NDA Update: Analysis of Income Tax Bill 2025

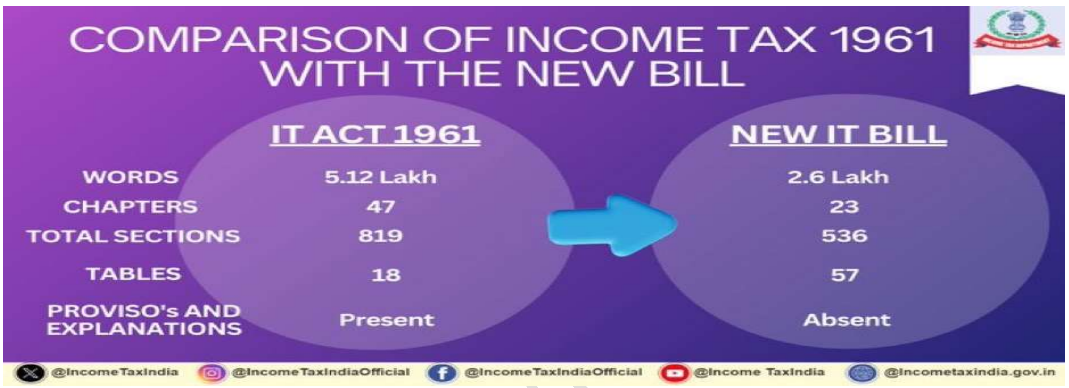
Part I - General

Hon'ble Finance Minister, during her Budget speech on 1st February 2025, has stated that the new Income Tax Bill would be tabled within a week. The Bill was tabled on 13th February 2025.

We are providing hereinunder a general analysis of the new Bill.

- No change in policy. Virtually everything remains the same. It only simplifies the language of existing Income Tax Act (hereinafter referred to as 1961 Act). The new bill contains the reframed / rephrased provisions of 1961 Act. It can be concluded that it is nothing but presenting the "**Old wine in New bottle**".
- From the speech of Hon'ble Finance Minister, it was expected that the new Bill will bring policy changes with simplification of the tax laws. But nothing has been done in this regard. **The law remains the same.**
- The new Bill is an exercise of rearrangement / consolidation of the sections of 1961 Act. **Thus, every stakeholder shall need to unlearn the existing sections of 1961 Act and learn the new sections once the new Bill is promulgated into Act.**
- Some of the redundant sections or sections becoming inapplicable due to expiry of sun set date or redundant clauses in 1961 Act have been omitted in the new Bill. (Example – Section 10A, Section 80HHC etc)
- Formulas which were provided in 'text format' under 1961 Act, have been provided in 'formula format' for ease of understanding.
- No changes in tax computation process.
- **Old Tax Regime still exists.**
- **Concept of "Assessment Year" & "Previous Year" is replaced by "Tax Year". Tax Year has been defined under Clause 3 of the Bill as "12 months period of the financial year commencing on the 1st April".**

- As per Income Tax Department, the volume of Income Tax Bill has considerably reduced compared to the existing Income Tax Act, 1961 as provided in chart below. **At present we may find the bill with lesser number of sections and words but in future finance bills, new sections are going to be inserted, existing sections amended and provisos may be added.**



- Some of the existing Sections (For example, Sections relating to TDS & TCS) have been merged together and presented in tabular form **for ease of understanding**. **But by presenting a large number of sections in one table, the ease is lost and one has to refer very lengthy tables.**
- Three distinct tables are there for TDS – one for residents, second for NRIs and third one for cases where TDS is not required.
- Provisions relating to exempt income under Section 10 of the 1961 Act (which contains nearly 125 live clauses) have been placed in 6 Schedules forming part of the new Bill and have been presented in tabular form.
- Explanations (about 900) and provisos (about 1200) to existing sub-sections have either been removed or been converted in separate paragraphs with cross referencing. Thus, long paragraphs have been shortened for ease in reading and understanding and eliminating complexities. To the extent possible use of legal words have been avoided. For example, "notwithstanding" wherever used in 1961 Act has been replaced by "irrespective". Wherever tables have been used, explanations or provisos have been shown as "Notes".

- No major changes in the definitions. Some of the definitions which were appearing under explanation to existing sections have been brought under main definition section i.e. Section 2. Interpretations under various sections of 1961 Act have been compiled in single clause under respective head / chapter (For example: clause 402 with 47 interpretations in respect of TDS).
- The new Bill introduces a new term "Non-Profit Organisation (NPO)" replacing the term "Trust". Provisions applicable to Charitable Trusts under the 1961 Act have been replaced by a comprehensive new framework for NPOs. All provisions relating to Trusts which were scattered under 1961 Act have been presented together in serial order. It has been structured into seven parts containing provisions relating to Registration, Income, Commercial Activities, Compliances, Violations, Registration for the purpose of eligibility of donations & interpretations.
- 1961 Act uses different terms as trust, institution, university, education institutions, hospitals etc at various places under different sections. Under the new Bill, a common term NPO has been used. However, the term NPO has not been defined in the new Bill which may lead to interpretations / disputes.
- Amendments proposed in the Finance Bill, 2025, have also been included in the new Bill. Once the Finance Bill is passed, the amendment will take place only in 1961 Act. By including such amendments in the new Bill also, there will not be any requirement of any further amendment to the new Income Tax Act 2025.
- As per FAQ issued by CBDT on the new Bill, large number of explanations and provisos in 1961 Act make it difficult to read. These explanations and provisos have been converted into paragraphs. **Thus, these will be still difficult to read and understand despite making the same precise and simple at some places.**
- Certain provisions which were scattered across the 1961 Act have been grouped together at one place for easier understanding.

- The deduction under Sections 80-IA, 80-IAB, 80-IBA of the 1961 Act would still be available to eligible undertakings, enterprises etc for the period in accordance with the respective sections of the 1961 Act. These sections have been incorporated briefly in the new bill without mentioning the detailed provisions of the respective section. Thus, to calculate or check the eligible deductions, one will be required to refer the lengthy sections of the 1961 Act.
- Under 1961 Act, certain persons are required to file return of income if they fulfil any of the specified conditions like holding credit card, travelling to foreign country etc. In the new Bill, these specified conditions have been replaced with "such conditions as prescribed".
- In some of the tables, sufficient columns have not been provided. For example, in the table for TDS on payment to residents forming part of clause 393, rate of TDS and threshold limit have been displayed in one column which makes the table complex, clumsy and lengthy. Rate and threshold limit could have been shown separately in 2 separate columns.

To Sum up,

- No change in policy, computation process & tax laws. Law remains virtually the same without any simplification.
- Language in the new Bill is simple & easy to understand.
- Certain provisions scattered across the 1961 Act have been grouped together at one place for easier referencing & understanding.
- Old Tax Regime still exists
- Concept of "Assessment Year" & "Previous Year" replaced by "Tax Year"
- Some of the existing sections have been merged together (e.g. TDS) & presented in tabular form for easier understanding. By presenting large number of existing sections in one table, the ease is lost because of lengthy table.
- Explanations and provisos have been removed / converted into separate paragraphs.

- A new term "Non-Profit Organisation" has been introduced replacing the terms "Trusts or institutions etc". All provisions relating to Trusts which were scattered under 1961 Act, have been presented together in serial order. However, NPO has not been defined under the new Bill.
- Amendments proposed by Finance Bill 2025 have been incorporated in the new Bill.
- Some of the existing sections of 1961 Act have been incorporated briefly without mentioning detailed provisions. Thus, one will be required to refer to lengthy sections of 1961 Act (e.g. Sec 80-IA, 80-IAB, 80-IBA).
- In the table of TDS, which is very lengthy, sufficient columns have not been provided. Rate of TDS & threshold limit have been presented in single column thereby making the table complex, clumsy & lengthy.