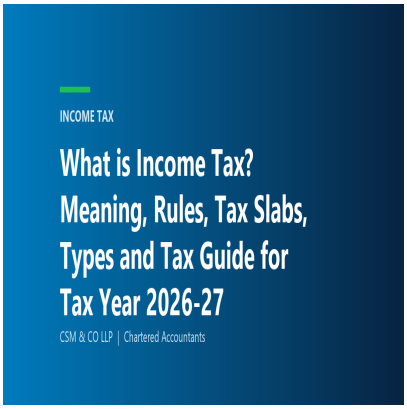

What is Income Tax? Meaning, Rules, Tax Slabs, Types and Tax Guide for Tax Year 2026-27

Description

Last updated: 11 August 2026 · Written and reviewed by CA Meet Dhrangadhariya, CSM & Co LLP

Quick summary

- Income tax is a direct tax on income, administered by the CBDT. Income up to 31 March 2026 is taxed under the 1961 Act and the Income-tax Act, 2025 applies from 1 April 2026.
- The new regime is the default: nil tax up to ?4 lakh, rising in steps to 30% above ?24 lakh, with a ?75,000 standard deduction and nil tax up to ?12 lakh after the rebate.
- Capital gains, lottery winnings and crypto income are taxed at special rates.
- Choose the right ITR form, meet the due dates and pay tax through TDS, advance tax and self-assessment tax.

Income tax is the most important direct tax in India. It is charged on the income a person earns in a year, and it is administered by the Central Board of Direct Taxes (CBDT). Income earned up to 31 March 2026 (FY 2025-26, AY 2026-27) is taxed under the Income-tax Act, 1961. From 1 April 2026 a new law, the Income-tax Act, 2025, applies, and income is reported for a “Tax Year” (see our note on the Tax Year). Individuals can choose between the new and the old tax regime.

What is Income Tax?

Income tax is a tax on the income earned by a person in a year. The rate depends on the amount of income, the type of taxpayer and, for individuals, the regime chosen.

Who pays Income Tax?

The person who is liable to pay tax or any other sum under the Act is called the assessee. The Act recognises these kinds of persons:

1. Individual
2. Hindu Undivided Family (HUF)

3. Company
4. Firm, including a limited liability partnership (LLP)
5. Association of Persons (AOP) or Body of Individuals (BOI)
6. Local authority
7. Artificial juridical person

The Income Tax Act

Under Article 265 of the Constitution, no tax can be levied or collected except under the authority of law. The rules for computing income, deductions, rates, surcharge, cess, due dates and penalties are in the Income-tax Act. After more than six decades of amendments the 1961 Act had become long and hard to follow, so the Income-tax Act, 2025 replaced it from 1 April 2026 with a simpler structure. Section numbers have changed, but most of the rates and rules are carried over.

The five heads of income

Income is computed under five heads: salary, income from house property, profits and gains of business or profession, capital gains, and income from other sources.

Income Tax Slab Rates

Individuals and HUFs are taxed on slab rates. The new regime is the default; an individual may opt for the old regime. Budget 2026 did not change the slab rates.

New tax regime

Total income	Rate
Up to ?4,00,000	Nil
?4,00,001 to ?8,00,000	5%
?8,00,001 to ?12,00,000	10%
?12,00,001 to ?16,00,000	15%
?16,00,001 to ?20,00,000	20%
?20,00,001 to ?24,00,000	25%
Above ?24,00,000	30%

- A standard deduction of ?75,000 is allowed to salaried taxpayers and pensioners.
- A rebate of up to ?60,000 makes the tax nil for a total income up to ?12 lakh (see rebate under section 87A).

Old tax regime (individuals below 60 years)

Total income	Rate
Up to ?2,50,000	Nil
?2,50,001 to ?5,00,000	5%
?5,00,001 to ?10,00,000	20%
Above ?10,00,000	30%

The basic exemption limit is ?3 lakh for resident senior citizens (60 to 79 years) and ?5 lakh for resident super senior citizens (80 years and above) in the old regime. The standard deduction is ?50,000 for salaried taxpayers and pensioners. The old regime allows many deductions and exemptions; the new regime allows very few.

Surcharge and cess

A surcharge is added to the tax of high-income individuals, and health and education cess of 4% is added on the tax plus surcharge. In the new regime the surcharge is capped at 25%.

Special tax rates

Income type	Rate
Long-term capital gains on listed equity shares and equity mutual funds (held over 12 months)	12.5% on gains above ?1.25 lakh in a year
Short-term capital gains on listed equity shares and equity mutual funds	20%
Long-term capital gains on other assets such as property and gold (held over 24 months)	12.5% without indexation
Winnings from lotteries, game shows, online games and betting	30% flat
Income from transfer of virtual digital assets (crypto assets)	30% flat

Debt mutual funds bought after 1 April 2023 and certain similar investments are taxed at your slab rate and not at the rates above.

Deductions

The following popular deductions are mainly available in the old regime:

- **Section 80C:** up to ?1.5 lakh for specified investments and payments.
- **Section 80CCD(1B):** an additional ?50,000 for contributions to the National Pension System.
- **Section 80D:** health insurance premium and medical expenses.
- **Section 80E:** interest on an education loan.
- **Section 24(b):** interest on a home loan.
- **Sections 80TTA and 80TTB:** interest on savings accounts, and for senior citizens interest from deposits.

The employer's contribution to NPS under section 80CCD(2) is allowed in both regimes, up to 10% of salary in the old regime and 14% in the new regime. Under the Income-tax Act, 2025 these deductions carry new section numbers.

Income Tax Return (ITR)

Who need not file a return

- A person whose total income is within the basic exemption limit (?4 lakh in the new regime, ?2.5 lakh in the old regime for those below 60) and who does not fall under the other mandatory filing cases.
- A resident senior citizen aged 75 or more who has only pension and interest income from the same bank, where the bank deducts tax on the person's declaration.

ITR forms

- **ITR-1:** resident individuals with income up to ?50 lakh from salary, one house property and other sources, and long-term capital gains under section 112A up to ?1.25 lakh.
- **ITR-2:** individuals and HUFs with capital gains, income above ?50 lakh or no business income.
- **ITR-3:** individuals and HUFs with business or professional income.
- **ITR-4:** resident individuals, HUFs and firms (other than LLPs) opting for presumptive taxation, with income up to ?50 lakh.
- **ITR-5:** firms, LLPs, AOPs and BOIs.
- **ITR-6:** companies other than those claiming exemption under section 11.
- **ITR-7:** trusts and institutions under specified sections.

Documents to keep ready

Form 16, Form 26AS, the Annual Information Statement (AIS) and Taxpayer Information Summary (TIS), bank statements and interest certificates, proof of deductions, and your bank account details.

Due dates

The due dates are fixed each year and can be extended by the CBDT. For AY 2026-27 the usual dates were:

Taxpayer	Due date
Individuals and others not requiring audit	31 July 2026
Taxpayers whose accounts require audit	31 October 2026, extended to 21 November 2026
Taxpayers with transfer pricing reports	30 November 2026

For the audit extension see our note on the ITR deadline extension for AY 2026-27. Late filing attracts a fee and interest.

How tax is paid

- **Tax deducted at source (TDS):** the payer deducts tax from salary, interest, rent, professional fees and similar payments and deposits it with the government.
- **Advance tax:** payable in instalments if the tax liability for the year is ?10,000 or more: 15% by 15 June, 45% by 15 September, 75% by 15 December and 100% by 15 March. Taxpayers under presumptive taxation pay in one instalment by 15 March.
- **Self-assessment tax:** any balance tax paid before filing the return.

Final Word

Income tax rules change often, especially around the move to the Income-tax Act, 2025. Choose the regime that suits you each year, keep your records ready, meet the due dates and take advice from a qualified professional where needed.

Frequently asked questions

What is income tax?

Income tax is a direct tax charged on the income a person earns in a year. In India it is administered by the Central Board of Direct Taxes and levied under the Income-tax Act.

Which tax regime is the default?

The new tax regime is the default. An individual can opt for the old regime, which allows deductions such as section 80C but has higher slab rates.

Is income up to ?12 lakh really tax free?

In the new regime, a resident individual with total income up to ?12 lakh pays no tax because of the section 87A rebate of up to ?60,000. Salaried taxpayers get a further ?75,000 standard deduction. Special-rate capital gains are not covered by the rebate.

What is the due date for filing an income tax return?

For AY 2026-27 the due date was 31 July 2026 for taxpayers not requiring audit, and 31 October 2026 for audit cases, extended to 21 November 2026. Due dates are fixed each year and can be extended.

Official sources

- Income Tax Department: e-Filing portal
- Income Tax Department: which ITR form is applicable
- e-Gazette: Income-tax Act, 2025 (Act 30 of 2025)
- Union Budget: official website

Related reading

- Verify Your PAN Name Before You Apply: Free TRACES PAN Verification for Income Tax, TDS, GST, ICEGATE and DSC
- Tax on FD Interest: How to Pay Income Tax on Fixed Deposit Interest Income?
- What are the 5 Heads of Income Tax?

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Author
meetsoni