
INDIA'S INCOME TAX BILL, 2025: MODERNISING A SIX-DECADE-OLD SYSTEM

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Introduction

India's tax code has just witnessed one of the most significant amendments in its post – Independence history. The Income Tax (No. 2) Bill aims to substitute the Income Tax Act, 1961. An act whose language, structure and several amendments had become cumbersome for not only courts, tax administrators but taxpayers as well. This new bill¹ assures simpler language, better alignment with contemporary economic tools including clearer tax treatment of pensions and retirement receipts, revamped procedural rules envisioned to reduce litigation and speed compliance and digital assets.

Legislative Context and Procedural Timeline

The initial draft of the Income-tax bill 2025 was listed earlier this year and was simultaneously referred to a Lok Sabha Select Committee. After receiving recommendations and public response the government removed that initial bill and tabled a revised version. Formally titled the Income-tax (No. 2) Bill 2025 on **August 11, 2025**. The revised Bill incorporates many suggestions of the Select Committee and stakeholder submissions making it the version now under consideration in Parliament. The government's stated goal has been to maintain continuity with existing substantive law while recasting, consolidating, and modernising the statutory text².

What the Bill sets to Achieve

At a high level, the Bill pursues four interlocking objectives:³

- Simplification of archaic and prolix drafting into concise, modern legal drafting.
- Consolidation of scattered provisions to reduce cross-referencing.

¹ Press Information Bureau, Government of India, *Income-tax Bill, 2025, tabled in Parliament today towards achieving comprehensive simplification of Income-tax Act* (Aug. 11, 2025), <https://www.pib.gov.in/PressReleasePage.aspx?PRID=2102744>.

² PRS Legislative Research, *The Income-Tax (No.2) Bill, 2025 — Bill Text (PDF)* (Aug. 2025), https://prsindia.org/files/bills_acts/bills_parliament/2025/Bill_Text-Income-tax%28No.2%29_Bill_2025.pdf.

³ Income Tax Department (Govt. of India), *Income-tax Bill, 2025 (Navigator and FAQs)*, <https://incometaxindia.gov.in/Pages/income-tax-bill-2025.aspx>.

- Procedural modernisation — a digital-first, faceless administration with clearer timelines for assessments and refunds, and
- Alignment of tax treatment with new realities such as Unified Pension Schemes and virtual digital assets. The government's public communications and the Bill text emphasise that the aim is not a radical redistribution of tax incidence, but greater legal clarity and administrative efficiency.

Key Substantive Reforms

1. Structural and drafting overhaul

Perhaps the most visible change is structural: the Bill reorganises the law into a modern codified skeleton with chapters and schedules that map income heads, deductions, and computation rules in clearer sequences. The Income Tax Department has published a navigator⁴ and FAQs to help taxpayers map old sections to the new scheme. This is intended to reduce interpretive disputes that arise simply from cross-referencing decades of amendment history.

2. Tax rates, exemptions and the middle class

The Bill retains a broadly familiar tax-rate structure but formalises the retention of a generous basic exemption threshold — designed to shield middle-income households, along with a standard deduction of ₹75,000 for salaried taxpayers⁵. The practical impact is to reduce compliance burdens for lower-income taxpayers and simplify wage-earner filings. The Bill also clarifies applicability of the Section 87A rebate in contexts that previously produced litigation — for example, clarifying rebate treatment for short-term capital gains under the new regime remains a live interpretive issue with recent tribunal pronouncements backing rebate claims in certain circumstances.

3. Pension/retirement receipts — more equitable treatment

A recurring criticism of the legacy tax code was inconsistent treatment of commuted pensions and lump-sum payouts across different government and quasi-government retirement vehicles. The new Bill seeks parity: commuted lump-sum pension receipts get clearer exemption treatment (up to specified limits), and the tax treatment of the Unified Pension Scheme (UPS)

⁴ Aman Avinav (Phoenix Legal), *Income tax law updates streamline provisions for modern times*, Law.asia (Aug. 14, 2025), <https://law.asia/india-income-tax-bill-2025/>.

⁵ *New Income Tax Bill 2025 passed in Parliament: key features, what changes*, Indian Express (Aug. 2025), <https://indianexpress.com/article/explained/explained-economics/new-income-tax-bill-passed-in-parliament-key-features-10186767/>.

is brought more in line with National Pension System (NPS) norms, including defined thresholds for tax-exempt corpus withdrawals and clearer rules for premature payments⁶. This is a meaningful relief for retirees and public-sector pensioners who historically faced uncertainty.

4. Procedural modernisation and prosecution reforms

Procedural clarity is a core objective. The Bill introduces tighter timelines for assessments, strengthened notice requirements to protect taxpayer rights, and mechanisms to expedite refunds. The Bill proposes significant changes to prosecution provisions for wilful non-filing and tax evasion, recasting certain offences and recalibrating penalties to strike a balance between deterrence and proportionality⁷. Tax prosecution reform has been controversial because it interacts with privacy, data access and criminal law thresholds. Critiques have flagged concerns about safeguarding taxpayer data and preventing overreach.

5. Virtual digital assets (VDA) and undisclosed income

The Bill explicitly modernises definitions and reporting rules around virtual digital assets — a sector that has matured rapidly and previously posed challenges under legacy definitions. By clarifying tax treatment and strengthening disclosure regimes, the Act aims both to secure revenue from a fast-growing asset class and to integrate VDA reporting into routine compliance. At the same time the Bill tightens anti-evasion measures against undisclosed income.⁸

Implementation and Fiscal considerations

The government has signalled that the new code is intended to be effective from the next fiscal cycle (commonly April 1 following enactment), to permit administrative systems and taxpayers adequate lead time. The transition includes a “mapping” utility to equate legacy sections with their counterparts in the new Act. Significantly, early revenue data show a dip in net direct tax collections in the month of April and August 2025 window. A decline attributed in part to changes in tax provisions and the timing of filings and refunds, which the government expects

⁶ *Changes in tax on lumpsum and premature withdrawals under UPS and NPS in the latest version of Income-Tax Bill*, The Economic Times (Aug. 2025), <https://m.economictimes.com/wealth/save/changes-in-tax-on-lumpsum-and-premature-withdrawals-under-ups-and-nps-in-the-latest-version-of-income-tax-bill/articleshow/123237386.cms>.

⁷ *Income tax prosecution reform and commentary*, Law.asia (Phoenix Legal tag), <https://law.asia/tag/income-tax-bill-2025/>.

⁸ Reuters, *India's net direct tax collections fall 4% on year from April–August* (Aug. 12, 2025), <https://www.reuters.com/world/india/indias-net-direct-tax-collections-fall-4-year-april-august-2025-08-12/>.

to recuperate over the medium term as growth and compliance pick up⁹. That fiscal context is critical procedural simplification will reduce litigation and potentially widen the tax base but short-term returns volatility is a realistic trade-off.

Gains and Strains

This new bill seeks to reduce the legal uncertainties that has long burdened tax payers and practitioners, this re-drafting offers real promises that will gain the tax payers, however at the same time there may be some friction: -

Gainers

- **Middle-income taxpayers** get clearer slabs, an improved standard deduction, and more predictable rebate rules, reducing unnecessary filings.
- **Pensioners and retirees** benefit from equitable commutation rules and aligned treatment of retirement schemes.
- **Small businesses and professionals** stand to gain from simplified compliance language and digital processing that lowers administrative costs.

Areas of likely friction

- **Tax enforcement and data privacy**, the reworked prosecution clauses raise legitimate civil-liberty questions and robust procedural safeguards will be essential to prevent misuse. Critics will watch provisions on access to third-party data and automated enforcement closely.
- **Transition pain**, large accounting, payroll and tax-software ecosystems must adapt, some interim muddle is inevitable as mapping and administrative guidance roll out.
- **Short-term fiscal impact**, a dip in direct tax collections has already been recorded and until behavioural responses and economic growth adapt. There may be pressure on other economic policy tools.

Policy Ramifications and Future Trajectory

Perceived strategically, the Bill is a modernising exercise not a fundamental reallocation of tax burdens. If executed well it could reduce compliance costs, reduce low-value litigation and portray India as having a more business-friendly and legally coherent tax code. That in turn

⁹ IndiaBriefing, *India's Updated Income Tax Bill 2025 Explained* (Aug. 2025), <https://www.india-briefing.com/news/india-income-tax-bill-2025-guide-39140.html>.

helps the investment climate by lowering legal uncertainty. However, the success of the project will depend on three levers,

- *High-quality subordinate legislation* (rules and notifications),
- *Robust and transparent administrative systems* (digital mapping, faceless scrutiny)
- *Sensitive enforcement that protects taxpayer rights* while deterring evasion.

Fiscal credibility will matter, the near-term fall in collections places pressure on budget targets. Policymakers will need to balance reform momentum with revenue realities, potentially using temporary measures or phased implementation for fiscal smoothing.

Conclusion

The Income-tax (No. 2) Bill, 2025 is a bold and necessary attempt to bring India's tax statute into the 21st century. By re-drafting and reorganising the law, clarifying pension and digital-asset tax treatment, and streamlining procedures, the Bill offers real promise: lower compliance costs, faster dispute resolution, and clearer rules for novel instruments. Yet the practical test will be in implementation, the drafting of rules, the quality of administrative guidance, and the discipline of enforcement. If those pieces fall into place, the new law can meaningfully reduce the legal fog that has long burdened taxpayers and practitioners; if not, the same clarity that the Bill promises could be undermined by poor execution. Either way, the Bill marks a turning point in India's tax jurisprudence and administration.