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Tax Flash News

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The Income-tax Bill, 2025, tabled in the Parliament

The Finance Minister has introduced the Income-tax Bill, 2025 (referred to as 'the Bill'), in Parliament. Once enacted, it will replace the current Income-tax Act, 1961 (referred to as 'the 1961 Act'), which has been in place for over six decades. The Bill is slated to become effective on 1 April 2026.

In her 2025 budget speech, the Finance Minister stated that the Bill will contain approximately half the chapters and words of the existing law. This goal is reflected in the fact that the Bill's word count is about 50 percent of that of the 1961 Act. This reduction has been achieved in part by eliminating obsolete sections, such as those related to the dividend distribution tax and fringe benefit tax. Additionally, some provisions such as the tax deduction at source (TDS) and the presumptive tax regime have been consolidated and presented in a tabular format.

The number of sections in the Bill has decreased from 819[1] to 536, and the number of chapters has been reduced from 47 to 23. Some sections, particularly those relating to TDS, have been merged into a single section. Certain chapters, such as those on fringe benefit tax and settlement, have been omitted,

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[1] *While the 1961 Act has sections numbered till 298, it contains a lot of alpha-numerical provisions, for instance Section 115A - 115WM. Hence, the total individual section count is more than 800 in order to do a like-to-like comparison with the Bill*

while others, including provisions related to the determination of tax in special cases, minimum alternate tax, and shipping companies, have been combined into one chapter.

Many provisions in the Bill will require specific rules to be prescribed, which are likely to be released separately.

Overall structure of the Bill

Here are some notable changes in the overall structure of the Bill:

- Lengthy sentences in certain sections and sub-sections of the 1961 Act have been broken down into clauses in the Bill to improve readability.
- However, there are instances where the Bill continues to reference provisions from the 1961 Act, such as the definitions of "income" and "infrastructure facility." Additionally, there are numerous cross-references to different schedules and tables within the Bill, which may make its readability cumbersome and complicated.
- The concept of an "assessment year" has been done away with, with the term "previous year" now being referred to as "tax year."
- In the 1961 Act, the term "notwithstanding" was used in many provisions to override other provisions. The Bill has replaced this term with “irrespective.”
- Explanations and provisos to sections and sub-sections have been converted into sub-sections.
- Various sections from the 1961 Act have been represented in tabular form. This includes provisions for calculating deductions from salary income, the dates when specified businesses can commence their operations for claiming deductions for capital expenditure, tax deductions at source for various payments, determining the cost of acquisition of a capital asset in specific situations, and the presumptive tax regime.

Changes in definitions

In addition to the general definitions that apply to the entire Bill, specific definitions for particular chapters or sub-chapters are provided at the end of those chapters or sub-chapters. The language of some definitions in the Bill, including those for "business connection" and "associated enterprises," may require careful evaluation.

What remains the same?

- The Bill retains the old tax regime for individual taxpayers.
- Tax rates, computation of business profits, the capital tax regime, and the taxation of mergers and acquisitions are largely aligned with current provisions.
- Most of the amendments proposed by the Finance Bill, 2025, have been incorporated into the Bill, with a few exceptions. One notable exception is the proposed extension of the sunset date for tax-neutral relocation of offshore or original funds to resultant funds in the IFSC, which has not been included and remains set to 31 March 2025.

Our comments

The Bill largely aligns with the existing provisions of the 1961 Act. It appears to aim at simplifying the legislation by consolidating similar provisions, eliminating obsolete sections, and presenting some information in a tabular format.

A comprehensive examination and detailed comparative analysis of the provisions proposed in the Bill may uncover certain interpretative issues that will need to be addressed in the future. Additionally, it will be interesting to see how guidance, circulars, or notifications that were issued under the 1961 Act, as well as decisions rendered, will apply to provisions in the Bill that are worded in identical or similar fashion.

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