ANALYSIS OF THE INCOME-TAX ACT, 2025: PLAIN LANGUAGE, PRECEDENT CONTINUITY, AND JUDICIAL DYNAMICS

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ABSTRACT

The enactment of the Income-tax Act, 2025 marks the most extensive re-architecture of India's direct tax landscape since the replacement of the Income-tax Act, 1922 by the Income-tax Act, 1961. Enacted to address over six decades of statutory inflation, the 2025 Act reduces the word volume by roughly fifty percent, compresses over eight hundred sections into five hundred and thirty-six streamlined provisions, abolishes more than twelve hundred provisos, and unifies the dual temporal concepts of "Previous Year" and "Assessment Year" into a single "Tax Year." This research paper provides a comprehensive evaluation of the legislative drafting techniques employed in the 2025 Act and analyzes their impact on legal certainty and judicial precedents. Examining landmark decisions of the Supreme Court of India including CIT v. Shoorji Vallabhdas & Co., Navnit Lal C. Javeri v. Appellate Assistant Commissioner, Lalji Haridas v. State of Maharashtra, McDowell & Co. Ltd. v. Commercial Tax Officer, Vodafone International Holdings B.V. v. Union of India, and Union of India v. Azadi Bachao Andolan this paper assesses whether replacing long-established legalese with plain-language syntax inadvertently destabilizes settled statutory jurisprudence. This study demonstrates that while structural modernization significantly improves administrative efficiency, long-term interpretive certainty depends on administrative cross-mapping circulars and judicial adherence to legislative policy neutrality.

1. INTRODUCTION

For more than sixty years, direct taxation in the Republic of India was governed by the Income-tax Act, 1961.[1] Enacted following the recommendations of the Direct Taxes Administration Enquiry Committee to replace the outdated Income-tax Act, 1922,[2] the 1961 Act served as the primary instrument for direct revenue collection during India's post-independence economic evolution. However, six decades of rapid economic expansion, financial market integration, and international trade necessitated continuous legislative modifications. Every annual Finance Act added statutory exceptions, conditional exemptions, non-obstante overrides, and complex proviso chains.

By 2024, statutory inflation had transformed the 1961 Act into an extraordinarily complex statutory code comprising 47 chapters, 819 sections, 14 schedules, and over 500,000 words.[3] The accumulation of proviso upon proviso created severe structural vulnerabilities. Statutory exceptions often overshadowed primary rules, making tax compliance extraordinarily expensive for corporate entities and individual taxpayers alike. Furthermore, ambiguous drafting led to massive pendency of direct tax litigation across regional High Courts and the Supreme Court of India, tying up billions of rupees in disputed tax demand.

Recognizing that piecemeal amendments could no longer resolve these structural defects, Parliament enacted the **Income-tax Act, 2025**, scheduled to take full statutory effect on 1 April 2026 (Tax Year 2026–27).[4] The primary legislative goal of the 2025 Act was not to alter base tax liability or raise effective tax rates, but rather to execute a comprehensive statutory redesign. By reducing total word volume by approximately 50%, re-organizing provisions into 23 chapters, and replacing complex legal jargon with plain syntax, the legislature sought to make direct tax law legible, accessible, and digitally enforceable.[5] However, in tax jurisprudence, statutory simplicity does not automatically yield legal certainty. This article evaluates the legislative drafting methodologies of the 2025 Act and assesses how plain-language reform interacts with settled judicial precedents.

2. BACKGROUND AND HISTORY OF INDIAN DIRECT TAX REFORMS

Understanding the statutory architecture of the Income-tax Act, 2025 requires examining the long history of direct tax reform initiatives in India. The journey toward a simplified direct tax code spans several decades of legislative attempts, committee reports, and policy debates.

A. The Direct Taxes Code (DTC) Initiatives (2009–2014)

The first major attempt to replace the Income-tax Act, 1961 began in 2009 with the release of the draft Direct Taxes Code (DTC 2009). The primary objective of DTC 2009 was to create a unified code covering all direct taxes, including income tax, wealth tax, and corporate dividend distribution taxes.[6] However, DTC 2009 proposed sweeping policy shifts, including the elimination of major sector-specific tax incentives, changes to international tax residency triggers, and new general anti-avoidance rules.

Following widespread public consultation and review by the Parliamentary Standing Committee on Finance, a revised version Direct Taxes Code 2010 was introduced in Parliament.[7] The Standing Committee submitted 190 recommendations aimed at balancing revenue generation with taxpayer protection. Despite further revisions in the Direct Taxes Code 2013 draft, political shifts and concerns over market disruption caused the Bill to lapse upon the dissolution of the 15th Lok Sabha in 2014.[8]

B. The 2017 Task Force on Direct Tax Legislation

In November 2017, the Government of India constituted a expert Task Force headed by senior tax officials and policy experts to draft a new direct tax law in line with contemporary economic needs.[9] The Task Force was instructed to benchmark Indian tax law against international best practices, incorporate plain-language drafting principles, and ensure integration with digital tax administration. The Task Force submitted its comprehensive report in August 2019, recommending a policy-neutral re-drafting of the statute that focused on clarity, structural simplicity, and administrative predictability rather than drastic tax rate changes.[10]

C. The 2024 Comprehensive Simplification Review

Building upon the Task Force recommendations, the Central Board of Direct Taxes (CBDT) launched a comprehensive review of the Income-tax Act, 1961 in 2024. An internal committee analyzed every section, schedule, proviso, and rule to identify obsolete clauses, redundant explanations, and overly complex language. [11] This review directly laid the groundwork for the **Income-tax Act, 2025**, which prioritized plain-language drafting while deliberately preserving core tax liability concepts to avoid disrupting commercial operations.

3. MECHANICS OF STATUTORY RE-ARCHITECTURE

The Income-tax Act, 2025 substitutes traditional, dense legal syntax with a modernized statutory structure. The core mechanics of this redesign rest on four primary structural pillars:

TABLE 1: COMPREHENSIVE CROSS-MAPPING AND STATUTORY COMPARISON 1961 ACT VS. 2025 ACT

Statutory Domain	Income-tax Act, 1961 Framework	Income-tax Act, 2025 Framework
Overall Volume	819 Sections; 47 Chapters; ~512,500 words	536 Sections; 23 Chapters; ~259,600 words
Temporal Construct	Bifurcated: "Previous Year" [s. 3] & "Assessment Year" [s. 2(9)]	Unified: Single "Tax Year" construct [s. 2]
Exception Layout	Layered proviso chains stacked beneath primary rules	Independent, standalone sub-sections
Non-Obstante Syntax	Archaic: "Notwithstanding anything contained in..."	Plain Syntax: "Irrespective of..."
Withholding Regimes (TDS)	Fragmented across Sections 192 through 196D	Consolidated tabular schedules [s. 393]
Chapter VIII Deductions	Chapter VI-A [Sections 80C to 80U]	Chapter VIII [Sections 122 through 134]
Administrative Directives	Section 119 (CBDT Instructions & Circulars)	Section 410 (Administrative Binding Guidance)
Enabling Faceless Rules	Sections 144B, 250, and scattered provisions	Section 532 (Consolidated Faceless Scheme)

A. Unification of Temporal Constructs

Under the 1961 Act, direct tax liability operated on a dual temporal system: income was earned during a "Previous Year" and evaluated for tax during a subsequent "Assessment Year."[12] While well understood by seasoned domestic practitioners, this bifurcation created confusion for cross-border entities, foreign institutional investors, and non-resident individual taxpayers. Section 2 of the Income-tax Act, 2025 abolishes this dual construct, establishing a single unified term: the **"Tax Year."**[4] Defined as the 12-month period commencing on 1 April, the Tax Year aligns direct tax terminology with standard international commercial practice while keeping the underlying tax accrual principles unchanged.

B. Syntactical Modernization and Elimination of Provisos

One of the most notable drafting changes in the 2025 Act is the systematic removal of proviso chains. Under traditional legislative drafting, primary rules were routinely followed by a sequence of provisos (e.g., *"Provided that...", "Provided further that...", "Provided also that..."*). In practice, these provisos often contradicted or severely restricted the primary operative rule. The 2025 Act eliminates approximately 1,200 provisos and 900 statutory explanations, replacing them with clear, standalone sub-sections.[5] Furthermore, archaic phrases such as *"Notwithstanding anything contained in..."* have been simplified to direct syntax such as *"Irrespective of..."*.

C. Consolidation of Withholding Regimes and Chapter VIII Deductions

In the 1961 Act, Tax Deducted at Source (TDS) rules were scattered across dozens of sections (Sections 192 to 196D), each specifying different rates, thresholds, and compliance conditions. Section 393 of the 2025 Act consolidates these scattered provisions into structured schedules and tabular formats, specifying rates, trigger points, and payment codes in a single compliance framework.[13]

Similarly, individual and corporate deductions previously housed under Chapter VI-A (Sections 80C to 80U) have been mapped to Chapter VIII (Sections 122 to 134). For example, deductions under former Section 80C now sit in Section 123, while health insurance exemptions (former Section 80D) are consolidated in Section 126.[14]

4. CASE LAW AND JUDICIAL PRECEDENTS UNDER THE NEW FRAMEWORK

While plain-language drafting improves legibility, it introduces an interpretive dilemma: does altering statutory syntax risk invalidating decades of settled judicial precedent?

CORE PRINCIPLE OF STATUTORY INTERPRETATION: LEGISLATIVE POLICY NEUTRALITY

Statutory Interpretation Mandate: The Income-tax Act, 2025 was explicitly drafted to be policy-neutral, meaning Parliament intended to update statutory structure and syntax without changing core tax liabilities. Under established principles of statutory interpretation, when legislative changes are structural rather than substantive, settled judicial precedents rendered under former provisions continue to govern renumbered clauses.

A. Preservation of Core Judicial Doctrines

Over six decades, the Supreme Court of India and regional High Courts built an extensive body of jurisprudence interpreting key provisions of direct tax law. To maintain commercial stability, the 2025 Act relies on judicial continuity across several core legal doctrines:

- **Real Income Theory:** In *CIT v. Shoorji Vallabhdas & Co.*,[15] the Supreme Court established that tax law levies tax on actual income earned, not on hypothetical or book entries. This landmark principle remains central to income computation rules under Section 11 of the 2025 Act.[4]

- **Binding Nature of Administrative Directives:** In *Navnit Lal C. Javeri v. Appellate Assistant Commissioner of Income Tax*,[16] the Supreme Court held that benevolent circulars issued by the CBDT are legally binding on subordinate tax officers. This rule is preserved under Section 410 of the 2025 Act.[4]

- **Quasi-Judicial Character of Assessments:** In *Lalji Haridas v. State of Maharashtra*,[17] the Supreme Court established the quasi-judicial character of tax assessments, requiring strict adherence to principles of natural justice. This principle underpins the faceless assessment provisions under Section 532.[4]

- **Tax Planning vs. Unacceptable Tax Avoidance:** The judicial distinction between legitimate tax planning and improper tax avoidance articulated in *McDowell & Co. Ltd. v. Commercial Tax Officer*,[18] *Union of India v. Azadi Bachao Andolan*,[19] and clarified in *Vodafone International Holdings B.V. v. Union of India*[20] continues to inform general anti-avoidance rules (GAAR) and tax treaty abuse provisions within the new Act.

- **Commercial Expediency in Business Expenses:** In *S.A. Builders Ltd. v. CIT*,[21] the Supreme Court ruled that business expenditure must be evaluated from the perspective of commercial expediency rather than revenue profitability. This doctrine remains intact under Section 34 of the 2025 Act.

B. Transpositional Ambiguities and Interpretive Risks

Despite legislative attempts to preserve continuity, textual variation inherently introduces interpretive risk. In statutory construction, courts generally presume that when the legislature alters statutory wording, it intends a change in meaning. Replacing classic legal terms with plain-language synonyms could prompt fresh litigation regarding corporate amalgamations, international tax allocations, and capital gains rules. Tax practitioners and corporate legal departments must carefully monitor how appellate tribunals interpret these modernized provisions during the transitional period.[22]

5. DIGITAL ENFORCEMENT AND ADMINISTRATIVE INFRASTRUCTURE

Statutory simplification in the 2025 Act is closely integrated with modernized administrative mechanisms and digital enforcement powers:

- **Statutory Framework for Faceless Administration:** Section 532 consolidates enabling authority for faceless assessment, appeal, and penalty schemes into unified statutory provisions. Reducing procedural discretion supports standardized administration across jurisdictions.[4]

- **Digital Search and Inspection Powers:** Enforcement rules under the 2025 Act explicitly cover nonphysical and cloud-hosted data. Search provisions grant revenue officers statutory authority to inspect cloud storage systems, virtual digital asset (VDA) registers, and encrypted communications.[23]

- **Audit Quality Frameworks:** To ensure thorough review of complex filings, professional regulatory guidelines cap certified tax audit assignments at 60 reports per chartered accountant per tax year, supporting statutory simplification with enhanced professional oversight.[24]

6. CONCLUSION AND POLICY RECOMMENDATIONS

The Income-tax Act, 2025 marks a major structural update to India's direct tax framework. By compressing statutory volume, removing proviso chains, unifying temporal constructs, and re-organizing deductions, the statute successfully improves readability and reduces compliance friction.

However, plain language alone does not guarantee legal certainty. The ultimate success of the 2025 Act will depend on administrative and judicial execution. To maintain market stability during the transition, the Central Board of Direct Taxes (CBDT) should issue comprehensive cross-mapping circulars affirming that established judicial precedents apply to renumbered clauses. By aligning plain-language drafting with consistent administrative guidance, India can achieve a direct tax framework that balances statutory clarity with interpretive stability.

Endnotes:

1 Income-tax Act, 1961 (Act 43 of 1961).

2 Income-tax Act, 1922 (Act 11 of 1922).

3 Central Board of Direct Taxes, *Report of the Task Force on Direct Tax Law Reforms* (Ministry of Finance, Government of India, 2024).

4 Income-tax Act, 2025, s. 2 (Act 12 of 2025).

5 Central Board of Direct Taxes, *Executive Summary on the Comprehensive Simplification of the Income-tax Act, 1961* (Press Release, 13 February 2025).

6 Ministry of Finance, *Discussion Paper on the Direct Taxes Code* (Government of India, 2009).

7 Standing Committee on Finance, *Ninth Report on the Direct Taxes Code Bill, 2010* (Fifteenth Lok Sabha, Ministry of Finance, 2012).

8 Lok Sabha Secretariat, *Lapsed Bills and Legislative History of Direct Tax Reforms* (Parliament of India, 2014).

9 Ministry of Finance, *Order Constituting the Task Force for Review of the Income-tax Act, 1961* (F. No. 370149/230/2017-TPL, 2017).

10 Ministry of Finance, *Report of the Task Force on Drafting the New Direct Tax Legislation* (Government of India, August 2019).

11 Central Board of Direct Taxes, *Internal Review Guidelines for Statutory Rationalization* (Ministry of Finance, 2024).

12 Income-tax Act, 1961, ss. 2(9), 3.

13 Income-tax Act, 2025, s. 393.

14 IncorpX, 'Tax Saving Deductions: New IT Act 2025 Guide' (IncorpX, 2025) <https://www.incorpx.io/blog/tax-saving-deductions-new-income-tax-act-2025> accessed 21 July 2026.

15 *CIT v. Shoorji Vallabhdas & Co.*, (1962) 46 ITR 144 (SC).

16 *Navnit Lal C. Javeri v. Appellate Assistant Commissioner of Income Tax*, (1965) 56 ITR 198 (SC).

17 *Lalji Haridas v. State of Maharashtra*, (1964) 52 ITR 423 (SC).

18 *McDowell & Co. Ltd. v. Commercial Tax Officer*, (1985) 154 ITR 148 (SC).

19 *Union of India v. Azadi Bachao Andolan*, (2003) 263 ITR 706 (SC).

20 *Vodafone International Holdings B.V. v. Union of India*, (2012) 341 ITR 1 (SC).

21 *S.A. Builders Ltd. v. CIT*, (2007) 288 ITR 1 (SC).

22 Lakshmikumaran & Sridharan, *New Income Tax Bill, 2025: Highlights and Interpretative Analysis* (L&S Insights, 15 February 2025).

23 Official Debates of the Rajya Sabha, *Debate on the Income Tax Bill 2025* (12 August 2025) 66.

24 IncorpX, 'File Tax Audit Report Under New IT Act 2025' (IncorpX, 2025) <https://www.incorpx.io/guide/how-to-file-tax-audit-report-new-it-act-2025> accessed 21 July 2026.