

INCOME TAX BILL 2025: ECONOMY

NEWS: *New Income Tax Bill 2025 Highlights: FM Sitharaman urges Lok Sabha Speaker to refer the Bill to Parliament select committee*

WHAT'S IN THE NEWS?

The Income Tax Bill, 2025, introduced in India's Lok Sabha on February 13, 2025, signifies a transformative overhaul of the six-decade-old Income-tax Act, 1961. It aims to simplify the existing complex tax code by streamlining language, structures, and removing redundant provisions. The bill, expected to come into effect on April 1, 2026, marks a significant step towards a more modern and user-friendly taxation system.

Current Status of the Income-tax Act, 1961

- **Complexity and Volume:** The act has expanded to 823 pages with 47 chapters and over 1,200 provisos through numerous amendments, creating a cumbersome and complex structure.
- **Language and Litigation:** Ambiguities and dense legalese have led to numerous tax disputes and prolonged litigation, complicating tax compliance and enforcement.
- **Assessment Year Confusion:** The existing terms "previous year" and "assessment year" often confuse taxpayers, complicating financial planning and tax filing.

Salient Features of the Income Tax Bill, 2025

- **Streamlined Structure:** The bill reduces the page count to 622, organizes content into 23 chapters, and includes 16 schedules with 57 illustrative tables, enhancing clarity and accessibility.
- **Tax Year Introduction:** It replaces the "previous year" and "assessment year" with a unified "tax year," simplifying the timeline to a single April 1 to March 31 period, aligning tax obligations directly with the financial year.
- **Rationalized Deductions and Exemptions:** The bill specifies simplified deductions for rent, insurance, provident funds, and home loans, and removes outdated exemptions like the Section 54E for pre-1992 asset transfers.
- **Inclusion of Virtual Digital Assets:** Cryptocurrencies and other digital assets are classified as property, making them subject to capital gains tax and other relevant tax regulations.
- **Enhanced Dispute Resolution:** Introduces clearer DRP provisions to reduce ambiguities and enhance the speed and efficiency of tax dispute resolutions.
- **Digital Monitoring and Compliance:** Empowers the CBDT to implement robust digital tax monitoring systems to include virtual spaces like social media and online banking for better compliance tracking.

INSIDE BILL INTRODUCED IN PARLIAMENT

Particulars	Income-tax Act, 1961	Bill tabled in LS
Chapters	47	23
Sections	819*	536
Words	5.12 lakh	2.60 lakh

* Effective sections. About 1,200 provisos and 900 sections have been removed in the new Bill.

SCHEDULE II (16 ROWS) Incomes exempt, such as agricultural income

SCHEDULE III (39 ROWS) Certain persons eligible for exemption on certain income such as partners of firms and HUF, etc.

SCHEDULE IV (14 ROWS) Exemptions to non-residents

SCHEDULE V (8 ROWS) Exemption to business trusts, Sovereign Wealth Funds, etc.

SCHEDULE VI (12 ROWS) Exemptions to IFSC units

SCHEDULE VII (48 ROWS) Persons exempt from tax

Significance and Progress of the Bill

- **Language Simplification:** The use of straightforward language and visual aids like tables and formulas aims to reduce complexity and make tax laws understandable for the general public.
- **Litigation Reduction:** By removing ambiguities, the bill aims to minimize tax disputes and associated litigation.
- **Modernization:** Incorporates modern financial phenomena like digital assets into the tax framework, keeping pace with global economic evolutions.
- **Progress:** After its introduction, the bill has been subject to stakeholder review, incorporating over 6,500 public and expert suggestions, indicating broad consultations and feedback integration.

Impact of the Bill

- **Tax Administration:** The clarity and reduced complexity are expected to improve tax administration efficiency and revenue collection.
- **Economic Growth:** By creating a more business-friendly tax environment, the bill supports India's aspirations to become a \$5 trillion economy.
- **Ease of Doing Business:** Simplified tax processes are anticipated to improve India's business environment, attracting more investment.

Challenges and Future Implications

- **Implementation Challenges:** Transitioning to the new system may require significant administrative adjustments and public education efforts.

- **Digital Divide:** Uneven digital infrastructure could affect the equitable implementation of new digital monitoring and compliance measures.
- **New Disputes:** Initial years might see new types of disputes as taxpayers and authorities adjust to the changes, especially with new concepts like the tax year and digital assets.

Way Forward

- **Ongoing Engagement:** Continued dialogue with all stakeholders is crucial to address concerns and ensure a smooth transition.
- **Capacity Building:** Significant efforts to train tax officials and enhance digital infrastructures will be vital for supporting the new tax system.
- **Periodic Reviews:** Regular assessments will help identify issues post-implementation, allowing timely adjustments and updates.
- **Global Best Practices:** Aligning with international tax administration standards will ensure that India's tax system is competitive and robust.

Conclusion

The Income-tax Bill, 2025, is poised to revolutionize India's taxation landscape by making it more transparent, efficient, and user-friendly. This landmark legislation aims to reduce the burden of compliance on taxpayers and streamline tax administration, setting the stage for a future-ready tax system that supports economic growth and enhances taxpayer trust.

Source: <https://indianexpress.com/article/explained/explained-economics/whats-new-in-the-income-tax-bill-2025-9835120/#:~:text=The%20Income%2Dtax%20Bill%2C%202025,crisper%20and%20simpler%20legal%20framework.>

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