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The Income Tax Bill 2025: Simplification with No Major Tax Policy Changes to Ensure Continuity and Coherence

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Abstract: The Income Tax Department (ITD) of the Government of India collects income tax on the income earned by different persons as per the provisions of the ITA 1961 (IND). However, the said Act has become technical and a little bit complicated to understand. To bring simplicity to the provisions of the ITA 1961 (IND), the Government of India has introduced the new Income-tax Bill, 2025, on 13 February 2025 in the Parliament. The article aims to examine the methods employed for simplification. After going through the provisions of the existing Income-tax Act, 1961, and the new Income-tax Bill, 2025, it has been found that most of the sections removed from the existing Income-tax Act, 1961, were redundant in the said Act and thus correctly removed to make the income tax provisions simple. Further, no major tax policy changes have been made to ensure continuity and certainty, and thus, the provisions of the proposed Income-tax Act, 2025, are almost like the provisions of the existing Income-tax Act, 1961.

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I. Introduction:

The government of any country collects income tax on the income earned by its residents or citizens as per its applicable laws. In India too, the Income Tax Department (ITD) of the Government of India collects income tax on the income earned by different persons as per the provisions of the ITA 1961 (IND)[1]. However, the said Act has been in existence for the past 65 years, and in these 65 years, almost 10,000 notifications & circulars, several amendments, and thousands of court cases have made the said Act technical and a little bit complicated to understand. To bring simplicity to the provisions of the ITA 1961 (IND), the Government of India has introduced the new Income-tax Bill, 2025[2], on 13 February 2025 in the Parliament.

The Government of India claimed in a press release[3] dated 13 February 2025 that the "simplification exercise was guided by three core principles:

1. Textual and structural simplification for improved clarity and coherence.
2. No major tax policy changes to ensure continuity and certainty.
3. No modification of tax rates, preserving predictability for taxpayers.".

This article attempts to study the authenticity of the second core principle, i.e., No major tax policy changes to ensure continuity and certainty, adopted in the simplification exercise of income tax provisions applicable under Indian tax laws.

The Government of India claims that 283 sections have been removed from the existing Income-tax Act, 1961, in framing the proposed Income-tax Act, 2025. After going through the provisions of the existing Income-tax Act, 1961, and the new Income-tax Bill, 2025, it has been found that most of the sections removed from the existing Income-tax Act, 1961, were redundant in the said Act and thus correctly removed to make the income tax provisions simple. Further, no major tax policy changes have been made to ensure continuity and certainty, and thus, the provisions of the proposed Income-tax Act, 2025, are almost like the provisions of the existing Income-tax Act, 1961. However, some of the relevant sections of the existing Income-tax Act, 1961 that have been omitted in the proposed Income-tax Act, 2025, are explained in the next section.

II. Omitted Provisions of the existing Income Tax Act, 1961

The following are some of the relevant provisions of the existing Income-tax Act, 1961, that have been omitted in the new Income-tax Bill, 2025:

1.Long-term capital gains exemption for investment in units of a specified fund [Sec. 54EE]:

The Finance Act, 2016[4], introduced section 54EE in the ITA 1961 (IND) to grant a maximum exemption of Rs. 50 lakhs from the long-term capital gain earned from the transfer of a long-term capital if the investment is made by the assessee in units of a specified fund within 6 months of such long-term capital gain. The aim of this exemption was to generate funds for start-ups. The main purpose of this exemption was to promote the start-up ecosystem in the country, as mentioned in the Explanatory Memorandum to the Finance Bill, 2016 in the following lines:

"Further, in order to promote the start-up ecosystem in the country, it is envisaged in 'start-up India Action Plan' to establish a Fund of Funds which intends to raise Rs. 2500 crores annually for four years to finance the start-ups. Keeping this objective in view, it is proposed to insert a new section 54EE to provide exemption from capital gains tax if the long term capital gains proceeds are invested by an assessee in units of such specified fund, as may be notified by the Central Government in this behalf, subject to the condition that the amount remains invested for three years failing which the exemption shall be withdrawn. The investment in the units of the specified fund shall be allowed up to Rs. 50 lakh".

In the new Income-tax Bill, 2025, this provision does not exist.

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2.Deductions not to be allowed unless return furnished [Sec. 80AC]:

The Finance Act, 2018[5], expanded the scope of section 80AC of the ITA 1961 (IND). Before the amendment brought in by the Finance Act, 2018, in the said section, the provisions of section 80AC provided that "no deduction would be admissible under section 80-IA or section 80-IAB or section 80-IB or section 80-IC or section 80-ID or section 80-IE, unless the return of income by the assessee is furnished on or before the due date specified under sub-section (1) of section 139 of the Act.". However, this burden did not fall on assessees who were claiming the deductions under other similar provisions. Thus, to cover those other assessees too, the amendment in Section 80AC of the ITA 1961 (IND) through the Finance Bill, 2018, proposed that "the benefit of deduction under the entire class of deductions under the heading "C.—Deductions in respect of certain incomes" in Chapter VIA shall not be allowed unless the return of income is filed by the due date.". In the new Income-tax Bill, 2025, the existing provision of section 80AC exists but in a new form in clause 122(5).

3.Definitions [Sec. 80B]:

Section 80B of the ITA 1961 (IND) provides the definitions used in Chapter VIA of the said Act that deal with deductions available from gross total income. In the new Income-tax Bill, 2025, the definitions related to deductions available from gross total income remain, but those will be in the new clause 122(6).

4.Deduction in respect of interest on deposits in case of senior citizens [Sec. 80TTB]:

The Finance Act, 2018, introduced section 80TTB in the ITA 1961 (IND) which allows a deduction of a maximum of Rs. 50,000 to senior citizens on their interest income. The purpose of this deduction was to allow benefits to senior citizens. In the new Income-tax Bill, 2025, the provisions remain but in a new form in clause 153.

5.Tax on distributed income to shareholders [Sec. 115QA]:

The Finance Act, 20136, introduced section 115QA in the ITA 1961 (IND) for the purpose of imposing on the domestic companies an additional income tax of 20% on the income distributed by such companies to their shareholders as consideration for the buyback of their own unlisted shares. The main purpose of introducing this section was to curb tax avoidance, as mentioned in the Explanatory Memorandum to the Finance Bill, 2013, in the following lines:

"Existing provisions of Section 2(22)(e) provide the definition of dividends for the purposes of the Income-tax Act. Section 115-O provides for levy of Dividend Distribution Tax (DDT) on the company at the time when company distributes, declares or pays any dividend to its shareholders. Consequent to the levy of DDT the amount of dividend received by the shareholders is not included in the total income of the shareholder.

The consideration received by a shareholder on buy-back of shares by the company is not treated as dividend but is taxable as capital gains under section 46A of the Act.

A company, having distributable reserves, has two options to distribute the same to its shareholders either by declaration and payment of dividends to the shareholders, or by way of purchase of its own shares (i.e. buy back of shares) at a consideration fixed by it. In the first case, the payment by company is subject to DDT and income in the hands of shareholders is exempt. In the second case the income is taxed in the hands of shareholder as capital gains.Unlisted Companies, as part of tax avoidance scheme, are resorting to buy back of shares instead of payment of dividends in order to avoid payment of tax by way of DDT particularly where the capital gains arising to the shareholders are either not chargeable to tax or are taxable at a lower rate.

In order to curb such practice it is proposed to amend the Act, by insertion of new Chapter XII-DA, to provide that the consideration paid by the company for purchase of its own unlisted shares which is in excess of the sum received by the company at the time of issue of such shares (distributed income) will be charged to tax and the company would be liable to pay additional income-tax @ 20% of the distributed income paid to the shareholder. The additional income-tax payable by the company shall be the final tax on similar lines as dividend distribution tax. The income arising to the shareholders in respect of such buy back by the company would be exempt where the company is liable to pay the additional income-tax on the buy-back of shares.".

The Finance (No. 2) Act, 2019[7], extended the scope of applicability of section 115QA to listed companies too to curb the practice of tax evasion by listed companies too, as mentioned in the Explanatory Memorandum to the Finance (No. 2) Bill, 2019, in the following lines:

"This section was introduced as an anti-abuse provision to check the practice of unlisted companies resorting to buy-back of shares instead of payment of dividends. This practice of widespread abuse was noted, in the past, amongst unlisted companies where the taxpayers preferred it for tax avoidance, as tax rate for capitals gains was lower than the rate of Dividend Distribution Tax (DDT). However, instances of similar tax arbitrage have now come to notice in case of listed shares as well, whereby the listed companies are also indulging in such practice of resorting to buy-back of shares, instead of payment of dividends.

In order to curb such tax avoidance practice adopted by the listed companies, the existing anti abuse provision under Section 115QA of the Act, pertaining to buy-back of shares from shareholders by companies not listed on a recognised stock exchange, is proposed to be extended to all companies including companies listed on recognised stock exchange. Thus, any buy back of shares from a shareholder by a company listed on recognised stock exchange, on or after 5th July 2019, shall also be covered by the provision of section 115QA of the Act. Accordingly, it is also proposed to extend exemption under clause (34A) of section 10 of the Act to shareholders of the listed company on account of buy-back of shares on which additional income -tax has been paid by the company.".

More changes were made to the buyback of shares rules by the Finance (No. 2) Act, 2024[8]. Section 115QA rules will no longer apply to buybacks that happen on or after October 1, 2024. Thus, w.e.f. 1 October 2024, the amount received as consideration would be taxed in the hands of shareholders only as dividend income, and the company undergoing a buyback will have no obligation to pay any additional tax under section 115QA. In this regard, the Explanatory Memorandum to Finance (No. 2) Bill, 2024, said the following:

- "Special provisions relating to tax on distributed income of a domestic company from buy-back of shares were introduced by Finance Act, 2013, in line with the then schema of dividend distribution tax. Prior to the amendments made by the Finance Act, 2020, a company had to pay dividend distribution tax (DDT), on the distributed profits by way of dividends in addition to the income-tax chargeable in respect of the total income for any assessment year. DDT was done away with by the Finance Act, 2020.
- References have been received stating that pay-outs on buy-back of shares should be taxed in hands of recipients, in line with similar regime in place for taxation of dividend.
- Both dividend as well as buy-back are methods for the company to distribute accumulated reserves and thus ought to be treated similarly. In addition, there is extinguishment of rights for the shareholders who are tendering their shares in the buy-back by domestic company, to the extent of shares bought back by such company from shareholders. The cost of acquisition of such shares also needs to be accounted for in some manner.
- It is therefore, proposed that, the sum paid by a domestic company for purchase of its own shares shall be treated as dividend in the hands of shareholders, who received payment from such buy-back of shares and shall be charged to income-tax at applicable rates. ...."

In the new Income-tax Bill, 2025, the amount received by the shareholder on the buyback of shares would be treated as a dividend under clause 2(40)(f) and thus taxable in his hands under the head "Income from Other Sources". Further, the difference between the consideration received for the buyback of shares and its cost of acquisition would be taxable as capital gains under clause 69 of said Bill. Moreover, in case the amount received by a shareholder on the buyback of shares is treated as a dividend under clause 2(40)(f), then for the purpose of computing capital gains, the sale value on such shares would be treated as Nil, and therefore, the entire cost of acquisition of such shares would become a capital loss.

Most of the provisions removed from the existing Income-tax Act, 1961, for making the proposed Income-tax Act, 2025, were redundant. There were only some provisions which were not redundant in the existing Income-tax Act, 1961 and omitted but incorporated in the proposed Income-tax Act, 2025. The study has discussed five such provisions because they are relevant and applicable to most assessees.

III. Conclusion

Based on the reading of the new Income-tax Bill, 2025, and the existing Income-tax Act, 1961, it can be concluded that the proposed Income-tax Act, 2025, is simpler as compared to the existing Income-tax Act, 1961. This simplicity is attributed to several factors. One of the reasons for the simplicity is the removal of redundant provisions that were not relevant even in the existing Income-tax Act, 1961, for the current year and subsequent years. Only some of the provisions that were relevant in the existing Income-tax Act, 1961, and omitted but have been incorporated in the proposed Income-tax Act, 1961, have been discussed above, as these provisions are applicable to a large number of assessees. Further, it has been found that no major policy change has been done in the proposed Income-tax Act, 2025, to make sure that the continuity of the existing Income-tax Act, 1961, remains. The new Income-tax Bill, 2025 is a welcome step in simplifying the application of income tax provisions in India and was long overdue.

IV. References

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[4]The Finance Act, 2016, No. 28 of 2016 (IND).

[5]The Finance Act, 2018, No. 13 of 2018 (IND).

[6]The Finance Act, 2013, No. 17 of 2013 (IND).

[7]The Finance (No. 2) Act, 2019, No. 23 of 2019 (IND).

[8]The Finance (No. 2) Act, 2024, No. 15 of 2024 (IND).