

Draft Income-tax Rules, 2026 – Changes in Salary, Perquisites & TDS Compliance

Reference: Draft Income-tax Rules, 2026 (Pages 11–28)

Governing Law: Income-tax Act, 2025

Audience: Employers, HR & Payroll Teams, Employees, Banks, Deductors, Professionals

The Draft Income-tax Rules, 2026 propose a **comprehensive restructuring and rationalisation** of provisions relating to **salary, perquisite valuation, TDS procedures, declaration forms, and statutory reporting**, replacing the corresponding Income-tax Rules, 1962.

While many changes are **structural and drafting-oriented**, certain provisions will have **direct tax and payroll impact** once notified.

1. Salary & Perquisites – Comparative Position

Particulars	Old Rules (IT Rules, 1962)	Draft Rules, 2026	Impact
Governing Rule for Perquisites	Rule 3	Rule 15	Renumbering & re-organisation
Rent-Free Accommodation – Govt Employees	License fee minus rent paid	Same	No change
RFA – Private Employer (Owned House)	15% / 10% / 7.5% of salary (metro classification based on population >25 lakh, etc.)	10% / 7.5% / 5% (2011 Census based: >40 lakh / 15–40 lakh / others)	Beneficial – reduced valuation
RFA – Leased Accommodation	Lower of lease rent or 15% of salary	Lower of lease rent or 10% of salary	Reduced ceiling
Furnished Accommodation	Add 10% of furniture cost	Same	No change
Hotel Accommodation	Lower of actual charges or 24% of salary	Same	No change
Multiple Accommodation on Transfer	Lower-valued accommodation taxable for 90 days	Same	No change
Continued Accommodation	No structured valuation cap	CII-based valuation cap prescribed	Clarificatory
Motor Car ≤ 1.6L (Employer-owned)	₹1,800 + ₹900 chauffeur	₹5,000 + ₹3,000 chauffeur	Significant increase

Particulars	Old Rules (IT Rules, 1962)	Draft Rules, 2026	Impact
Motor Car > 1.6L (Employer-owned)	₹2,400 + ₹900 chauffeur	₹7,000 + ₹3,000 chauffeur	Significant increase
Employee bears fuel & maintenance	₹600 / ₹900	₹2,000 / ₹3,000	Increased
Normal Wear & Tear (Motor Car)	10% p.a.	10% p.a.	No change
Free Food	₹50 per meal (later ₹200)	₹200 per meal	Aligned with current position
Gifts from Employer	₹5,000 per annum	₹15,000 per annum	Enhanced exemption
Interest-free / Concessional Loans	₹20,000 threshold	₹2,00,000 threshold	Major relief
Specified Medical Loans	Exempt	Exempt	No change
Club / Credit Card Expenses	Taxable unless official	Same	No change
Use of Movable Assets	10% of cost	Same	No change
Transfer of Movable Assets	Computers 50%, Cars 20%, Others 10%	Same	No change
ESOP – Listed Shares	Avg. opening & closing price	Same	No change
ESOP – Unlisted Shares	Merchant banker valuation	Same	No change
Employer Contribution > ₹7.5 lakh (PF/NPS/Superannuation)	Taxable + accretion (Rule 3B)	Rule 16 – accretion formula codified	Structural
Definition of Salary (for RFA)	Scattered provisions	Explicit definition under Rule 15(8)(k)	Drafting clarity
Prescribed Income u/s 17(1)(c)(ii)	₹3 lakh	₹4 lakh	Increased
Prescribed GTI u/s 17(3)(b)	₹5 lakh	₹8 lakh	Increased
Medical Hospital Approval	Limited conditions	Detailed infrastructure criteria prescribed	Compliance tightened

2. Key Takeaways

✔ Major Relief Areas

- Reduced valuation percentages for **rent-free accommodation**
- **Interest-free loan exemption increased to ₹2 lakh**
- **Gift exemption increased to ₹15,000**
- Higher prescribed income / GTI thresholds

! Major Tax Increase Area

- **Motor car perquisite values substantially increased**, impacting employer-provided vehicles

■ Structural / Drafting Improvements

- Explicit salary definition
- Codified accretion formula for employer contributions
- CII-linked accommodation valuation cap
- Continuity and clarity in ESOP valuation rules

3. Declaration Forms – Form 15G / 15H

Rule 211 – Declaration under Section 393(6)

- Draft Rules prescribe **only one declaration form**:
 - 👉 **Form No. 121**
- **Forms 15G and 15H are not prescribed in the Draft Rules, 2026**

Critical Clarification

- The **concept of declaration for non-deduction of tax continues**
- Only the **form number and procedural framework have changed**
- **Form 121 functionally subsumes earlier Forms 15G and 15H**

📌 Interpretation:

Forms 15G and 15H have been procedurally replaced by a consolidated declaration, Form No. 121, under section 393(6) of the Income-tax Act, 2025. The eligibility principles broadly continue, subject to the new statutory framework.

4. Salary TDS Certificates & Perquisite Statements – Rule 204

Where Salary ≤ ₹1.5 lakh

- Employer may report salary and perquisites **directly in Form 130**
- **Form 130 replaces old Form 16**

Where Salary > ₹1.5 lakh

Employer must issue:

1. **Form 130** – Salary TDS Certificate
2. **Form 123** – Statement of Perquisites

✦ **Form 123 replaces old Form 12BA**

5. Senior Citizens – Special Regime for Banks (Rule 208)

Declaration

- Senior citizen to furnish **Form No. 125** to the specified bank

Role of Bank

- Verify eligibility
- Allow deductions **only on submission of evidence**
- Allow rebate under section 156
- Compute total income
- Deduct tax at applicable slab rates

✦ This mechanism operates **independently of Form 121** and applies **only to specified banking cases.**

6. TDS Returns, Certificates & SFT Reporting

- **Rule 215:** Forms for TDS certificates
- **Rule 219:** TDS return forms & due dates (replacing earlier 24Q / 26Q / 27Q structure)
- **Rule 237:** Statement of Financial Transactions (SFT) to be furnished in **Form No. 165**

7. Major Income-tax Forms Renumbered (Tabular Summary)

A. Audit, International Tax & Corporate Forms

Purpose	Old Form No.	New Form No.
Tax Audit Report	3CA / 3CB / 3CD	Form 26
Transfer Pricing Audit	3CEB	Form 48
MAT Report	29B	Form 66
Tax Residency Certificate	10FA	Form 42
DTAA Particulars	10F	Form 41

B. Charitable Trust / NGO Forms

Purpose	Old Form No.	New Form No.
Provisional Registration	10A	Form 104
Registration / Renewal	10AB	Form 105
Accumulation of Income	Form 10	Form 109
Audit Report	10B / 10BB	Form 112
Donee Statement	10BD	Form 113
Donor Certificate	10BE	Form 114

C. TDS / TCS & Withholding Compliance

Purpose	Old Form No.	New Form No.
Lower / Nil TDS Application	Form 13	Form 128
Salary TDS Certificate	Form 16	Form 130
Other TDS Certificate	Form 16A	Form 131
TCS Certificate	27D	Form 133
Salary TDS Return	Form 24Q	Form 138
TDS Return – Residents	Form 26Q	Form 140
TDS Return – Non-Residents	Form 27Q	Form 144
TCS Return	Form 27EQ	Form 143

D. Information Reporting & Other Forms

Purpose	Old Form No.	New Form No.
Annual Tax Statement	Form 26AS	Form 168
Foreign Remittance Declaration	Form 15CA	Form 145
CA Certificate (Remittance)	Form 15CB	Form 146
Statement of Financial Transactions	Form 61A	Form 165
FATCA Return	Form 61B	Form 166

8. Action Points for Clients

- Review **salary structures, accommodation and car policies**
- Re-configure **HR and payroll systems** for new valuation rules

- Train teams on **new declaration, certificate, and return forms**
- Strengthen **documentation and evidence retention**
- Track final notification of rules before full-scale implementation

Disclaimer

This advisory is based on the **Draft Income-tax Rules, 2026**, which are subject to modification before final notification. Final compliance obligations shall apply as per the notified rules.