New Income Tax Bill 2025 Passed | Key Changes & Concerns

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New Income Tax Bill 2025 Latest News

- Parliament has passed the **Income Tax Bill 2025**, designed to modernise and replace the decades-old Income Tax Act of 1961.
- The new legislation is notably **shorter, more streamlined, and clearer** in its drafting.
- Yet, it also introduces several new provisions that may pose challenges or raise concerns, depending on their implications and implementation.

Need for a New Income Tax Law

- The **Income Tax Act, 1961** had become outdated after decades of numerous amendments, making the legislation **complex, lengthy, and difficult for citizens to understand**.
- Its vague provisions gave tax officials significant discretion, often leading to harassment of taxpayers.
- The **Income Tax Bill, 2025** addresses these issues by **streamlining and simplifying the law**.

- It reduces the number of **chapters from 47 to 23** and **sections from 819 to 536**, cutting down on redundancy and confusion.
- To ensure clarity, the Bill expands the use of **tables (57 vs. 18 earlier)** and **formulae (46 vs. six earlier)**.
- Most importantly, the **language has been simplified**, removing legal jargon and including **practical examples** where necessary, making tax law far more accessible to ordinary citizens.

Need for a Second Version of the Income Tax Bill

- The **first version of the Income Tax Bill 2025**, introduced in February, was ambitious but required deeper scrutiny due to its importance.
- To ensure fairness and robustness, it was referred to a **Select Committee** comprising MPs from across parties.
- The Committee submitted a **comprehensive report in July**, which retained much of the Bill's simplified language but also recommended several changes.
- To avoid confusion between multiple versions, the government decided to **withdraw the original Bill**, and incorporate all suggested changes into a single, updated draft.

Key Changes in the New Income Tax Bill 2025

- The **primary objective** of the new Income Tax Bill is simplification and rationalisation, not altering tax rates or slabs, which continue to be adjusted separately through the Union Budget.
- Provisions for **Minimum Alternate Tax (MAT)** and **Alternate Minimum Tax (AMT)** have now been separated into two distinct sub-sections, improving clarity.
- Taxpayers now have the **option to update their returns up to four years** from the end of the relevant assessment year, allowing mistakes to be corrected without penalty or extra tax liability.
- Additionally, the period for which assessments can be reopened has been **reduced to five years**, ensuring greater certainty for taxpayers and preventing long-drawn scrutiny.

Introduction of "Tax Year"

- A new concept of "tax year", defined as April 1 to March 31, has been introduced.
- The law has been significantly streamlined:
    - Sections reduced from 819 (1961 Act) to 536.
    - Chapters reduced from 47 to 23.
    - Word count halved from 5.12 lakh to 2.6 lakh.
    - Tables and formulae increased to provide clarity (57 tables, 46 formulae).

Digital Provisions and Virtual Space

- The Bill retains the definition of **"virtual digital space",** giving tax authorities powers during searches and seizures.
- This includes email servers, social media accounts, online investments, cloud servers, and digital applications.

- Finance Minister assured that SOPs will be issued to safeguard personal digital data seized during searches.

Concerns Over Expanded Search Powers

- While the new Income Tax Bill 2025 aims to simplify tax compliance, it also introduces provisions that raise serious privacy concerns.
- Under the old Income Tax Act, 1961, officials could inspect electronic documents and physically break locks if access was denied.
- The new law goes much further:
    - Taxpayers in control of electronic documents are now legally required to provide **“reasonable technical and other assistance”**, including **sharing passwords** of their systems.
- Since the law does not restrict what kind of electronic information can be accessed, this could extend to **personal emails, social media accounts, and private data**.
- If the taxpayer refuses to share passwords, tax officials are empowered to **override access codes** to any computer system directly.
- These expanded powers have triggered concerns that they could be misused, undermining citizens’ right to digital privacy and creating scope for overreach by authorities.
- However, govt contends this was necessary as in today’s financial ecosystem, **significant financial information is no longer confined to physical records or formal documents**.
- Instead, it is often shared over messaging platforms, stored in personal emails, or maintained on digital accounts.

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