

Decoding the New Income Tax Bill

Income Tax Bill 2025: March towards simplification

Executive summary

This Tax Alert summarizes key changes that are proposed in the recently tabled Income Tax Bill 2025 (ITB 2025) in Parliament. The intent of the newly introduced ITB 2025 is to make the income tax law simple, straightforward, minimize litigation and remove redundant provisions in the existing Income-tax Act 1961 (ITA 1961). ITB 2025 is accordingly intended to be aligned with ITA 1961 on all substantive policy aspects like residency rules, scope of total income, computation and heads of income, assessment provisions, etc. However, in the process of redrafting for simplicity or reducing litigation, certain changes having significant impact are reflected in the provisions of ITB 2025 vis-à-vis ITA 1961. This Tax Alert summarizes such key changes in corporate taxation, personal taxation, transfer pricing, corporate reorganization and procedural provisions.

Background

- In July 2024, the Indian Finance Minister (FM) announced the decision of the Government to undertake a comprehensive review of the existing Income-tax Act, 1961 (ITA 1961 or Income Tax Laws - ITL). The intent was to make the law simple, straightforward and minimize controversies arising from the complex language used in ITA 1961. Accordingly, a Departmental Committee was set up to undertake this task over six months, actively seeking stakeholders' inputs on four pillars identified by the Government viz. simplifying language, reducing controversy, reducing compliance burden, and removing redundant provisions. The Committee held meetings with industry and professional associations, field-level brainstorming sessions, and consulted tax authorities of other jurisdictions like UK and Australia to draw upon their experience on simplification of tax codes in their respective jurisdictions. The Committee made an effort to focus not just on linguistic simplification but also on structural rationalization.
- Pursuant thereto, as part of the Union Budget 2025, the FM announced tabling of the new bill in Parliament in the current budget session. Accordingly, The Income Tax Bill, 2025 (ITB 2025 or New IT Bill or new Bill) was tabled in the Lok Sabha on 13 February 2025. The Central Board of Direct Taxes (CBDT) also issued two sets of FAQs and a navigator for mapping of comparable provisions of the ITA 1961 with the new version.
- The ITB 2025 is proposed to be brought into effect from 1 April 2026.
- The ITB 2025 preserves the familiar 23-Chapter structure, heads of income, substantive provisions, and the assessment and appeal procedures. The annual Finance Act will continue to set tax rates for a particular year.

Key simplifications in the ITB 2025 include:

- Reducing word count by nearly half compared to ITA 1961 (from 5.12 lakh to 2.60 lakh).
- Reducing number of sections from 819 to 536.
- Replacing the terms "assessment year" and "previous year" with consistent "tax year" for clarity in understanding, compliance and reporting.
- Simplifying language by removing approx. 1200 provisos and 900 explanations, and replacing archaic phrases to enhance clarity. For instance:
 - "Notwithstanding anything contained," replaced with "irrespective of anything contained"
 - "in accordance with," replaced with "as per"
 - "as may be prescribed," with "prescribed"
- Introducing formulas and additional 39 tables to succinctly convey information on topics, such as salary perquisites, presumptive taxation, tax deduction/collection at source (TDS/ TCS) rates and thresholds, etc.
- Streamlining enumeration of multiple items by moving them to distinct schedules. For instance, the existing Section 10 enumerating various types of exempt incomes has been moved to six different schedules.
- Use of active voice instead of passive voice.
- Breaking up long sentences into shorter ones.
- Consolidation of related provisions at one place. For instance, the exemption for certain terminal salary payments is moved to salary chapter as deductions.
- Simplified cross referencing between different provisions. For example, "sub-clause (ii) of clause (b) of sub-section (1) of section 133" in existing ITA 1961 is changed to reader friendly "section 133(1)(b)(ii)"
- Simplified compliance burden in certain circumstances (e.g., permitting/making lower TDS/TCS certificate application for all payments/receipts as compared to select payments/receipts under the existing law).
- Removal of outdated sections that are no longer applicable, such as investment allowances on new plant and machinery, fringe benefits, pre-emptive purchase of immovable property by the Government.

ITB 2025 is intended to be aligned with ITA 1961 on all substantive policy aspects like residency rules, scope of total income, computation and heads of income, assessment provisions, etc. It also incorporates the changes proposed by the recent Finance Bill 2025, which is awaiting enactment in the Parliament.

However, certain changes having significant impact are reflected in the provisions of ITB 2025 vis-à-vis ITA 1961. Most of the changes appear to be unintended drafting anomalies crept in the process of simplification, which hopefully may get addressed before enactment.

A Parliamentary Select Committee will be formed to deliberate on the ITB 2025, and it will be required to submit its report on the first day of the next parliamentary session. The Government will consider recommendations of the Select Committee to revise the ITB 2025. The revised ITB 2025 will then proceed to Parliament for approval in both houses, followed by presidential assent to become law.

Key changes of ITB 2025:

Shift from "Previous Year" and "Assessment Year" to "Tax Year"

- Presently, ITA 1961 recognizes the concept of "Previous Year" and "Assessment Year". "Previous Year" refers to the financial year in which income is to be taxed. Whereas "Assessment Year" refers to a 12-month period starting from 1 April immediately succeeding the "Previous Year". For instance, for financial year 2025-26, "Previous Year" is 2025-26 whereas "Assessment Year" is 2026-27.
- ITB 2025 now proposes to eliminate the reference to two different concepts and seeks to introduce a single concept of "Tax Year", which aligns directly with the financial year. In the above illustration, Tax Year would be 2025-26 which begins from 1 April 2025, or in case of new business or a source of income newly coming into existence, from the date of business setup or income generation, and ends on the same date on which the relevant financial year ends.

Income from business connection in India

- Any income derived from a business connection in India is regarded as income deemed to accrue or arise in India under the ITA 1961. However, if all operations are not undertaken in India with reference to such business connection, then only so much of the income that is "reasonably" attributable to operations carried out in India is deemed to accrue or arise in India.
- ITB 2025 specifically provides that the term business connection in India shall include business carried out in India. Further, it now provides that only so much of the income that is attributable (and not reasonably attributable) to operations carried out in India shall be deemed to accrue or arise in India from a business connection in India.

Amendments to indirect transfer provisions

- ITA 1961 provides that any income accruing or arising through the transfer of a capital asset situated in India would be deemed to accrue or arise in India. The ITB 2025 now provides that income arising both "from" or "through" the transfer of a capital asset situated in India is to be deemed to accrue or arise in India.
- Further, under the Indirect transfer provisions of ITA 1961, the below modifications are proposed by ITB 2025:

Particulars	ITA 1961	ITB 2025
Capital asset situated in India	An asset or capital asset being any share or interest in a company or entity registered or incorporated outside India, which derives substantial value from assets located in India.	An asset or a capital asset, being any share of , or interest in, a company or entity registered or incorporated outside India, which derives substantial value from assets located in India. The inclusion of comma after share and interest suggests that the provision will apply to (a) share in a company or (b) share in an entity registered or incorporated outside India or (c) interest in a company or (d) interest in an entity registered or incorporated outside India.
Attribution of income	Income reasonably attributable to assets located in India.	Income attributable to assets located in India. The term reasonably is deleted.

Substitution of the term 'beneficially held' by 'beneficial owner'

- Under ITA 1961, many provisions draw reference to shares which are 'beneficially held' as a yardstick for the applicability of the provision. For instance, carry forward and set off of losses in the case of a change in shareholding of more than 49% in a company.
- The ITB 2025 proposes to replace the yardstick of "shares beneficially held" as appearing in few provisions of ITA 1961 with the phrase "beneficial owner" of shares in the corresponding provisions of ITB 2025 as a measure of simplification of language.

Scope of export Incentives expanded for Taxation under Profits and Gains of Business or Profession (PGBP)

- Under ITA 1961, the scope of business income covers specific types of export incentives under specified Acts/Schemes. The ITB 2025 proposes to expand the scope to cover "any other export incentives" as well. This may curtail litigation on the taxability of such incentives.

Marked-to-market (MTM) loss allowed irrespective of computation mechanism

- Presently, deduction or allowance of MTM loss or other expected loss is available under the ITA 1961 only if it is computed in accordance with the income computation and disclosure standards (ICDS). Similar to ITA 1961, the ITB 2025 also allows deduction of MTM loss or other expected loss computed as per ICDS, but further also provides that such loss shall not be allowed as a deduction under any other provision. However, unlike ITA 1961, it does not specifically debar deduction of any other MTM loss or other expected loss (e.g., in respect of provision for foreseeable loss recognized in a construction contract, or derivatives) which is not in accordance with ICDS.

Actual cost of asset to be reduced by Goods and Service Tax (GST) on which credit is claimed or allowed

- ITB 2025 proposes to introduce a specific provision to clarify that GST paid on cost of asset, credit of which is allowed and claimed under that applicable law, shall not be considered in computing the actual cost of asset. This provision is aligned with the current provisions of ICDS V dealing with tangible assets.

Depreciation on intangible assets

- Presently, only intangible assets (being know-how, patent, copyright, trademark, license, franchise or any other business or commercial right of similar nature other than goodwill) acquired on or after 1 April 1998 are eligible for depreciation. Under ITB 2025, it is proposed to delete reference to such acquisition date. Therefore, depreciation on intangible assets is proposed to be allowed irrespective of its date of acquisition.
- Further, as per ITA 1961, depreciation is allowed if an asset (tangible or intangible) is being put to use for the purposes of business or profession. Further, with respect to tangible assets, ITA 1961 provides that the tangible assets should be exclusively used for the business of the taxpayer, failing which the depreciation shall be restricted to the fair proportion as determined by the tax authority. A similar restriction is not prescribed under ITA 1961 with reference to intangible assets.
- ITB 2025 proposes to extend the exclusive use condition even with respect to use of intangibles, failing which only proportionate depreciation will be allowed as determined by Tax Authority by bringing it at par with depreciation on tangible assets.

No claw back provision on investment linked expenditure claimed under ITA 1961

- A taxpayer is eligible to claim investment-linked incentive under the ITA 1961, wherein 100% deduction is granted on capital expenditure incurred with respect to specified business undertaken by the taxpayer. Further, if the capital asset is sold (wherein deduction has been claimed), the sale proceeds are fully taxed as business income.
- While the proposed ITB 2025 retains these provisions, there is no specific claw back provision to tax subsequent sale proceeds as business income in respect of capital asset sold on or after 1 April 2026, the expenditure in respect of which was fully allowed under ITA 1961.

Capital expenditure of specified businesses

- Presently, ITA 1961 provides for 100% deduction on capex incurred in specified business such as development / operation of infrastructure facilities, set-up of cold chain facilities, building and operation of hotels, hospitals, etc. The provisions contain specific reference for filing prescribed form and deals with powers given to the tax authority to recompute profit of eligible business in specified cases.
- The corresponding provision proposed in ITB 2025 provides for deduction on capex incurred in such specified businesses. However, the corresponding provision under ITB 2025 does not refer to relevant sub-section which provides for filing prescribed form and powers to assessing officer to recompute profit of eligible business in specified cases.

Anomalies in allowance of specified expenses on actual payment

- In computing business income, an omnibus provision in ITA 1961 allows deduction of specified expenses only upon actual payment, subject to such expenses otherwise qualifying for deduction as per other provisions of ITA 1961. In the proposed ITB 2025, the relevant phrase "otherwise allowable" is absent, creating ambiguity on deductibility if they do not otherwise qualify for deduction as per other provisions of ITB 2025.
- Furthermore, comparable provision to an Explanation in the ITA 1961 which provides that "sum payable" means a sum for which taxpayer has incurred a liability in the tax year even though such sum might not have been payable within that tax year under the relevant law, is missing in ITB 2025. Unless addressed, it may reignite the controversy which the Explanation sought to curtail in ITA 1961 on applicability of the section to outstanding specified expenses payable after the close of the tax year.

Taxes paid on Income shall not be allowed as an expense under ITB 2025

- Presently, under ITA 1961, any tax which is levied on the "profits or gains of any business or profession" or is assessed basis such profits or gains is not allowed as a deduction under the head PGBP.
- There exists ambiguity as to whether taxes paid on income other than profits or gains from business or profession would be allowed as deduction.
- ITB 2025 proposes to address this ambiguity by providing that any tax paid on "income" shall not be allowed as a deduction while computing income under the head PGBP.

TDS/TCS provisions

Overhaul of TDS/ TCS provisions for clarity and ease of understanding

- Presently in ITA 1961, there are various provisions relating to TDS/ TCS, wherein different rates and thresholds have been provided depending on the nature of payment or status of payees.
- The new bill proposes to comprehensively overhaul the structure with an aim to streamline these provisions by consolidating them into a single section (except for TDS on salary) wherein all TDS provisions are categorized into three broad heads as follows:
 - TDS on payments to resident
 - TDS on payments to non-resident and
 - TDS on payments to any person (viz. resident or non-residents, both)
- For each category, TDS provisions are consolidated into a single table, for ease of identification of the applicable rates, thresholds, payee, and the nature of payment on which TDS will get attracted.
- The ITB 2025 also introduces a dedicated clause, which comprehensively lists all exclusions in the respective TDS provisions.
- The ITA 1961 permits obtaining both lower as well as NIL TDS/TCS certificates by payees, but only for specified payments and receipts. The ITB 2025 permits only lower TDS/TCS certificates (and not NIL TDS certificates) but for all payments/receipts, including for non-residents.
- TCS provisions are also consolidated into a single table for easy readability.

Expansion of deeming fiction for TDS on credit made to suspense or any other account

- Presently in ITA 1961, few provisions which mandated TDS at the time of payment or credit, whichever is earlier, also contain a clause to provide that credits to suspense or any other account will be deemed as credit of income to the payee's account. This is to plug loophole of avoiding TDS by crediting to any other account head like suspense account instead of payee's account.
- The ITB 2025 proposes to extend such deeming fiction to all TDS provisions, which provide for TDS at the time of payment or credit whichever is earlier.

Scope of CBDT's power to issue guidelines enhanced

- Presently, CBDT is empowered to issue guidelines (subject to approval of Central Government and laying before both Houses of Parliament) to the tax authorities for removing any difficulty that arises in giving effect to certain specific TDS and TCS provisions.
- The ITB 2025 seeks to broaden this power for the entire TDS/TCS chapter. This will facilitate a more cohesive and efficient approach to resolving difficulties in TDS/TCS related compliances.

TDS on Motor Accidents Claims Tribunal (MACT) Compensation interest on payment or credit basis

- Presently in ITA 1961, TDS on interest on compensation amount awarded by the MACT is applicable only on payment basis, subject to the aggregate payment of such interest during the tax year exceeding INR50,000.
- The ITB 2025 proposes to advance the levy of TDS on such interest to when credited in the books by the payer if such credit is earlier than payment - subject to the aforementioned threshold of INR50,000.

No exemption from minimum alternate tax on fair valuation gains of units of business trust in hands of sponsor

- The ITA 1961 provides specific provisions for deferral of tax on transfer of shares of Special Purpose Vehicle (SPV) by a sponsor to a business trust¹ in exchange of units allotted by said trust to the subsequent transfer of such units. Correspondingly, the computation of "book profit" for minimum alternate tax (MAT) excludes notional gain or loss at the stage of exchange of shares against units of business trust, and any subsequent fair valuation gain or loss of the said units. At the stage of subsequent transfer of units of business trust, the computation of "book profit" determines the gains on such transfer with reference to the cost of shares. While the proposed ITB 2025 excludes any notional loss on transfer and subsequent fair valuation loss of the said units from the "book profit", a corresponding provision to exclude notional gain and subsequent fair valuation gain is inadvertently missed out.

Benefit of inter-corporate dividend deduction not allowed in case of company opting for 22% concessional tax regime under ITB 2025

- Presently, under the ITA 1961, domestic companies opting for concessional tax regime (CTR) of either 15%² (new manufacturing companies) or 22%³ are not allowed to claim any income linked deductions except for deduction in respect of employment cost of new employees and inter corporate dividend subject to fulfillment of conditions stipulated in the respective sections⁴.
- Under the ITB 2025, while benefit of deduction of employment cost of new employees and inter corporate dividend is proposed to be provided for 15% CTR, the deduction with reference to inter-corporate dividends has not been provided for companies opting for 22% CTR.

Tax Audit: Rationalizing scope of aggregate of receipts and payments for evaluating applicability of tax audit of businesses

- Presently under ITA 1961, tax audit is applicable for businesses where (i) the total sales, turnover or gross receipts of business exceeds INR10 crores and (ii) the aggregate of all receipts and payments including receipts and payments does not exceed 5% in cash. For the purpose of measuring aggregate receipts and payments dealt in cash, all receipts and payments are considered even if the same is not related to business.
- Under ITB 2025, the corresponding provision states that the aggregate receipts and payments arising from "business" (as opposed to all receipts and payments whether or not arising from business) should be considered for evaluating the threshold of 5%. In other words, proposed provisions state that tax audit is applicable to businesses where i) the total sales, turnover or gross receipts of business exceeds INR10 crore and (ii) 95% of aggregate of all receipts and payments from business are made through specified banking and online mode.
- Thus, under the proposed provisions, the threshold for applicability of tax audit remains unchanged, but the requirement of undertaking receipts and payment through online mode is applicable only to receipts and payments qua business and not all receipts and payments.

1. Real Estate Investment Trust (REIT)/Infrastructure Investment Trust (InvIT)

2. Effective tax rate of 17.16% after surcharge & cess

3. Effective tax rate of 25.17% after surcharge & cess

4. Domestic companies opting for CTR of 22% are also allowed deduction of qualifying profits of IFSC units

Presumptive taxation for non-residents

- All non-resident related presumptive taxation sections are clubbed under one section in ITB 2025.
- Key comparison of changes applicable for non-residents engaged in providing services/ providing plant and machinery on hire for prospecting, extraction, or production of mineral oils or executing turnkey power projects are as under:

ITA 1961	ITB 2025
Prohibits set off of unabsorbed depreciation and brought forward business loss	Prohibits set-off of any loss and claiming of any deduction / allowance (e.g., section 80G of ITA 1961) against deemed profits
Where taxpayer claimed profits lower than the deemed profit percentage, section specified for an assessment to be conducted as per the provisions of ITA 1961	No specific mention of conducting an assessment, where taxpayer claims profits lower than the deemed profit percentage
Taxpayer claiming profits lower than the deemed profit percentage, had to compute written down value of assets in accordance with provision of ITA 1961	Manner of computing written down value of the assets is now specifically inserted in the proposed section of ITB 2025

Coverage of non-residents (NRs) under presumptive tax regime providing services to electronic manufacturing business in India within the scope of tax audit

- Finance Bill 2025 (FB 2025) proposed introduction of a presumptive taxation regime for non-residents who are engaged in providing services or technology in India to resident companies satisfying certain conditions. The proposal deems 25% of the total amount a non-resident receives or is due to receive for providing services or technology as profits or gains of such non-resident.
- Under FB 2025, there is no corresponding amendment in provisions relating to tax audit for granting relaxation to such NR taxpayers offering income under presumptive basis.
- Under ITB 2025, it is proposed to provide that the provisions of maintenance of books of account and tax audit are applicable to such NR taxpayers. Hence, such NR taxpayers are subjected to the requirement of tax audit despite offering income under presumptive tax scheme.

Certain non-resident taxpayers provided an option to maintain books to opt out of presumptive taxation

- Presently, ITA 1961 provides for presumptive taxation for NR taxpayers engaged in shipping business (including operation of cruise ships) or operation of aircraft. Such taxpayers are not allowed to offer lower income than the rate prescribed under presumptive basis by maintaining books and getting them audited.
- By way of relief, ITB 2025 proposes to give an option to such taxpayers to offer income lower than the presumptive rate provided they maintain books of accounts in a prescribed manner and get their accounts audited.

Site restoration fund

- Under ITA 1961, a deduction on account of deposit into a specified account for site restoration obligation is allowed to an assessee carrying on business consisting of prospecting, extraction, or production of petroleum or natural gas in India, subject to prescribed conditions.
- Although the essence of corresponding proposed section under ITB 2025 is similar to the existing section of ITA 1961, there are certain differences in the provision.
- The existing provisions under ITA 1961, states that amount utilized out of specified account for purchase of specified assets is not eligible for deduction.
- ITB 2025 proposes to provide that the amount utilized out of specified account for purchase of specified assets will be deemed as profits and gains of the business for that tax year.
- Therefore, under ITA 1961, where funds are utilized out of specified account for purchase of specified assets, such sums are not eligible for deduction. Under the ITB 2025, utilization of funds for purchase of specified assets will be considered as deemed profit and gains for that tax year.

Outer limit provided for laying down guidelines by the Central Board of Direct Taxes ('CBDT')

- Presently, ITA 1961, while providing power to CBDT to issue guidelines under various sections, does not provide for any specific time limit within which it shall issue the guidelines.
- ITB 2025, while providing the powers to CBDT to issue guidelines, proposes to provide for an outer time limit of two years, commencing from 1 April 2026, after which the CBDT cannot issue any guidelines for the specified sections.
- Some of the notable sections for which CBDT cannot issue guidelines after expiry of two years include sections providing CTR of 15% for new domestic manufacturing companies, updated return and MAT provisions.

Meaning of undefined terms in tax treaty

- Presently, ITA 1961 provides that if any term is not defined in the double tax avoidance tax treaty signed by India with other country, then the meaning given under ITA 1961 or any explanation given to it by the Central Government is required to be referred to. Further, if the term is not defined under ITA 1961, the term will have the same meaning as given to it in the Notification issued by the Central Government and will be effective from the date on which the tax treaty came into force.
- The ITB 2025 incorporates similar proposals and additionally proposes to provide that if a term is not defined in the tax treaty or ITB 2025 or under any Notification issued by Central Government, then unless the context requires otherwise, such term will have the same meaning as it has under any Act of the Central Government dealing with taxes and in any other case, reference may be made to meaning assigned under any other Act of the Central Government. As per FAQ issued by CBDT, this amendment is intended to reduce litigation and provide certainty as to how any term is interpreted in a tax treaty situation reflecting India's present treaty position aligned with international tax treaty practices.

Phraseology of set off provisions modified to clarify that no set off of losses permissible once shareholding changes beyond 49% in any year

- Under ITA 1961, set off and carry forward of losses is prohibited in case of change of shareholding in a closely held company beyond 49% from the last day of the tax year of incurrence of loss vis-à-vis the shareholding on the last day of the tax year in which the loss is sought to be set off.
- Under ITA 1961, there was an ambiguity as to whether if 49% threshold is maintained in year of incurrence vis-à-vis year of set off but not maintained in the intervening period, whether, companies would be entitled to the benefit of set-off and carried forward of losses.
- The proposed corresponding provision under ITB 2025 appears to resolve such ambiguity to clarify that once the shareholding changes beyond 49% from the year of incurrence of loss, the right to set off of loss is lost permanently even if shareholding is restored in subsequent years.

Undisclosed Virtual Digital Assets (VDA) to also trigger higher tax at 78%

- Presently, under ITA 1961, a tax of 78% (including cess and surcharge) is levied in a case where the taxpayer is found to be the owner of a specified asset which is undisclosed (partly or wholly). Such taxation arises in the year in which the specified asset is found. For this purpose, ITA 1961 defines specified assets to include money, bullion, jewelry, or other valuables. It is presently ambiguous whether VDA falls within the ambit of other valuables and hence whether it would be covered within the definition of specified assets.
- ITB 2025 proposes to retain the afore-mentioned provision in respect of money, bullion, jewelry, or other valuables. Further, it also specifically proposes to include VDA in the scope of specified assets. This clarifies that the levy of 78% tax in respect of undisclosed VDA found to be owned by a taxpayer.

Tonnage Tax Scheme (TTS) for specified Indian company

- No substantive changes proposed in the TTS under ITB 2025. Existing provisions have been rearranged and reorganized for better understanding under the ITB 2025.
- Scope of TTS, currently applicable to a qualifying ship registered under the Merchant Shipping Act, 1958, has been expanded to include inland vessels registered under the Inland Vessels Act, 2021 proposed vide the FB 2025 has been considered in the ITB 2025.
- Currently, the ITA 1961 prescribes charter in limits of a ship, which is restricted to 49% of the net tonnage of qualifying ships. FB 2025 has expanded the scope of aforesaid restriction to inland vessels as well. ITB 2025 proposes a similar threshold for the 'chartered in' for ship and new inland vessel (instead of inland vessel).
- The term 'chartered in' under TTS of ITA 1961 excludes ship or inland vessel (as added by Finance Bill 2025) chartered in by a company under bareboat charter cum demise. However, the said term under ITB 2025 refers to a 'new inland vessel' instead of 'inland vessel', which is a distinction from the ITA 1961 and the FB 2025. This distinction seems to suggest that the chartering threshold will apply only to new inland vessel and not the old inland vessel.
- Additionally, the ITB 2025 provides that where qualifying company operates a ship or new inland vessel (instead of inland vessel proposed by FB 2025) which ceases to be a qualifying ship, such ship or inland vessel shall not be deemed as qualifying ship for the purposes of the TTS. It is expected that the apparent discrepancy in referencing highlighted above will be addressed and rectified prior to the formal adoption of the ITB 2025.

Transaction Tax

Forex fluctuation benefit for non-resident on transfer of certain shares

- Currently, long-term capital gain (LTCG) arising for a non-resident from the transfer of shares of an Indian company is taxable at 12.5% without foreign exchange fluctuation benefit.
- It is proposed that LTCG arising to a non-resident (other than FIIs) from the transfer of unlisted shares of an Indian company or unlisted securities shall be taxable at 12.5% with foreign exchange fluctuation benefit.

Period of holding limited for all investments held in liquidating company

- Currently, in determining the period of holding for shares held in a company under liquidation, the period subsequent to the date on which the company goes into liquidation is excluded.
- It is proposed that the above rule shall apply to all other investments held in a company (and not limited to shares).

Brought forward long-term capital loss (LTCL) can be set off against short-term capital gains (STCG) as well

- Currently, brought forward LTCL is allowed to be set off against LTCG only. This continues under the ITB 2025.
- However, savings clause of ITB 2025 appears to allow carry forward and set off of brought forward LTCL incurred up to 31 March 2026 against all future capital gains (including STCG) from tax year 2026-27 onwards.

Transfer pricing

Key takeaways

- Overall transfer pricing (TP) framework remains the same. Few modifications to the language are proposed, which are clarificatory in nature.
- No changes proposed in the timelines, compliances, procedural aspects and penalty provisions.
- The Finance Minister in the Budget Speech stated that the Safe Harbour Rules will be expanded to reduce litigation and enhance certainty.
- No amendments made to the Safe Harbour provisions in the New IT Bill.
- On the TP audit proceedings, the New IT Bill incorporates the amendments relating to 'Assessments in a Block' as proposed by the Finance Bill, 2025.
- The rules or guidelines may be issued by the Board in due course.
- The TP framework relies upon respective Rules for various compliance and procedural aspects.
- New section 536 provides for the transition from the ITL to New IT Bill. Also, reference is drawn to the General Clauses Act, 1897 with regard to effect of repeal.
- Where required, rules need to be prescribed after enactment of New IT Bill.
- Certain mismatches are noted in the new section referencing which requires correction.

Part I-Inclusion of amendments proposed by the Finance Bill, 2025

Assessments in a Block

- Elective option provided to taxpayers upon reference made for a TP audit for a financial year (FY).
- Option is not available for cases involving search and seizures.
- Option to be exercised by taxpayers within such time frame and in such form as may be prescribed.
- The Transfer Pricing Officer (TPO) must verify and declare if the taxpayer's option is valid, based on certain conditions.
- If the TPO declares the option exercised as valid, the arm's length price (ALP) determined for an FY will also apply to two consecutive FYs for similar transactions.
- The AO will recompute the total income of the three FYs in conformity with the ALP determined by the TPO and the Dispute Resolution Panel.
- This adjustment will be done within three months after the month when the block assessment or audit is completed.
- The Central Board of Direct Taxes (CBDT) can issue guidelines to clarify any issues, which must be approved by the Parliament and will be binding on both taxpayers and tax authorities.
- This amendment will be effective from 1 April 2026 (FY2025-26).

Part II-Key changes/ modifications

Income from international transaction and specified domestic transaction (SDT)

- Subtle change in the language in section 161 of New IT Bill (compared to section 92 of ITL) from "computed" to "determined" having regard to the arm's length price.
- Seeks to clarify that application of the arm's length principle is a conclusion to be based on various factors or criteria and not just a mathematical calculation.

Meaning of 'associated enterprise' (AE)

AE definition

- Structure of the AE definition is similar under New IT Bill (section 162) as compared to the ITL (section 92A)-divided into two parts,
 - First part defines the broad contours of the term and is based on participation in "management" or "control" or "capital"; and
 - The second part contains a deeming provision to indicate circumstances when two enterprises will be deemed to be AEs.
- Modified language in section 162(2) [i.e., "without affecting the generality of the provisions of sub-section (1)"]-seeks to clarify the ambiguity that may have existed under the ITL on the inter-relationship between the first part and second part of the definition.
 - The language in the ITL is "for the purposes of sub-section (1)".
- Under the New IT Bill, the general definition of AE in the first part is not limited by the AE relationships described in the second part.

Specified Domestic Transaction (SDT)

- The ITL did not include meaning of AE in the context of SDT.
- It is now proposed to include new sub-section (3) in the newly proposed section 162, to include the meaning of AE for SDT.
- This is a mere clarification and does not expand the scope of SDT.

Part II-Key changes/ modifications (continued)

Meaning of international transaction

- In section 92B(1) of the ITL, transactions other than (i) purchase, sale or lease of tangible or intangible property, or (ii) provision of services, or (iii) lending or borrowing money had to meet an additional test i.e., "they must have a bearing on profits, income, losses, or assets of an enterprise".
- This led to some ambiguities, particularly for certain financial transactions, which did not have an immediate bearing on the profits, income, losses, or assets of an enterprise.
- With a view to simplify the law, the newly proposed section 163(1) provides a comprehensive, clearly defined list of international transactions to reduce interpretational issues.
- Now, section 163(1) ends with clause (g), a broad residual category: "any other transaction having a bearing on profits, income, losses, or assets".
- Therefore, only transactions that fall outside the above defined list will require an assessment under the "bearing on profits, income, losses, or assets" criterion.

Determination of arm's length price

- The current language in section 92C(2) of the ITL is not clear on whether the tolerance range (+/- 3%) is available when single price is determined as ALP.
- The New IT Bill clearly provides that tolerance range (+/- 3%) is available even in case where a single price is determined as ALP.
- This is a welcome move which reduces ambiguity and ensures taxpayers can rely on the tolerance range without additional interpretation.
- Where more than one price is determined, the ALP determination is left open to be prescribed separately (currently the same is determined through section 92C read with the relevant rule).

Reference to Transfer Pricing Officer

- Assessments in a Block (details covered under Part I)
- Faceless scheme
 - The ITL includes separate enabling provisions for notifying faceless schemes, under TP, Dispute Resolution Panel (DRP) and Income-tax Appellate Tribunal (ITAT) provisions.
 - The New IT Bill has proposed to remove such separate references in each of these provisions.
 - Now, the new Section 532 enables the central government to notify the faceless scheme subject to Parliamentary approval.
 - Further, in line with the Finance Bill, 2025 proposals, the end date for notifying such scheme by the central government has been omitted.

Advance Pricing Agreement (APA)

- In the case of APA, the ITL currently did not provide a time limit up to when the proceedings shall be deemed to be pending.
- The New IT Bill clarifies the timelines as-'till the APA is entered into' or 'closure of such proceedings as per rules prescribed.'
- The rules are yet to be prescribed. This is a clarificatory change.

Personal Tax

Key takeaways

- With an objective to simplify the salary provisions, exemptions related to salary income like gratuity, HRA, leave encashment, commuted and uncommuted pension, retrenchment compensation, etc., are now consolidated under the specific head that addresses salary provisions.
- ITA 1961 mentions that use of any vehicle provided by a company or an employer for journey by the assessee from employee's residence to employee's office or other place of work, or from such office or place to employee's residence shall not be treated as a taxable perquisite. However, ITB 2025 proposes to change the language to suggest that the expenditure incurred by the employer for use of any vehicle by the employee for such travel shall not be treated as a taxable perquisite.
- ITA 1961 offered exemptions from perquisite taxation for amounts paid by an employer to an employee for medical treatment related to COVID-19 illness of the employee or their family member, as well as for ex gratia payments made to the family of an employee in the event of their death. However, these provisions are proposed to be deleted in ITB 2025.
- In order to claim the sum paid by employer to the employee for self/family members' medical treatment as a non taxable perquisite, there is a requirement under ITA 1961 to attach a certificate from the hospital along with the receipt of the amount paid to the hospital. This requirement is proposed to be deleted by ITB 2025.
- While providing for vacancy allowance for computing the annual value of house property which was let but vacant for the whole or any part of the year, an additional condition of 'let in normal course' is proposed to be inserted by ITB 2025, which creates ambiguity.

Revamping of provisions dealing with Non-profit Organisation (NPOs)

Key changes in the structure of the provisions are:

- The expressions trust or institution or university or hospital or religious trust are substituted by the single expression "Non-profit Organisation" (NPO).
- Under ITA 1961, the provisions applicable to registered NPO are scattered across different chapters. The new law attempts to bring all provisions under a single chapter divided into seven sub-categories⁵.
- While the existing provisions are in the nature of "exemption provisions", the ITB 2025 places it under separate Chapter XVII dealing with special provisions relating to certain persons.

Scheme of exemption for NPO

- Broadly, the scheme of exemption for NPOs continues to be application based, wherein no income tax shall be levied if registered NPOs apply 85% of their income or accumulate their income for application in the next five years for charitable purposes. Similarly, the corpus donation received by registered NPOs remains exempt. Such exemption continues to be subject to fulfillment of relevant conditions (e.g. registration, compliance, etc.).

Key proposed changes relating to registered NPOs in ITB 2025

- Taxation of NPOs appears to be on cash basis. The provisions of ITA 1961 consider only application on cash basis.
- In relation to capital gains on sale of NPOs assets, ITA 1961 provides the option to registered NPOs to reinvest such gains for acquisition of another capital asset or follow normal 85% application rule. The ITB 2025 proposes to remove the option of such reinvestment on the reckoning that application rule will factor in such reinvestment.
- The ITB 2025 specifically prohibits NPOs from carrying out any commercial activity except for activity which is incidental to the attainment of the objects of NPOs. The implications of such a change will need deeper evaluation.
- Pre 2021 registered NPOs which have not transitioned to new registration regime operative since 1 April 2021 till date for any reason are granted another opportunity to apply for registration under ITB 2025. If Tax Authority condones the delay because of reasonable cause, such registration shall have retrospective effect from tax year 2021-22.
- Under ITA 1961, certain NPOs⁶ enjoy blanket tax exemption. While such NPOs continue to enjoy such exemption under new law without any additional condition, there appears to be a requirement to obtain NPO registration, which makes tax exemption subject to fulfillment of onerous conditions. The intent of extending registration requirement to such NPOs is not clear and also creates overlap.
- Under ITA 1961, the NPO's registration can be canceled by the Tax Authority in specified circumstances. Now, cancellation of registration includes its withdrawal.

5. Being registration, computation of income of registered NPO, commercial activities by registered NPO, compliance, violation and interpretation.

6. For instance, educational institutions exist solely for educational purposes and wholly or substantially financed by Government or whose annual receipts do not exceed INR5cr.

Compliance and assessment under ITB 2025

- Tax return form likely to be more comprehensive to include detailed personal information (such as credit card, expenditure details) and business information (such as locations of all the branches).
- No requirement to file Power of Attorney along with return of income (ROI) for persons authorized to sign ROI on behalf of the taxpayer.
- No provision to file updated return for subsequent years where taxpayer filed updated return of earlier tax year and such updated return resulted in a reduction of loss, unabsorbed depreciation (UAD), alternate minimum tax (AMT)/ minimum alternate tax (MAT) credit carried forward to subsequent year.
- Re-assessment can be done for any other escaped income without issuing separate notice to reassess such income pertaining to the taxpayer.
- Valuation Officer can now amend valuation report issued by him to correct any mistake.
- The ITB 2025 mandates that the Dispute Resolution Panel (DRP) has to pass a reasoned order. However, the provision which required DRP to consider evidence filed by the taxpayer or the remand report, etc., has been deleted which appears to be inadvertent.
- Time limit to pass appeal effect order (in cases otherwise than by making fresh assessment) is increased from three months to six months from the end of the month in which the underlying order has been received by Principal Commissioner of Income Tax (PCIT)/ Commissioner of Income Tax (CIT) (appeal effect order) or passed by PCIT/CIT (revisionary order). The said six months' period can further be extended to nine months with the appropriate approvals.
- Scope of search and seizure operation expanded to allow the tax officer to inspect "any information stored in an electronic media or computer systems". The definition of "Computer system" is very wide and also includes virtual digital space (i.e., email servers, social media account, remote or cloud server, etc.). The taxpayer has to provide access code to the computer system or the tax officer can override the access code to gain access to the computer system.
- In the context of survey operation, the statement shall now be recorded under "Oath" which may have wide legal consequences.
- No objection certificate to be sought from the tax authorities in case of pendency of assessment extended to transfer of virtual digital asset.

Transitional provisions

- ITB 2025 is proposed to be applicable from 1 April 2026, viz., in respect of tax years 2026-27 and onwards. Consequently, even the ITA 1961 is proposed to be repealed from the same date with transitional measures being provided to enable availability of tax credits, carry forward of losses and unabsorbed depreciation, amortization or deferral of expenses across various years, etc. Separately, assessment and procedural aspects involved in respect of tax years prior to 2026-27 are proposed to be governed by ITA 1961 provisions. Further, continuity is proposed to be provided to various Rules, Instructions, Notifications, and Schemes issued by CBDT, as also any elections and declarations made by the taxpayer under ITA 1961.

Comments

- The ITB 2025 represents a landmark in the evolution of income tax legislation in India. It is a humongous effort of more than 60,000 manhours dedicated by a committee of around 150 Departmental officials going through 20,976 online suggestions with a clear focus on making the income tax concise, lucid, easy to read and understand. The initiative is aimed at ensuring that individuals and businesses can more easily navigate and comply with tax requirements.
- Since the remit of the Committee was simplification of language, reducing litigation, reducing compliance burden, and removing redundant provisions, there are no significant policy changes proposed in ITB 2025. It is expected that the Parliamentary Select Committee formed to vet the ITB 2025 may hold another round of stakeholder consultations before making its recommendations for consideration by the Government. The revised bill will then be approved by Parliament and enacted into law by Presidential assent. The administrative and procedural changes through rules, forms, notifications, orders or circulars for implementation through delegated legislation will follow the enactment in due course, with the existing rules remaining in force during the transitional period. It is expected that a substantial reduction in compliance burden may be brought about through delegated legislation. Stakeholders will need to continue engaging with the Government in the journey of the evolution of income tax law.

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