



BACKGROUNDERS
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Government of India

The Income Tax Act, 2025 *Reshaping Tax Framework*

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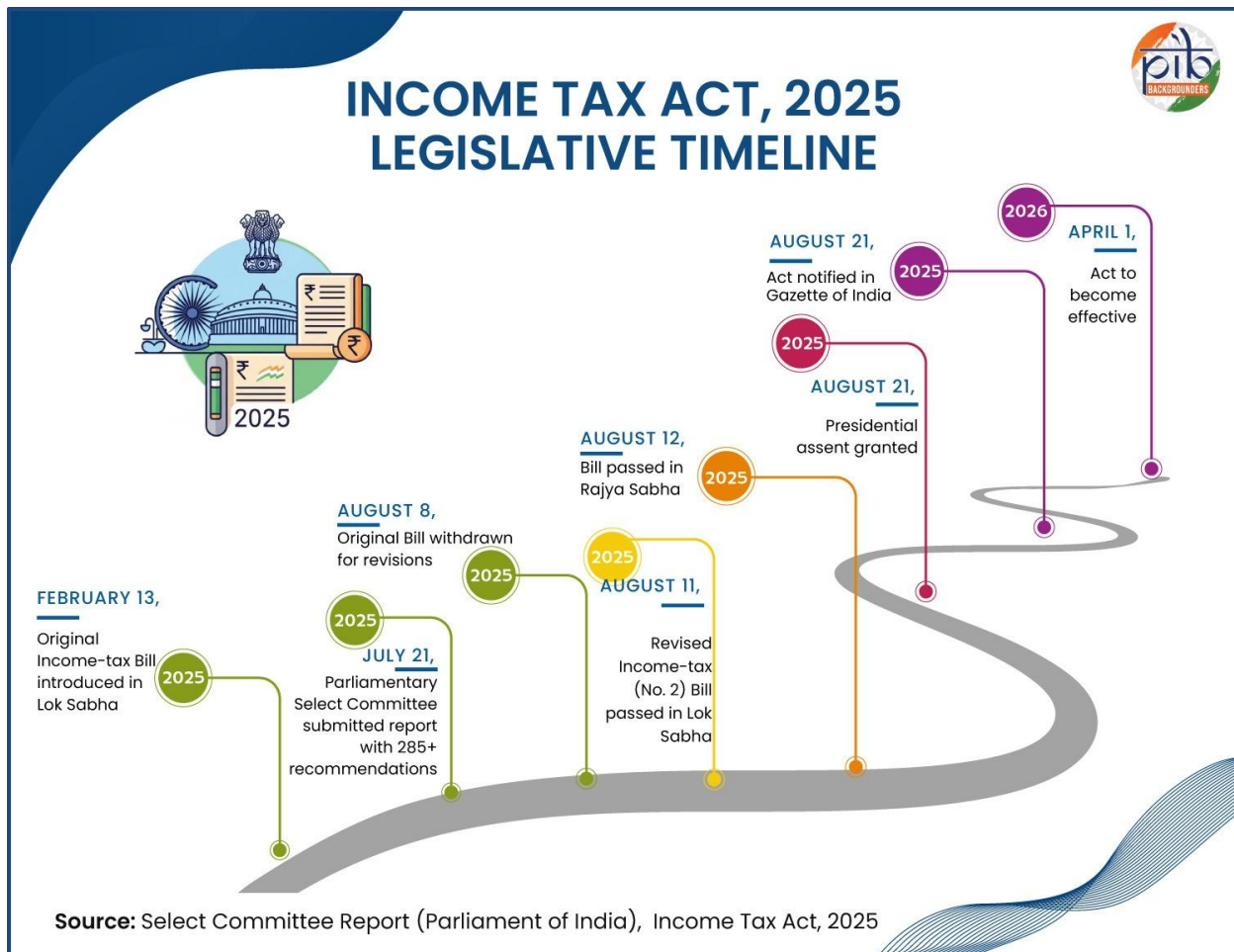
Key Takeaways

- Income Tax Act, 2025 to be effective from **April 1, 2026**.
- The Act **simplifies language, removes obsolete provisions and consolidates and restructures provisions**.
- It Introduces concept of '**Tax Year**' replacing 'Assessment Year' and 'Previous Year'.
- The Act defines **Virtual Digital Assets (VDAs)**, including cryptocurrencies and tokenized assets.

Understanding The Income Tax Act, 2025

The passage of the New Income Tax Act, 2025 is a landmark development towards building a streamlined, simplified tax framework aimed at enhancing transparency, equity, and economic efficiency. Enacted by Parliament after intensive deliberation, the legislation reflects the Government of India's commitment to modernizing the tax architecture in alignment with global best practices and domestic aspirations. By simplifying tax slabs, rationalizing exemptions, and integrating digital compliance mechanisms, the Act seeks to reduce administrative burdens while fostering a culture of voluntary compliance.

To modernize and simplify India's outdated tax laws, the government announced a comprehensive review of the Income-tax Act, 1961. This led to the introduction of the Income-tax Bill, 2025, which was referred to a Select Committee of Parliament for detailed examination. After receiving extensive recommendations and suggestions from stakeholders, the government decided to withdraw the original Bill and introduce a revised version - **The Income-Tax (No. 2) Bill, 2025**. This updated Bill incorporated most of the committee's inputs along with improvements in legal clarity and drafting. It was passed by both Houses of Parliament in the monsoon session and now forms the foundation of India's new tax framework.



From Complexity to Clarity: Rationale Behind the New Income Tax Act

The **Income-tax Act, 1961** was introduced to replace the earlier 1922 legislation, based on recommendations from the **Law Commission (1958)** and the **Direct Tax Administration Enquiry Committee**.

Here are the factors contributing to the complexity of India's Income-tax Act, 1961:

- ❖ **Extensive Amendments:** The Act has been amended nearly **65 times with more than 4000 amendments** over six decades through annual Finance Acts and **19 separate Taxation Laws Amendment Bills**. While these changes were intended to keep the law relevant, they significantly increased its length and complexity.
- ❖ **Numerous Exemptions and Deductions:** Over the years, the Act was **repeatedly amended** to include various exemptions and deductions to support socio-economic goals, such as encouraging

savings, boosting exports, promoting balanced growth, and advancing social equity. These provisions included benefits for export income, investments in specific sectors or regions, and spending on rural development.

❖ **Reduced Tax Base and Increased Litigation:** The numerous exemptions and incentives significantly **reduced the tax base**, which in turn contributed to increased litigation, higher administrative costs, and greater compliance burdens.

❖ **Traditional Legal Language:** The Act was written in **traditional legal language**, characterized by long sentences, numerous provisos, and extensive explanations, making it difficult for the average taxpayer to understand.

❖ **Fragmented Structure and Outdated Provisions:** The accumulation of amendments and additions led to a **fragmented structure**. This complexity was further compounded by the presence of outdated provisions that were no longer in use.

Reform Process for the New Tax Legislation

In **July 2024**, the Finance Minister announced the Government's intent to **overhaul the Income-tax Act, 1961**, aiming to simplify its language, reduce disputes, and eliminate outdated provisions. To lead this effort, an **internal Departmental Committee** was constituted by Central Board of Direct Taxes (CBDT) for comprehensive review of the existing Act.

The Committee actively engaged with stakeholders - **industry bodies, professional associations, and field officers of tax department** - through consultations and brainstorming sessions. It also drew insights from **international best practices**, including **tax reforms in the UK and Australia**. The focus extended beyond language to include structural streamlining of the law itself.

To reframe Income Tax law framework, the simplification exercise followed three guiding principles:

➤ **Textual and structural simplification** for improved clarity and coherence.

➤ **No major tax policy changes** to ensure continuity and certainty.

➤ **No modifications of tax rates**, preserving predictability for taxpayers.

The drafting process of the Income Tax Act, 2025 was anchored in a threefold framework, each component playing a critical role in shaping the legislation's structure, intent, and implementation strategy:

➤ **Eliminating intricate language** to enhance readability.

➤ **Removing redundant and repetitive provisions** for better navigation.

- **Reorganizing provisions logically** to facilitate ease of reference.

The New Tax Vision: Goals and Direction

The Income Tax Act, 2025 has been introduced to modernize India's direct tax framework, focusing to **simplify and streamline tax legislation**, making it **more accessible, transparent, and less prone to litigation**. By adopting plain language and restructuring provisions logically, the Act aims to reduce taxpayer confusion and improve voluntary compliance. It also seeks to **minimize disputes** through **clearer definitions** and **harmonized assessment** timelines. The reform reflects India's commitment to align with global best practices, improving ease of doing business, and fostering a trust-based tax environment. In essence, the Act is designed not to overhaul tax rates, but to overhaul the tax experience - making it more **predictable, efficient, and digitally enabled**.

Core Objectives
➤ Simplification: Replace archaic language and redundant provisions with clear, concise, and modern legal text.
➤ Digital Integration: Enable faceless assessments and digital compliance to reduce human interface and corruption.
➤ Taxpayer-Centric Approach: Improve ease of filing, reduce litigation, and enhance transparency.
➤ Global Alignment: Reflect contemporary economic realities, including taxation of digital assets and global income.

Simplified Framework of Income Tax Act, 2025

The new Income Tax Act has been significantly simplified, with fewer sections and chapters, making it easier to understand and implement. It includes structured schedules along with helpful tables and formulae to improve clarity. Overall, the language and layout have been streamlined for better accessibility and transparency. Importantly, the Act preserves existing taxation principles, ensuring continuity while enhancing usability. These reforms reflect the Government's commitment to improving the ease of doing business by establishing a tax framework that is both simple and transparent.

STREAMLINED TAX STRUCTURE



TOTAL SECTIONS

Reduced from 819 to 536 sections



CHAPTERS

Reduced from 47 to 23 chapters



SCHEDULES

16 schedules included



NEW TOOLS

Introduction of tables and formulas for clarity and ease of interpretation

Source: Central Board of Direct Taxes (CBDT)

Key Features of Income Tax Act, 2025

The Income Tax Act, 2025 introduces a streamlined and modernized framework for direct taxation in India. It focuses on clarity, simplification, and improved compliance through structural and procedural reforms. The Act is designed to enhance transparency, reduce litigation, and align with technological developments.

Introduction of 'Tax Year'

- ❖ The Act simplifies tax terminology by replacing the previously used and often confusing terms '**Assessment Year**' and '**Previous Year**' with a single, unified concept called the '**Tax Year**'. It has been defined as the twelve-month period of the financial year commencing on the 1st

April. This change is aimed at improving clarity and making it easier for taxpayers to understand which financial period their income and tax filings relate to, thereby reducing ambiguity in compliance and interpretation.

Power to Frame Schemes

- ❖ The Act authorizes the Central Government to design new schemes aimed at **improving efficiency, transparency, and accountability** in tax administration (**S. 532**). This can be done by:
 - i. **Eliminating the interface** with the assessee or any other person to the extent technologically feasible, and
 - ii. **Optimising utilisation** of the resources through economies of scale and functional specialisation.

Simplified Compliance

- ❖ Multiple provisions have been brought together for more clarity. For example, the provisions related to **Tax Deducted at Source (TDS)**, which were earlier distributed across multiple sections, have now been **streamlined and grouped** under a single section - **Section 393**. This consolidation is intended to simplify the legal framework, making it easier for taxpayers, professionals, and authorities to locate and interpret TDS related rules without navigating through numerous scattered clauses.

Digital-First Enforcement

- ❖ **Virtual Digital Space** has been defined as an environment, area, or realm that is constructed and experienced through computer technology. It includes email servers, cloud servers, social media accounts, online investment and trading accounts, and websites for storing details of asset ownership.
- ❖ The scope of **Virtual Digital Assets** has been broadened to cover any asset that holds value in digital form and operates using cryptographic ledger systems such as cryptocurrencies or similar technologies.



Dispute Resolution

- ❖ The Income Tax Act, 2025 introduces a more robust and taxpayer-friendly framework for resolving disputes.

Conclusion

The Income Tax Act, 2025 represents a transformative step toward building a more transparent, efficient, and taxpayer-friendly direct tax system in India. By simplifying legal structures, embracing digital processes, and aligning with global standards, the Act lays the foundation for a modern fiscal framework. Guided by Prime Minister Narendra Modi's vision of a developed and inclusive India, this reform reflects the government's commitment to ease of compliance, economic growth, and institutional accountability.

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