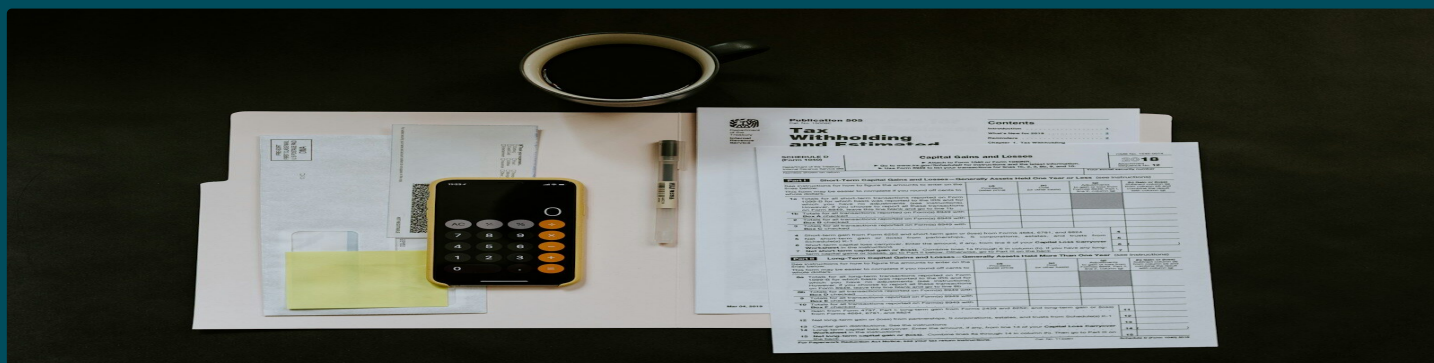




REGULATORY

Bridging Traditional Taxation and Digital Assets: India's Income-Tax (Amendment) Rules, 2026 Explained

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On 5th March 2026, the Central Board of Direct Taxes (“CBDT”), exercising powers conferred under Section 295 read with Section 285BA of the Income-tax Act, 1961, promulgated the Income-tax (Amendment) Rules, 2026 (“the Amendment”) vide Gazette Notification G.S.R. 158(E). Notably, the Amendment carries retrospective effect from 1st January 2026, thereby imposing obligations on reporting financial institutions for the entirety of the current calendar year. The Amendment represents one of the most consequential overhauls to India’s financial account reporting framework in recent years, extending its reach decisively into the domain of digital assets.

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Legislative Context and International Alignment

The Amendment is principally driven by India’s commitment to the Organisation for Economic Co-operation and Development’s (“OECD”) updated Common Reporting Standard (“CRS”) and the newly introduced Crypto-Asset Reporting Framework (“CARF”). Both instruments form the cornerstone of the global push for fiscal transparency, requiring participating jurisdictions to collect and exchange financial account information in respect of tax residents of partner jurisdictions. India’s adoption of these frameworks through amendments to Rules 114F, 114G, and 114H of the Income-tax Rules, 1962 signifies a formal legislative acknowledgment that digital assets constitute a reportable asset class deserving of the same regulatory scrutiny as conventional financial instruments.

Expanded Definitions: Bringing Digital Currencies into the Fold

The Amendment introduces three new definitions that expand the scope of Rule 114F. “Central Bank Digital Currency” (“CBDC”) is formally defined as any digital fiat currency issued by a Central Bank. “Specified Electronic Money Product” (“SEMP”) refers to a regulated digital representation of a single fiat currency, redeemable at par upon demand and accepted as a means of payment by parties other than the issuer. Finally, “Relevant Crypto-Asset” captures any crypto-asset that is neither a CBDC nor a SEMP, or one in respect of which the reporting crypto-asset service provider has adequately determined that it is not capable of being used for payment or investment purposes. These definitions are deliberate and carefully tiered, ensuring that the reporting net captures genuine investment and transactional digital assets while exempting purely utility-based or non-investment tokens.

Reporting Obligations: Enhanced Disclosure Standards

Amendments to Rule 114G materially augment the reporting obligations of financial institutions in respect of accounts other than U.S. reportable accounts. Reporting financial institutions are now mandatorily required to disclose whether a valid self-certification has been obtained from the account holder, whether the account is held jointly and, if so, the number of joint holders, and the role or capacity by virtue of which each reportable person is a controlling person or equity interest holder. Additionally, institutions must identify whether a reported account is pre-existing or newly opened. These requirements collectively strengthen the integrity and granularity of information exchanged between tax authorities, thereby reducing the scope for information gaps that could otherwise enable tax avoidance.

Safeguards, Exemptions, and De Minimis Thresholds

The Amendment incorporates a series of proportionality measures. Depository accounts holding SEMP’s are exempted from reporting where the rolling ninety-day average end-of-day balance does not exceed USD 10,000 at any point during the calendar year. A new category of “Qualified Non-Profit Entity” is introduced as an exempt entity, subject to confirmation by the Income-tax Department that the entity is exclusively established for religious, charitable, scientific, artistic, cultural, athletic, or educational purposes, is exempt from income tax in India, and satisfies prescribed conditions regarding the non-distribution of its income and

assets. Furthermore, to prevent duplicative reporting, gross proceeds from the sale or redemption of financial assets that have already been reported under CARF need not be reported afresh under Rule 114G, thereby eliminating the risk of double reporting for crypto-asset transactions.

Due Diligence Procedures and Transitional Relief

Rule 114H has been amended to address due diligence procedures in the context of accounts treated as financial accounts solely by reason of the CRS amendments. For such accounts, the operative date for new accounts is 1st January 2026, while pre-existing accounts are those maintained as of 31st December 2025. The Amendment also introduces a practical concession for exceptional circumstances: where a reporting financial institution is unable to obtain a valid self-certification from a new account holder within the relevant reporting period, it may apply the due diligence procedures applicable to pre-existing accounts until such certification is obtained and validated. This provision acknowledges operational realities without compromising regulatory intent. A further transitional relief provides that, for reportable accounts maintained as of 31st December 2025, information concerning the role of controlling persons or equity interest holders is required to be reported only to the extent it is available in the institution's electronically searchable records, for reporting periods ending by the second calendar year following that date.

Conclusion

The Income-Tax (Amendment) Rules, 2026 constitute a landmark regulatory development that firmly positions India within the evolving global architecture of tax transparency and digital asset oversight. Financial institutions, crypto-asset service providers, and legal advisers must urgently review their existing compliance frameworks in light of the retrospective effective date of 1st January 2026. The Amendment demands procedural adjustments and a fundamental re-evaluation of how digital assets are classified, reported, and exchanged for tax administration purposes. Institutions that fail to align their operations with these requirements risk exposure to significant regulatory and reputational consequences.

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