

INCOME-TAX RULES, 2026

[G.S.R. 198(E), DATED 20-3-2026]*

In exercise of powers conferred by section 533¹ of the Income-tax Act, 2025 (30 of 2025), the Central Board of Direct Taxes hereby makes the following rules, namely:—

Short title and commencement.

[R. 1 of the 1962 Rules]

1. (1) These rules may be called the Income-tax Rules, 2026.

(2) They shall come into force on the 1st April, 2026.

Definitions.

[R. 2 of the 1962 Rules]

2. (1) In these rules, unless the context otherwise requires,—

(a) “Act” means the Income-tax Act, 2025 (30 of 2025);

(b) “authorised bank” means any bank as may be appointed by the Reserve Bank of India as its agent under the provisions of sub-section (1) of section 45 of the Reserve Bank of India Act, 1934² (2 of 1934);

(c) “Form” means a Form in Appendix III appended to these rules;

(d) “section” means a section of the Act.

(2) Words and expressions used herein and not defined but defined in the Act shall have the meanings respectively assigned to them in the Act.

Arrangements for declaration and payment of dividends within India.

[R. 27 of the 1962 Rules]

3. The arrangements referred to in section 2(42)³ to be made by a company for the declaration and payment of dividends (including dividends on preference shares) within India shall be as follows:

(a) the share-register of the company for all shareholders shall be regularly maintained at its principal place of business within India, in respect of any tax year from a date not later than the 1st April of such year;

(b) the general meeting for passing the accounts of the tax year and for declaring any dividends in respect thereof shall be held only at a place within India; and

(c) the dividends declared, if any, shall be payable only within India to all shareholders.

*For Rule-wise Commentary on Income-tax Rules, 2026, see **Taxmann’s Master Guide to Income-tax Rules, 2026.**

See also **Taxmann’s Comparative Study of Provisions of Income-tax Rules, 2026 & Income-tax Rules, 1962.**

1. Corresponds to section 295 of the 1961 Act.

2. For text of section 45(1) of the Reserve Bank of India Act, 1934, see **Appendix.**

3. Corresponds to section 2(22A) of the 1961 Act.

Conditions that a stock exchange is required to fulfil to be notified as a recognised stock exchange under section 2(92)⁴.

[R. 6DDA of the 1962 Rules]

4. For the purposes of section 2(92)⁴, a stock exchange shall fulfil the following conditions in respect of trading in derivatives:—

- (a) the stock exchange shall have the approval of the Securities and Exchange Board of India established under the Securities and Exchange Board of India Act, 1992 (15 of 1992) in respect of trading in derivatives and shall function in accordance with the guidelines or conditions laid down in this behalf by the Securities and Exchange Board of India;
- (b) the stock exchange shall ensure that the particulars of the client (including unique client identity number and Permanent Account Number) are duly recorded and stored in its databases;
- (c) the stock exchange shall maintain a complete audit trail of all transactions (in respect of cash and derivative market) for a period of seven tax years on its system;
- (d) the stock exchange shall ensure that transactions (in respect of cash and derivative market) once registered in the system are not erased;
- (e) the stock exchange shall ensure that the transactions (in respect of cash and derivative market) once registered in the system, are modified only in cases of genuine error; and
- (f) the stock exchange shall maintain data regarding all transactions (in respect of cash and derivative market) registered in the system which have been modified and submit a monthly statement in Form No. 1⁵ to the Director General of Income-tax (Systems), within fifteen days from the last day of each month to which such statement relates.

Procedure for notification of a recognised stock exchange for the purposes of section 2(92)⁴.

[R. 6DDB of the 1962 Rules]

5. (1) An application for notification of a stock exchange as a recognised stock exchange for the purposes of section 2(92)⁴ may be made to the Member (Income Tax), Central Board of Direct Taxes, New Delhi.

(2) The application referred to in sub-rule (1) shall be accompanied with the following documents:—

- (a) approval granted by the Securities and Exchange Board of India for trading in derivatives;
- (b) up-to-date rules, bye-laws and trading regulations of the stock exchange;
- (c) confirmation regarding fulfilling the conditions referred to in clauses (b) to (f) of rule 4⁶; and
- (d) such other information as the stock exchange may like to place before the Central Government.

4. Corresponds to section 43(5) of the 1961 Act.

5. Corresponds to Form No. 3BB of the 1962 Rules.

6. Corresponds to rule 6DDA of the 1962 Rules.

(3) The Central Government may call for such other information from the applicant as it deems necessary for taking a decision on the application.

(4) The Central Government, after examining the information furnished by the stock exchange under sub-rule (2) or sub-rule (3), shall notify the stock exchange as a recognised stock exchange for the purposes of section 2(92)⁷ or issue an order rejecting the application before the expiry of six months from the end of the month in which the application is received.

(5) The notification referred to in sub-rule (4) shall be effective until the approval granted by the Securities and Exchange Board of India is withdrawn or expires, or the said notification is rescinded by the Central Government.

Method of determination of period of holding of capital assets in certain cases.

[R. 8AA of the 1962 Rules]

6. (1) For the purposes of section 2(101)(c)(D)⁸, the period for which such capital asset is held by an assessee, shall be determined in accordance with the provisions of this rule.

(2) For the capital asset mentioned in column B of the Table below, the period for which the capital asset is held by the assessee shall be determined in accordance with column C thereof:

TABLE

<i>Sl. No.</i>	<i>Nature of Assets</i>	<i>Period of holding</i>
<i>A</i>	<i>B</i>	<i>C</i>
1.	Shares or debentures of a company, which becomes the property of the assessee under the circumstances mentioned in section 70(1)(z) ⁹ .	The period of holding shall include the period for which the bond, debenture, debenture-stock or deposit certificate, as the case may be, was held by the assessee prior to the conversion.
2.	Capital asset declared under the Income Declaration Scheme, 2016 made under the Finance Act, 2016 (28 of 2016).	(i) In the case of an immovable property, the period for which such property is held is to be reckoned from the date on which such property is acquired, if the date of acquisition is evidenced by a deed registered with any authority of a State Government; and (ii) in any other case, the period for which such asset is held shall be reckoned from the 1st June, 2016.

7. Corresponds to section 43(5) of the 1961 Act.

8. Corresponds to section 2(42A) of the 1961 Act.

9. Corresponds to section 47(x) of the 1961 Act.

Sl. No.	Nature of Assets	Period of holding
A	B	C
3.	Capital asset which became the property of the Indian subsidiary company in consequence to conversion of a branch of a foreign company referred to in section 219(1) ¹⁰ .	The period of holding shall include the following: <ul style="list-style-type: none"> (i) the period for which the asset was held by the said branch of the foreign company; or (ii) the period for which the asset was held by the previous owner, if any, who has acquired the capital asset by a mode of acquisition referred to in section 73(1) [Sl. No. 1. C.A[†]]¹¹ or section 219(1)¹⁰.

(3) In case of the amount which is chargeable to income-tax as income of a specified entity under section 67(10)¹² under the head “Capital gains”,—

- (a) the amount or a part of it shall be considered to be from transfer of short-term capital asset, if it is attributed to,—
- (i) the capital asset which is short-term capital asset at the time of taxation of amount under section 67(10)¹²; or
 - (ii) capital asset forming part of block of asset; or
 - (iii) capital asset being self-generated asset and self-generated goodwill as defined in section 67(11)¹²; and
- (b) the amount or a part of it shall be considered to be from transfer of long-term capital asset or assets, if it is attributed to capital asset which is not covered by sub-clause (i) of clause (a) and is long-term capital asset at the time of taxation of amount* section 67(10)¹².

Procedure for notification of zero coupon bond. [R. 8B of the 1962 Rules]

7. (1) An application by an entity, being an infrastructure capital company or infrastructure capital fund or infrastructure debt fund or a public sector company under section 2(112)¹³, for notification of any zero coupon bond proposed to be issued by it shall be made in Form No. 2¹⁴ at least three months before the date of issue of such bond.

(2) An application made under sub-rule (1) shall not be made for notification of a bond which is to be issued beyond a period of two financial years following the financial year in which such application is made.

10. Corresponds to section 115JG(1) of the 1961 Act.

11. Corresponds to section 49(1) of the 1961 Act.

12. Corresponds to section 45(4) of the 1961 Act.

13. Corresponds to section 2(48) of the 1961 Act.

14. Corresponds to Form No. 5B of the 1962 Rules.

† Letter “A” be omitted.

* Word “under” be inserted after the word “amount”.

(3) An application made under sub-rule (1) shall be disposed of within a period of six months from the end of the month in which such application was received.

(4) Every application, under sub-rule (1), shall be accompanied by the following documents:—

- (a) where the application is made by any infrastructure capital company or infrastructure debt fund or a public sector company, being a Government company defined under section 2(45) of the Companies Act, 2013¹⁵ (18 of 2013), a copy of certificate of incorporation under the said Act;
- (b) where the application is made by any infrastructure capital fund, a copy of the trust deed registered under the provisions of the Registration Act, 1908 (16 of 1908); and
- (c) where the application is made by a public sector company, being any corporation, established by or under any Central Act or State Act or Provincial Act, a copy of the relevant Act.

(5) The Central Government, while specifying a zero coupon bond, by notification, shall satisfy itself that the following conditions are fulfilled:—

- (a) the period of life of the bond is not less than ten years and not more than twenty years;
- (b) the entity proposing to issue a zero coupon bond has an investment grade rating from at least two credit rating agencies registered under section 12(1A) of the Securities and Exchange Board of India Act, 1992¹⁶ (15 of 1992);
- (c) necessary arrangement has been made by the said entity for listing the zero coupon bond in a recognised stock exchange in India;
- (d) the entity shall furnish an undertaking along with the application that the money realised on issue of the zero coupon bond shall be invested by it in the following manner:—
 - (i) 25% or more of such realisation before the end of the financial year immediately following the financial year in which the bond is issued;
 - (ii) the balance of such realisation within a period of four financial years immediately following the financial year in which the bond is issued; and
- (e) where the application is made by an infrastructure debt fund, such fund shall along with the application, submit an undertaking that a sinking fund shall be maintained for the interest which will accrue on all the zero coupon bonds subscribed and such interest shall be invested in Government security as defined under section 2(f) of the Government Securities Act, 2006¹⁷ (38 of 2006).

(6) The Central Government, after having satisfied itself about fulfilling of the conditions referred to in this rule, shall specify the bond, by notification, giving therein, *inter alia*, the following particulars:—

15. For text of section 2(45) of the Companies Act, 2013, see **Appendix**.

16. For text of section 12(1A) of the Securities and Exchange Board of India Act, 1992, see **Appendix**.

17. For text of section 2(f) of the Government Securities Act, 2006, see **Appendix**.

- (a) name of the bond;
- (b) period of life of the bond;
- (c) the time schedule of the issue of the bond;
- (d) the amount to be paid on maturity or redemption of the bond;
- (e) the discount; and
- (f) the number of bonds to be issued.

(7) The Central Government may, if the applicant fails to fulfil the conditions referred to in this rule, reject the application for notification after giving a reasonable opportunity of being heard.

(8) Every entity shall submit within two months from the end of each financial year referred to in sub-rule (5)(d), a certificate from an accountant as defined in section 515(3)(b)¹⁸, specifying the amount invested in each year in Form No. 3¹⁹.

(9) The Central Government shall have the power to withdraw the notification, if the applicant fails to fulfil any of the conditions referred to in this rule.

(10) For the purposes of this rule,—

- (i) “discount” and “period of life of the bond” shall have the meanings respectively assigned to them in section 32(d)(i) and (ii)²⁰; and
- (ii) “infrastructure debt fund” shall mean the infrastructure debt fund as may be notified by the Central Government under Schedule VII [Table: Sl. No. 46]²¹.

Computation of period of stay in India for an Indian citizen, being a member of the crew of a foreign bound ship. [R. 126 of the 1962 Rules]

8. (1) For the purposes of section 6(6)²², in case of an individual, being a citizen of India and a member of the crew of a foreign bound ship, the period or periods of stay in India in respect of an eligible voyage, shall not include the period computed under sub-rule (2).

(2) The period referred to in sub-rule (1) shall be the period beginning on the date entered into the Continuous Discharge Certificate in respect of joining the ship by the said individual for the eligible voyage and ending on the date entered into the Continuous Discharge Certificate in respect of signing off by that individual from the ship in respect of such voyage.

(3) For the purposes of this rule,—

- (a) “Continuous Discharge Certificate” shall have the same meaning as assigned to it in the Merchant Shipping (Continuous Discharge Certificate-cum-Seafarer’s Identity Document) Rules, 2001 made under the Merchant Shipping Act, 1958 (44 of 1958)*;

18. Corresponds to section 288(2) of the 1961 Act.

19. Corresponds to Form No. 5BA of the 1962 Rules.

20. Corresponds to section 36(1)(iiia) of the 1961 Act.

21. Corresponds to section 10(47) of the 1961 Act.

22. Corresponds to section 6(1) of the 1961 Act.

*Now Merchant Shipping Act, 2025.

- (b) “eligible voyage” shall mean a voyage undertaken by a ship engaged in the carriage of passengers or freight in international traffic, where —
- (i) for the voyage having originated from any port in India, has as its destination any port outside India; and
 - (ii) for the voyage having originated from any port outside India, has as its destination any port in India.

Determination of income in case of non-residents. [R. 10 of the 1962 Rules]

9. In any case in which the Assessing Officer is of opinion that the actual amount of the income accruing or arising to any non-resident person, whether directly or indirectly, through or from —

- (a) any asset or source of income in India; or
- (b) any property in India; or
- (c) any business connection in India,

cannot be definitely ascertained, the amount of such income for the purposes of assessment to income-tax may be calculated —

- (i) at such percentage of the turnover so accruing or arising as the Assessing Officer may consider to be reasonable; or
- (ii) on any amount which bears the same proportion to the total profits and gains of the business of such person (such profits and gains being computed in accordance with the provisions of the Act), as the receipts so accruing or arising bear to the total receipts of the business; or
- (iii) in such other manner as the Assessing Officer may deem suitable.

Definition of terms for rules 11²³ and 12²⁴. [R. 11UB of the 1962 Rules]

10. For the purposes of rules 11²³ and 12²⁴, —

- (a) “accountant” —
 - (i) means an accountant referred to in section 515(3)(b)²⁵, who fulfils the following conditions: —
 - (A) if he is pursuing the profession of accountancy individually or is a valuer then —
 - (I) he has professional experience of not less than ten years; and
 - (II) his annual receipt in the year preceding the year in which valuation is undertaken, from the exercise of profession, exceeds fifty lakh rupees;
 - (B) if he is a member or partner in any entity engaged in rendering accountancy or valuation services then, the annual receipt of

23. Corresponds to rule 11UB of the 1962 Rules.

24. Corresponds to rule 11UC of the 1962 Rules.

25. Corresponds to section 288(2) of the 1961 Act.

- the entity in the year preceding the year in which valuation is undertaken exceeds three crore rupees;
- (ii) includes any valuer recognised for undertaking similar valuation by the government of the country where the foreign company or the entity is registered or incorporated or any of its agencies, who fulfils the following conditions: —
- (A) the condition referred to in items (A) and (B) of clause (a)(i);
- (B) if he is a member or partner in any entity engaged in rendering accountancy or valuation services then, the entity or its affiliates have presence in more than two countries;
- (b) “balance sheet”, —
- (i) (A) in relation to an Indian company, means the balance-sheet of such company (including the notes annexed thereto and forming part of the accounts) as drawn up on the specified date which has been audited under the laws relating to companies in force; and
- (B) in any other case, it means the balance-sheet of the company or the entity (including the notes annexed thereto and forming part of the accounts) as drawn up on the specified date and submitted to the relevant authority outside India under the laws in force of the country in which the foreign company or the entity is registered or incorporated; and
- (ii) where, —
- (A) finalisation of accounts is pending as on specified date for the purposes of items (A) and (B) of sub-clause (i), it means an interim balance-sheet drawn up as on the specified date and approved by the board of directors of the company or an equivalent body in case of any other entity; and
- (B) the specified date is the date referred to in section 9(10)(d) (ii)²⁶, it means the balance sheet as drawn up on the specified date and certified by an accountant;
- (c) “book value of the liabilities” means the value of liabilities as shown in the balance-sheet of the company or the entity, as the case may be, excluding the paid-up capital in respect of equity shares or members’ interest and the general reserves and surplus and security premium related to the paid-up capital;
- (d) “connected person” shall have the meaning assigned to it in section 184(5);²⁷
- (e) “foreign company or entity” means a company or entity registered or incorporated outside India;

26. Corresponds to section 9(1)(i) of the 1961 Act.

27. Corresponds to section 102(4) of the 1961 Act.

- (f) “observable price” in respect of a share quoted on a stock exchange shall be the higher of the following: —
- (i) the average of the weekly high and low of the closing prices of the shares quoted on the said stock exchange during the six months period preceding the specified date; or
 - (ii) the average of the weekly high and low of the closing price of the shares quoted on the said stock exchange during the two weeks preceding the specified date;
- (g) “right of management or control” shall include the right to appoint majority of the directors or to control the management or policy decision exercisable by a person or persons acting individually or together, directly or indirectly, including by virtue of shareholding or management rights or shareholders agreements or voting agreements or in any other manner;
- (h) “specified date” shall have the meaning assigned to it in section 9(10) (d)²⁸;
- (i) “telegraphic transfer buying rate” shall have the meaning assigned to it in rule 207²⁹; and
- (j) the expressions “merchant banker” and “recognised stock exchange” shall have the meaning respectively assigned to them in rule 56³⁰.

Fair market value of assets in certain cases. [R. 11UB of the 1962 Rules]

11. (1) The fair market value of asset, tangible or intangible, as on the specified date, held directly or indirectly by a foreign company or entity, for the purposes of section 9(10)²⁸ shall be computed as per this rule with reference to the specified date.

(2) Where the asset is a share of an Indian company listed on a recognised stock exchange on the specified date, the fair market value of the share shall be the observable price of such share on the stock exchange so, however; that —

- (a) if the share is held as part of the shareholding which confers, directly or indirectly, any right of management or control in the said company, the fair market value of the share shall be determined using the following formula: —

$$\text{Fair market value} = (A+B)/C$$

Where,—

A = the market capitalisation of the company on the basis of observable price of its shares quoted on the recognised stock exchange;

28. Corresponds to section 9(1)(i) of the 1961 Act.

29. Corresponds to rule 26 of the 1962 Rules.

30. Corresponds to rules 11U, 11UAA and 11UAB of the 1962 Rules.

B = the book value of liabilities of the company; and

C = the total number of outstanding shares; or

- (b) if, on the specified date, the share is listed on more than one recognised stock exchange, the observable price of the share shall be computed with reference to the recognised stock exchange which records the highest volume of trading in the share during the tax year.

(3) Where the asset is a share of an Indian company not listed on a recognised stock exchange on the specified date, the fair market value of the share shall be—

- (a) the fair market value as determined by a merchant banker or an accountant as per any internationally accepted valuation methodology for valuation of shares on arm's length basis; and
- (b) increased by the liability, if any, considered in such determination as per clause (a).

(4) Where the asset is an interest in a partnership firm or an association of persons, its fair market value shall be determined in the following manner:—

- (a) the value of such firm or association of persons, shall be determined by a merchant banker or an accountant as per any internationally accepted valuation methodology as increased by the liability, if any, considered in such determination;
- (b) the value so computed in clause (a), as is equal to the amount of its capital, shall be allocated among its partners or members in the same proportion in which the capital has been contributed by them;
- (c) the residue of the value shall be allocated among the partners or members as per the agreement of partnership firm or association of persons for distribution of assets in the event of dissolution of the firm or association;
- (d) in the absence of agreement, as specified in clause (c), the residual value shall be allocated in proportion in which the partners or members are entitled to share profits; and
- (e) the sum total of the amount so allocated as per clauses (a) to (d) to a partner or member shall be treated as the fair market value of the interest of that partner or member in the firm or the association of persons, as the case may be.

(5) The fair market value of the asset other than those referred to in sub-rules (2), (3) and (4) shall be the price it would fetch, if sold in the open market as determined by a merchant banker or an accountant and increased by the liability, if any, considered in such determination.

(6) The fair market value of all the assets of a foreign company or an entity on the specified date, if conditions specified in column B of the following Table are fulfilled, shall be determined as per column C thereof: —

TABLE

<i>Sl. No.</i>	<i>Conditions</i>	<i>Fair Market Value</i>
<i>A</i>	<i>B</i>	<i>C</i>
1.	Where the transfer of share of, or interest in, the foreign company or entity is between the persons who are not connected persons, for the purpose of such transfer.	Fair market value of all assets = A+B Where,— A = Market capitalisation of the foreign company or entity computed on the basis of the full value of consideration for transfer of the share or interest; and B = book value of the liabilities of the company or the entity as on the specified date as certified by a merchant banker or an accountant.
2.	Where the share of the foreign company or entity is listed on a stock exchange on the specified date.	Fair market value of all the assets = A+B Where,— A = Market capitalisation of the foreign company or entity computed on the basis of the observable price of the share on the stock exchange where the share of the foreign company or the entity is listed; and B = book value of the liabilities of the company or the entity as on the specified date.
3.	Where the share is listed on more than one stock exchange on the specified date.	Fair market value of all the assets = A+B Where, — A = Market capitalisation of the foreign company or entity computed on the basis of the observable price of the share on the stock exchange which records the highest volume of trading in the share during the period considered for determining the price; and B = book value of the liabilities of the company or the entity.

Sl. No.	Conditions	Fair Market Value
A	B	C
4.	Where the share in the foreign company or entity is not listed on a stock exchange on the specified date.	Fair market value of all the assets = A+B Where,— A = fair market value of the foreign company or the entity as on the specified date as determined by a merchant banker or an accountant as per the internationally accepted valuation methodology; and B = value of liabilities of the company of the entity if any, considered for the determination of fair market value in A.

(7) Where fair market value has been determined on the basis of any interim balance sheet referred to in rule 10(b)(ii)³¹, then the fair market value shall be appropriately modified after finalisation of the relevant financial statement as per the applicable laws and all the provisions of this rule and rules 12 and 235³² shall apply accordingly.

(8) For determining the fair market value of any asset located in India, being a share of an Indian company or interest in a partnership firm or association of persons, all the assets and business operations of the said company or partnership firm or association of persons shall be taken into account whether such assets or business operation are located in India or outside.

(9) The rate of exchange for calculation in foreign currency, of the value of assets located in India and expressed in rupees shall be the telegraphic transfer buying rate of such currency as on the specified date.

Determination of income attributable to assets in India.

[R. 11UC of the 1962 Rules]

12. (1) The income from transfer outside India of a share of, or interest in, a company or an entity referred to in section 9(10)(a)³³ attributable to assets located in India, shall be determined with reference to the specified date, by the following formula: —

$$A \times \frac{B}{C}$$

Where,—

A = Income from the transfer of the share of, or interest in, the company or the entity computed as per the provisions of the Act, as if, such share or interest is located in India;

31. Corresponds to rule 11UB of the 1962 Rules.

32. Corresponds to rules 11UC and 114DB of the 1962 Rules.

33. Corresponds to section 9(1)(i) of the 1961 Act.