



"The Income Tax Bill, 2025 gives a sense of nuts and bolt process reforms that are not as transformational as large substantive changes or amendments but are just as important for the efficient implementation of the income-tax law. Lucidity and ease of understanding which were signalled as the purpose of the comprehensive review of the Income Tax Act, 1961, can be intuited from the new draft. The Income Tax Act, 1961 with 298 sections and 14 schedules has now been recouped into 536 sections over 23 chapters with 16 schedules. The Bill, subject to approval and amendments under the parliamentary process, is slated to be effective only from April 1, 2026, which implies that computation of taxable income and its reporting, for Financial Years ending March 2025 and March 2026, would still be required to be done under the existing Income Tax Act itself.

The structural changes in the bill to assimilate subject matter provisions which are currently scattered across multiple sections makes the bill comprehensive and easy to read. For instance, deductions from salaries such as standard deduction, gratuity, leave encashment etc, have now been tabulated at one place, instead of being diffused over different sections and rules. The concepts of explanations and provisos have been removed from the new version, for ease of interpretation and understanding. New concepts such as tax year, instead of previous year and assessment year, have been introduced. New sections covering revenue recognition for service contracts, provisions on allowability of MTM losses, valuation of inventory at lower of cost or net realisable value, which were hitherto sheltered under ICDS, have now been brought into the new bill itself. Certain provisions such as allowability of set-off of short-term capital loss against business income on scrapping of business held capital assets, which was interpreted in favour by the Courts, have now been brought into the PGBP computation section itself.

Income not forming part of total income have now been moved to schedules to simplify the statute. Formula based approach have been adopted, for instance, definition of WDV in case of block of assets, which was earlier verbose, is now broken down into a simple formula. All TDS related sections have been brought together under a single clause with simple tables, for ease of understanding, though this would mean post notification of this bill later, a lot of changes would be required in forms and utilities, for reporting purposes."

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