

## A COMPARATIVE STUDY OF THE INCOME TAX ACT, 1961 AND THE NEW INCOME TAX BILL 2025

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### ABSTRACT

This research explores a comparative examination of the Income Tax Act of 1961 and the recently launched Income Tax Bill of 2025. The aim is to analyse and clarify the alterations in the definitions, extent and amendment under both sets of laws. The aim is to thoroughly evaluate the changes introduced by the 2025 Bill. The major point of this study is that Income Tax Bill, 2025 aims to streamline and update taxation, tackling the complexities and uncertainties found in the 1961 Act. The bill seeks to enhance clarity by revising definitions, broadening relief options for certain allowances and arrears and adding new clauses that reflect modern employment practices and technological developments. Anticipated results consist of a clearer comprehension of the legal and administrative changes affecting taxpayers and tax agencies, emphasized practical consequences for tax adherence and policy implementation. The research aims to enrich academic discourse by identifying aspects where additional legislative improvements could boost efficiency and fairness for taxpayers, thus facilitating informed choices in tax management and reform policy.

**KEYWORDS:** Income Tax Act 1961, Digital Taxation, Income Tax Bill 2025, BEPS Compliance, Tax Policy Modernization

### INTRODUCTION

The Income Tax Act of 1961 regulates the assessment, collection and management of direct taxes in India. It is applicable to everyone earning income in India, irrespective of their citizenship status. According to this legislation, taxpayers must pay direct taxes at specified rates. Under section 15 to 17 of the Income Tax Act 1961 states the Income from salary. This law establishes the guidelines for assessing tax obligations on earnings according to their accrual or receipt, allowing specific deductions to promote fair taxation. Yet, due to changing economic conditions, technological progress and transforming job structure, the 1961 Act's elements have been criticized for being complicated and unclear.

The revised Income Tax Act has been greatly simplified, featuring fewer sections and chapters which enhances its clarity and ease of implementation. It features organized timetables in addition to useful charts and equations to enhance understanding. In general, the wording and design have been refined for improved accessibility and clarity. Crucially, the Act maintains current taxation principles, guaranteeing consistency while improving usability. This study will analyse these two legal systems side by side, emphasizing significant alterations, effects for practitioners and taxpayers and possible areas for additional improvement. This study is important for comprehending how India's tax regulations are evolving to meet contemporary issues in salary income taxation.

## OBJECTIVE OF THE STUDY

1.To compare the structural provisions, heads of income and tax slabs of the Income Tax Act,1961 with those in the Income Tax Bill, 2025.

2.To examine changes in deductions, exemptions and compliance measures brought about by the 2025 Bill.

3.To evaluate the Bill's effect on reducing litigation, simplifying administration and addressing digital economy challenges.

## METHODOLOGY

The research mainly focuses on doctrinal legal analysis and Comparative legal analysis, entailing a thorough review and scrutiny of legislative provisions in the Income Tax Act 1962, along with the Income Tax Bill, 2025.This involves essential analysis of legal documents regulations and standards concerning salary income and their implementation. A methodical comparative strategy will be employed to recognize parallels, distinctions, advantages and shortcomings between the two laws.

A comprehensive reliance on secondary data sources such as government documents, official tax announcements, circulars, insights from tax professionals, court rulings and scholarly articles will be employed to back the analysis.

## KEY ARGUMENTS

The research evaluates how these reforms affect taxpayers and correspond with international tax standards, ultimately enhancing efficiency and taxpayer satisfaction with India's tax system.

## 1.BACKGROUND OF INCOME TAX FRAMEWORK IN INDIA<sup>979</sup>

**Mauryan System:** Kautilya devotes a significant amount of Arthashastra to financial topics, especially financial topics, especially financial administration. A well-known statesman claimed that the Mauryan system, as it related

to agriculture, was essentially a type of state landlordism and that the state relied heavily on the revenue collected from the sale of property. Besides retaining a certain proportion of the harvest, the government incurred hydro charges, tariffs, immigration charges and octroi tariffs. The commerce and trade conducted with other nations, as well as the Mauryan Empire's aggressive efforts to encourage such trade. Goods were imported from the People's Republic, and other countries and all foreign goods, the concerned businessman had to pay an additional fee known as Dvarodaya.Furthermore, various ferry fees were imposed in order to increase tax revenue. Income tax collection was well managed and provided a significant portion of the state's revenue. A significant amount was obtained from performers, musicians, dancers and dancing ladies, among others ,in the form of income tax. This taxation was proportionate to the income fluctuations rather than progressive. Additionally, an excess profits tax was gathered. When buying or selling a building there was an additional tax in addition to the ordinary sales tax. Even the gaming industry was centralized<sup>980</sup>and taxes were collected from it. On pilgrims, a yatravetana charge was imposed. The money raised in this way was used to fund social services including building roads, establishing schools, establishing new settlements and other helpful initiatives.

Kautilya has also provided a comprehensive account of the Mauryan Empire's tax administration system. It is amazing how similar the modern tax system is to the taxation system in many aspects. The arthashastra maintained that there was no room for arbitrariness because each tax was unique. The money received as tolls from roads and traffic was known as vanikpath. It is not hard to find the explanation behind Kautilya's grate emphasis on public finances and the arthashastra's taxing

<sup>979</sup> (Eunice Tryphena,], Background and Legislative History of Direct Taxation System In India,International Journal of Novel Reserach and Development(IJNRD),Volume 9,Issue 10, ISSN:2456-4184,2024)

<sup>980</sup> (Tryphena,], Background and Legislative History of Direct Taxation System In India,International Journal of Novel Reserach and Development(IJNRD),Volume 9,Issue 10, ISSN:2456-4184,2024)

system. He said that the strength of the government's treasury determined its authority.

Fiscal revenues comprise the proceeds from land and levies on trade. The predetermined charges, like the semi-annual Vasantika, Bhadra and Padika. The tax on commerce included direct taxes, trade and profession taxes, custom charges and sales taxes. The taxes on commerce included direct taxes, trade and profession taxes, custom charges and sales taxes. Produce from sowed lands, earnings from the State's production of oil, sugarcane, and beverages and other State-conducted business made up the non tax revenues. During an emergency, the land revenue could be increased from one-sixth to one-fourth. The business community was expected to contribute significantly to the war effort.

**Khilji period:** Ala-ud-din Khilji demanded the state to retain 50% of the agricultural output. The Islamic law distinguished between two kinds of land taxes: ushr and kharja. The tax known as kharja which ranged from one-tenth to one-half, was levied on Hindu-owned land. Whereas the other one levied on Muslim properties.

**Tughlaq period:** Mohammad Tughlaq was the one who increased taxes in the doab and brought much disgrace upon himself. Muhammad Tughlaq made the decision to increase land tax in the doab, an area renowned for its bountiful lands, with the objective to generate the considerable quantity required for his takeover and rule. The burdensome taxes were pricey to taxpayers. Subsequently, Firoz Tughlaq only imposed the four taxes namely Zakat, Khamo Khimo, Jaziya which authorized by the Quran. Land Tax was known as Khiraj. One-Fifth of the spoils from conflicts were worth one-khams. A tax collected from Muslims for religious purposes namely zakat and from Hindu called Jaziya. Later on, he introduced an irrigation tax to these four categories of tariffs on farmers using the water from the canals. It was billed at the rate of 10%

of the produce grown under irrigation. It should be mentioned that he asked the Ulemas for permission to impose this fee. The way Tughlaq paid his taxes, stayed the same under the next Sultans.

**Mughal Period:** In ancient era, Akbar instituted a new system called the Bandobast Arazi, Zabti or Dahsala system. This involved figuring out the average price for the preceding 10 years as well as the average yield of different crops. Several evaluation methods were also in use under Akbar, one among is "crop-sharing". Once more, there were three variations of this: The first was bhaoli, when the gatherings saw the division, stacking and reaping of the crops. The second type known as khet batai, included splitting the fields after they were seeded. The third kind, called lang batai, had split grain piles. Under Batai, agricultural workers could offer payment in form or money, however on lucrative crops, the authorities consistently demand money. The British East India Company occasionally placed direct taxes on specific occupations and businesses in a presidential metropolitan areas. However, the ineffective implementation of these levies led to their repeal. Nevertheless, in response to the economic turmoil caused by the eruption of Sepoy Mutiny, the Indian government imposed another tax on commerce and occupations in 1859.

#### **Legislative History of Income Tax<sup>981</sup>:**

**Income Tax Act 1860:** Notwithstanding the fiscal obstacles triggered by the turmoil took place in 1857. The British incurred taxation on earnings in India for the first time. Sir James Wilson, the then-finance minister, imparted the "Budget" in 1860. This 1860 Act expired in 1865 since it was only authorized for a five-year duration. It was replaced in 1867. Finally, it was prohibited in 1873. Up until 1886, when it was combined into the Income Tax Act of that year, license tax dealers continued to operate.

<sup>981</sup> (Tryphena, J., Background and Legislative History of Direct Taxation System In India, International Journal of Novel Research and Development (IJNRD), Volume 9, Issue 10, ISSN:2456-4184, 2024)

**Income Tax Act, 1886:** The Act of 1886 imposed taxes on both Indian residents and non-residents income. The Act of 1886 exempted premiums for life insurance that an assessed individual paid for policies covering his own life. The Act also included a significant provision that treated Hindu undivided families as separate taxable entities.

**Income Tax Act, 1918:** The 1918 Act amended receipts that were one-time or irregular in character and related to businesses or professions.<sup>982</sup> The 1918 Act established detailed requirements for the first time governing corporate deductions for the sake of analysing gross income, despite the fact that revenues tax in India has consistently been payable against net income. After the classification of central and provincial subject by Government of India Act 1919, the Act of 1918 was briefly superseded by the following act.

**Income Tax Act, 1922:** The taxation's organizational history begins in 1922. One of the important elements of the 1922 Act was that it specified the parameters, manner of imposing the tax and inflation rates at which it would be levied through standard budget acts. This process secured a certain amount of elasticity for the tax system and added much-needed flexibility in modifying the tax rates in line with the annual budgetary requirements. The Income Tax statute itself set the tax rates prior to 1922, and the statute itself had to be revised in order to change the rates. The Income Tax Act of 1922 established a proper administrative framework and provided distinct names for the various income tax authorities.

**Income Tax Act 1961:** On April 1, 1962, the Income Tax Act of 1961 became operative. Since 1962, it has undergone multiple revision as a result of the annual Finance Act, in order to adapt to India's evolving circumstances and economy. Furthermore, the Central Board of Direct Taxes has the authority to change regulations and

make clarifications to instructions as needed. In addition, numerous Amendment Acts have been used to enact revisions, including the Taxation Laws Amendment Act of 1984, the Direct Taxes Law Amendment Acts of 1988 and 1989, the Direct Taxes Law Second Amendment Act of 1989, then finally the Amendment Act 1991, an independent board, referred to as (CBDT), was established by the Revenue Act of 1963. Thereafter, the Income Tax Act of 1961 has undergone substantial modifications.

## 2. STRUCTURAL FRAMEWORK OF INCOME TAX ACT, 1961<sup>983</sup>

The Income Tax Act of 1961 contains an organized structure comprising 23 Chapters, 298 Primary sections, 14 schedules and various provisions/explanations arranged from basic concepts to procedural application.

<sup>982</sup> (Tryphena.), Background and Legislative History of Direct Taxation System In India, International Journal of Novel Research and Development (IJNRD), Volume 9, Issue 10, ISSN:2456-4184, 2024

<sup>983</sup> (The Income Tax Act 1961, Commercial law publishers Pvt Ltd. 2025)

Chapter I Preliminary (Section 1 to 3): Short title, extent and commencement, definitions, "Previous year" defined

Chapter II Basis of Charge (Section 4 to 9A): Charge of income tax, Scope of total income, Residence in India, Income deemed to be received,

Chapter III Income which do not form part of total income (Section 10 to 13B): Exemptions like agricultural income and HRA), export incentives, charitable trusts and political party incomes.

Chapter IV Computation of total income (Section 14 to 59): Heads of income, salaries, Income from house property, Profits and gains of business or profession, Capital gains, Income from other sources

Chapter V Income of other persons, included in Assessee's total income (Section 60 to 65): Transfer of income, Revocable transfer of assets, clubbing of income.

Chapter VI Aggregation of income and set off or carry forward of loss (Section 66 to 80): Aggregation of Income, Set off, or carry forward and set off

Chapter VI-A Deductions to be made in computing total income (Section 80A to 80U) : General deductions, deductions in respect of certain payment, Deductions in respect of certain incomes, deductios in respect of other incomes, other deductions

Chapter VII Incomes forming part of total income on which on income tax is payable (Section 86 ) : Share of member of an association of persons or body of individuals in the income of the association or body.

Chapter VIII Rebates and Reliefs (Section 87 to 89) : Rebale of income tax, Relief for income tax

GRASP - EDUCATE - EVOLVE

Chapter IX (Section 90 to 91) Double taxation relief

Chapter X (Section 92 to 94B) Special provisions relating to avoidance of tax

Chapter XA (Section 95 to 102) General Anti-Avoidance Rule

Chapter XII (Section 110 to 115BBG) Determination of tax in certain special cases

Chapter XIIA (Section 115C to 115-I) Special provisions relating to certain incomes of non residents

Chapter XII-B (Section 115J to 115 JB) Special provisions relating to certain persons other than a company

Chapter XII-D (Section 115-O to 115Q) Special provisions relating to tax on distributed profits of domestic companies

Chapter XII-E (Section 115R to 115T) Special provisions relating to tax on distributed income

Chapter XII-F (Section 115U) Special provisions relating to tax on income received from venture capital companies and venture capital funds

Chapter XII-G (Section 115V to 115VZC) Special provisions relating to income of shipping companies

Chapter XII-H (Section 115W- 115WM) Income tax of fringe benefits

Chapter XIII (Section 116 to 138) Income tax authorities : Appointment and control, Jurisdiction, Disclosure of information

Chapter XIV (Section 139 to 158) Procedure for assessment

Chapter XV (Section 159 to 180A) Liability in special cases :Legal representatives,representative assesses-miscellaneous provisions,Excutors,special provisions for certain kinds of income

Chapter XVI (Section 184 to 189A) Special provisions applicable to firms:Assessment of firms,changes in constitution,succession and dissolution

Chapter XVII (Section 190 to 234F): Collection and recovery of tax: Deduction at source,collection at source,Advance payment of tax,collection nad recovery,tax payable under provisional assessment

Chapter XVIII (Section 235 to 236A) Relief respecting tax on dividends in certain cases

Chapter XIX (Section237 to 245) Refunds

Chapter XIXA (Section 245A to 245L) Settlement of cases : Income tax settlement commission,jurisdiction, power and procedure of settlement commission.

Chapter XX (Section246 to 269) Appeals and Revision: Appeals to the deputy commissioner (appeals) and commissioner (appeals),Appeals to the appellate tribunal,Reference to high court,Appeal to high court, Appeal to the supreme court

Chapter XXI (Section 270A to 275) Penalties Imposable

Chapter XXII (Section 275A to 280D) Offences and prosecutions

Chapter XXIII (Section 281 to 298)Miscellaneous

**3. VITAL PROVISIONS AND CHALLENGES**

➤ Total Income and Residential Status (Section 5 to 9)

- Total Income is defined in Section 2(45) the total amount of Income referred to in section 5, computed in the manner laid down in the Income tax Act. Total Income is computed under five heads of income, income computed under each head is thereafter aggregated and the aggregate amount is known as Gross Total Income. From Gross Total Income, certain deductions are allowed under sections 80C to 80U and the balance income after deductions is known as Total Income.

- Total Income of an assessee cannot be computed unless we know his residential status in India during the previous year. According to the residential status, the assessee can either be:
  - (i) Resident in India; or
  - (ii) Non-Resident in India
 However, individual and HUF, if resident in India, will be either:
  - (a) Resident and ordinarily resident in India; or
  - (b) Resident but not Ordinarily resident in India.

- In the case of Resident in India (resident and ordinarily resident in case of individual or HUF) (Section 5(1))

- In the case of a Resident but not ordinarily Resident in India (In the case of individuals and HUF only) (Section 5(1) and its proviso)

- In the case of Non-Resident (Section 5(2))<sup>984</sup>

➤ As per Section 14, all income, for purpose of charge of Income-tax and computation of total income are classified under the following heads of income:

- (i) Salaries (Sections 15 to 17)
- (ii) Income from house property (Sections 22 to 27)
- (iii) Profits and Gains of Business and Profession (Section 28 to 44DA)
- (iv) Capital gains (Sections 45-55A)
- (v) Income from other sources (Section 56-59)<sup>985</sup>

➤ Income under the Head "Salaries" (Section 15 to 17)

To Compute Salary

Income		
1. Basic salary, Pension, Annuity, Bonus, Commission, Arrears of salary, Advance salary		Rs... .....
2. Add: Gratuity, leave encashment, commuted pension and allowances after claiming exemption, if any, under section 10	Rs ..... Rs	
(a)	.....	Rs...
(b)	Rs	.....
(c)	.....	
Total		
3. Add: Value of perquisites and/or profits in addition to or in lieu of salary (see section 17(2) and (3))	Rs ..... Rs	
(a)	.....	Rs...
(b)	.....	
(c)	Rs	.....
Total	.....	
4. Employer's contribution to		

<sup>984</sup> (Gupta, Dr. Girish Ahuja and Dr. Ravi, Systematic approach to Income Tax, service tax and VAT, Bharat Law House Pvt. Ltd, 2010)

<sup>985</sup> (Gupta, Dr. Girish Ahuja and Dr. Ravi, Systematic approach to Income Tax, service tax and VAT, Bharat Law House Pvt. Ltd, 2010)

RPF in excess of 12% of salary of employee		Rs...
		.....
5. Interest credited to RPF in excess of notified amount		Rs...
		.....
6. Gross salary (1+2+3+4+5)		Rs...
		.....
7. Less: Deductions allowed under section 16	Rs	
(a) Entertainment allowed under section 16	.....	
(b) Employment tax (Section 16(ii))	Rs	Rs...
	.....	.....
Total		
Income Chargeable under the Head "Salaries" (6-7)		Rs...
		.....

- Income under the Head "Income from House property" (Sections 22 to 27)<sup>986</sup>

1. Gross annual value i.e. expected rent/actual rent received or receivable, whichever is higher However, in case of vacancy, expected rent or actual rent received or receivable, whichever is lower		Rs.....
2. Less:		
(a) The amount of rent which could not be realized		Rs.....
(b) Taxes actually paid and borne by owner to local authority		
Net annual value (NAV)		Rs.....
3. Less: Deduction allowed u/s 24	Rs.....	
(a) Standard deductions @ 30% of NAV	Rs.....	
(b) Interest on borrowed capital (section 24(1)(vi))		Rs.....

Total		
4. Income chargeable under the head "Income from House Property" (2-3)		Rs.....

- Income under the Head "Profits and Gains of Business or Profession" (Section 28 to 44D)<sup>987</sup>

To Compute "Profits and Gains of Business and Profession"

A. Income from sources other the speculation business		
1. Net profit/loss as per Profit and Loss Account	Rs.....	
2. Additions and deductions of amounts which have not been adjusted in the Profit and Loss Account in accordance with sections 28 to 44C	Add	Deduct
	.....	.....
	.....	.....
	.....	.....
Total adjustments		Rs.....
3. Balance after adjustment (1+2)		Rs.....
4. Interest and remuneration from the firm	Rs.....	
5. Chargeable income from business/profession (other than speculation business (3+4))	Rs.....	
B. Speculation business		
6. Net p from speculation business profit/loss (after adjustments in	Rs.....	

<sup>986</sup> (Gupta, Dr.Girish Ahuja and Dr.Ravi, Systematic approach to Income Tax, service tax and VAT, Bharat Law House Pvt.Ltd, 2010)

<sup>987</sup> (Gupta, Dr.Girish Ahuja and Dr.Ravi, Systematic approach to Income Tax, service tax and VAT, Bharat Law House Pvt.Ltd., 2010)

accordance with sections 28 to 44C, if necessary)		
7. Brought forward speculation loss adjusted with income at item 6	Rs.....	
8. Balance speculation profit (6-7)		Rs.....
9. Total of amount at items 5 and 8	Rs.....	
10. Other brought forward loss from business/profession, if any, set off with the income at item 9	Rs.....	
11. Balance income (8-9)		Rs.....

incurred wholly and exclusively in connection with such a transfer	Rs.....	Rs.....
(b) Indexed Cost of acquisition	...	.
(c) Indexed Cost of Improvement	Rs.....	
Long-term capital gains		Rs.....
Less: Exemption if available u/s 54/54B/54D/54EC/54F/54G/54GA		Rs.....
Taxable long-term capital gains		Rs.....

➤ Income under the Head “Capital Gains” (Sections 45 to 55A)<sup>988</sup>

To Compute Capital Gains

<b>Computation of Short-term Capital Gains</b>		
Full value of consideration		Rs.....
Less: (a) Expenditure incurred wholly and exclusively in connection with such a transfer,	Rs.....	
(b) Cost of acquisition	...	Rs.....
(c) Cost of improvement	Rs.....	Rs.....
Gross short term capital gains		Rs.....
Less: Exemption, if available u/s 54B/54D/54G/54GA		Rs.....
Taxable short term capital gains		Rs.....
<b>Computation of Long-term Capital Gains</b>		
Full value of consideration		Rs.....
Less: (a) Expenditure	Rs.....	

➤ Income under the Head “Income from other Sources” (Section 56 to 59)

Following are some of the other incomes which are normally chargeable to tax under this head because these are not covered under any of the four specified heads;

- (i) Income from sub-letting of a house property by a tenant
- (ii) Casual income
- (iii) Insurance commission
- (iv) Family pension (Payments received by the legal heirs of a deceased employee);
- (v) Director’s sitting fee for attending board meetings;
- (vi) Interest on bank deposits/deposits with companies;
- (vii) Interest on loans;
- (viii) Income from undisclosed sources;
- (ix) Remuneration received by members of parliament
- (x) Interest on securities of foreign governments;
- (xi) Rent from a vacant piece of plot of land
- (xii) Agricultural income from agricultural land situated outside India;
- (xiii) Director’s commission for standing as a guarantor to bankers
- (xiv) Income from racing establishment;

<sup>988</sup> (Gupta, Dr. Girish Ahuja and Dr. Ravi, Systematic approach to Income Tax, service tax and VAT, Bharat Law House Pvt. Ltd, 2010)

(xv) Income from granting of mining rights,<sup>989</sup>

- Income of other Persons included in Assesses Total Income (Clubbing of Income) (Section 60 to 65)
  - Transfer of income where there is no transfer of assets (Section 60)
  - Revocable transfer of assets (Section 61)
  - When a transfer is revocable (Section 63)
  - Section 61 not applicable, if the transfer is irrevocable for a specified period (Section 62)
  - Income from assets transferred to son's wife (Section 64(1)(vi))
  - Income from assets transferred to any person for the benefit of the spouse of the transferor (Section 64(1)(vii))
  - Income from assets transferred to any person for the benefit of son's wife (Section 64(1)(viii))
  - Clubbing of income of a minor child (Section 64(1A))
  - Income from self-acquired property converted into joint family property (Section 64(2))

**4. NEED FOR REFORM AND INTRODUCTION OF THE 2025 BILL**

To Modernize and simplify India's outdated tax laws, the government announced a comprehensive review of the Income-tax Act, 1961<sup>990</sup>. This led to the introduction of the Income tax Bill, 2025, which was referred to a Select Committee of parliament for detailed examination. After receiving extensive recommendations and suggestions from stakeholders, the government decided to withdraw the original Bill and introduced a revised version The Income Tax (No.2) Bill, 2025. This updated bill incorporated most of the committee's inputs along with improvements in legal clarity and drafting. It was passed by both

Houses of Parliament in the monsoon session and now forms the foundation of India's new tax framework.

Elements Contributing to the complexity of India's Income-tax Act, 1961<sup>991</sup>:-1.

**Extensive Amendments**  
The Act has been amended nearly 65 times with decades through annual Finance Acts and 19 Bills. While these changes were intended to keep the Act up-to-date, they have increased its length and complexity.

**Numerous Exemptions and Incentives**  
Over the years, the Act was repeatedly amended with various exemptions and deductions to support socio-economic goals, such as promoting balanced growth and advancing social equity. These provisions have added to the complexity of the Act, particularly for export income, investments in specific sectors, and development.

**Reduced Tax Base and Increased Complexity**  
The numerous exemptions and incentives significantly reduced the tax base, leading to higher administrative burdens and increased litigation.

**Fragmented Structure and Outdated Language**  
The accumulation of amendments and additional provisions over time has led to a fragmented structure. The complexity was further compounded by the presence of outdated provisions and language that is no longer in use.

**Traditional Legal Language**  
The Act was written in traditional legal language, characterized by complex provisions and extensive explanations, making it difficult to understand and apply.

In July 2024, the finance minister announced the Government's intent to overhaul the Income-tax Act, 1961, aiming to simplify its language, reduce disputes and eliminate outdated provisions. The simplification exercise followed three guiding principles:

<sup>989</sup> (Gupta, Dr. Girish Ahuja and Dr. Ravi, Systematic approach to Income Tax, service tax and VAT, Bharat Law House Pvt. Ltd, 2010)  
<sup>990</sup> (Backgrounders Press Information Bureau Government of India, The Income Tax Act, 2025 Reshaping Tax Framework, 2025)

<sup>991</sup> (Backgrounders Press Information Bureau Government of India, The Income Tax Act, 2025 Reshaping Tax Framework, 2025, 2025)

Textual and structural simplification for improved readability and coherence

No major tax policy changes to ensure continuity and certainty

No modifications of tax rates, preserving predictability

The drafting process of the Income Tax Act, 2025 was anchored in a threefold framework, each component playing a critical role in shaping the legislation's structure, intent and implementation strategy:

Eliminating intricate language to enhance readability

Removing redundant and repetitive provisions to streamline navigation

Reorganizing provisions logically to facilitate reference

## 2.2 FEATURES OF INCOME TAX ACT, 2025

- Introduction of 'Tax Year': - The Act simplifies tax terminology by replacing the previously used and often confusing terms 'Assessment Year' and 'Previous Year' with a single, unified concept called the 'Tax Year'. It has been defined as the twelve-month period of the financial year commencing on the 1<sup>st</sup> April.
- Power to Frame Schemes: - The Act authorizes the Central Government to design new schemes aimed at improving efficiency, transparency, and

accountability in tax administration (S.532). This can be done by:

- i. Eliminating the interface with the assessee or any other person to the extent technologically feasible, and
- ii Optimising utilisation of the resources through economies of scale and functional specialisation.

- Simplified Compliance: - Multiple provisions have been brought together for more clarity.
- Digital-First Enforcement: - Virtual Digital Space has been defined as an environment, area, or realm that is constructed and experienced through computer technology. It includes email servers, cloud servers, social media accounts, online investment and trading accounts and websites for storing details of asset ownership.
- Dispute Resolution: -The Income Tax Act 2025 introduces a more robust and taxpayer-friendly framework for resolving disputes.

## 5. OBJECTIVES OF THE NEW BILL

The Income Tax Act, 2025 has been introduced to modernize India's direct tax framework, focusing to simplify and streamline tax legislation, making it more accessible, transparent and less prone to litigation. By adopting plain language and restructuring provisions logically, the Act aims to reduce taxpayer confusion and improve voluntary compliance. It also seeks to minimize disputes through clearer definitions and harmonized assessment timelines. The reform reflects India's commitment to align with global best practices, improving ease of doing business and fostering a trust-based tax environment. In essence, the Act is designed not to overhaul tax rates, but to overhaul the tax experience-making it more predictable, efficient and digitally enabled.

- Simplification: Replace archaic language and redundant provisions with clear, concise and modern legal text.

- Digital Integration: Enable faceless assessments and digital compliance to reduce human interface and corruption
- Taxpayer-Centric Approach: Improve ease of filing, reduce litigation, and enhance transparency.
- Global Alignment: Reflect contemporary economic realities, including taxation of digital assets and global income.

## 6. CONCEPTUAL AND DEFINITIONAL FRAMEWORK

### A. The "Tax Year" Reform

The creation of "tax year" from "previous year" and "assessment year" is one of the conceptual changes introduced by the Bill, which deserves special consideration. The Income Tax Act of 1961 introduces a structural duality that requires ongoing bifurcation in legal analysis and return preparation because income earned in the "previous year" (April 1 to March 31) is assessed in the "assessment year" (the following year).<sup>992</sup>

The Income Tax Bill, 2025 abolishes this duality by introducing the concept of "tax year," which is a twelve-month period from April 1st to March 31st, which will act as a period of accrual, assessment, and liability. This change, which appears to be merely administrative in nature, has significant implications in relation to the computation of limitation periods, residential status, and deduction of income.

### B. Definition of "Person" and Taxable Entities

"Person" as defined in Section 2(31) of the Income Tax Act, 1961, includes an individual, Hindu Undivided Family, company, firm, association of persons or body of individuals, local authority, and every artificial juridical person not included in the above categories.<sup>993</sup>

The definition is retained in the Income Tax Bill, 2025 but is made part of an overall definition section in Clause 2(1)(79) with the addition of provisions for new forms of entities such as limited liability partnership as opposed to the

traditional firm, and digital business establishments.

### C. New Definitional Additions

The Bill proposes a number of new definitions, which were either addressed in the Act through judicial interpretations or ad hoc insertion. The most significant new definitions are those relating to "virtual digital assets" as a new category of taxation, codifying the law on virtual digital assets as proposed in Finance Act 2022 into the principal legislation relating to taxation.<sup>994</sup> The Bill proposes new definitions for "principal place of effective management" and "significant economic presence" as a basis for international taxation, which are in line with India's compliance with BEPS rules.<sup>995</sup>

<sup>992</sup> Income Tax Bill 2025, cls. 167–172 (introducing tabular presentation of TDS rates replacing scattered provisions)

<sup>993</sup> Income-tax Act 1961, Sec. 2(31) (defining "person"); Income Tax Bill 2025, cl. 2(1)(79) (redefining same).

<sup>994</sup> Income Tax Bill 2025, cl. 15(2) (introducing concept of "virtual digital assets" as taxable income under new head).

<sup>995</sup> Income Tax Bill 2025, cls. 400–430 (consolidating international taxation provisions including POEM, BEPS compliance, and thin-capitalisation rules).

## 7. CHARGING PROVISIONS AND HEAD OF INCOME

Head of Income	Act 1961 (Sections)	Bill 2025 (Clauses)	Key Changes
Salaries	Sec. 15–17	cls. 20–26	Simplified computation; perquisite table
House Property	Sec. 22–27	cls. 30–36	Plain language; deemed rent formula
Business / Profession	Sec. 28–44DB	cls. 40–80	Rationalised allowances; tabular depreciation
Capital Gains	Sec. 45–55A	cls. 67–115	Unified framework; grandfathering preserved
Other Sources	Sec. 56–59	cls. 116–130	VDA expressly included; new interest rules

## 8. TAX DEDUCTION AND COLLECTION AT SOURCE

The TDS/TCS regime under the Income Tax Act, 1961, covering Sections 192 to 206AA, is arguably one of the most important and controversial parts of the Act. This section, covering a number of provisions with varying structures, extends to a number of different rates, thresholds, and exceptions, making compliance a challenge for deductors, and giving rise to a number of litigations under the penal provisions. The Income Tax Bill, 2025 has made a significant change to the TDS/TCS provisions under Clauses 167 to 204. Perhaps the most important change is that a series of tables will be included showing all applicable rates, thresholds, and exemptions applicable to TDS, replacing the current narrative style, where a number of provisions have to be cross-checked to arrive at a conclusion. This change, if implemented, will perhaps be the single most important change in reducing compliance complexity. The Bill has also rationalized the rates applicable to resident individuals and non-residents, reduced the number of different types of TDS to thirty-one,

as opposed to forty-seven, by consolidating overlapping types, and included a consolidated statement of TCS obligations.<sup>996</sup>

## 9. ASSESSMENT PROCEDURE

The Income Tax Act, 1961, in Section 147, deals with the reopening of assessments in cases of income escaping assessment. The amendment to this section under the Finance Act, 2021, has significantly restricted the time frame for assessment, which is three years in most cases, while in other cases, where income over ₹50 lakhs has escaped assessment, it is ten years. The Income Tax Bill, 2025, has significantly modified the procedure for reassessment under Clauses 263-290, which include the maintenance of the time frame, while codifying the procedure available to taxpayers, which includes their right to respond to the show cause notice before any order of reassessment is passed. The Income Tax Bill, 2025, has codified

<sup>996</sup> Income-tax Act 1961, Sec. 192–206AA (scattered TDS provisions); Income Tax Bill 2025, cls. 167–204 (consolidating all TDS/TCS into unified chapter).

the procedure in line with the Supreme Court's decision on the requirement of a live link between the information and the income which has escaped assessment.<sup>997</sup> The faceless assessment scheme, which was earlier introduced through administrative circulars and subsequently given a limited legislative backing under the Income Tax Act, 1961, has been specifically included in the Income Tax Bill, 2025, in the form of a specific statutory right available to taxpayers.<sup>998</sup> A detailed regime for faceless assessments, appeals, and penalty proceedings under the Income Tax Act, 1961, has been proposed under clauses 515 to 536 of the Income Tax Bill, 2025. The regime includes the method of allocation, the role of the National Faceless Assessment Centre, and the method of holding personal hearings in exceptional cases.<sup>999</sup>

Further, Section 119A of the Income Tax Act, 1961, which was inserted by the Finance Act, 2020, mandated the CBDT to frame a taxpayer charter that includes the rights and obligations of taxpayers. The taxpayer charter was framed but remained only a statement of intention and not binding in nature. Clause 515 of the Income Tax Bill, 2025 provides a significant boost to the taxpayer charter by making it a requirement for the CBDT to ensure that the taxpayer's rights are respected in all administrative proceedings. The implications of such a provision are far-reaching for the scope of challenging administrative action in the Income Tax Act.<sup>1000</sup>

## 10. INTERNATIONAL TAXATION

International tax provisions, one of the most rapidly evolving areas of direct tax law, have been dealt with in a scattered manner in the Income Tax Act, 1961. The provisions related to relief in respect of double taxation (sec. 90 to 91), transfer pricing (sec. 92 to 92F), thin

capitalisation (Section 94B), the general anti-avoidance provisions (sec. 95 to 102), and the general obligation of non-resident taxation (sec. 5 to 9) have been scattered in different chapters of the Act.<sup>1001</sup> The Income Tax Bill, 2025 consolidates the provisions related to international taxation in a dedicated chapter (Clauses 400 to 430), which encompasses the provisions related to source-based taxation, residence-based taxation, treaty application, transfer pricing, thin capitalisation, BEPS compliance provisions, and anti-avoidance provisions.<sup>1002</sup> This consolidation, while retaining the existing law, creates a comprehensive and coherent body of international taxation law that can be easily understood by foreign investors and treaty partners to get an idea of the law applicable in India.

## 11. CONCLUSION

The Income Tax Bill, 2025, is the most substantial legislative effort in direct tax law in India in over six decades. The impact of the Bill in terms of enhancing clarity, access, and structural coherence is undeniable. The unification of the tax year, removal of provisos, tabular presentation of major obligations, and enshrining of taxpayer rights are measures that will have a substantial impact in the medium term.

However, the Income Tax Bill, 2025, can only be described as an evolutionary, rather than a revolutionary, document. It simplifies the container, but not the content. The policy architecture of the Indian income tax law, including the rate structure, the multiple rate structures, the complex capital gains regime, and the complex deduction regime, remains substantially intact in the simplified legislative container. This, in the final analysis, is a political decision. The success of the Income Tax Bill, 2025, in achieving the objectives set out in the report will depend on the quality of the transition management, including the resolution

<sup>997</sup> Income-tax Act 1961, § 147 (reopening assessments); Income Tax Bill 2025, cl. 264 (revising limitation periods for reassessment).

<sup>998</sup> Income Tax Bill 2025, cls. 515–536 (faceless assessment and appeal framework codified as statutory right).

<sup>999</sup> Income Tax Bill 2025, cl. 58 (codifying faceless assessment); see CBDT Notification No. 60/2020 (establishing faceless assessment scheme).

<sup>1000</sup> Income Tax Bill 2025, cl. 515 (explicitly enacting taxpayer charter as statutory obligation).

<sup>1001</sup> Income-tax Act, 1961, §§ 5-9 (non-resident taxation); id. §§ 90-91 (double taxation relief); id. §§ 92-92F (transfer pricing)

<sup>1002</sup> Income Tax Bill, 2025, cls. 400-430 (consolidating international taxation)



of interpretational issues in respect of the continuity of case law from the 1961 Act, and the administrative capacity of the CBDT to deliver in respect of the new legislative framework. If these challenges can be adequately addressed, the Income Tax Bill, 2025, can be said to have achieved the objective that has driven every tax law reform committee since the Wanchoo Committee: a tax law that every citizen can read and understand.

