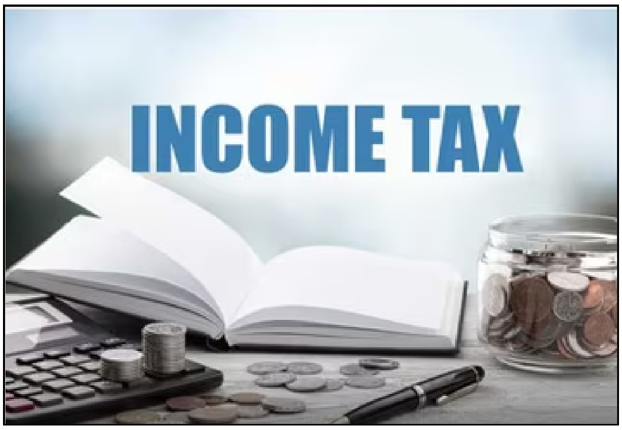
The Income Tax Act, 2025: A Modern Framework for a New Era



Introduction

The Income Tax Act, 2025 marks a historic overhaul of India's tax legislation, replacing the 63-year-old Income Tax Act, 1961 with a modern, simplified, and technologically relevant framework. Coming into effect from **1 April 2026,** the new Act seeks to remove outdated provisions, consolidate decades of amendments, and present tax law in a clear and logical structure. While preserving the core principles of taxation, the Act significantly reduces complexity by streamlining language, reorganising sections, and enhancing accessibility for taxpayers, professionals, and businesses alike.

Structural Transformation of the Law

The new Act brings a dramatic reduction in volume and complexity. The word count has almost halved, the number of chapters and sections has fallen considerably, and there is a substantial increase in the use of tables and formulas.

This transformation ensures that the law is not just shorter but also more precise and easier to navigate. The simplification of language without altering legal meaning, consolidation of fragmented provisions, and removal of obsolete clauses collectively result in a cleaner and more user-friendly law. The structural rationalisation makes it significantly easier for taxpayers to identify applicable provisions and reduces the dependence on cross-referencing multiple areas of the Act.

Summary of changes in Old Income Tax Act, 1961 & New Income Tax Act, 2025 are as follows:-

Parameter	Income Tax Act, 1961	Income Tax Act, 2025	Change
Word Count	5,12,535	2,59,67	↓ 49%
Chapters	47	23	↓ 51%
Sections	819	536	↓ 35%
Tables	18	57	↑ 217%
Formulae	6	46	↑ 667%

Introduction of the 'Tax Year' Concept

One of the most significant conceptual reforms in the 2025 Act is the introduction of the "tax year," which replaces the dual and often confusing system of "previous year" and "assessment year." The tax year refers to a 12-month period within a financial year and becomes the primary reference point for taxation.

The financial year, although still relevant, is now predominantly used for compliance purposes. The Act also recognises circumstances where the tax year may be shorter than a full financial year, such as when a business is newly set up or a new source of income arises, ensuring taxation corresponds to actual income-earning periods.

Simplification and Consolidation of Definitions

Section 2 of the new Act has been thoroughly modernised, with simplified language and the consolidation of definitions that were previously dispersed across several sections of the 1961 Act.

Terms like "senior citizen," which earlier appeared in multiple sections, are now coherently defined in one place. This prevents duplication, enhances clarity, and ensures that definitions are applied consistently throughout the Act.

Reforms for Non-Profit Organisations

The tax provisions relating to Non-Profit Organisations (NPOs), which were earlier scattered across multiple sections such as 11, 12, 12A, 12AA, 12AB, 13, 115BBC, and 115TD, have now been consolidated into a single, comprehensive chapter Part B of Chapter XVII. This consolidation dramatically improves clarity, ease of reference, and compliance. By assembling all rules relating to exemption, registration, and taxation of NPOs into one cohesive framework, the new Act simplifies administrative processes for both taxpayers and the tax authorities.

Simplification of TDS and TCS Mechanisms

The TDS and TCS provisions have been entirely reorganised using clear and detailed tables, making them significantly easier to interpret and apply. Separate tables now outline taxation obligations for resident payments, non-resident payments, and scenarios where TDS/TCS is not required.

This tabular approach helps taxpayers instantly identify applicable rates and thresholds, reducing the risk of errors and ensuring faster compliance.

Salary Income: Streamlined Provisions

Salaried taxpayers benefit greatly from the reorganisation of salary provisions. The new Act consolidates all salary-related deductions, including gratuity, leave encashment, pension commutation, VRS benefits, and retrenchment compensation, into a single section. Allowances and perquisites have been shifted to Schedule II, along with rules for valuation. This consolidation creates a logical flow for computation of salary income, enhancing clarity and reducing confusion for both employees and employers.

Reorganised Structure of Exemptions

The Act now presents exemptions through three dedicated schedules: Schedule I for agricultural income, Schedule II for allowances and perquisites, and Schedule III for exemptions applicable to specific classes of persons such as charitable institutions and educational bodies. This approach ensures that taxpayers can quickly locate applicable exemptions without navigating lengthy and scattered provisions.

Business and Profession Taxation: A Simplified Framework

Large structural improvements have been made in business and professional taxation. Provisions that were earlier spread across 65 sections are now reorganised into 41 streamlined sections. Similar concepts have been grouped together, provisos have been converted into clear subsections, and outdated provisions have been eliminated. Employee welfare deductions, previously scattered across different sections, are now consolidated under a single section without altering tax implications. Depreciation provisions, although fundamentally unchanged, have been rewritten with clearer language and formulae, reducing ambiguity and improving practical application.

Filing Due Dates and Compliance Timelines

There is no change in the due dates for filing income tax returns. All deadlines remain the same as under the previous Act. However, the new Act presents these dates in a more accessible, tabulated format to aid transparency and reduce confusion. This is a purely presentational improvement meant to enhance user convenience.

TDS/TCS Correction Statement Time Limits

One substantive change introduced in the new Act is the reduction in the time limit for filing correction statements of TDS and TCS returns. Under the old Act, corrections could be made within six years; under the new Act, the limit is two years from the end of the relevant financial year. CBDT has advised taxpayers to file all pending corrections by 31 March 2026, after which the new two-year limit will apply uniformly.

Updates in Capital Gains Provisions

For transactions involving compulsory acquisition of assets, the new Act shifts the starting point of time limits for reinvestment or deposit to the date of receipt of compensation rather than the date of acquisition. This change is more practical and taxpayer-friendly, given the common delays in government compensation.

Inclusion of Virtual Digital Assets and Virtual Digital Space

The new Act introduces formal definitions of “Virtual Digital Assets” and “Virtual Digital Space,” expanding tax coverage to cryptocurrencies, blockchain-based assets, cloud servers, social media accounts, online trading accounts, and other digital ecosystems. This brings the law in line with technological progress and ensures comprehensive taxation of digital wealth and digital environments.

Strengthened Enforcement Through ‘Seize and Serve’ Provisions

Section 247(4) modernises enforcement powers by expanding the category of assets that may be restricted during tax proceedings. In addition to physical assets, digital data, servers, computers, cloud records, and other electronic documents can now be covered. This aligns enforcement with present-day realities where asset ownership extends beyond physical possessions.

Introduction of the Statutory Dispute Resolution Committee (DRC)

The Dispute Resolution Committee (DRC), introduced under Section 379 of the Income Tax Act, 2025, is a significant taxpayer-friendly initiative aimed at providing a simple, fast, and low-cost mechanism for resolving small tax disputes.

The core purpose of the DRC is to offer an alternative to the lengthy and adversarial appellate process and instead create a settlement-oriented forum for eligible taxpayers.

It is designed specifically for small taxpayers whose returned income does not exceed ₹50 lakhs and where the aggregate variations in the assessment order are within ₹10 lakhs. The DRC cannot be approached in cases involving search, requisition, survey, or information received from a foreign tax authority, nor in matters involving serious tax evasion or fraud, ensuring that it remains limited to low-risk disputes.

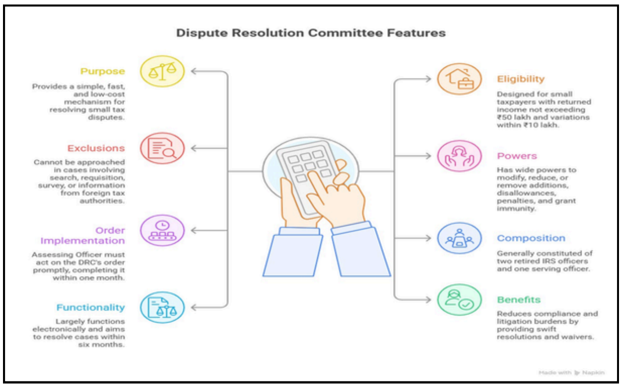
The DRC has wide powers to modify, reduce, or even completely remove additions and disallowances made by the Assessing Officer, and it may also reduce or waive penalties and grant immunity from prosecution. This makes the DRC a highly beneficial forum for taxpayers seeking complete closure and peace of mind.

Once the DRC issues its order, the Assessing Officer is required to act on it promptly either by passing the final assessment order in the case of a draft order or by modifying the existing order to conform to the DRC's directions and must complete this within one month of receiving the DRC's decision.

The DRC is generally constituted of two retired IRS officers and one serving officer of the rank of Commissioner or Principal Commissioner, ensuring that decisions are made with experience and administrative knowledge. The mechanism largely functions electronically and aims to resolve cases within six months of admission, offering a timely alternative compared to traditional appeals.

The DRC greatly reduces compliance and litigation burdens by providing swift resolutions, waiver of penalties, and immunity from prosecution, making it especially valuable for taxpayers dealing with minor mismatches, documentation-related queries, or small additions in assessment. By offering a quick, fair, and efficient route for dispute settlement without the need for prolonged litigation—the DRC supports the government's vision of a trust-based, taxpayer-friendly administration and plays a critical role in reducing the caseload on higher appellate authorities while promoting voluntary compliance.

A Visual Representation of Dispute Resolution Committee are given below:-



Conclusion

The Income Tax Act, 2025 represents a comprehensive and much-needed modernisation of India's tax regime. By simplifying language, reorganising outdated structures, consolidating scattered provisions, and integrating digital-age definitions and enforcement tools, the Act significantly enhances clarity and ease of compliance. Although the fundamental tax principles remain unchanged, the overall framework becomes far more accessible and transparent, marking a major leap forward in India's tax administration.

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