



THE NEW INCOME TAX ACT, 2025: A LEGISLATIVE SHIFT TOWARDS SIMPLIFIED TAXATION

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ABSTRACT

The Income-tax Act, 2025 represents a significant transformation of India's direct taxation framework, replacing the Income-tax Act, 1961 with effect from 1 April 2026. The legislation seeks to simplify and modernise a tax regime that had become increasingly complex due to extensive amendments, exemptions, technical language, and overlapping provisions. This paper examines the structural and substantive reforms introduced under the new framework, including the reorganisation of tax provisions, revised income-tax slabs, rationalisation of TDS and TCS provisions, enhanced standard deduction, taxation of ULIPs, and extension of the time limit for filing updated returns. It further analyses the Act's emphasis on transparency, predictability, technological integration, and taxpayer-friendly compliance. The paper argues that while the reform primarily seeks continuity in tax policy rather than radical changes, its effectiveness will depend upon efficient implementation, administrative preparedness, taxpayer awareness, and adaptability to evolving economic and technological developments.

Keywords: Income-tax Act, 2025, Direct Taxation, Tax Reform, Tax Compliance.

INTRODUCTION

The Income-tax Act, 2025 marks a significant transformation in India's direct taxation framework by replacing the decades-old Income-tax Act, 1961 with effect from 1 April 2026. The legislation has been introduced to modernise and simplify India's tax regime, which had gradually become increasingly complex due to continuous amendments, extensive explanations and overlapping provisions accumulated over several decades.

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The Income-tax Act, 2025 is a comprehensive legislation governing the levy, administration, collection, and recovery of direct taxes in India. The new framework seeks to bring substantial tax reforms by simplifying the structure, language, and organisation of income tax laws, thereby making them easier to understand, interpret, and implement for taxpayers, businesses, and tax professionals alike. Rather than radically altering the core principles of taxation, the Act primarily focuses on restructuring and streamlining existing provisions into a more concise, accessible, and reader-friendly format.

The new legislation reorganises the law into 536 sections across 23 chapters, significantly reducing unnecessary complexity and eliminating redundant provisions that had made the earlier framework difficult to navigate. In addition to structural simplification, the Act also promotes a more technology-driven and automated system of tax compliance. The Government aims to encourage transparency, improve voluntary compliance, reduce tax litigation, and minimise instances of non-compliance and tax avoidance through a more efficient and user-friendly tax administration system. The enactment of the Income-tax Act, 2025 therefore represents not merely a legislative replacement, but a broader shift towards a modern, transparent, digitally integrated, and taxpayer-oriented taxation regime designed to meet the evolving economic and administrative needs of contemporary India.

FROM COMPLEXITY TO CLARITY: EVOLUTION OF INDIA'S INCOME TAX REGIME

The Income-tax Act, 1961 was enacted to replace the earlier 1922 taxation legislation pursuant to the recommendations of the Law Commission of India and the Direct Taxes Administration Enquiry Committee. Although the Act was originally intended to provide a comprehensive framework for direct taxation in India, continuous amendments and evolving fiscal policies gradually rendered the legislation highly complex, technical, and difficult to interpret. The following factors substantially contributed to such complexity:

Extensive Legislative Amendments: Over a period exceeding six decades, the Act underwent nearly 65 major amendments and more than 4 thousand modifications through successive Finance Acts and multiple Taxation Laws Amendment Bills. Although these amendments were introduced to accommodate changing economic conditions, fiscal policies, and administrative requirements, they significantly increased the length, technicality, and interpretational complexity of the statute, thereby affecting legislative clarity and structural coherence.

Proliferation of Exemptions and Deductions: The legislation was repeatedly amended to incorporate numerous exemptions, deductions, rebates, and incentive-oriented provisions aimed at achieving broader socio-economic objectives, including encouragement of savings, promotion of exports, balanced regional development, industrial growth, and rural welfare. These provisions included tax benefits relating to export income, investments in specified sectors or regions, and expenditure incurred for developmental activities. However, the excessive inclusion of such incentives resulted in a fragmented and exception-based taxation framework.

Reduction of Effective Tax Base and Increase in Litigation: The extensive system of exemptions and fiscal incentives substantially narrowed the effective tax base and created interpretational ambiguities concerning their applicability, scope, and eligibility criteria. Consequently, the taxation regime witnessed a considerable increase in tax-related disputes, judicial litigation, administrative expenditure, and compliance burdens for both taxpayers and revenue authorities.

Use of Traditional and Technical Legislative Language: The drafting style adopted under the Act reflected conventional legislative drafting practices characterised by lengthy sentences, complex provisos, extensive explanations, and frequent cross-referencing provisions. The use of highly technical legal terminology made the statute difficult for ordinary taxpayers to comprehend, thereby reducing accessibility and increasing dependence on professional interpretation and legal assistance.

Fragmented Structure and Obsolete Provisions: The cumulative effect of continuous insertions, substitutions, and amendments disrupted the structural consistency and systematic arrangement of the legislation. Furthermore, several outdated, redundant, and practically irrelevant provisions continued to remain within the statutory framework, contributing to procedural inefficiency, ambiguity, and interpretational inconsistency.

Need for Simplification and Modernisation: In view of the increasing complexity associated with the existing taxation framework, the proposed Income Tax Act 2025 seeks to establish a simplified, modernised, and taxpayer-friendly direct tax regime. The proposed reform aims to enhance statutory clarity, improve ease of compliance, reduce unnecessary litigation, rationalise legal provisions, and promote greater transparency and efficiency within the Indian taxation system.

REFORM PROCESS FOR THE NEW TAX LEGISLATION

In July 2024, Nirmala Sitharaman formally announced the Government's intention to comprehensively reform the Income-tax Act, 1961 to simplify its legislative language, reduce interpretational disputes, and remove obsolete and redundant provisions that had accumulated over decades. The proposed reform was aimed at creating a more accessible, efficient, and taxpayer-friendly direct taxation framework capable of addressing contemporary economic and administrative requirements.

For the purpose of undertaking this legislative reform, an internal Departmental Committee was constituted by the Central Board of Direct Taxes (CBDT) to conduct a comprehensive review of the existing statutory framework. The Committee was entrusted with the responsibility of examining structural inconsistencies, drafting complexities, and procedural inefficiencies within the prevailing taxation regime.

As part of the reformatory exercise, the Committee engaged in extensive consultations with various stakeholders, including industry associations, professional bodies, tax practitioners, and departmental field officers. Multiple deliberative and brainstorming sessions were conducted to identify practical challenges faced in tax administration and compliance. In addition, the Committee examined international best practices and comparative taxation models, particularly reforms undertaken in jurisdictions such as the United Kingdom and Australia, to incorporate globally recognised principles of legislative clarity and administrative efficiency. The reform process was not confined merely to linguistic simplification; rather, it also focused upon rationalising and restructuring the overall framework of the legislation in order to improve coherence, accessibility, and systematic interpretation.

The proposed simplification exercise was guided by the following foundational principles:

Textual and Structural Simplification: The reform sought to simplify statutory drafting by adopting clearer legislative language, reducing unnecessary complexity, and reorganising provisions more coherently and systematically. The objective was to enhance readability, improve interpretational clarity, and facilitate easier compliance for taxpayers as well as tax administrators.

Continuity in Tax Policy: The reform initiative was undertaken without introducing any substantial changes to existing tax policies. This approach was adopted to ensure legal

continuity, maintain economic stability, and avoid uncertainty within the taxation framework during the transition to the proposed legislation.

Stability of Tax Rates: The proposed legislative reform did not contemplate modifications in prevailing tax rates. The retention of existing tax structures was intended to preserve predictability and certainty for taxpayers, businesses, and investors.

INCOME TAX SLAB RATES UNDER THE INCOME TAX ACT, 2025

The proposed Income Tax Act 2025, effective from 1 April 2026, introduces revised income tax slab structures under both the New Tax Regime and the Old Tax Regime. The legislation seeks to provide a more streamlined and taxpayer-friendly taxation framework while continuing the dual-regime system, thereby allowing taxpayers to choose between concessional tax rates with limited deductions and the traditional regime with exemptions and deductions.

New Tax Regime – Section 202: The New Tax Regime continues to operate as the default taxation regime under Section 202 of the New Income Tax Act, 2025. This regime adopts a concessional slab-based taxation structure with comparatively lower tax rates while limiting the availability of several exemptions and deductions. The objective of the regime is to simplify tax computation, reduce procedural complexities, and encourage ease of compliance.

Income Tax Slabs	Rate of Tax
Upto ₹4,00,000	NIL
From ₹4,00,001 – ₹8,00,000	5%
From ₹8,00,001 – ₹12,00,000	10%
From ₹12,00,001 – ₹16,00,000	15%
From ₹16,00,001 – ₹20,00,000	20%
From ₹20,00,001 – ₹24,00,000	25%
Above ₹24,00,000	30%

Impact of the New Tax Slabs: The restructuring of tax slabs is aimed at reducing the financial burden on middle-income earners while ensuring a progressive tax structure. Here's how the new slabs affect different income groups:

- Low-income earners (Up to INR 4,00,000): No tax liability, ensuring relief for the lowest income group.
- Middle-income earners (INR 4,00,001 to INR 12,00,000): Enjoy reduced tax rates, particularly benefiting those shifting from the 20% tax bracket in the old regime to a lower bracket in the new system.
- High-income earners (Above INR 20,00,000): Introduction of a 25% slab between INR 20,00,001 and INR 24,00,000 results in a more gradual increase in tax rates.

Old Tax Regime: The Old Tax Regime continues to remain available for taxpayers who prefer to claim deductions, exemptions, and other tax incentives available under the traditional taxation framework. The slab rates under this regime vary according to the age and residential status of the taxpayer, with higher exemption limits being provided to resident senior citizens and super senior citizens.

The old tax regime slab rates under the Income Tax Act 2025 are as follows:

Income Tax Slabs	Age < 60 years & NRI	Age 60 years to 80 years (Resident Individuals)	Age above 80 years (Resident individuals)
Up to ₹2,50,000	NIL	NIL	NIL
₹2,50,001- ₹3,00,000	5%	NIL	NIL
₹3,00,001 – ₹5,00,000	5%	5%	NIL

₹5,00,001 – ₹10,00,000	20%	20%	20%
Above ₹10,00,000	30%	30%	30%

CHANGES INTRODUCED UNDER THE PROPOSED INCOME TAX ACT, 2025

Increase in Standard Deduction: One of the significant relief-oriented measures introduced under the proposed Income Tax Act 2025 is the enhancement of the standard deduction available to salaried employees and pensioners. The deduction limit has been increased from ₹50,000 to ₹75,000 with the objective of reducing the taxable income of individuals falling within the salaried and pension-earning categories. This amendment reflects the Government's recognition of rising inflationary trends and increasing living expenses affecting middle-income taxpayers. By expanding the deduction threshold, the proposed legislation seeks to provide greater financial relief, increase disposable income, and strengthen the overall taxpayer welfare framework. The measure is also intended to simplify tax computation by allowing a fixed deduction without requiring detailed proof of expenditure.

Revised Taxation Framework for Unit-Linked Insurance Plans (ULIPs): The proposed taxation framework introduces important changes concerning the tax treatment of Unit-Linked Insurance Plans (ULIPs). Under the revised provisions introduced pursuant to the Union Budget 2025, where the aggregate annual premium payable under such policies exceeds ₹2.5 lakh, the income or returns arising from those policies shall no longer enjoy complete tax exemption and will instead be subjected to capital gains taxation. This amendment has been introduced to ensure parity between investment-oriented insurance products and other financial investment instruments that are ordinarily subject to taxation. The reform also seeks to prevent the misuse of insurance policies as tax-saving investment mechanisms for high-net-worth individuals while promoting greater transparency, fairness, and equity within the taxation framework.

Introduction of a 25% Income Tax Slab: The proposed legislation introduces an additional tax slab imposing a 25% tax rate on annual income falling between ₹20,00,001 and ₹24,00,000 under the New Tax Regime. The inclusion of this intermediate slab reflects the Government's attempt to create a more progressive and balanced taxation structure by ensuring a gradual

increase in tax liability rather than abrupt escalation between income categories. The revised slab system aims to distribute the tax burden more equitably among taxpayers belonging to higher income brackets while maintaining fairness and proportionality within the overall direct taxation framework.

RATIONALISATION OF TDS AND TCS PROVISIONS

The provisions relating to Tax Deducted at Source (TDS) and Tax Collected at Source (TCS) have been substantially rationalised with the objective of reducing procedural difficulties and improving ease of compliance for taxpayers. One of the major amendments includes the enhancement of the threshold limit for deduction of TDS on interest income earned by senior citizens from ₹50,000 to ₹1,00,000 annually. This revision seeks to provide financial relief to elderly taxpayers by reducing unnecessary tax deductions on their savings and fixed deposit income. Additionally, the threshold for applicability of TDS on rental income has been increased from ₹2,40,000 to ₹6,00,000 annually. This amendment is intended to reduce the compliance burden on individuals earning modest rental income and simplify tax administration in relation to property-related transactions. Overall, the rationalisation of TDS and TCS provisions reflects the Government's intention to create a more efficient and taxpayer-friendly compliance mechanism.

Tax Exemption on Withdrawals from National Savings Scheme (NSS): Under the revised framework, withdrawals made from the National Savings Scheme (NSS) on or after 29 August 2024 have been granted exemption from income tax. This reformative measure has been introduced with the objective of encouraging long-term savings and promoting investment in government-supported financial instruments. By exempting such withdrawals from taxation, the Government seeks to strengthen financial security among investors and incentivise participation in structured savings schemes designed for long-term wealth preservation and economic stability.

Extension of Time Limit for Filing Updated Returns: The proposed legislation extends the permissible time limit for filing updated income tax returns from two years to four years. This amendment provides taxpayers with greater flexibility and a wider opportunity to rectify omissions, disclose previously unreported income, or correct inaccuracies in their tax filings. The extension is intended to encourage voluntary compliance and reduce adversarial tax proceedings by allowing taxpayers to regularise their tax affairs within a more reasonable

timeframe. Furthermore, the provision strengthens transparency and accountability within the taxation system while simultaneously reducing litigation arising from inadvertent errors or delayed disclosures.

Streamlining of the Direct Tax Framework: The proposed Income Tax Act, 2025, scheduled to come into force from 1 April 2026, seeks to comprehensively simplify and modernise India's direct taxation structure. The reformative initiative aims to address longstanding concerns relating to interpretational complexity, excessive procedural requirements, and administrative inefficiencies associated with the existing taxation regime. The proposed framework focuses upon improving statutory clarity, reorganising legislative provisions in a systematic manner, and reducing ambiguities that have historically contributed to disputes and compliance-related challenges. The overall objective is to establish a more coherent, transparent, and efficient taxation system aligned with modern economic and administrative realities.

Tax Relief Across Various Income Categories: The revised taxation structure under the New Tax Regime provides substantial tax relief across multiple income brackets, thereby enhancing taxpayer benefits and reducing overall tax liability. Illustratively, an individual earning ₹10,00,000 annually under the revised regime would have no income tax liability, whereas under the previous framework such a taxpayer would have been liable to pay approximately ₹44,200 in taxes. Similarly, an individual earning ₹20,00,000 annually would now be required to pay ₹1,85,000 (excluding applicable cess) instead of ₹2,78,200 under the earlier structure, thereby resulting in estimated savings of ₹93,000. These revisions indicate the Government's broader objective of increasing disposable income, stimulating consumption, and ensuring equitable tax relief for middle and upper-middle income groups.

EMPHASIS ON TRANSPARENCY AND PREDICTABILITY

The proposed legislation places considerable emphasis upon enhancing transparency, certainty, and predictability within the taxation framework. As reflected in the Budget 2026 policy approach, the reform seeks to simplify statutory definitions, streamline legislative provisions, and reduce interpretational ambiguities that frequently give rise to litigation and compliance disputes. By adopting clearer drafting techniques and a more organised statutory structure, the proposed framework aims to improve taxpayer confidence and ensure greater consistency in tax administration and interpretation.

Impact on Taxpayers: The reforms introduced under the proposed Income Tax Act, 2025 are expected to create a more taxpayer-centric and compliance-oriented taxation environment. The simplification of statutory provisions and rationalisation of procedural requirements are likely to provide taxpayers with greater clarity regarding their legal obligations and liabilities. Furthermore, the reduction of ambiguities within the legislation is expected to minimise disputes and litigation between taxpayers and revenue authorities. Collectively, these reforms represent a significant step towards establishing a modern, transparent, and technologically efficient tax administration system capable of responding effectively to evolving economic conditions and contemporary governance requirements.

CONCLUSION

The proposed Income Tax Act, 2025, constitutes a substantial legislative reform intended to restructure and modernise the existing framework of direct taxation in India. The enactment seeks to replace the traditionally complex and highly technical tax regime with a more coherent, simplified, and administratively efficient statutory mechanism capable of ensuring greater certainty, transparency, and ease of compliance for taxpayers.

The transition from the Income Tax Act, 1961, to the proposed 2025 legislation signifies the Legislature's recognition of the evolving economic landscape, technological advancements, and the increasing necessity for a taxation framework that is aligned with contemporary financial and commercial realities. By rationalising statutory provisions, simplifying procedural compliances, and reducing interpretational ambiguities, the proposed enactment endeavours to minimise unnecessary litigation and promote voluntary tax compliance within the framework of fiscal governance.

In essence, the proposed Income Tax Act, 2025, is not merely a revision of tax provisions but a comprehensive attempt to modernise India's direct tax system. Its long-term success, however, will depend upon effective implementation, public awareness, administrative preparedness, and the ability of the legislation to adapt to future economic and technological developments. If implemented efficiently, the Act has the potential to create a more transparent, equitable, and efficient tax regime that aligns with the vision of a digitally empowered and economically progressive India.