

## INCOME TAX BILL – POLITY

NEWS: Recently, the **Select Committee of Parliament (31-Member)** tabled its report on the **new Income Tax Bill, 2025** in the Lok Sabha.

- The **Income Tax Bill, 2025** seeks to **replace the Income Tax Act of 1961**, aims to simplify tax laws, reduce litigation, and enhance taxpayer clarity.

### WHAT'S IN THE NEWS?

#### Key Recommendations of the Parliamentary Panel

- **TDS Refunds and Penalty Relief:**  
The panel has recommended the removal of rigid penalty clauses imposed on late claims for Tax Deducted at Source (TDS) refunds, particularly when the taxpayer is otherwise compliant. This aims to ease procedural stress on genuine taxpayers and improve refund efficiency.
- **Charitable and Religious Trust Taxation:**  
It proposed relief to religious-cum-charitable trusts by advocating exemption from the flat 30% tax on anonymous donations, recognizing the social service functions of such institutions.
- **GAAR and Non-Resident Investor Protection:**  
It endorsed reinstating zero-tax withholding certificates for non-residents to reduce tax-related friction in cross-border transactions and encourage foreign investment.
- **Clarity in Beneficial Ownership Rules:**  
The panel emphasized clearer definitions of "beneficial ownership" to prevent ambiguity in corporate taxation and reduce litigation in related party transactions.
- **Discretionary Penalty Powers:**  
It advised that penalties for failure to maintain account books should be left to the discretion of tax authorities rather than being automatically imposed, in order to prevent the penalization of minor or honest mistakes by legitimate taxpayers.

#### II. Key Features of the Income Tax Bill, 2025

- **Tax Year Concept:**  
The Bill proposes replacing the concept of 'Assessment Year' with a uniform 'Tax Year' that matches the financial year (April 1 to March 31), aiming to simplify annual tax referencing.
- **Taxation of Virtual Digital Assets (VDAs):**  
Cryptocurrencies, NFTs, and other VDAs are explicitly classified as capital assets and will be subject to capital gains tax, offering clarity to digital asset holders and traders.
- **Simplified Drafting for Better Accessibility:**  
Dense legalese is replaced with streamlined clauses, tabular formats, and structured schedules, enhancing readability and accessibility for both professionals and the public.
- **Presumptive Taxation Thresholds Increased:**  
The income limit for small businesses to opt for presumptive taxation is proposed to be

raised from ₹2 crore to ₹3 crore, and for professionals from ₹50 lakh to ₹75 lakh, easing compliance for MSMEs and self-employed individuals.

- **Faceless Appeals System Introduced:**

Video-based hearings and mandatory second-level review panels will now be part of the faceless appeal mechanism, strengthening natural justice and transparency in dispute resolution.

- **Expanded Search and Seizure Powers:**

The Bill empowers tax authorities to override passwords and encryption to gain access to digital platforms, including emails, social media accounts, cloud storage, and trading platforms during investigations.

### III. Impact on Different Stakeholders

- **Salaried Individuals:**

Minimal structural changes in tax calculation, but improvements in return filing interface and simplification of procedures will benefit individual taxpayers.

- **Small Businesses and Professionals:**

Enhanced presumptive taxation thresholds simplify compliance and reduce the paperwork burden for small businesses and self-employed professionals.

- **Crypto and Digital Asset Traders:**

Clear classification of VDAs as capital assets removes ambiguity and offers a defined tax treatment pathway, reducing fear of retrospective taxation.

- **Startups and Freelancers:**

The new regime supports simplified tax compliance for emerging businesses and gig economy workers through higher presumptive limits and easier filing norms.

- **Tax Professionals and Advisors:**

Professionals in tax practice must update standard operating procedures (SOPs) and undergo training to adapt to redefined terms, digital asset rules, and new procedural formats.

### IV. Major Issues and Concerns Raised

- **Privacy and Surveillance Concerns:**

The Bill does not mandate prior judicial oversight or warrant for accessing personal digital data. This may contravene the *Right to Privacy* as upheld in the landmark *K.S. Puttaswamy v. Union of India* judgment.

- **Vague Definition of Digital Space:**

The broad and open-ended definition of "virtual digital space" could potentially allow the tax department to access unrelated personal data beyond the scope of taxation.

- **Overriding Powers under Section 247:**

Tax officials are authorized to forcibly access digital environments, override passwords, and inspect platforms like emails, cloud services, and social media without sufficient procedural checks.

- **Legal Ambiguity Despite Simplification:**

Though the Bill aims for clarity, several terms like "risk management strategy" remain undefined. Some clauses still refer back to the 1961 Act, reducing the independence and coherence of the new law.

- **No Automation in Refunds:**

Despite procedural improvements, excess TDS refunds still require manual follow-ups. There is no provision for automated or system-triggered refunds, prolonging delays for taxpayers.

- **Judicial Delays in Appeals:**

The provision that appeals "may" be disposed of within one year lacks a binding timeline. This discretionary language risks continuation of existing delays of 4–5 years in resolving tax disputes.

## **V. What's Next? (Future Course of Action)**

- **Parliamentary Deliberations:**

The Lok Sabha will deliberate on the Parliamentary Panel's report and recommendations to finalize the draft of the Income Tax Bill.

- **Legislative Enactment Timeline:**

If the Bill is approved after debate and passage, the new Income Tax law is expected to be brought into force from **April 1, 2026**, replacing the existing Income Tax Act, 1961.

Source: <https://www.thehindu.com/news/national/parliamentary-panel-report-on-new-income-tax-bill-2025-to-be-tabled-in-lok-sabha-on-july-21/article69833925.ece>