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INCOME TAX ACT 2025

Big shift in India's tax landscape

April 2026

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INTRODUCTION

The Income-tax Act, 2025 (IT Act, 2025) replaces the Income-tax Act, 1961 (IT Act, 1961) with effect from April 1, 2026. This transition aims to simplify statutory language, reduce the compliance burden, and modernize the tax code while maintaining existing tax policies.

Core Objectives-

- **Simplification:** Replace archaic language and redundant provisions with clear, concise, and modern legal text.
- **Digital Integration:** Enable faceless assessments and digital compliance to reduce human interface and corruption.
- **Taxpayer-Centric Approach:** Improve ease of filing, reduce litigation, and enhance transparency.
- **Global Alignment:** Reflect contemporary economic realities, including taxation of digital assets and global income.

PHASES OF IT ACT, 2025

Phase 1: Introduction & Review

13 February 2025: Bill introduced in Lok Sabha
21 July 2025: Committee recommendations

Phase 2: Revision & Approval

8 August 2025: Bill withdrawn for revisions
11- 12 August 2025: Passed in both Houses

Phase 3: Finalization & Implementation

21 August 2025: Act notified vide Gazette notification post Presidential assent
01 April 2026: Effective date

LEGISLATION REDUCTION

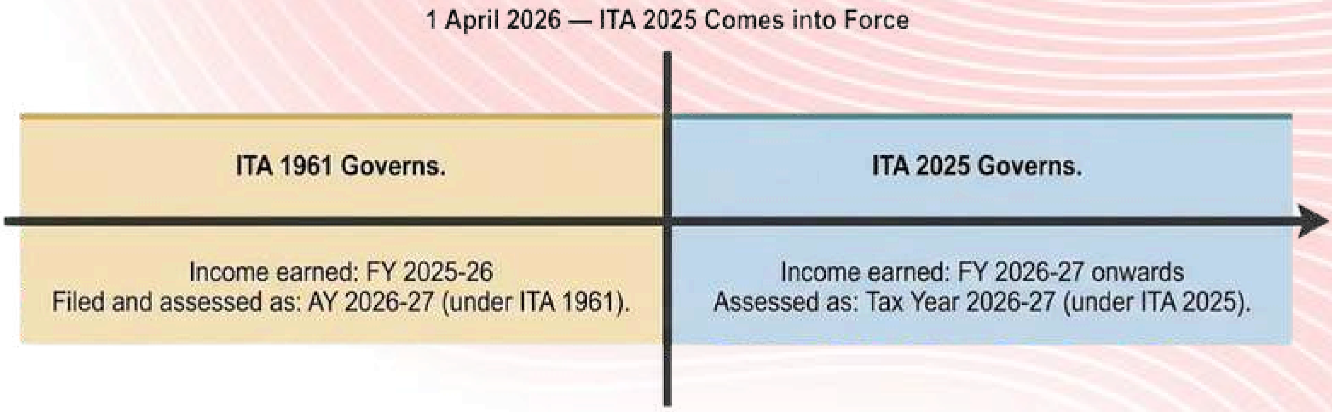
The new Act significantly streamlines the tax framework:

- **Sections:** Reduced by 35% (from 819 to 536)
- **Rules:** Reduced by 35% (from 511 to 333)
- **Forms:** Reduced by 52% (from 399 to 190)

TERMINOLOGY SHIFT

The term "Tax Year" replaces "Previous Year". The concept of "Assessment Year" (AY) has been discontinued to eliminate confusion. The term "Tax Year" has been defined under Section 3 of the IT Act, 2025 to mean the twelve (12) months period of the financial year commencing on 1 April. There will be no conflict between the new 'Tax Year' and the previous system's 'Assessment Year'. For instance:

Income Pertaining to	Applicable Governing Provisions	Reference
FY 2025-26	Income-tax Act, 1961	AY 2026-27
FY 2026-27	Income-tax Act, 2025	Tax Year 2026-27



CONTINUITY AND TRANSITION FRAMEWORK

Tax laws don't function strictly within a single financial year, while some obligations (like TDS, TCS, and advance tax) occur during the year, others (such as returns, assessments, appeals, penalties, and refunds) can continue for several years.

To manage this overlap when a new law is introduced, both the old and new systems operate together during a transition period. The IT Act, 2025 addresses this through **Section 536 (repeal and savings clause)**, as follows:

- Covers multiple transitional scenarios through 22 sub-clauses
- Ensures older laws still apply to past years
- Harmonizes terminology between old and new laws
- Enables modernization without disrupting existing legal positions

INCOME FROM SALARY

HRA metro city expansion

The Income Tax Rules 2026 (replacing the 1961 Act) introduce significant changes to HRA, expanding the 50% tax exemption eligibility to Bengaluru, Pune, Hyderabad, and Ahmedabad, alongside existing metros (Mumbai, Delhi, Kolkata, Chennai)

INCOME FROM HOUSE PROPERTY

Standard deduction of 30%: Treatment of Municipal Taxes

- Section 24(a) of the IT Act, 1961 allowed a standard deduction of 30% of the annual value of the house property. Although, Section 23(1) provided that municipal taxes actually paid are to be deducted in determining the annual value, the statute did not expressly state whether the 30% standard deduction was to be computed before or after such deduction, giving rise to interpretational ambiguity in practice.

- The IT Act, 2025 addresses this issue expressly. Section 22(1)(a) allows a standard deduction of 30% of the annual value as determined u/s 21, and Section 21(3) clearly provides that the annual value shall be reduced by municipal taxes actually paid. Consequently, the statute now clarifies that the standard deduction is to be computed on the net annual value after deduction of municipal taxes.

INCOME FROM CAPITAL GAINS

Deposit of unutilised consideration for deduction on reinvestment in a residential house

- Under the IT Act, 1961 (Section 54F(4)), if the capital gains were not fully utilised before filing the return, the unutilised amount had to be deposited in the Capital Gains Account Scheme before the due date under Section 139(1). This created confusion because the Section mentioned "return under Section 139", leading to disputes on whether deposits made up to the belated return date were valid.

- The IT Act, 2025 (Section 86(2)(b)) removes this ambiguity by linking the deposit requirement clearly to the new return filing framework (Section 263) and allowing deposit up to all the due dates applicable under Section 263, without restricting it only to the original return.

INCOME FROM OTHER SOURCES

The IT Act, 2025 through Section 92(5)(f) includes Virtual Digital Assets (VDA) in the definition of "Property".

OTHER CHANGES- VIRTUAL DIGITAL ASSETS

The IT Act, 2025 through Section 104 dealing with unexplained assets defines "asset" to include virtual digital assets along with money, bullion, jewellery, and other valuable items. If such assets are unrecorded or unexplained, their value can be treated as income for that tax year.

TAX DEDUCTED AT SOURCE (TDS) AND TAX COLLECTED AT SOURCE (TCS)

TDS

No major policy changes have been introduced; however, the new Act simplifies TDS provisions in a tabular format. All TDS sections (192 to 194T) under the IT Act, 1961 are now consolidated into:

- Section 392: TDS on salaries
- Section 393: TDS on other payments (e.g., commission, rent, property transfers, etc.)

TCS

Similarly, the provisions of TCS contained in section 206C of the IT Act, 1961 have been covered in a tabular manner in section 394 of the IT Act, 2025 for ease of reference.

Time Limit for Filing TDS/TCS Correction Statements Reduced

- Under the IT Act, 1961, vide Finance (No. 2) Act, 2024, introduced a six-year limit for filing TDS/TCS Correction statement from the end of the financial year in which the original statement was furnished.
- The IT Act, 2025 has reduced this timeline from six years to two years which limits the ability to correct historical defaults, potentially leading to higher interest and penalty exposure

TAX AUDIT REPORT (TAR)

Section 63 of the IT Act, 2025 (corresponding to Section 44AB of the old Act) prescribes the requirement of audit of accounts. The thresholds for tax audit remain the same as were in the old Act.

For Tax Year 2026-27, the tax audit report must be filed using the Form No. 26 as prescribed under the Income Tax Rules 2026. Form No. 26 merges erstwhile Form No. 3CA, Form 3CB and Form 3CD. The due date for filing the tax audit report for Tax Year 2026-27 shall be 30 September 2027. The key features of the new Form no. 26 are summarized as under:

- Clause relating to disallowable expenditure has been streamlined into a single consolidated disclosure instead of detailed item-wise reporting.
- Separate Schedules format such as Schedule- Losses, Depreciation and Deductions, Schedule- Prior Period, Schedule- Computation of receipt/income, Schedule- Computation of expenses has been inserted for more transparency.
- Dedicated fields have been introduced for reporting capital receipts and deemed incomes not routed through the Profit & Loss Accounts.

NOTE

1. There are no changes in the tax slabs for Individuals, HUF, AOP, BOI, Companies and partnership firms / LLP in the IT Act, 2025.
   Please refer to the link - https://bit.ly/4chfMAP

2. For detailed TDS/TCS rates in tabular format as per IT Act, 2025
   Please refer to the link - https://bit.ly/4t3SA00

3. The Shift from the IT Act, 1961 to the IT Act, 2025 is mainly a structural and drafting reform aimed at simplifying language, reorganising provisions, and improving clarity, without fundamentally changing core tax principles. Note that the new Act and annual Finance Acts must be read in conjunction during this transition period, as tax positions will be shaped both by the restructured statutory framework and ongoing policy-driven amendments.

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