ANSHIT SINGHAL
& ASSOCIATES
CHARTERED ACCOUNTANTS

DETAILED ANALYSIS OF KEY CHANGES IN THE INCOME-TAX BILL, 2025

The Income-Tax Bill, 2025 ("ITB 2025") recently proposed in the Parliament, represents a long-awaited landmark legislative reform, replacing the Income-tax Act, 1961 ("ITA 1961") with a modernised framework. This change aims to simplify the tax structure, enhance ease of compliance, and modernize provisions to align with contemporary economic and business environments. The bill incorporates various structural, procedural, and substantive modifications.

This article provides an in-depth analysis of the major changes, particularly in domestic taxation, international taxation, corporate tax provisions, and procedural amendments.

A. LEGISLATIVE RATIONALE FOR THE NEW INCOME-TAX BIL

The Income-tax Act, 1961, had been amended nearly 65 times and had over 4000 amendments, resulting in a complex, bulky, and sometimes contradictory framework. Various provisions had overlapping definitions, multiple references, and redundant clauses, leading to confusion and compliance difficulties. The need for a more coherent, structured, and simplified tax law became imperative to eliminate the outdated provisions and reduce redundancy and enhance clarity, ease of understanding, and compliance and align India's tax laws with international best practices.

Accordingly, In July 2024, the finance minister (FM) announced the decision to undertake a comprehensive review of the existing Income-tax Act, 1961. The intent was to make the law simple, straightforward and minimize controversies arising from the complex language used in Income Tax Act. 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 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 Income Tax Act, 1961 with the new version.
The Income Tax Bill 2025 (ITB 2025) is proposed to be brought into effect from 1 April 2026. It 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.

B. CHANGES IN THE NEW INCOME TAX BILL

I. CHANGES IN DOMESTIC TAXATION

a. Structural and Linguistic Refinements

The new Bill is significantly shorter and more concise, reducing the word count from 5.12 lakh words to 2.6 lakh words. Redundant provisions from the Income-tax Act, 1961, have been eliminated or consolidated, ensuring clarity and reducing ambiguity, thus reducing number of sections from 819 to 536. Simplifying language by removing approx. 1200 provisos and 900 explanations

The use of additional 39 tables and formulae has been expanded to simplify complex calculations and provisions.

Definitions that appeared multiple times across different sections have now been consolidated under a single section (Section 2).

1. Introduction of "Tax Year"(Replaces "Previous Year" and "Assessment Year")

The term "Tax Year" is introduced to replace the "Previous Year" and "Assessment Year", ensuring alignment with global taxation standards. This eliminates confusion caused by the existing system where the assessment year refers to a different financial year than the previous year.

A tax year is defined as a 12-month period within a financial year, but it may be less than a financial year for new businesses or income sources. The term "Financial Year" is retained only for procedural references.

3. Changes in Personal Taxation

a) Simplification of Salary Provisions

In an effort to streamline salary-related exemptions, various components of salary income, such as gratuity, House Rent Allowance (HRA), leave encashment, commuted and uncommuted pension, retrenchment compensation, and similar benefits, have been consolidated under a unified provision governing salary income.

2. Overhaul of Exemptions and Deductions

All Exemptions and deductions have been reorganized into Schedules, reducing complexity and ensuring structured access to tax benefits.

The following schedules categorize exemptions systematically:

- **Schedule II:** Agricultural income, life insurance proceeds, provident fund withdrawals.
- **Schedule III:** Allowances and perquisites (e.g., travel concession, rent allowance).
- **Schedule VI:** Tax benefits for specific business activities (e.g., IFSC, SEZ units and Start-up tax Benefits).
- **Deductions for business expenses** (e.g., bad debts, employee benefits, scientific research) have been presented in tabular form.

b. Changes in Perquisite Taxation Related to Employer-Provided Vehicles

Under ITA 1961, the use of an employer-provided vehicle for commuting between an employee's residence and workplace was not considered a taxable perquisite.

However, ITB 2025 proposes a shift in the wording, specifying that the expenditure incurred by the employer for the use of such a vehicle by the employee shall not be classified as a taxable perquisite. This change may have interpretational implications.

C. Removal of COVID-19 Related Perquisite Exemptions

ITA 1961 provided exemptions from perquisite taxation for:

- Amounts paid by employers towards an employee's medical treatment for COVID-19 (including family members).
- Ex gratia payments made by an employer to the family of a deceased employee due to COVID-19.

ITB 2025 proposes the deletion of these provisions, thereby subjecting such payments to taxation.

d. Elimination of Documentation Requirement for Medical Perquisite Exemption

Under ITA 1961, to claim employer-paid medical treatment expenses as a non-taxable perquisite, employees were required to submit hospital certificates and payment receipts.

ITB 2025 removes this requirement, simplifying compliance for taxpayers.

e. Amendment in Vacancy Allowance Provision

For computing the annual value of house property that remained vacant for a part or whole of the year, ITB 2025 introduces an additional condition requiring the property to be 'let in the normal course of business.' This condition introduces potential ambiguity in determining eligibility for vacancy allowance.

4. New Compliance Requirements for Crypto and Digital Transactions

Virtual Digital Assets (VDAs) remain taxed at 30% (as per Finance Bill, 2022), but their definition and provisions have been fine-tuned. **Section 285BAA introduces a reporting requirement for transactions in Virtual Digital Assets (Crypto Currency and NFT Transactions).**

Enhanced compliance for offshore derivative instruments and non-deliverable forward contracts.

5. Higher Tax on Undisclosed Virtual Digital Assets (VDA)

- ITA 1961 imposes a 78% tax on undisclosed assets but lacks explicit clarity on VDA classification.
- ITB 2025 explicitly includes VDA in the definition of specified assets, ensuring clarity on the 78% tax rate's applicability.

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6. Set-off and Carry-Forward of Losses

i) Capping of carry-forward losses in cases of business reorganization and amalgamation has been incorporated. **Sections 71A and 75 (which dealt with losses in specific circumstances) have been removed as redundant to simplify the tax computation.**

ii) **Losses from speculative businesses and capital gains continue to have distinct treatment but are consolidated under one heading.dundant to simplify the tax computation.**

7. Set-Off of Brought Forward Long-Term Capital Loss (LTCL) Against Short-Term Capital Gains (STCG)

Under the existing tax framework, brought forward long-term capital loss (LTCL) is allowed to be set off only against future long-term capital gains (LTCG).

The ITB 2025 continues this principle, restricting LTCL utilization only to LTCG in normal circumstances. **However, as per the savings clause in ITB 2025, a transitional provision has been introduced that allows brought forward LTCL incurred up to 31 March 2026 to be carried forward and set off against all future capital gains, including short-term capital gains (STCG), from the tax year 2026-27 onwards. This relaxation provides taxpayers with greater flexibility in utilizing their accumulated LTCL, thereby reducing their overall tax liability on short-term capital gains earned in subsequent years.**

This amendment could be particularly beneficial for investors who have historically accumulated LTCL but primarily earn STCG in future years, allowing them to optimize their tax outflows more efficiently.

8. Modification of Shareholding Threshold Rules for Loss Set-Off

i) ITA 1961 prohibits loss set-off if shareholding in a closely held company changes by more than 49% between the year of incurrence and the year of set-off.

ii) **ITB 2025 clarifies that once the 49% threshold is breached, the right to loss set-off is permanently forfeited, even if shareholding is later restored.**

9. Renaming and Reorganization of Provisions

Clubbing provisions have been renamed for better understanding:

- Section 68 (Cash Credits) is now "Unexplained Credits".
- Section 69 (Unexplained Investment) is now "Unexplained Asset".
- Section 69A (Unexplained Money) is now "Unexplained Expenditure".

This renaming aligns the terminology with the actual substance of the provisions.

10. Comprehensive Overhaul of TDS/TCS Provisions for Clarity and Ease of Compliance

Under ITA 1961, multiple provisions govern Tax Deducted at Source (TDS) and Tax Collected at Source (TCS), each prescribing distinct rates, thresholds, and conditions based on the nature of payments and the status of the payee. The proposed Income Tax Bill, 2025 (ITB 2025) seeks to consolidate and streamline these provisions to enhance clarity and facilitate compliance.

Key modifications include:

1. Consolidation of TDS Provisions

- A single comprehensive section (except for TDS on salary) categorizes TDS under three broad heads:
  - TDS on payments to residents
  - TDS on payments to non-residents
  - TDS on payments applicable to both residents and non-residents
- For each category, the applicable rates, thresholds, payee classifications, and nature of payments are systematically structured in a tabular format for ease of reference.
- A dedicated clause enumerates all exclusions from TDS provisions to minimize ambiguities.

2. Changes in NIL and Lower TDS/TCS Certificates

- Under ITA 1961, NIL and lower TDS/TCS certificates were available only for specified transactions.
- **ITB 2025 eliminates the provision for NIL TDS certificates, permitting only lower TDS/TCS certificates across all payments/receipts, including those involving non-residents.**

3. TCS Simplification: TCS provisions are consolidated into a single table, ensuring uniform applicability and easy readability.

11. Expansion of Deeming Fiction for TDS on Credits to Suspense or Other Accounts

Under ITA 1961, certain TDS provisions require deduction at the time of payment or credit, whichever is earlier. To prevent avoidance of TDS by crediting amounts to a suspense account instead of the payee's account, a deeming fiction was applied in specific provisions.

ITB 2025 extends this deeming fiction universally to all TDS provisions that mandate deduction at the time of payment or credit, thereby closing potential loopholes.

13. TDS on Interest from Motor Accident Claims Tribunal (MACT) Compensation

Under ITA 1961, TDS on interest awarded by MACT **applies only on a payment basis**, subject to a threshold of INR 50,000 per tax year.

ITB 2025 proposes advancing TDS **applicability to the earlier of payment or credit in the books**, maintaining the existing INR 50,000 threshold.

12. Rationalization of TDS/TCS Provisions

TDS and TCS provisions have been simplified into separate tables for residents and non-residents. Threshold limits for various categories have been revised and rationalized.

Specific changes:

- Omission of Section 206AB (Higher TDS for non-filers of income tax returns).
- Omission of Section 206CCA (Higher TCS for non-filers of income tax returns).

14. Minimum Alternate Tax (MAT) and Fair Valuation Gains on Business Trust Units

ITA 1961 provides for tax deferral on the transfer of shares of a Special Purpose Vehicle (SPV) by a sponsor to a business trust in exchange for units. It also excludes notional fair valuation gains or losses on such units from book profit computation for MAT purposes.

While ITB 2025 retains the exclusion of notional losses, it inadvertently omits the exclusion of notional gains, creating a potential inconsistency that requires rectification.

15. Inter-Corporate Dividend Deduction under the 22% Concessional Tax Regime

ITA 1961 permits companies opting for the 15% concessional tax regime to claim deductions for employment costs and inter-corporate dividends, subject to conditions.

ITB 2025 maintains these deductions for the 15% regime but excludes inter-corporate dividend deductions for companies under the 22% concessional regime, diverging from existing provisions.

16. Enhanced Faceless Tax Administration

The Bill extends the faceless assessment, appeals, and dispute resolution mechanism. Introduction of "Faceless Jurisdiction of Income-tax Authorities" ensures uniform application of tax laws across taxpayers. Automation and artificial intelligence will play a larger role in assessments and scrutiny.

17. Enhanced Scope of CBDT's Power to Issue Guidelines

Presently, the Central Board of Direct Taxes (CBDT) is authorized to issue guidelines for resolving difficulties in specific TDS/TCS provisions, subject to approval by the Central Government and subsequent presentation in Parliament.

ITB 2025 expands this authority to encompass the entire TDS/TCS chapter, facilitating a more cohesive and effective resolution mechanism for compliance-related challenges.

18. CBDT's Power to Issue Guidelines with a Defined Time Limit

- ITA 1961 does not impose a time restriction on CBDT for issuing guidelines.
- **ITB 2025 introduces a two-year limit from April 1, 2026, beyond which no guidelines can be issued for specified provisions, including concessional tax regimes and MAT.**

19. Capital Gains Taxation Rationalization

Special provisions for "cost of acquisition" and "full value of consideration" for various assets have been restructured.

Sections dealing with capital gains on slump sales, market-linked debentures, and depreciable assets have been modified to align with international practices.

Capital Gains exemption rules for reinvestment in specified assets have been streamlined.

20. Period of Holding in a Liquidating Company – Expanded Scope

Under the existing provisions, while determining the period of holding for shares held in a company undergoing liquidation, any period following the date on which the company goes into liquidation is specifically excluded from consideration. This restriction limits the benefit of a longer holding period for tax purposes.

Under ITB 2025, it is proposed that this restriction on the calculation of the period of holding shall be extended to all types of investments held in a company undergoing liquidation, and not just shares. This means that any other securities, bonds, or financial instruments held by an investor in such a company will also be subject to the same rule, ensuring uniform treatment across different asset classes.

21. Mark-to-Market (MTM) Loss Allowance, Regardless of Computation Mechanism

Under the Income Tax Act, 1961 (ITA 1961), a deduction for MTM losses or other anticipated losses is permitted only if computed in accordance with the Income Computation and Disclosure Standards (ICDS). Similarly, the Income Tax Bill (ITB) 2025 also allows the deduction of MTM losses or other expected losses calculated as per ICDS. However, it is further specified that such losses shall not be allowed as a deduction under any other provision of the tax law.

22. Reduction of Actual Cost of Asset by GST on Which Credit Has Been Claimed

ITB 2025 proposes the introduction of a specific provision clarifying that Goods and Services Tax (GST) paid on the cost of an asset, where input tax credit has been claimed under the applicable law, should not be included in the computation of the asset's actual cost. This aligns with the existing provisions under ICDS V concerning tangible assets.

23. Depreciation on Intangible Assets

Currently, depreciation is allowed on specified intangible assets (such as patents, copyrights, trademarks, licenses, and franchises) only if acquired on or after April 1, 1998.
ITB 2025 proposes removing the acquisition date condition, allowing depreciation on eligible intangible assets irrespective of their acquisition date. Additionally, a new requirement mandates that intangible assets must be used exclusively for business purposes. If the asset is used for other purposes, depreciation will be allowed only on a proportionate basis as determined by the tax authorities.

This change aligns the depreciation rules for intangible assets with those applicable to tangible assets, where similar restrictions already exist under ITA 1961.

24. Absence of Clawback Provision on Investment-Linked Expenditure

Under ITA 1961, taxpayers are eligible for a 100% deduction on capital expenditure incurred for specified businesses. When a capital asset, for which such a deduction has been claimed, is sold, the entire sale proceeds are taxed as business income.
While the provisions in ITB 2025 retain these benefits, no specific clawback provision is introduced to tax subsequent sale proceeds as business income for capital assets sold after April 1, 2026, where the expenditure was fully deducted under ITA 1961.

25. Capital Expenditure for Specified Businesses

Under the Income Tax Act, 1961 (ITA 1961), a Under ITA 1961, taxpayers can claim a 100% deduction on capital expenditure incurred in specified businesses, such as the development and operation of infrastructure facilities, cold chain facilities, and hotels or hospitals. The provisions require filing a prescribed form and empower tax authorities to recompute the profit of eligible businesses in specified circumstances.

In contrast, the corresponding provision in ITB 2025 does not include a reference to the specific sub-section regarding the prescribed form or the powers of the assessing officer to recompute profits in specified cases.

27. Taxes Paid on Income Not Allowed as an Expense under ITB 2025

Under ITA 1961, taxes levied on the profits or gains of a business or profession are not deductible under the head "Profits and Gains of Business or Profession" (PGBP). However, ambiguity exists regarding whether taxes paid on income other than business profits or gains are deductible.

ITB 2025 seeks to address this ambiguity by explicitly stating that any tax paid on income shall not be allowed as a deduction when computing income under PGBP

26. Anomalies in the Allowance of Specified Expenses Based on Actual Payment

In computing business income, ITA 1961 allows the deduction of certain expenses only when paid, provided these expenses otherwise qualify for deduction under other provisions of ITA 1961.

ITB 2025 proposes the removal of the phrase “otherwise allowable,” leading to potential ambiguity regarding the deductibility of expenses that do not qualify for deduction under other provisions of the bill. Additionally, the comparable Explanation in ITA 1961, which clarifies that “sum payable” refers to amounts for which a taxpayer has incurred liability in the tax year (even if not payable within that year), is absent in ITB 2025. Unless addressed, this could reignite the controversy that the Explanation in ITA 1961 was intended to resolve, particularly regarding outstanding specified expenses payable after the close of the tax year.

28. Export Incentives Now Explicitly Taxable

Under ITA 1961, disputes existed regarding the taxability of export incentives. ITB 2025 clarifies that all export incentives will now be considered business income.

29. Rationalization of Tax Audit Applicability

- Under ITA 1961, tax audit applies where:

1. Business turnover exceeds INR 10 crore.
2. Aggregate cash receipts and payments (including non-business transactions) exceed 5% of total transactions.

- **ITB 2025 revises the 5% test to consider only business-related receipts and payments, thereby refining tax audit applicability while keeping the INR 10 crore threshold unchanged.**

30. Site Restoration Fund Provisions

- ITA 1961 allows deductions for deposits into a specified site restoration fund but denies deductions for amounts utilized for asset purchases.
- ITB 2025 modifies this approach, deeming such utilizations as taxable business profits for that year.

31. Tonnage Tax Scheme (TTS) Adjustments

- ITB 2025 largely retains existing TTS provisions but extends coverage to inland vessels under the Inland Vessels Act, 2021.
- A revised chartering threshold applies exclusively to new inland vessels, potentially omitting older vessels, necessitating clarification.

32. Revamping of Provisions for Non-Profit Organisations (NPOs)

a. Structural Overhaul of NPO Provisions

- The various classifications of trusts, institutions, universities, hospitals, and religious trusts have been consolidated under a single term: **"Non-Profit Organisation (NPO)."**
- Provisions applicable to registered NPOs, previously scattered across multiple chapters under ITA 1961, are now integrated into a single chapter in ITB 2025, subdivided into seven categories.
- While existing tax provisions for NPOs were framed as "**exemption provisions**," ITB 2025 shifts them to Chapter XVII, categorizing them under special provisions applicable to **specific entities**.

b. Scheme of Tax Exemption for NPOs

- The exemption structure remains **application-based**, ensuring that registered NPOs are exempt from income tax if they apply at least **85% of their income** towards charitable purposes or accumulate funds for future application (within a five-year window).
- **Corpus donations** received by registered NPOs continue to be exempt, provided relevant registration and compliance requirements are met.

c. Key Proposed Changes Affecting Registered NPOs

- **Restrictions on Commercial Activities:** ITB 2025 prohibits NPOs from engaging in commercial activities, except where such activities are incidental to their core objectives. This change necessitates careful evaluation of its impact on NPO operations.
- Transition Opportunity for Pre-2021 NPOs: **NPOs that failed to transition to the new registration regime introduced on 1 April 2021 are given another opportunity to apply for registration under ITB 2025. If the delay is condoned by tax authorities due to reasonable cause, the registration will have** retrospective effect from tax year 2021-22.

- **Mandatory Registration for Exempt NPOs:** Certain NPOs that previously enjoyed blanket tax exemptions under ITA 1961 will continue to be exempt under ITB 2025. However, there now appears to be a requirement for such NPOs to obtain formal registration, potentially introducing additional compliance burdens and ambiguity.
- **Cancellation of Registration:** ITB 2025 extends the scope of registration cancellation to also include its withdrawal in specified circumstances.

II. CHANGES IN INTERNATIONAL TAXATION

1. Presumptive Taxation for Non-Residents

ITB 2025 consolidates all presumptive taxation provisions for non-residents under a single section, with key changes including:

- Prohibition of set-off of any losses or deductions against deemed profits.
- Explicit specification of the method for computing asset depreciation.
- Extension of the presumptive tax regime to non-residents providing services or technology to electronic manufacturing businesses in India, with tax audit applicability.
- Introduction of an option for shipping and aircraft businesses to opt out of presumptive taxation by maintaining prescribed books of accounts and undergoing audits.

2. Expanded Scope of Indirect Transfer Taxation

- 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.**

3. 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 Income Tax Act, 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.

4. Clarification of Undefined Terms in Tax Treaties

- ITA 1961 stipulates that undefined terms in tax treaties should derive their meaning from domestic tax law or government notifications.
- ITB 2025 expands this rule, allowing references to definitions under any Central Government Act dealing with taxation, ensuring consistency with India's international treaty commitments.

5. Foreign Exchange Fluctuation Benefit for Non-Residents on Transfer of Certain Shares

At present, long-term capital gains (LTCG) arising from the transfer of shares of an Indian company by a non-resident are subject to tax at a concessional rate of 12.5%. However, such gains are computed without providing any benefit for foreign exchange fluctuations, which can impact the overall tax liability of non-residents due to currency depreciation or appreciation.

ITB 2025 proposes that LTCG derived by a non-resident **(excluding Foreign Institutional Investors – FIIs)** from the transfer of unlisted shares of an Indian company or unlisted securities shall continue to be taxed at 12.5%, but with the added advantage of foreign exchange fluctuation benefit. This means that the computation of capital gains will now consider exchange rate variations between the date of acquisition and the date of transfer, thereby potentially reducing the taxable gains for non-residents affected by currency movements.

6. Income from International Transactions and Specified Domestic Transactions (SDT) [Section 161 – Formerly Section 92]

- **The language in Section 161 of the New Income Tax Bill has been refined, replacing the term "computed" with "determined" in reference to the application of ALP.**
- This revision aims to clarify that the determination of ALP is a conclusion derived from multiple evaluative factors and is not merely a numerical computation.

7. Definition of 'Associated Enterprise' (AE) [Section 162 – Formerly Section 92A]

- The structural framework defining AE remains consistent with the ITA 1961, comprising two distinct parts:

  • The first part establishes a broad definition based on participation in "management," "control," or "capital."
  • The second part contains a deeming provision specifying conditions under which entities shall be deemed to be AEs.

- A notable change in Section 162(2) introduces the phrase "without affecting the generality of the provisions of sub-section (1)," which eliminates ambiguity regarding the interplay between the general and deeming provisions of the AE definition.
- The previous ITA 1961 phrased the relationship as "for the purposes of sub-section (1)," potentially limiting its scope.
- The ITB 2025 ensures that the general AE definition in the first part is not constrained by the relationships described in the second part.

8. Specified Domestic Transactions (SDT)

- The ITA 1961 did not explicitly define the meaning of AE in the context of SDT.
- The ITB 2025 introduces a new sub-section (3) under Section 162, providing a definition of AE for SDT.
- This amendment is clarificatory and does not expand the scope of SDT applicability.

9. Definition of 'International Transaction' [Section 163 – Formerly Section 92B]

- Under the ITA 1961, certain transactions required an additional test—whether they had a bearing on profits, income, losses, or assets—to be classified as international transactions.
- This led to interpretational challenges, particularly for financial transactions with no immediate impact on profits or income.
- **The ITB 2025 introduces a more structured definition in Section 163(1), comprising a comprehensive and well-defined list of international transactions to minimize ambiguities. The provision concludes with a residual clause (g), covering "any other transaction having a bearing on profits, income, losses, or assets."**
- Only transactions that do not fall within the defined categories will require evaluation under the "bearing on profits, income, losses, or assets" test.

10. Determination of Arm's Length Price (ALP) [Section 165 – Formerly Section 92C]

- The existing ITA 1961 provision was unclear on whether the tolerance range (+/- 3%) applied when a single price was determined as the ALP.
- The ITB 2025 explicitly confirms that the tolerance range remains available even in cases where a single price is determined.
- This amendment eliminates ambiguity and ensures that taxpayers can rely on the tolerance range without the need for additional interpretation.
- Where multiple prices are determined, the methodology for ALP selection will continue to be prescribed separately (currently governed by Section 92C read with the relevant rules).

11. Reference to Transfer Pricing Officer (TPO) [Section 166 – Formerly Section 92CA]

- The framework for TP audits under "Assessments in a Block" remains consistent with the earlier provisions.
- **Faceless Scheme:**

• Under the ITA 1961, separate enabling provisions existed for notifying faceless schemes for TP, DRP, and ITAT proceedings.

• The ITB 2025 eliminates redundant references and consolidates the authority under Section 532, allowing the central government to notify faceless schemes, subject to Parliamentary approval.

• The deadline for notifying such schemes has been removed in alignment with the Finance Bill, 2025 proposals.

12. Advance Pricing Agreement (APA) [Section 168 – Formerly Section 92CC]

- The ITA 1961 did not specify a definitive timeline for when APA proceedings would be considered pending.
- The ITB 2025 clarifies that APA proceedings shall remain pending:
  - Until the APA is formally executed, or
  - Until closure of such proceedings as per the prescribed rules.
  - The detailed rules governing this provision are yet to be notified.
  - This change serves as a clarification and does not alter the substantive APA framework.

III. Compliance and Assessment Framework under ITB 2025

1. Enhanced Disclosure Requirements in Tax Returns

ITB 2025 mandates a more comprehensive tax return format requiring **detailed disclosure** of personal financial information (e.g., credit card transactions, expenditure details) and **business-related data** (e.g., locations of all operational branches).

2. Procedural Simplifications

The requirement to file a **Power of Attorney** along with the return of income (ROI) for authorized signatories has been removed.

3. Limitations on Filing Updated Returns

Taxpayers who file an **updated return** for a particular year, resulting in a reduction of losses, unabsorbed depreciation (UAD), or Minimum Alternate Tax (MAT)/Alternate Minimum Tax (AMT) credit carried forward, will be **barred from filing updated returns** for subsequent years.

6. Extended Time Limit for Appeal Effect Orders

The time limit for passing appeal effect orders (except fresh assessments) has been **extended from three months to six months**, with a possible further extension to **nine months with approval.**

4. Reassessment and Valuation Provisions

- **Expanded Reassessment Powers:** The tax department can reassess **any other escaped income** without issuing a separate notice for such income.
- **Amendment of Valuation Reports:** Valuation Officers are now permitted to **correct mistakes** in valuation reports post-issuance.

5. Dispute Resolution Panel (DRP) Modifications

- ITB 2025 mandates that DRP orders must be **reasoned orders** with documented justifications.
- However, the requirement for the DRP to consider **evidence filed by taxpayers** or **remand reports** has been **deleted**, which appears to be an inadvertent omission.

7. Expanded Search and Seizure Powers

- ITB 2025 broadens the scope of search and seizure operations, permitting tax officers to access **all electronic media and computer systems**, including **virtual digital spaces** (e.g., email servers, social media accounts, cloud storage, etc.).
- Taxpayers are obligated to provide **access credentials** for these systems. In the absence of cooperation, tax officers are authorized to **override access controls.**

8. New Legal Implications in Survey Operations

Statements recorded during survey operations will now be taken **under oath**, significantly increasing their **legal weight** and potential consequences.

9. Requirement for No-Objection Certificates (NOC)

The requirement to obtain a **No Objection Certificate (NOC)** from tax authorities in cases where an assessment is pending has been extended to cover transactions involving **transfer of virtual digital assets (VDAs)**.

Conclusion

In conclusion, the proposed ITB 2025 marks a significant step forward in the evolution of India's income tax legislation, emphasizing clarity, simplicity, and ease of compliance. With a focus on reducing litigation, compliance burdens, and eliminating redundant provisions, it aims to create a more streamlined tax system for individuals and businesses. While the bill does not propose major policy changes, the transitional provisions, including continuity in procedural aspects under the ITA 1961, provide a smooth shift towards the new framework. The expected administrative and procedural reforms, coupled with continued stakeholder engagement, will play a pivotal role in reducing compliance complexities. As the ITB 2025 progresses through legislative scrutiny, it is poised to bring about meaningful improvements in the taxation landscape.

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New Delhi | Noida | Haryana

VISIT US

B-20, Sector-1, Noida, 201301, Uttar Pradesh, India

info@asasso.in 0120-3272284

www.asasso.in

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