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# The Income-tax Act, 2025: A Modern Framework for Direct Taxation in India

AUTHOR Asav Rajan Arora

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## Introduction

The enactment of the Income-tax Act, 2025 marks the most comprehensive reform of India's direct tax framework in over six decades. Having received Presidential assent on 21st August 2025, and notified in the official gazette on 22nd August 2025, the statute will replace the Income-tax Act, 1961 and come into effect from 1 April 2026, governing the Financial Year 2026–27 onwards. The legislation seeks to create a tax system that is simpler, fairer, and better aligned with the realities of a digital and globally integrated economy.

## Objectives

The Act has been crafted with four clear priorities: simplification of the law through removal of obsolete provisions, certainty on emerging issues such as digital assets and cross-border transactions, equity for middle-income taxpayers through revised slabs and rebates, and modernisation of administration by expanding faceless and technology-driven processes. To achieve these aims, the new law reorganises the structure of provisions, adopts clearer drafting, and introduces a seamless framework for transition from the earlier regime.

## Key Structural Changes

One of the most significant conceptual reforms is the replacement of the dual system of "Previous Year" and "Assessment Year" with a single definition of Tax Year, a move that eliminates confusion for both taxpayers and administrators. The Act is also deliberately leaner: archaic clauses have been removed, provisions are grouped more coherently, and the drafting is simplified without diluting legal rigour. Transitional arrangements ensure that pending assessments and appeals under the 1961 Act continue smoothly and that accumulated entitlements, such as losses or MAT credits, are preserved.

## Individual Taxation

For individuals, the Act cements the new regime as the default framework while preserving the option of the old system. The revised slab structure provides complete relief up to an income of ?4,00,000, with gradual increases in rates thereafter. A more generous rebate under Section 87A ensures that taxpayers with income up to ?12,00,000 will effectively bear no liability once deductions and rebates are applied. Salaried taxpayers retain the benefit of the standard deduction, preserving parity across income classes. These measures together reflect the government's commitment to reducing the burden on middle-income earners while maintaining progressivity in taxation.

## Corporate and Business Taxation

For the corporate sector, stability has been prioritised. Competitive tax rates introduced in recent years 22% for domestic companies and 15% for new manufacturing entities, remain intact, ensuring continuity and investor confidence. The Minimum Alternate Tax (MAT) continues, with clearer rules for the use of credits. Provisions relating to carry-forward of losses have been simpler, particularly to support start-ups and entities undergoing restructuring. At the same time, the General Anti-Avoidance Rules (GAAR) have been retained in simplified form, reaffirming the principle that tax benefits cannot be claimed for transactions lacking genuine commercial substance.

## International Taxation

The new law also addresses India's role in the global economy. Transfer pricing rules have been aligned more closely with OECD's Base Erosion and Profit Shifting (BEPS) standards. The equalisation levy on specified cross-border digital transactions remains, preserving India's right to tax digital commerce. For non-residents, the scope of income deemed to accrue in India has been expanded, and reporting obligations have been strengthened, particularly for entities with significant economic presence in the country. These measures provide greater clarity for multinational enterprises while safeguarding India's revenue interests.

## Virtual Digital Assets

A particularly noteworthy development is the statutory recognition of **Virtual Digital Assets (VDAs)**. Cryptocurrencies, non-fungible tokens, and other notified digital instruments are now expressly defined within the Act. This codification provides long-needed certainty to taxpayers and regulators, moving digital asset taxation out of the scope of interim finance amendments and into the mainstream statute.

## Administration and Compliance

The Act modernises compliance by embedding digital processes at its core. Refunds are permitted even for belated returns, ensuring fairness to taxpayers. The provisions on tax deduction and collection at source have been clarified, with nil-deduction certificates available for those with no liability and refinements in respect of overseas education and remittance transactions. Faceless assessments, appeals, and penalty proceedings are expanded, and the appeals process has been consolidated to reduce overlap and procedural complexity. Penalty and prosecution provisions have been reorganised into a graded framework, ensuring proportionality of consequences.

## Institutional Continuity

While modernisation has been extensive, institutional continuity has been preserved. The Central Board of Direct Taxes (CBDT) remains the apex authority, with restructured rule-making powers that support efficient administration. The five classical heads of income salaries, house property, business or profession, capital gains, and other sources are also retained, providing familiarity to taxpayers while situating them within a cleaner legislative framework.

## Implications

The Income-tax Act, 2025 is expected to reduce litigation, improve voluntary compliance, and enhance India's credibility as a jurisdiction with a predictable tax system. Individuals will benefit most visibly from the revised slabs and rebates, while corporates gain from stability in tax rates alongside more transparent compliance rules. Multinational entities face enhanced reporting duties but also greater clarity in cross-border taxation. Investors in digital assets will now operate under a formal legal regime with clear disclosure requirements.

## Conclusion

The introduction of the Income-tax Act, 2025 is a watershed moment in India's fiscal history. It balances reform with continuity, simplification with rigour, and domestic priorities with global alignment. As the Act comes into force from 1 April 2026, both individuals and businesses will need to recalibrate their tax strategies, compliance systems, and reporting practices. By providing a modern statutory framework, the legislation sets the foundation for a more transparent, equitable, and efficient tax regime for the decades ahead.

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