

Salary Taxation Revamped under Indian Income-Tax Rules

Modernising Perquisites and Allowances

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The draft Income-tax Rules, 2026 (New Rules) have been released by the Government of India as part of the transition to the Income-tax Act, 2025 (New Act). Currently open for stakeholder consultation, the New Rules are proposed to come into effect from 1 April 2026. They seek, among other objectives, to simplify and rationalise the language of the existing regulatory framework.

Significantly, the New Rules also revisit and revise the perquisite valuation and exemption thresholds that were previously prescribed for employees under the Income-tax Rules, 1962 (Old Rules).

Background

Under Indian income-tax laws, certain types of allowances granted to employees are exempt up to prescribed limits under Indian income-tax laws. Further, any benefit, facility or amenity provided by an employer to an employee in addition to salary or wages is taxable as perquisites under the head 'salaries' and income-tax laws provide a computation mechanism for perquisites as well (examples include meal vouchers, gifts, education benefits, use of company cars, interest-free loans, etc.). However, the exemption and perquisite limits have largely remained unchanged for several years.

The Changes

The New Rules substantially revise the value of perquisite / related exemptions. The key changes for employee taxation are captured below:

1. Perquisites related to automotive conveyance

Cubic capacity of the engine	Whether expenses on running and maintenance met/ reimbursed by employer/employees	Used for	Taxable value under Old Rule	Taxable value under New Rule	Impact
Part A: Employer owned/hired motor car					
Does not exceed 1.6 litres	Met by the employer	Official and private purpose	INR 1,800 per month (plus INR 900 per month where a chauffeur is also provided)	INR 5,000 per month (plus INR 3,000 per month where a chauffeur is also provided)	Increase in taxable perquisite
Exceeds 1.6 litres	Met by the employer	Official and private purpose	INR 2,400 per month (plus INR 900 per month where a chauffeur is also provided)	INR 7,000 per month (plus INR 3,000 per month where a chauffeur is also provided)	Increase in taxable perquisite
Does not exceed 1.6 litres	Met by the employee for private or personal use	Official and	INR 600 per month (plus INR 900 per month where a	INR 2,000 per month (plus INR 3,000 per month	Increase in taxable perquisite

Cubic capacity of the engine	Whether expenses on running and maintenance met/ reimbursed by employer/employees	Used for	Taxable value under Old Rule	Taxable value under New Rule	Impact
		private purpose	chauffeur is also provided)	where a chauffeur is also provided)	
Exceeds 1.6 litres	Met by the employee for private or personal use	Official and private purpose	INR 900 per month (plus INR 900 per month where a chauffeur is also provided)	INR 3,000 per month (plus INR 3,000 per month where a chauffeur is also provided)	Increase in taxable perquisite
Part B: Employee-owned motor car					
Engine capacity does not exceed 1.6 litres	Met by the employer	Official and private purpose	Expenditure incurred reduced by INR 1,800 per month (plus INR 900 per month where a chauffeur is also provided)	Expenditure incurred reduced by INR 5,000 per month (plus INR 3,000 per month where a chauffeur is also provided)	Decrease in taxable perquisite
Engine capacity exceeds 1.6 litres	Met by the employer	Official and private purpose	Expenditure incurred reduced by INR 2,400 per month (plus INR 900 per month where a chauffeur is also provided)	Expenditure incurred reduced by INR 7,000 per month (plus INR 3,000 per month where a chauffeur is also provided)	Decrease in taxable perquisite
Part C: Employee-owned automotive conveyances					
Engine capacity does not exceed 1.6 litres	Met by the employer	Official and private purpose	Expenditure incurred reduced by INR 900 per month	Expenditure incurred reduced by INR 3,000 per month	Decrease in taxable perquisite

The value of perquisites where the automotive conveyance / motor car is used wholly and exclusively for official purposes by the employee remains unchanged under the New Rules. Further, the changes highlighted above impacts employees under the old as well as the new regime.

2. Other perquisites/ related exemptions

Perquisites/ exemptions	Old Rules	New Rules	Impact
Free food and non-alcoholic beverages / paid meal vouchers	Exempt up to INR 50 per meal	Exempt up to INR 200 per meal	Increase in exempt value
Gifts from employer	Exempt up to INR 5,000 per year	Exempt up to INR 15,000 per year	Increase in exempt value
Provision of free or concessional educational facilities by the employer (where either (a) the employer directly maintains and owns the institution; or (b) educational facilities are provided in any other institution by	Exempt up to INR 1,000 per month	Exempt up to INR 3,000 per month	Increase in exempt value

Perquisites/ exemptions	Old Rules	New Rules	Impact
reason of employee's employment)			
Club membership	Exemption was available when either (i) expenditure was incurred wholly and exclusively for business purpose and the employer maintained specified documentation; or (ii) to the extent that health club, sports and similar facilities are provided uniformly to all employees by the employer	Exemption now proposed to be available only when both these conditions mentioned in the Old Rules are satisfied <u>simultaneously</u> .	Increases compliances for the employer
Interest-free/ concessional personal loans (ie not for medical purpose) from employer	No taxable value if loan is INR 20,000 or less	No taxable value if loan is INR 2,00,000 or less	Increase in exempt value
Children education allowance (per child, up to two children)	Exempt up to INR 100 per month	Exempt up to INR 3,000 per month	Increase in exempt value
Children hostel expenditure allowance (per child, up to two children)	Exempt up to INR 300 per month	Exempt up to INR 9,000 per month	Increase in exempt value
Transport allowance granted to employees with disability of lower extremities for the purpose of commuting between the place of residence and the place of duty	Exempt up to INR 3,200 per month	Exempt up to (a) For metro cities - INR 15,000 plus dearness allowance (b) For non-metro cities - INR 8,000 plus dearness allowance	Increase in exempt value
Allowance granted to an employee working in any transport system to meet personal expenditure during the duty performed in the course of running of such transport from one place to another place (provided no daily allowance is received)	Exempt up to 70% of such allowance, maximum of INR 10,000 per month	Exempt up to 70% of such allowance, maximum of INR 25,000 per month	Increase in exempt value
Leave travel concession involving bus travel in areas without a recognised public transport system	Exemption available to the extent the amount does not exceed air-conditioned first-class rail fare as if the journey had been performed by rail	Exemption available to the extent of INR 30 per kilometre for the distance of the journey by the shortest route (where no rates prescribed by the Directorate of Transport)	Increase in exempt value
Leave travel concession for air travel	Exemption available to the extent the amount does not exceed the economy fare of the national carrier	Exemption available to the extent of fare admissible for the class of travel to which the employee is entitled	Increase in exempt value

Perquisites/ exemptions	Old Rules	New Rules	Impact
House rent allowance (HRA)	Exemption available to the least of: (a) HRA received; (b) Rent expenses less 1/10 th the amount of salary of the employee; (c) 50% of salary where such accommodation is situated in Bombay, Calcutta, Delhi or Madras; 40% in other cases.	Exemption available to the least of: (a) HRA received; (b) Rent expenses less 1/10 th the amount of salary of the employee; (c) 50% of salary where such accommodation is situated in Mumbai, Kolkata, Delhi, Chennai, Hyderabad, Pune, Ahmedabad and Bengaluru.; 40% in other cases Additionally, to claim the benefit, employees would now be required to report to the employer, his/her relationship with the landlord as well.	Increase in number of cities where benefit of a 50% deduction was available.

Individuals can claim benefit of the revamped allowance limits mentioned above depending on whether they have opted for the concessional tax regime or the old tax regime.

Further, the valuation of other perquisites (such as loans granted for medical treatment, membership fees, transfer of movable asset by employer to employee) remains unchanged under the New Rules and continues to apply to employees under both the old and new tax regimes.

Employee stock options

Perquisite valuation for individuals on exercise of company stock options remains unchanged.

Foreign tax credit

Any person (other than a company) claiming a foreign tax credit of INR 1,00,000 or more in India is now required to obtain certification of the prescribed particulars from an accountant holding a valid certificate of practice. For companies, there is no monetary threshold for triggering the requirement of obtaining the certificate. It is pertinent to note that substantially similar details were required to be furnished under the Old Rules as well; however, such information was previously submitted on a self-certified basis by the taxpayer. The revised framework elevates this requirement by mandating independent certification by a practising accountant. In addition to certification, the New Rules introduce certain incremental disclosures - tax identification number in the relevant foreign jurisdiction, the income on which credit is sought to be claimed (reported on a net basis ie net of direct expenses and pro-rata indirect expenses in connection with such income) and furnish a confirmation that the foreign taxes claimed as credit are not under dispute. If the foreign taxes, sought to be claimed as a credit against the Indian income-tax liability, are under dispute in a foreign jurisdiction, the taxpayer is now required to intimate the tax authorities within six months from the end of the month in which the dispute is finally settled, to enable claim of such credit against the Indian income-tax liability. Notably, the credit of taxes would be available only against the Indian income-tax liability in the year in which such income was offered to tax.

For issuing the certificate, the accountant is expected to undertake a review of the taxpayer's 'books of accounts', the return of income filed in the foreign country and documentary evidence substantiating payment of the foreign taxes. Notably, not all taxpayers are required to maintain 'books of accounts' as per Indian income-tax laws (such as salaried employees, etc). However, given that the accountant is required to review the same prior to certifying the foreign tax credit claim, compliances for the taxpayer are set to increase. This requirement will impact a large class of taxpayers such as salaried employees which are tax

residents of India, independent consultants, partnership firms which claim foreign tax credit against their Indian income-tax liability.

Comments

The New Rules represent a structural recalibration of taxation of employee benefits. Further, since the New Rules are yet to be formally notified and remain open to stakeholder consultation, it is reasonable to expect that any omission or inadvertent errors will be addressed and refined during the finalization process. By significantly revising the long-standing perquisite and exemption thresholds that had remained static for years, the government signals an intent to align taxation norms with present-day economic realities. While certain enhancements offer relief and modernisation, the upward revision in taxable values, particularly for employer-provided assets such as company cars, will materially influence compensation structuring and payroll compliance. It is important to note that a large number of exemptions would be available only under the old tax regime. Given the government's stated objective of positioning the new tax regime as the default framework and streamlining the overall tax structure, these amendments are likely to incentivise a number of employees to opt for the old regime.

- *Vinita Krishnan (Executive Director) and Viraj Doshi (Principal Associate)*



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