



**Income Tax Department**

**Central Board of Direct Taxes**



# **SALIENT FEATURES OF NEW INCOME TAX ACT, 2025**



## 1. Why was the Income-tax Act, 2025 introduced? ■■■■■

The Income-tax Act, 1961, which came into effect on 1st April 1962, originally comprised 298 sections. Over the past six decades, it has undergone frequent and extensive amendments through successive Finance Acts and 19 specific Taxation Laws (Amendment) Bills. As a result, the Act expanded to 819 sections, along with numerous provisos and explanations.

The language of the Income-tax Act, 1961 became increasingly complex and laden with legal jargon, understandable only to legal professionals, judges, and chartered accountants. Several outdated provisions were retained, making the Act bulky and difficult to navigate. The accumulation of amendments, overlapping provisions, and redundancies further complicated the structure.

To make the income-tax law more concise and easy to understand, the Hon'ble Finance Minister announced a comprehensive review of the Income-tax Act, 1961 during the Budget Speech on 23rd July 2024, with a target to complete the exercise within six months. The aim was to provide greater tax certainty, reduce disputes and litigation, and simplify the law. Accordingly, the process of drafting the new Income-tax Act, 2025 commenced.

## 2. Have any policy changes been introduced in the Income-tax Act, 2025? ■■■■■

No major policy changes have been made in the Income-tax Act, 2025. Significant policy reforms and tax rate rationalizations were already undertaken over the past decade, necessitating continuity in the new legislation.

The Income-tax Act, 1961 saw major reforms such as Transfer Pricing Regulations, Advance Pricing Agreements (APA), General Anti-Avoidance Rules (GAAR), Place of Effective Management (POEM), faceless assessments, and faceless appeals. Various incentive provisions were also included to promote key sectors such as Sections 80HHC for exports, Section 80IA for infrastructure, Sections 10A, 10AA, and 80HHE for software exports, and Section 80IAC for start-ups.

The objective of the simplification exercise was not to introduce new policy changes, but to declutter, consolidate, and streamline the existing provisions, and to simplify the language of the law.

## 3. What are the major changes introduced in the Income-tax Act, 2025? ■■■■■

### 3.1 Introduction of the 'Tax Year' Concept

The Income-tax Act, 1961 used the terms **Previous Year**

and **Assessment Year**, where the income of a particular year (Previous Year) was taxed in the following year (Assessment Year). This created confusion for taxpayers, especially when compared with international practices.

To eliminate this ambiguity, the Income-tax Act, 2025 introduces a **single unit of taxation called the 'Tax Year'**, replacing the dual terminology. This aligns the Indian tax system with international norms and simplifies understanding for both domestic and foreign stakeholders.

### 3.2 Removal of Provisos and Explanations

The Income-tax Act, 1961 was cluttered with numerous provisos and explanations, complicating interpretation. For example, Section 10(23C) contained 20 provisos, with seven explanations under the third proviso and eight provisos under the second explanation.

To simplify the structure, these provisos and explanations have been replaced with sub-sections. This reduces fragmentation, eliminates excessive cross-referencing, and makes the provisions logically structured, easier to read, and user-friendly. Around 1,200 provisos and 900 explanations have been removed and replaced by independent sub-sections.

### 3.3 Use of Tables and Formulas

Tax computation often involves detailed calculations that, when expressed in text, become verbose and open to misinterpretation. To simplify this:

- **Formulas** have been introduced for various computations.
- **Tables** have been used to present compliance dates, due dates, TDS rates, and other data for easier reference.

This makes the law more accessible and practical for taxpayers, professionals, and administrators.

### 3.4 Replacement of Legal Jargon

The commonly used legal term '**notwithstanding**', which served as a statutory override, has been replaced with the simpler term '**irrespective of**' without changing the interpretative meaning.

### 3.5 Simplified Referencing Method

The Income tax Act, 1961 uses references like "sub-clause (ii) of clause (b) of sub-section (1) of section 133." This has now been simplified to section 133(1)(b)(ii), making it more direct and readable.

### 3.6 Procedural Provisions Shifted to Rules

Relatively minor procedural provisions have been shifted to the Rules to ensure that the Act remains focused on substantive law. Procedural matters, which do not

warrant the rigidity of parliamentary amendments, are better suited to subordinate legislation, where they can be updated more flexibly and efficiently in response to evolving circumstances.

Further, the Second Schedule of the Income-tax Act, 1961 dealing with the procedure for recovery of tax has now been moved to the Rules, as it pertains solely to procedural mechanisms.

### 3.7 Restructuring and Reorganisation

#### (i) Non-Profit Organisations (NPOs)

Provisions relating to NPOs, previously scattered across multiple chapters, have been consolidated into Part B of Chapter XVII titled "*Special Provisions for Registered Non-Profit Organisations*", consisting of seven sub-parts.

Also, terminology like '**approval**' used in Sections 10(23C) and 80G and '**registration**' used in Sections 12AA/12AB of the Income tax Act, 1961 has been unified under the term '**registration**' in the new Act.

#### (ii) Umbrella Term for NPOs

Terms such as *charitable trust*, *religious trust*, *educational institution*, *hospital*, etc., used in the 1961 Act, have been replaced with a single umbrella term **Registered Non-Profit Organisation** to ensure clarity and consistency.

#### (iii) TDS/TCS Provisions

The 1961 Act has 65 sections related to TDS/TCS. These have now been consolidated into 13 sections in the 2025 Act.

- Section 393 organizes TDS provisions by payee categories namely 'residents', 'non-residents', and 'any person' using structured tables.
- Section 392 specifically deals with salary TDS.
- Section 394 covers TCS.
- Exemptions from TDS are consolidated under sub-sections (4) to (9) of Section 393.

This consolidation enhances clarity and reduces duplication.

#### (iv) Exemption Provisions

Section 10 of the 1961 Act, dealing with exemptions, had become highly complex with nearly 140 clauses, 90 explanations, and 134 provisos. In the 2025 Act, exemption-related provisions have been restructured into six separate schedules for clarity.

Relevant exemptions are now included under their respective heads—e.g., salary-related exemptions are part of the salary provisions, and the trust related exemption provisions are included in the NPO provisions.

#### (v) Salary Provisions ■■■■■

All salary related provisions have been consolidated in one place. Deductions such as gratuity, leave encashment, commutation of pension, compensation on VRS, and retrenchment compensation, found in Section 10 of the Income tax Act, 1961, are now part of the salary head in the Income tax Act, 2025 for easy reference.

#### 4. What is the extent of reduction in sections and word count? ■■■■■

Metric	Income-tax Act, 1961	Income-tax Act, 2025
Chapters	47	23
Sections	819	536
Total Word Count (approx.)	5,12,000	2,60,000
Provisos Removed	1,200	—
Explanations Removed (approx.)	900	—

#### 5. How are existing rights and liabilities protected? ■■■■■

All existing rights and liabilities are fully protected under the Repeals and Savings provisions of Section 536 of the 2025 Act. Additionally, Section 535 provides a mechanism for removal of difficulties, enabling the issuance of directions for smooth implementation of the new Act.

#### 6. Have section numbers changed in the Income-tax Act, 2025? ■■■■■

Yes, the 1961 Act included several series of sections—for example, Sections 115A to 115WM, comprising over 100 sections based on the common base number 115. This led to a complex and sometimes confusing section numbering system.

In contrast, the Income-tax Act, 2025 adopts a more straightforward approach by using standalone section numbers. Each of the 536 sections has a unique, independent number, eliminating the need for extended series and enhancing clarity and ease of reference.

#### 7. Have the powers of the Assessing Officer been expanded? ■■■■■

No. The powers of the Assessing Officer remain unchanged. The 2025 Act focuses solely on simplification, legal certainty, and procedural clarity. Where changes exist, they are clarificatory and do not expand authority.

#### 8. Was international experience considered? ■■■■■

Yes. Tax laws of countries like the United Kingdom, United States, and Australia were studied. While these

countries achieved simplification through plain language, their tax codes also became significantly lengthier. The Indian approach balances simplicity and brevity, learning from both their successes and pitfalls.

**9. Is a mapping of old and new sections available? **

Yes. A **reference table** mapping the provisions of the Income-tax Act, 1961 with the corresponding provisions in the Income-tax Act, 2025 has been made available on the official website: [www.incometaxindia.gov.in](http://www.incometaxindia.gov.in). This table is intended to assist taxpayers, professionals, and administrators in identifying the equivalent provisions under the new law.

**10. What is the effective date of the Income-tax Act, 2025?**

The Income-tax Act, 2025 will come into effect on 1<sup>st</sup> April 2026. However, the Income-tax Act, 1961 will continue to apply to any proceedings (including notices, assessments, reassessments, rectifications, penalties, references, revisions, and appeals) relating to tax years prior to 1<sup>st</sup> April 2026.

The Income-tax Act, 2025 will be applicable from the Tax Year 2026–27, while the Income-tax Act, 1961 will remain applicable for the Tax Year 2025–26 and earlier.

**11. Will the Income-tax Rules and Forms also be simplified? **

Yes. The rules and forms are currently undergoing a comprehensive simplification process. By the time the Income-tax Act, 2025 comes into force on 1st April 2026, the newly simplified rules and revised forms will also be implemented, ensuring consistency and ease of compliance across the direct tax administration.



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