.r.t individuals, country of residency is required to be furnished.
- Copy of the TRC/Certificate of residence to be uploaded as a separate line item and Annexure. Not explicitly mentioned in Form 10F earlier.
- Person holding a PAN has to verify and affirm that the information provided is true and correct to the best of his/her knowledge and belief. Further, he/she have not concealed any relevant fact.

Old Form 10FA (New Form 42) – Application for Certificate of residence - Additional details required to be furnished

- E-mail ID, contact number and country code, Communication address in India required to be furnished.
- W.r.t individuals, address, Period of Stay (From **Date** to **Date**), Number of days are additional columns.
- Additional attachments such as Passport copies, documents of incorporation/ registration, Proof of stay in India and any other information have to be furnished

Key points to converse

- Additional documentation and verification requirements
- Additional time required to be spent for collation, review and furnishing of required information

Application for Tax Deduction and Collection Account Number (TAN)

Forms rationalized and identification check aligned with PAN process

1962 Rules vs. 2026 Rules		
Particulars	Rule 114A (1962 Rules)	Rule 216
Forms	Form 49B for all categories of applicants	• Two distinct forms: – Form 134 – Government entities (as defined in the rule) – Form 135 – Non-government entities
No. of copies	Duplicate	Single
Documentary Requirements	No specific documentation requirements	• Proof of identity • Proof of address • Proof of date of birth (for individuals) or date of incorporation (for entities)
Time limit for application	Within one month from the end of the month in which the tax was deducted or collected	• Prior to the deduction or collection of tax or • Within 30 days from the end of the month in which the tax was deducted or collected,
Additional information requested in forms		• Companies – CIN – Type of company • Accounts Office Identification Number for government entities • Name, PAN and contact details of person responsible for deduction/collection of tax

Transactions in which PAN is required to be quoted

Some changes in threshold and deletion/addition of certain transactions

Substantive change

1962 Rules vs. 2026 Rules

A. Deletion of transactions in which PAN is required to be quoted

- Payment in connection with travel to any foreign country or payment for purchase of any foreign currency at any one time.
- Purchase of bank drafts or pay orders or banker's cheques from a banking company or a co-operative bank to which the Banking Regulation Act, 1949 (10 of 1949), applies (including any bank or banking institution referred to in section 51 of that Act).
- Payment for one or more pre-paid payment instruments, as defined in the policy guidelines for issuance and operation of pre-paid payment instruments issued by Reserve Bank of India under section 18 of the Payment and Settlement Systems Act, 2007 (51 of 2007), to a banking company or a co-operative bank to which the Banking Regulation Act, 1949 (10 of 1949), applies (including any bank or banking institution referred to in section 51 of that Act) or to any other company or institution.
- Making an application to any banking company or a co-operative bank for issue of Debit card

B. Addition of transaction in which PAN is required to be quoted

- Gift or joint development agreement by any person of any immovable property exceeding twenty lakh rupees or valued by stamp valuation authority referred to in section 78 of the Act at an amount exceeding ₹ 20 lakhs.
- Cash withdrawals from a Banking company or Co-operative Bank or Post office, aggregating to INR 10 lakhs or more in a financial year, in one or more account of a person
- Payment in cash exceeding INR 1 lakh to i) a convention Centre; or ii) a banquet hall; or iii) any person engaged in event management
- Commencement of account-based relationship with an insurer as defined in section 2(9) of the Insurance Act, 1938 (4 of 1938)

C. Changes in threshold limits of certain transactions (Refer Annexure for details)

Key points

- Deletion/addition of certain transactions for which PAN is required to be quoted as well as changes in threshold limits

Transactions in which PAN application required

Newly added clause in Rule 159

Substantive change

1962 Rules vs. 2026 Rules
• Any person (not being a company or firm) without a PAN must apply for PAN when entering into certain specified transactions like sale or purchase of motor vehicle, deposits or withdrawals from bank, etc., or; immovable property transactions over ₹45,00,000. In case said person enters into any transaction in purchase or sale of immovable property for value less than ₹45,00,000 but ₹20,00,000 or above, declaration in Form 97 required giving therein the particulars of such transaction.
Key points to converse
• Appraise clients of applying for PAN while entering into the above transaction.

Annexure- Transactions in which PAN is required to be quoted

Threshold changes

Nature of transaction	Rule 114B (1962 Rules) (value of transaction)	Rule 159 (value of transaction)
Purchase or sale of Immovable property	₹10,00,000	₹20,00,000
Sale or purchase of motor vehicle	No threshold	₹5,00,000
Payment of hotel bills	₹50,000	₹1,00,000
Deposits with Banking company or post office	Exceeding ₹50,000 in any one day	Aggregating to ₹10,00,000 or more in a financial year

Single unified rule for exercising or withdrawal of option for new tax regime

Substantive change

1962 Rules vs. 2026 Rules
• Unlike the framework under the 1962 Rules, which requires filing separate prescribed forms electronically on or before the due date under section 139(1) of the ITA 1961 for opting new tax regime, the new rule provides that the option or withdrawal shall be exercised in the return of income furnished under section 263(1) of the Act.
Comment
• Eliminates the need for filing forms thereby simplifying the procedures and reducing compliance burden.

Rule 76- Foreign tax credit

New forms and additional requirement of verification

Substantive change

1962 Rules vs. 2026 Rules
• Unlike a single Form 67 in 1962 Rules, the 2026 Rules has prescribed two forms (Form 44 and 45) for Foreign tax credit • Form 44 replaces Form 67 for foreign tax credit claims. Rule 76 introduces mandatory verification of Form 44 by an accountant for companies and other assessees where foreign tax paid ≥ INR 1 lakh • Rule 76 introduces new Form 45 for intimation of disputed tax, to be verified by an accountant where applicable
Key points to converse
• Mandatory accountant verification for companies and for FTC claims ≥ ₹1 lakh increases compliance burden and cost but may enhance reliability and reduce disputes. • Introduction of Form No. 45 for disputed tax claims adds procedural clarity but increases documentation requirements.

Interesting facts on 2026 Rules

Intent is to clarify and aid interpretation

- Simplification of language. Use of tables and formulae
- Removal of redundant rules, forms
- Renumbering of existing Rules and Forms – removal of alphanumeric system
- Consolidation of related Rules and use of common forms.
  - Existing (1962 Rules) – 511 Rules and 399 Forms
  - New Rules)- 333 Rules and 190 Forms

Delegated Legislation

- Certain procedural/ operational elements which were part of the statute in the ITA 1961 have been shifted to Rules under ITA 2025 framework
- These include the procedure for faceless assessments, tax recovery mechanism, criteria for defective returns and similar operational matters
- Shift provides flexibility for future refinements without parliamentary amendments

Simplified and Smart Forms

- Simplified notes to forms
- Standardization of common information across forms
- Introduction of features such as automated reconciliation, prefilled functionality
- Revised Forms eliminate the erstwhile option of submitting Aadhaar in lieu of PAN
- Mandate furnishing of taxpayer's email ID and contact number, which were not required under the 1962 Rules

New Rules and Forms introduced, scope expanded

- Forward looking – prescribes Framework for furnishing information related to crypto assets
- Introduces new forms for specific aspects such as Form 45 for disputed tax credits
- Scope expanded - Requires pre-panel fact-finding by the IFSC Authority for GAAR invocation
- Increased scope of transactions requiring quoting of PAN

Applicability of the new Rules is largely to furnishings required to be made for tax year beginning on or after 1 April 2026 and related transactions such as remittances, TDS, etc. The FAQs on interplay and transition from the ITA 1961 to ITA 2025 clarify the procedural requirements to be followed in case of compliances/ reportings made on or after 1 April 2026 with respect to transactions/ tax years governed by ITA 1961.

Familiar Sections in Old income Tax Act 1961 vs New Income Tax Act 2025

1961 Act	Related to	2025 Act
35D	Amortisation of preliminary expenses	44
44AD/44ADA/44AE	Presumptive Taxation for Residents	58
44AA	Maintenance of Books	62
44AB	Tax Audit	63
47	Transactions not regarded as transfer	70
50C	Special provision for full value of consideration in certain cases.	78
68	Unexplained Credits	102
269SS / 269T	Taking / repayment of deposits, loans, etc	185 / 188
112A	Tax on LTCG in certain cases	198
115BAC	New Tax Regime	202

Familiar Sections in Old income Tax Act 1961 vs New Income Tax Act 2025

1961 Act	Related to	2025 Act
115JA to 115JF	MAT & AMT	206
132	Search & Seizure	247
133A	Power of Survey	253
139	Return of Income	263
143	Assessment	270
147	Income Escaping Assessment	279
12A	Application for Registration	332
11 / 12 / 13 / 80G	Charities	334 to 355
246A	Appeals to CIT(A)	357
253	Appeals to ITAT	362
193 to 197A / 206C	TDS / TCS	393 / 394

Thank you

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