

LESS TAXING CODE

INCOME TAX ACT, 1961

THE ACT COMPRISES 23 CHAPTERS, ORGANISED INTO 298 SECTIONS AND SUPPORTED BY 14 SCHEDULES

Basis of Charge

The concept of "Previous Year" and "Assessment Year" form the basis of determining tax liabilities

Incomes Not Included in Total Income

Section 10 prescribes incomes not to be included in the total income. This section has over 50 sub-sections, each enumerating lists of incomes exempt for various classes of taxpayers, such as individuals, HUF, partners, trusts, and companies

Salary

There were multiple instances of cross reference between sections and rules that often led to complications

Written Down Value (WDV)

The definition of WDV was prescribed under Section 43(6) of the Act. This section included numerous sub-clauses and explanations Business or Profession (PGBP)

Directions of Dispute Resolution Panel (DRP)

Section 146C lacked clarity regarding the manner of issuing directions by the DRP

Income Computation and Disclosure Standards

Under Section 145(2), centre notified income computation and disclosure standards through the Official Gazette

INCOME TAX BILL, 2025

THE PROPOSED BILL RETAINS THE SAME NUMBER OF CHAPTERS BUT SIGNIFICANTLY EXPANDS ITS SCOPE WITH 536 CLAUSES AND INTRODUCES TWO MORE SCHEDULES

Basis of Charge

Shifts to the concept of "Tax Year", aligns the Indian tax structure with international standards

Incomes not included in total income

Clause 11 now prescribes a comprehensive list under Schedules II, III, IV, V, and VII. Each schedule enumerates the erstwhile sub-sections in tabular form by delineating the class of persons covered under each schedule

Salary

Most of the deductions related to income from Salary are now proposed to be consolidated in Clause 19, covering deductions like gratuity, leave encashment, etc.

Sale of depreciable business asset

The Bill addresses this ambiguity explicitly. Clause 33(10) clarifies that any loss arising from the sale of a depreciable asset will be treated as a business loss, while Clause 38 specifies that income from such transactions will be considered as Business Income

Written Down Value (WDV)

Clause 41 of the Bill simplifies WDV definitions and adopts a formula-based method. This reduces complexity and enhances the ease of understanding

Capital Gains Exemption on Investment in Bonds

Clause 85 of the Bill narrows this exemption to explicitly apply to "long-term capital gain", instead of "long-term capital asset". Consequently, short-term capital gains arising from the transfer of depreciable assets, even if held for more than 36 months, are no longer eligible for this exemption

Directions of Dispute Resolution Panel (DRP)

Clause 275(E) mandates that DRP directions clearly state the points of determination, the decision on each point, and the reasons for such decisions

Income Computation and Disclosure Standards

Integrates elements of ICDS directly into the statutory provisions, such as Clause 43 addressing foreign exchange fluctuations, Clause 57 specifying revenue recognition for construction and service contracts, and Clause 277 prescribing inventory valuation methods

Tax Deducted at Source

Clause 393 consolidates all TDS-related provisions into a single table accompanied by explanatory notes

The Income Tax Bill, 2025, aims to do away with the archaic that had crept into the old Income Tax Act, 1961. Here is a look at some of the proposed changes

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Sale of depreciable business asset

There was ambiguity in the treatment of gains or losses arising from the sale of depreciable assets. Such transactions could be interpreted as either capital gains/losses or income/losses under Profits and Gains of Business or Profession (PGBP)

Capital Gains Exemption on Investment in Bonds

Under Section 54EC, exemption from long-term capital gains tax was tied to the transfer of a "long-term capital asset". Relying on the Supreme Court rulings, even short-term capital gains on depreciable assets were eligible for exemption if transferred from a block of assets

Tax Deducted at Source

Over 40 standalone sections navigated the intricate provisions surrounding TDS compliance