



# INCOME TAX ACT 2025

By

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- ▶ After six decades of continuous evolution, India embarks on a transformative journey with the Income-tax Act, 2025. This landmark legislation replaces the 1961 Act, which accumulated over 4,000 amendments since its inception on April 1, 1962.

## LANDMARK CHANGE



536 Sections (Streamlined  
from 819 Sections)



23 Chapters (Reduced  
from 47 Chapters)

KEY  
FEATURES OF  
NEW ACT



## ICAI'S ROLE & COLLABORATIVE ENGAGEMENT

- ▶ The Institute of Chartered Accountants of India played a pivotal role throughout this historic reform process. Following the Hon'ble Finance Minister's announcement in Union Budget 2024-25, ICAI established seven expert groups across India for comprehensive clause-by-clause analysis.
- ▶ ICAI was honored to be the first stakeholder invited by the Lok Sabha Select Committee on March 6, 2025, demonstrating the institute's credibility in shaping India's tax legislation.
- ▶ The transformation is both structural and substantive, reflecting months of collaborative effort between government and tax professionals.
- ▶ 90+ Amendments given by ICAI had been accepted



Definition of 'Income' to include all import and export incentives (Section 2(24) of the 1961 Act/Section 2(49) of the 2025 Act).



Meaning of 'Previous Year' has been omitted due to the introduction of a new concept of 'tax year' (Section 2(34) of 1961 Act).



A concept of 'Tax Year' is introduced in place of 'Previous Year' and 'Assessment Year' (Section 3 of 1961 Act/Section 3 of 2025 Act)



Change in Definition of Books of Accounts

# KEY CHANGES TO DEFINITION IN RELATION TO PGBP





# Evolution of Export Incentives Taxation

## Comparing Income Definitions Under the 1961 and 2025 Acts

The Income-tax Act, 1961 and the proposed 2025 Act represent a significant shift in how export and import incentives are treated for tax purposes. While the 1961 Act provided specific references to certain schemes, the 2025 Act adopts a comprehensive, catch-all approach that brings all forms of export benefits under the tax net. This presentation examines the key differences between these legislative frameworks and their implications for tax professionals.

# The 1961 Act: Selective Coverage of Export Incentives

## Explicit Inclusions Under Section 2(24)

The 1961 Act adopted a targeted approach, explicitly naming specific export-related receipts within the definition of 'income.' This selective methodology created both clarity and ambiguity in tax treatment.

### Three Key Categories Were Specifically Covered:

- Profits from sale of licenses under the Import (Control) Order, 1955 referenced in Section 28(iiia)
- Cash assistance received against exports under Government schemes per Section 28(iiib)
- Customs or excise duty drawbacks against exports under Section 28(iiic)

The limitation of this approach became apparent when dealing with receipts under duty remission schemes referenced in Sections 28(iiid) and 28(iiie), which were not explicitly mentioned in Section 2(24).

## The Gap in Coverage

Similar receipts from duty remission schemes under Sections 28(iiid) and 28(iiie) were **not explicitly covered** under Section 2(24) of the 1961 Act.

However, judicial interpretation established that such receipts were taxable as revenue receipts, effectively covered within the meaning of income despite the legislative silence.

# The 2025 Act: Comprehensive Taxation Framework

## Streamlined Definition

Section 2(49)(1)(B) of the 2025 Act eliminates the clause-by-clause references, instead broadly incorporating "**any sum chargeable to income-tax under Section 26(2)(e)**" within the scope of income.

## All-Inclusive Coverage

Section 26(2)(e) adopts a catch-all approach covering **all import-export incentives** without naming specific schemes, encompassing profit on sale of import license, cash assistance against export, duty drawbacks, Duty remissions, and any other export incentives.

## Uniform Treatment

All export benefit schemes—whether remission, refund, incentive, or license sale profit—are now definitively classified as **business income**, eliminating interpretative ambiguities.





# Government Export Benefit Schemes

The 2025 Act's expanded definition of income now captures all forms of export incentives. Here's an illustrative list of Government Export Benefit Schemes now clearly within the tax net:

## Duty Remission & Refund

- RODTEP (Remission of Duties and Taxes on Exported Products)
- Duty Drawback Scheme
- ROSCT (Rebate of State and Central Taxes and Levies)

## Duty-Free Import Schemes

- Advance Authorization Scheme
- Duty-Free Import Authorization (DFIA)

## Capital Goods Schemes

- Export Promotion Capital Goods (EPCG) Scheme
- Post Export EPCG

## Credit & Financial Schemes

- NIRVIK Scheme
- ECGC Export Credit Insurance

## SEZ & Unit Benefits

- Special Economic Zones (SEZ) Benefits
- Export Oriented Units (EOU) Benefits
- Deemed Exports

## Sector-Specific Benefits

- Towns of Export Excellence (TEE)
- Focus Product and Market Schemes

# Tax Year

The 2025 Act introduces the concept of 'Tax Year' to replace the confusing dual terminology of 'Previous Year' and 'Assessment Year' used in the 1961 Act.

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## What is Tax Year?

A period of twelve months contained in a financial year, replacing 'previous year' and used for income assessment and tax rate application.

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## Global Alignment

The term "Tax Year" is commonly used in income-tax legislation in comparable tax jurisdictions worldwide.

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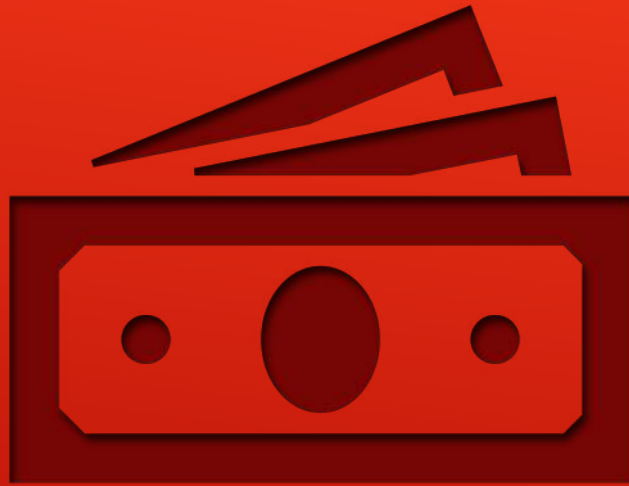
## Why the Change?

The terms 'previous year' and 'assessment year' created confusion as they represented two different financial years. The rationale for two terms is no longer valid.

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## Financial Year Distinction

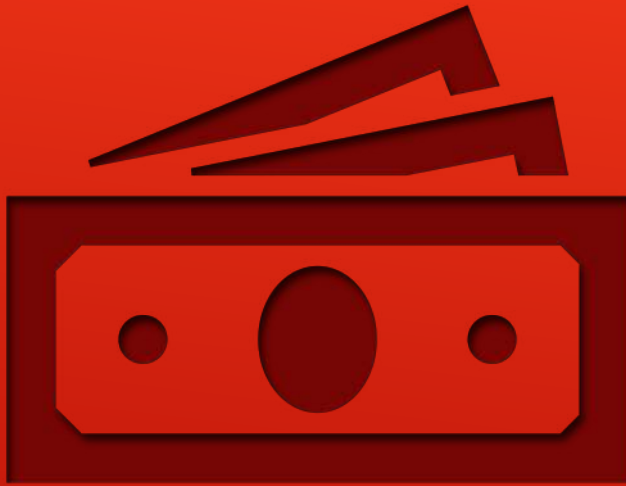
The term 'financial year' is retained separately for procedural actions and compliance timelines like return filing and rectifications.



Answer:

- ▶ A 'tax year' is a period of twelve months contained in a financial year. It replaces the term 'previous year' used in the Income-tax Act, 1961. Further, with the discontinuance of the use of the term 'assessment year' in the Income-tax Bill, now the term 'tax year' will now be used in relation to the rate or rates of income-tax also. In addition, any assessment of the income or total income will also be done for a 'tax year'.
- ▶ Use of the terms 'previous year' and 'assessment year' were creating confusion in the minds of the taxpayers as they represented two different financial years. The rationale for the use of two terms is no longer valid in view of alignment of 'previous year' with the financial year or part of the financial year (in specific cases). The term 'Tax year' is commonly used in income-tax legislation in comparable tax jurisdictions.
- ▶ As a tax year can be a period which is less than the financial year in certain cases, the term 'financial year' has not been used while doing away with the terms 'previous year' and 'assessment year'. However, many actions are carried out by tax authorities and other stakeholders while implementing the tax law, being procedural actions and compliances, such as time period for filing returns, rectifications etc., which require reference to a financial year. In such cases, the time period denoted by a financial year has more relevance. This means that the term 'financial year' is required separately.

QUESTION. WHAT IS A 'TAX YEAR'? WHAT DOES IT REPLACE? WHAT WAS THE NEED FOR INTRODUCING IT? WHY WAS THE TERM 'FINANCIAL YEAR' NOT USED IN PLACE OF THE TERM 'TAX YEAR'?



- ▶ Answer: Yes. This will happen when a business is newly set up during any financial year, or a source of income comes into existence during a financial year. In such cases, the tax year will begin from the date of setting up of the business or the source of income coming into existence, and end on the last day of that financial year.

QUESTION: CAN A 'TAX YEAR' BE A PERIOD WHICH IS LESS THAN A 'FINANCIAL YEAR'?



INCOME FROM  
SALARY



INCOME FROM  
HOUSE PROPERTY



PROFITS OR GAINS  
FROM BUSINESS OR  
PROFESSION



CAPITAL GAINS



INCOME FROM  
OTHER SOURCES

## FIVE HEADS FOR COMPUTATION OF INCOME



A curative correction has been made in the charging provision that the tax payable on total income shall be paid by TDS, TCS or Advance Tax (Section 4 of the 1961 Act/Section 4 of the 2025 Act).

The word "entity" in the Explanation to Section 6(3) has been replaced with the word "company" for determining the place of effective management of a company (Section 6 of the 1961 Act/Section 6 of the 2025 Act).

A curative amendment has been made that the 'buy back' of shares shall be deemed to be the income of the previous year in which it is so declared, distributed or paid (Section 8 of the 1961 Act/Section 7 of the 2025 Act).

Multiple changes have been made to various clauses of Section 9 (Section 9 of the 1961 Act/Section 9 of the 2025 Act).

The cap on the investment by an eligible investment fund has been increased from 20% to 25% (Section 9A of the 1961 Act/Section 9 and Schedule I of the 2025 Act).

The provision giving guidelines issued by the CBDT, the binding impact has been removed (Section 9B of the 1961 Act/Section 8 of the 2025 Act).

A term defined in Central Acts relating to taxes or other central laws can be considered for interpreting the term used in a treaty (Sections 90 and 90A of the 1961 Act/Section 159(7) of the 2025 Act)

## KEY DIFFERENCES IN FIVE HEADS FOR COMPUTATION OF INCOME



# CHANGES IN PROFITS OR GAINS OF BUSINESS OR PROFESSION

# Depreciation: Additional Depreciation Conditions Tightened

The 2025 Act introduces stricter conditions for claiming additional depreciation on new machinery and plant, particularly regarding the timing of first use.

## 1961 Act

Section 32(1)(iia) allowed 20% additional depreciation for new machinery/plant used in manufacturing, production, or power generation. If used for less than 180 days, 10% was allowed in the first year and 10% in the next year.

The proviso mentioned the asset should be "put to use" for business purposes, but the main provision didn't explicitly state this requirement. Courts affirmed that machinery must be "new" at the time of acquisition or installation—prior use would disqualify it.

## 2025 Act

Section 33(8)(c) explicitly requires that new machinery or plant must be **"first put to use"** by the assessee for business purposes.

**Critical Change:** The addition of "first" before "put to use" means the machinery must be used for business purposes BEFORE any other purpose. If the assessee uses the machinery for any non-business purpose first, additional depreciation will be denied.

This makes the provision more restrictive—the asset's very first use must be for business purposes to qualify for additional depreciation benefits.

# Consolidation of Employee Welfare Expense Provisions

## 1961 Act: Fragmented Structure

Under the Income Tax Act of 1961, provisions related to employee welfare expenses were scattered across multiple sections, creating complexity for tax professionals and compliance officers. Key provisions were distributed as follows:

- **Section 40A(7):** Provisions for Provident Fund contributions
- **Section 40A(9):** Regulations on Gratuity Fund payments
- **Section 36(1)(iv):** Superannuation Fund deductions
- **Section 36(1)(iva), (v), (va):** Additional welfare-related deductions

This fragmented approach required tax professionals to cross-reference multiple sections alongside charging provisions, increasing the risk of errors and creating ambiguity in determining allowable expenses. The complexity often led to extensive documentation requirements and prolonged compliance processes.

## 2025 Act: Unified Framework

The Income Tax Act 2025 introduces a streamlined approach by consolidating all employee welfare expense provisions under a single comprehensive section:

- **Section 29:** Single consolidated provision covering all employee welfare contributions
- Simplified language without altering tax incidence

**Key Takeaway:** While the structural organization has been simplified, the actual deductibility and tax implications remain unchanged, ensuring continuity for existing compliance frameworks.

# Salary Payments to Non-Residents: Critical Changes in TDS Requirements

Section 40(a)(iii) of the 1961 Act and its corresponding Section 35(c) in the 2025 Act govern the deductibility of salary payments made outside India or to non-residents. The 2025 Act introduces significant modifications that tighten compliance requirements.

## 1961 Act: Cumulative Conditions

Under Section 40(a)(iii), deduction was disallowed **only when both conditions were met simultaneously**:

1. Tax has not been paid under Chapter XVII-B, **NOR**
2. Tax has not been deducted under Chapter XVII-B

This cumulative requirement provided greater flexibility, as deduction was allowed if either TDS was deducted or tax was paid directly.

## 2025 Act: Alternative Conditions

Section 35(c) modifies this to disallow deduction if **either condition is met**:

1. TDS is deductible but not deducted during the tax year, **OR**
2. TDS is deducted but not paid during the tax year

This represents a more stringent approach, aligning with provisions in Sections 35(b)(i), 35(b)(ii), and 35(d) but with one critical difference.

## Critical Distinction: Payment Timeline

While Sections 35(b)(i), 35(b)(ii), and 35(d) allow TDS payment up to the due date for filing the return of income as per Section 263(1) [corresponding to Section 139(1) of the 1961 Act], **Section 35(c) does not extend this grace period**. Under Section 35(c), TDS must be paid **during the same tax year**, making this provision substantially more restrictive than other TDS-related deduction provisions.





## Section 43B/37: Deduction for Surcharge on Actual Payment Basis

Understanding the evolution of expense deduction rules under the Income-tax Act is crucial for tax professionals navigating India's changing regulatory landscape. The transition from the 1961 Act to the 2025 Act brings significant clarifications regarding surcharge deductions and payment evidence requirements.

# Key Changes: 1961 Act vs. 2025 Act

## Understanding the Accounting Systems Context

The Income-tax Act allows deductions based on the assessee's accounting system—cash basis for actual payments or mercantile basis for accruals. However, Section 43B (1961 Act) and Section 37 (2025 Act) mandate that certain expenses must be deducted only upon actual payment, regardless of the accounting method used. This ensures revenue protection and prevents premature deductions.

### Explicit Surcharge Inclusion

**1961 Act:** Section 43B(a) did not explicitly mention surcharge deductions, creating ambiguity in tax treatment.

**2025 Act:** Section 37(2)(a) now explicitly includes surcharge, clarifying that deduction is allowed only in the tax year when surcharge is actually paid.

### Payment Evidence Requirement Removed

**1961 Act:** Assesseees had to furnish evidence of payment along with their return of income to claim deductions for amounts paid before the due date.

**2025 Act:** The evidence requirement has been eliminated. All information is now captured in return schedules without attachments, streamlining the compliance process.

## Timing of Deduction

Under both Acts, if specified sums are paid on or before the return filing due date, deduction is available in the previous year when liability was incurred. This provision provides flexibility for year-end tax planning while maintaining compliance standards.

## Practical Impact

The 2025 Act simplifies compliance by removing documentation requirements and explicitly addressing surcharge treatment. Tax professionals can now process returns more efficiently while maintaining accurate deduction claims for their clients.

## Deduction for Surcharge: Transitioning to Actual Payment Basis

Section 43B of the 1961 Act and Section 37 of the 2025 Act govern expenses that must be allowed on a payment basis, regardless of the accounting system followed. The 2025 Act introduces two significant modifications that simplify compliance while tightening certain requirements.

### Pre-2025: Implicit Treatment

Under Section 43B(a) of the 1961 Act, surcharge on taxes was not explicitly mentioned, creating interpretative challenges regarding its deductibility treatment. Tax professionals often had to rely on judicial precedents and departmental clarifications.

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### Simplified Documentation

The requirement to furnish evidence of payment with the return has been eliminated, as all information is now captured in standardized schedules within the return itself.

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### 2025 Act: Explicit Inclusion

Section 37(2)(a) now explicitly includes surcharge, clarifying that deduction is allowed only in the tax year when the surcharge is actually paid. This eliminates ambiguity and provides clear guidance.

► The 2025 Act establishes comprehensive requirements for maintaining books of account across different taxpayer categories. If a taxpayer exceeds either threshold—income or gross turnover—they must maintain proper books of account. The requirements vary based on business nature, taxpayer category, and whether presumptive taxation schemes are utilized.

## OVERVIEW OF ACCOUNTS MAINTENANCE REQUIREMENTS UNDER THE 2025 ACT



The table below demonstrates the requirement for maintaining books of account by different taxpayers under the 2025 Act. If a taxpayer exceeds either of the thresholds of income or gross turnover, he shall be required to maintain the books of account.

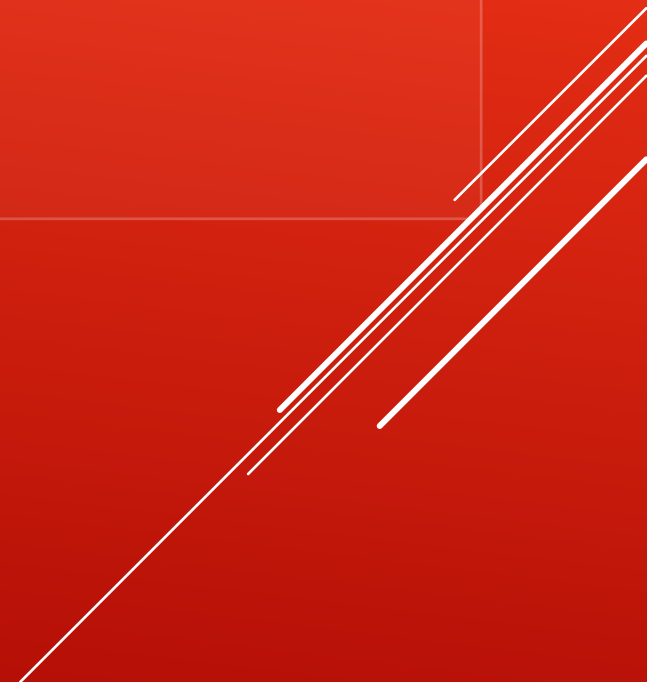
Nature of Business or Profession	Category of Taxpayer	For Income	For Gross Turnover or Receipts
Specified Professions	Any	Mandatory in every case except where presumptive taxation scheme under Section 58(2), Table: Sl. No. 3 [corresponding to Section 44ADA of the 1961 Act] is opted by the assessee	
Non-Specified Professions	Individual or HUF	More than Rs. 2,50,000 in any of the 3 years immediately preceding the previous year	More than Rs. 25 lakhs in any of the 3 years immediately preceding the previous year
	Others	More than Rs. 1,20,000 in any of the 3 years immediately preceding the previous year	More than Rs. 10 lakhs in any of the 3 years immediately preceding the previous year
Business	Individual or HUF	More than Rs. 2,50,000 in any of the 3 years immediately preceding the previous year	More than Rs. 25 lakhs in any of the 3 years immediately preceding the previous year
	Others	More than Rs. 1,20,000 in any of the 3 years immediately preceding the previous year	More than Rs. 10 lakhs in any of the 3 years immediately preceding the previous year



Nature of Business or Profession	Category of Taxpayer	For Income	For Gross Turnover or Receipts
<b>Business eligible for Presumptive Tax Scheme under Section 58(2), Table: SL. No. 1</b> [corresponding to section 44AD of the 1961 Act]	Resident Individual or HUF	If income of assessee exceeds the maximum exemption limit and he has opted for the presumptive scheme in any of the last 5 previous years but does not opt for the same in current year.	
	Resident Partnership Firm	Taxpayer has opted for the scheme in any of the last 5 previous years but it does not opt for the same in current year.	
<b>Business eligible for Presumptive Tax Scheme under Section 58(2), Table: SL. No. 3</b> [corresponding to section 44ADA of the 1961 Act]	Resident Individual, HUF or Partnership Firm	<ul style="list-style-type: none"> <li>• Taxpayer claims that the profits are lower than the deemed profits; and</li> <li>• Whose total income exceeds the maximum amount which is not chargeable to tax</li> </ul>	
	Resident Individual, or Partnership Firm (Other than LLP)	<ul style="list-style-type: none"> <li>• Taxpayer claims that the profits are lower than the deemed profits; and</li> <li>• Whose total income exceeds the maximum amount which is not chargeable to tax</li> </ul>	
<b>Business eligible for Presumptive Tax Scheme under Section 58(2), Table: SL. No. 2</b> [corresponding to section 44AE of the 1961 Act]	Any Assessee engaged in plying, hiring or leasing goods carriage	<ul style="list-style-type: none"> <li>• Taxpayer claims that the profits are lower than the deemed profits; and</li> <li>• Whose total income exceeds the maximum amount which is not chargeable to tax</li> </ul>	

Nature of Business or Profession	Category of Taxpayer	For Income	For Gross Turnover or Receipts
Business eligible for Presumptive Tax Scheme under section 61(2), Table: Sl. No. 1 of the 2025 Act [corresponding to Section 44B of the 1961 Act]	Non-resident engaged in the shipping business other than cruise shipping	Mandatory in every case	
Business eligible for Presumptive Tax Scheme under section 61(2), Table: Sl. No. 5 of the 2025 Act [corresponding to Section 44BB of the 1961 Act]	Non-resident assessee engaged in exploration of mineral oil	Taxpayer claims that the profits are lower than the deemed profits	
Business eligible for Presumptive Tax Scheme under section 61(2), Table: Sl. No. 3 of the 2025 Act [corresponding to Section 44BBA of the 1961 Act]	Non-resident engaged in the business of operation of aircraft	Mandatory in every case	
Business eligible for Presumptive Tax Scheme under section 61(2), Table: Sl. No. 4 of the 2025 Act [corresponding to Section 44BBB of the 1961 Act]	Foreign Co. engaged in civil construction, etc.	Taxpayer claims that the profits are lower than the deemed profits	

Nature of Business or Profession	Category of Taxpayer	For Income	For Gross Turnover or Receipts
Business eligible for Presumptive Tax Scheme under section 61(2), Table: Sl. No. 4 of the 2025 Act [corresponding to Section 44BBC of the 1961 Act]	Non-resident engaged in the business of operation of cruise ships	Mandatory in every case	
Business eligible for Presumptive Tax Scheme under section 61(2), Table: Sl. No. 4 of the 2025 Act [corresponding to Section 44BBD of the 1961 Act]	Non-resident assessee engaged in providing services or technology for setting up electronics manufacturing facilities in India	Mandatory in every case	



## 1961 Act Definition

- ▶ The 1961 Act provides a comprehensive but inclusive definition of "books or books of account" under Section 2(12A). It explicitly provides that these books, whether ledgers, day-books, cash books, account-books, or other books, can be kept in written, electronic or digital form. It also covers the printouts of data stored in such electronic or digital form.
- ▶ When Section 2(12A) was first inserted', it defined "books or books of account" to include ledgers, day-books, cash books, account-books, and other books, whether kept in the written form or as printouts of data stored in a floppy, disc, tape or any other form of electro-magnetic data storage device.

## 2025 Act Modernization

- ▶ The 2025 Act has explicitly provided that keeping of books or books of account on any cloud-based storage will also come within the ambit of the definition of "books of account. With respect to this insertion, the selected committee also noted that “the provision” has been suitably modernised to encompass contemporary methods of data storage while retaining the essence of the original section.

**BOOKS OF ACCOUNT TO COVER RECORDS MAINTAINED ON  
CLOUD-BASED STORAGE (SECTION 2(12A) OF THE 1961  
ACT/SECTION 2(19) OF THE 2025 ACT)**

# Digital Space and assets

## Computer System

### Section 261(e) Definition

The 2025 Act defines "computer system" with comprehensive breadth, encompassing traditional computing infrastructure and emerging technological platforms:

- Physical computers and networks
- Computer resources and communication devices
- Digital or electronic data storage devices
- Remote servers and cloud infrastructure
- Virtual digital spaces

These components may operate independently, as integrated systems, through networked connections, or via intermediaries for information creation, processing, storage, or exchange.

## Virtual Digital Space

### Section 261(j) Definition

An environment constructed through computer technology, distinct from the physical world, enabling digital interaction and communication:

- Email servers and messaging platforms
- Social media accounts (Facebook, Instagram, LinkedIn)
- Online investment, trading, and banking accounts
- Websites documenting asset ownership
- Remote servers and cloud storage systems
- Digital application platforms

**Practical Impact:** WhatsApp, Telegram, cloud storage (Google Drive, Dropbox), crypto wallets, UPI payment systems, and demat accounts now fall within search jurisdiction.

## Asset

### Section 261(b) Definition

For search and seizure purposes, "asset" extends beyond traditional physical valuables to include modern forms of wealth held in virtual formats:

- Money, bullion, and jewellery (physical)
- Virtual digital assets
- Valuable articles or property
- Holdings in both physical and virtual form

**Critical Expansion:** Cryptocurrencies (Bitcoin, Ethereum), non-fungible tokens (NFTs), digital collectibles, and other blockchain-based assets are now explicitly subject to search and seizure operations.





## Overview of Presumptive Taxation under the 2025 Act



# Overview of Audit Requirements under the 2025 Act

This section outlines the specific requirements for different taxpayers to have their books of account audited under the provisions of the 2025 Act. It's crucial to understand that if a taxpayer's income or gross turnover exceeds predefined thresholds, they will be legally required to undergo an audit, ensuring transparency and compliance.

Table

Sl. No.	Conditions for getting books of account audited
A	B
1.	Every person—
	(a) carrying on business shall, if his total sales, turnover or gross receipts, as the case may be, in business exceed or exceeds one crore rupees in any tax year, subject to the provisions of clause (b);
	(b) In case of a person whose—
	(i) aggregate of all amounts received including amount received for sales, turnover or gross receipts during the tax year, in cash, does not exceed 5% of the said amount; and
	(ii) aggregate of all payments made including amount incurred for expenditure, in cash, during the previous year does not exceed 5% of the said payment,
	clause (a) shall have effect as if for the words “one crore rupees”, the words “ten crore rupees” had been substituted;
	(c) carrying on profession shall, if his gross receipts in profession exceed fifty lakh rupees in any previous year.
2.	If the person is carrying on business or profession, referred to in section 58(2) or 61(2) (Table: Sl. No. 4 and 5) and the profits and gains from such business or profession are claimed to be lower than the deemed profits as referred to in the said sections.

The provisions of this section shall not apply where profits and gains of business or profession, declared by the assessee are as per section 58(2) or 61(2).

THANK YOU

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