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Key Highlights of Union Budget 2025-26

Changes under the Income Tax Law

Direct Tax

Taxation reforms are among the key reforms that helped realise Viksit Bharat's vision. In the words of the Hon'ble FM, the country aims to ensure that the new income-tax bill will carry forward the spirit of "Nyaya." The new bill will be clear and direct in text, with nearly half of the present law regarding chapters and words. It will be simple for taxpayers and tax administration to understand, leading to tax certainty and reduced litigation.

Under the guidance of Prime Minister Shri Narendra Modi, the Government has taken steps to understand the people's needs. The direct tax proposals include personal income tax reform with a special focus on the middle class, TDS/ TCS rationalisation, encouragement of voluntary compliance, reduction of compliance burden, ease of doing business and incentivising employment and investment.

The provisions of the Finance Bill, 2025 (hereafter referred to as 'the Finance Bill') relating to direct taxes seek to amend the Income-tax Act, 1961 (hereafter referred to as 'the Act') to continue reforms in the direct tax system through tax reliefs, removal of difficulties faced by taxpayers, and rationalisation of various provisions.

To achieve the above, the various proposals for amendments are organised under the focused heads :—

(i) Personal Income Tax reforms with a special focus on the middle class
(ii) Rationalization of TDS/TCS for easing difficulties
(iii) Encouraging voluntary compliance
(iv) Reducing compliance burden
(v) Ease of doing business
(vi) Employment and investment

Following essential amendments have been proposed under Income Tax Laws in the Finance Bill vide Clauses 2 to 86, which shall, save as otherwise provided in the Finance Act, 2025, be deemed to have come into force on April 01, 2025, as per Clause 1(2)(a) of the Finance Bill:

1. Revision of Tax Slabs for Personal Income Tax in New Tax Regime u/s 115 BAC

Total Income (Rs.)	Rate of Tax
Up to 3,00,000	Nil
From 3,00,001 to 7,00,000	5%
From 7,00,001 to 10,00,000	10%
From 10,00,001 to 12,00,000	15%
From 12,00,001 to 15,00,000	20%
Above 15,00,000	30%

With effect from FY 2025-26, i.e. AY 2026-27, it is proposed that the following rates provided under the proposed clause (iii) of sub-section (1A) of section 115BAC of the Act shall be the rates applicable:

Total Income (Rs.)	Rate of Tax
Up to 4,00,000	Nil
From 4,00,001 to 8,00,000	5%
From 8,00,001 to 12,00,000	10%
From 12,00,001 to 16,00,000	15%
From 16,00,001 to 20,00,000	20%
From 20,00,001 to 24,00,000	25%
Above 24 Lakhs	30%

As a result of these changes, salaried taxpayers who earn up to Rs. 12.75 Lakhs in salary in the new tax regime will pay nil income tax.

Furthermore, the tax rates provided in the Old Tax Regime have remained unchanged.

2. Increase of Rebate u/s 87A from Rs. 25,000/- to Rs. 60,000/- under the new tax regime

Under the existing provisions of section 87A of the Act, which pertain to the Old Tax Regime, an assessee, being an individual resident in India, having a total income not exceeding Rs 5 lakh, is provided a rebate of 100 per cent of the amount of income tax payable. Thus, an individual with an income of up to Rs 5 lakh is not required to pay any income tax.

Proviso to section 87A provides the rebate of income tax in cases of individuals under the New Tax Regime, up to Rs.25,000/- where the total income does not exceed Rs. 7,00,000/- (clause (a) of the said proviso) and marginal relief where the total income exceeds Rs. 7,00,000/- (clause (b) of the said proviso) to income chargeable to tax under sub-section (1A) of section 115BAC.

From the assessment year 2026-27 onwards, for an assessee, being an individual resident in India whose income is chargeable to tax under the sub-section (1A) of section 115BAC, it is proposed to,–

(i) enhance the limit of total income for the rebate in clause (a) and (b) of the first proviso under section 87A, on which the income tax is payable as per the rates of income tax under sub-section (1A) of section 115BAC, from Rs. 7,00,000/- to Rs. 12,00,000/- and the limit of rebate in clause (a) of the first proviso to section 87A from Rs. 25,000/- to Rs. 60,000/-.

(ii) rationalise the first proviso to section 87A by inserting a new proviso to provide that the deduction under the first proviso shall not exceed the amount of income-tax payable as per the rates provided in sub-section (1A) of section 115BAC.

Furthermore, such income-tax rebates shall not be available on taxes on incomes chargeable at special rates (e.g., capital gains u/s 111A, 112, etc.).

A few illustrative examples have been provided below for the benefit of amendment in tax rebate given in the new regime –

EXAMPLE 1: ASSUMING TOTAL TAXABLE INCOME TO BE RS. 12 LAKHS

Current Tax Slab	Current Tax Rate	Current Tax Liability	Proposed Tax Slab	Proposed Tax Rate	Proposed Tax Liability
Up to 3 Lakhs	Nil	Nil	Up to 4 Lakhs	Nil	Nil

3,00,001 to 7,00,000	5%	20,000	4,00,001 to 8,00,000	5%	20,000
7,00,001 to 10,00,000	10%	30,000	8,00,001 to 12,00,000	10%	40,000
10,00,001 to 12,00,000	15%	30,000	12,00,001 to 16,00,000	15%	
12,00,001 to 15,00,000	20%		16,00,001 to 20,00,000	20%	
Above 15,00,000	30%		20,00,001 to 24,00,000	25%	
			Above 24 Lakhs	30%	
Total Tax Liability (A)		**80,000**	**Total Tax Liability**		**60,000**
			Less: Rebate u/s 87A, i.e. 60,000 since total taxable income is up to Rs. 12 Lakhs		60,000
			Net Tax Liability (B)		**0**

Therefore, total savings in the proposed tax regime vis-à-vis current tax regime amounts to Rs. 80,000, which is the difference between (A) minus (B), i.e. 80,000 – 0

EXAMPLE 2: ASSUMING TOTAL TAXABLE INCOME TO BE RS. 18 LAKHS

Current Tax Slab	**Current Tax Rate**	**Current Tax Liability**	**Proposed Tax Slab**	**Proposed Tax Rate**	**Proposed Tax Liability**
Up to 3 Lakhs	Nil	Nil	Up to 4 Lakhs	Nil	Nil

3,00,001 to 7,00,000	5%	20,000	4,00,001 to 8,00,000	5%	20,000
7,00,001 to 10,00,000	10%	30,000	8,00,001 to 12,00,000	10%	40,000
10,00,001 to 12,00,000	15%	30,000	12,00,001 to 16,00,000	15%	60,000
12,00,001 to 15,00,000	20%	60,000	16,00,001 to 20,00,000	20%	40,000
Above 15,00,000	30%	90,000	20,00,001 to 24,00,000	25%	
			Above 24 Lakhs	30%	
Total Tax Liability (A)		**2,30,000**	**Total Tax Liability**		**1,60,000**
			Less: The rebate u/s 87A, i.e. 60,000, will not be available since the total taxable income exceeds Rs. 12 Lakhs.		Nil
			Net Tax Liability (B)		**1,60,000**

Therefore, total savings in the proposed tax regime vis-a-vis the current tax regime amounts to Rs. 70,000 in this case, which is the difference between (A) minus (B), i.e. 2,30,000 – 1,60,000

EXAMPLE 3: ASSUMING TOTAL TAXABLE INCOME TO BE RS. 25 LAKHS

Current Tax Slab	Current Tax Rate	Current Tax Liability	Proposed Tax Slab	Proposed Tax Rate	Proposed Tax Liability
Up to 3 Lakhs	Nil	Nil	Up to 4 Lakhs	Nil	Nil

3,00,001 to 7,00,000	5%	20,000	4,00,001 to 8,00,000	5%	20,000
7,00,001 to 10,00,000	10%	30,000	8,00,001 to 12,00,000	10%	40,000
10,00,001 to 12,00,000	15%	30,000	12,00,001 to 16,00,000	15%	60,000
12,00,001 to 15,00,000	20%	60,000	16,00,001 to 20,00,000	20%	80,000
Above 15,00,000	30%	3,00,000	20,00,001 to 24,00,000	25%	1,00,000
			Above 24 Lakhs	30%	30,000
Total Tax Liability (A)		**4,40,000**	**Total Tax Liability**		**3,30,000**
			Less: The rebate u/s 87A, i.e. 60,000, will not be available since the total taxable income exceeds Rs. 12 Lakhs.		Nil
			Net Tax Liability (B)		**3,30,000**

Therefore, total savings in the proposed tax regime vis-a-vis the current tax regime amounts to Rs. 1,10,000 in this case, which is the difference between (A) minus (B), i.e. 4,40,000 – 3,30,000

Therefore, the proposed amendments also benefit taxpayers in higher tax brackets to some extent due to positive changes in the slab rates.

These amendments will take effect from the 1st day of April 2025.

3. Rationalisation of 'specified violation' for cancellation of registration of trusts or institutions

Sub-section (4) of section 12AB *inter alia* provides that where registration or provisional registration of a trust or an institution has been granted and subsequently, the Principal Commissioner or Commissioner has noticed the occurrence of one or more specified violations during any previous year, the Principal Commissioner or Commissioner shall pass an order in writing, cancelling the registration of such trust or institution if he is satisfied that one or more specified violations have taken place.

The explanation to sub-section (4) of the said section provides that "specified violation" inter alia means the cases where the application referred to in clause (ac) of sub-section (1) of section 12A is not complete or contains false or incorrect information.

It is noted that even minor defaults, where the application referred to in clause (ac) of sub-section (1) of section 12A is incomplete, may lead to cancellation of the registration of the trust or institution. Such trust or institution becomes liable to tax on accreted income as per provisions of Chapter XII-EB of the Act.

It is, therefore, proposed that the Explanation be amended to sub-section (4) of section 12AB to provide that the situations where the application for registration of trust or institution is incomplete shall not be treated as a specified violation for the sub-section.

These amendments will take effect from the 1st day of April 2025.

4. Extension in the period of Registration of smaller trusts or institutions

Section 12AB provides for registering a trust or institution for 5 years or provisional registration (where activities have not commenced when applying for registration) for 3 years. At the expiry of such or provisional registration, or in case of provisional registration, if the activities of the trust or institution have commenced, the trust or institution is required to apply for further registration.

It has been noted that applying for registration every 5 years increases the compliance burden for trusts or institutions, especially for smaller ones.

To reduce the compliance burden for the smaller trusts or institutions, it is proposed to increase the period of validity of registration of trust or institution from 5 years to 10 years in cases where the trust or institution made an application under sub-clause (i) to (v) of the clause (ac) of sub-section (1) of section 12A, and the total income of such trust or institution, without giving effect to the provisions of sections 11 and 12, does not exceed Rs. 5 crores during each of the two previous years, preceding to the last year in which such application is made.

These amendments will take effect from the 1st day of April 2025.

5. Extension of timeline for tax benefits to start-ups

The existing provisions of Section 80-IAC of the Act, inter-alia provide for a deduction of an amount equal to a hundred per cent of the profits and gains derived from an eligible business by an eligible start-up for three consecutive assessment years out of ten years, beginning from the year of incorporation, at the option of the assessee subject to the condition that–

(i) the total turnover of its business does not exceed one hundred crore rupees,

(ii) it is holding a certificate of eligible business from the Inter-Ministerial Board of Certification and

(iii) it is incorporated on or after the 1st day of April 2016 but before the 1st day of April 2025.

It is proposed that the above section be amended to extend the benefit for another five years to be available to eligible start-ups incorporated before 01.04.2030.

This amendment will take effect from the 1st day of April 2025.

6. Rationalisation of threshold for Tax Deducted at Source (TDS) and Tax Collected at Source (TCS)

Various provisions exist for tax deduction at source (TDS) and tax collected at source (TCS), with different thresholds and multiple rates. To improve the ease of doing business and taxpayer compliance, it is proposed that specific rates of TDS and TCS be rationalised and the threshold limit for the applicability of the TDS and TCS provisions be increased.

S.No.	Section of the Act	Present TDS /TCS Threshold (Rs)	Proposed TDS /TCS Threshold (Rs)
1	193 - Interest on securities	Nil	Wherever the amount or aggregate amounts of income during a Financial Year exceeds Rs. 10,000/-
2	194A - Interest other than Interest on securities	(i) 50,000/- for senior citizens; (ii) 40,000/- in case of others when the payer is a bank, cooperative society and post office (iii) 5,000/- in other cases	(i) 1,00,000/- for senior citizen (ii) 50,000/- in case of others when the payer is a bank, cooperative society, post office (iii) 10,000/- in other cases
3	194 – Dividend, for an individual shareholder	5,000/-	10,000/-
4	194K - Income in respect of units of a mutual fund or specified company or undertaking	5,000/-	10,000/-
5	194B - Winnings from lottery, crossword puzzle Etc.	Aggregate of amounts exceeding 10,000/- during the financial year	10,000/- in respect of a single transaction
6	194BB - Winnings from horse race		
7	194D - Insurance Commission	15,000/-	20,000/-
8	194G - Income by way of commission,	15,000/-	20,000/-

	prize etc. on lottery tickets		
9	194H - Commission or brokerage	15,000/-	20,000/-
10	194-I Rent	2,40,000/- during the financial year	50,000/- per month or part of a month
11	194J - Fee for professional or technical services	30,000/-	50,000/-
12	194LA - Income by way of enhanced compensation	2,50,000/-	5,00,000/-
13	206C(1G) – Remittance under LRS and overseas tour program package	7,00,000/-	10,00,000/-

These amendments will take effect from the 1st day of April 2025.

7. Rationalisation of Tax Deducted at Source (TDS) and Tax Collected at Source (TCS) rates for easing difficulties

To reduce the multiplicity of rates and compliance burden, it is proposed to bring down certain TDS and TCS rates in certain sections as below:

S. No.	Section of the Act	Present TDS/TCS Rate	Proposed TDS/TCS Rate
1	Section 194LBC - Income in respect of investment in securitisation trust	25% if the payee is Individual or HUF and 30% otherwise	10%
2	Sub-section (1) of section 206C (i) TCS on timber or any other forest produce (not being tendu leaves) obtained under a forest lease and	2.5%	2%

	(ii) TCS on timber obtained by any mode other than under a forest lease		
3	Sub-section (1G) of section 206C – TCS on remittance under LRS for education, financed by a loan from a financial institution	0.5% after seven lakhs	Nil

These amendments will take effect from the 1st day of April 2025.

8. Rationalisation of the definition of "forest produce" u/s 206C(1)

Sub-section (1) of section 206C of the Act states that every seller shall collect tax at source from the buyer of goods of a specific specified nature at the rates specified in the sub-section.

Under sub-section (1) of section 206C of the Act, presently, TCS at 2.5 per cent is required to be collected on the sale of goods of the following nature:

(I) Timber obtained under a forest lease
(II) Timber obtained by any mode other than under a forest lease
(III) Any other forest produce not being timber or tendu leaves

To clarify the meaning of "forest produce", it is proposed that "forest produce" shall have the same meaning as defined in any State Act for the time being in force or the Indian Forest Act, 1927.

Further, it is proposed that to address the applicability of TCS to traders of forest produce, only such other forest produce (not timber or tendu leaves) obtained under forest lease will be covered under TCS.

The amended rate for the collection of TCS is as follows:-

S.No.	**Nature of Goods**	**Percentage**
(1)	(2)	(3)

(iii)	Timber or any other forest produce (not being tendu leaves) obtained under a forest lease	2%
(iv)	Timber obtained by any mode other than under a forest lease	2%

These amendments will take effect from the 1st day of April 2025.

9. Reduction in Compliance Burden by omission of TCS on sale of specified goods

Sub-section (1H) of section 206C of the Act, requires any person being a seller who receives consideration for the sale of any goods of the value or aggregate of value exceeding Rs 50 lakhs in any previous year, to collect tax from the buyer at the rate of 0.1% of the sale consideration exceeding Rs 50 lakhs, subject to certain conditions.

Section 194Q of the Act requires any person being a buyer to deduct tax at the rate of 0.1% on the payment made to a resident seller for the purchase of any goods of the value or aggregate of value exceeding fifty lakh rupees in any previous year.

Sub-section (1H) of section 206C mandates tax collection at source (TCS) by a seller, while Section 194Q provides for tax deduction at source (TDS) by a buyer on the same transaction.

Further, sub-section (1H) of section 206C of the Act provides that the provision will not apply if the buyer is liable to deduct TDS under any other provision of this Act on the goods purchased from the seller and has deducted such amount.

To facilitate ease of doing business and reduce the compliance burden on taxpayers, it is proposed that the provisions of sub-section (1H) of section 206C of the Act will not be applicable from the 1st day of April 2025.

These amendments will take effect from the 1st day of April 2025.

10. Amendments proposed in Sections 132 and 132B for the time limit of retention of seized books of accounts or other documents

Section 132 of the Act relates to search and seizure. As per the provisions of sub-section (8) Under section 132 of the Act, the last date for approving the retention of seized books of account or other documents is 30 days from the date of the assessment, reassessment, or recomputation order.

In the course of search assessment proceedings in group cases, the assessment orders of one assessee may be passed earlier than the assessment orders of another assessee.

Further, the segregation of seized books of account or other documents pertaining to various assesses is also very difficult in case the searched premise is the same. Seized books of account or other documents pertaining to completed assessment cases may also be required for the assessment of ongoing/pending assessment cases.

Since the time limit for approving retention will be different for different cases, the Assessing Officers are required to keep a constant vigil on the floating time-barring dates for approving the retention of the seized books of account or other documents, the burden of which is avoidable.

Therefore, it is proposed to amend sub-section (8) of section 132 of the Act to provide that the time limit for taking approval for retention shall be one month from the end of the quarter in which the assessment, reassessment, or recomputation order has been made.

These amendments will take effect from the 1st day of April 2025.

11. Time limit to impose penalties rationalised

The existing provisions of section 275 of the Act, inter-alia, provide the bar of limitation for imposing penalties. Section 275 of the Act has multiple timelines for the imposition of fines in various cases e.g. where a case is in appeal before the ITAT, the time limit to impose a penalty is the end of the financial year in which the connected proceeding has been completed or six months from the end of the month in which the appellate order is received, whichever is later. Similarly, different time limits for imposing penalties have been provided for cases in appeals to the JCIT(Appeal) or Commissioner (Appeal). This makes it challenging to keep track of multiple time barring dates for effective and efficient tax administration.

It proposed to amend section 275 of the Act to provide that any order imposing a penalty under Chapter XXI shall not be passed after the expiry of six months from the end of the quarter in which the connected proceedings are completed, or the jurisdictional Principal Commissioner or Commissioner receives the order of appeal, or the order of revision is passed, or the notice for the imposition of penalty is issued, as the case may be. A consequential amendment is also proposed in section 246A of the Act to update the reference of the amended section 275.

These amendments will take effect from the 1st day of April 2025.

12. Clarification regarding the commencement date and the end date of the period stayed by the Court

Section 144BA, section 153, section 153B, section 158BE, section 158BFA, section 263, section 264 and Rule 68B of Schedule-II of the Act, inter-alia provide that period during which the proceedings under respective provisions are stayed by an order or injunction of any court shall be excluded in computing the time limit for conclusion of the proceedings.

However, there was an ambiguity regarding the commencement date and the end date of the period stayed by an order or injunction of any court which was required to be excluded.

To remove any ambiguity, it has been proposed to amend the said provisions of the Act to exclude the period commencing on the date on which the stay was granted by an order or injunction of any court and ending on the date on which a certified copy of the order vacating the stay was received by the jurisdictional Principal Commissioner or Commissioner (Approving panel in case of section 144BA of the Act).

This amendment will take effect from the 1st day of April 2025.

13. Removal of Higher TDS/TCS for non-filers of return of income

Section 206AB of the Act requires tax deduction at a higher rate when the deductee specified therein is a non-filer of income-tax return. Section 206CCA of the Act requires tax collection at a higher rate when the collectee specified therein is a non-filer of income-tax return. This is subject to other conditions specified in the two sections.

Various stakeholders have represented that it is difficult for the deductor/collector to verify whether returns have been filed by the deductee/collector at the time of deduction/collection. This results in the application of higher rates of deduction/collection, blocking of capital, and increased compliance burden.

Accordingly, to address this issue and reduce the compliance burden for the deductor/collector, sections 206AB and 206CCA of the Act are proposed to be omitted.

These amendments will take effect from the 1st day of April 2025.

14. Increase in the limits on the income of employees to calculate perquisites

The existing provisions of clause (2) of section 17 provide, inter alia, that ‘perquisite’ includes the value of any benefit or amenity granted or provided free of cost or at the concessional rate by any employer (including a company) to an employee whose income under the head "Salaries" as a monetary benefit does not exceed fifty thousand rupees. This upper-income limit was determined by the Finance Act 2001.

Further, the proviso to clause (2) of section 17 provides that any expenditure incurred by the employer for travel outside India on the medical treatment of an employee or any member of the employee’s family shall not be included in ‘perquisite’, subject to the condition that the gross total income of such employee does not exceed two lakh rupees. The Finance Act of 1993 determined this upper-income limit.

It is proposed that the provisions of section 17 be amended so that the power to prescribe rules may be obtained to increase the limit on the gross total income of the employees so that-

(I) Employees' amenities and benefits would be exempt from being treated as perquisites.

(II) The employer's expenditure on travel outside India for the medical treatment of such an employee or his family member would not be treated as a perquisite.

These amendments will take effect on April 1, 2026, and shall accordingly apply to the assessment years 2026-27 and subsequent assessment years.

15. Deduction under Section 80CCD for contributions made to NPS Vatsalya

The NPS Vatsalya Scheme, officially launched on 18 September 2024, enables parents and guardians to start a National Pension Scheme (NPS) account for their children. This savings-compensation scheme is designed exclusively for minors and will be operated by the guardian for the exclusive benefit of the minor till they attain majority. When a minor is 18, the account will continue operational, transferred to the child's name with the accumulated corpus, and shifted into the NPS-Tier 1 Account - All Citizen Model or other non-NPS scheme account.

It is proposed to extend the tax benefits available to the National Pension Scheme (NPS) under Section 80CCD of the Act to the contributions made to the NPS Vatsalya accounts, as follows:

(I) A deduction to be allowed to the parent/guardian's total income of the amount paid or deposited in the account of any minor under the NPS to a maximum of Rs 50,000/- overall as mandated under sub-section (1B) of section 80CCD;

(II) The amount on which deduction has been allowed under sub-section (1B) of section 80CCD or any amount accrued thereon, will be charged to tax when such amount is withdrawn, in the case where the deposit was made in the account of a minor; and

(III) The amount on which deduction has been allowed and is received on the closure of the account due to the death of the minor shall not be deemed to be the income of the parent/guardian;

The NPS Vatsalya Scheme also allows for partial withdrawal from the minor's account to address certain contingency situations like education, treatment of specified illnesses and disability (of more than 75%) of the minor.

Accordingly, it is also proposed to insert a clause (12BA) in section 10 of the Act, which provides that any income received on partial withdrawal made out of the minor's account shall not be included in the total income of the parent/guardian to the extent it does not exceed 25% of the amount of contributions made by him and by the terms and conditions, specified under the Pension Fund Regulatory and Development Authority Act, 2013 (23 of 2013) and the regulations made thereunder.

These amendments will take effect on April 1, 2026, and shall accordingly apply to the assessment years 2026-27 and subsequent assessment years.

16. Exemption to withdrawals by individuals from National Savings Scheme for taxation

Sub-section (2) of section 80CCA, inter-alia provides that where such amount, together with the interest accrued on such amount standing to the credit of the assessee under the scheme, is withdrawn, it shall be deemed to be the income of the assessee and shall be chargeable to tax. Since this provision was sunset on 01.04.1992, the amounts taxable on withdrawal were those deposited in the financial year 1991-92 and earlier and on which deduction had been claimed. Further, Circular No 532, issued on 17.03.1989, provided that the withdrawal on the account closure due to the depositor's death was not chargeable to tax in the hands of the legal heirs.

The Department of Economic Affairs issued a Notification dated 29.08.2024 providing that no interest would be paid on the balances in the NSS after 01.10.2024.

Representations were received to suitably amend section 80CCA to provide relief to individuals facing hardship who were compelled to withdraw due to this Notification.

It is therefore proposed that section 80CCA be amended to provide an exemption to withdrawals made by individuals from deposits for which deduction was allowed on or after the 29th day of August 2024. This exemption is offered to deposits, with the interest accrued thereon, made before 01.04.1992, as these are the amounts in which a deduction has been allowed.

This amendment shall be made with retrospective effect from the 29th day of August 2024.

17. Annual Value of Self-Occupied Property further simplified

Section 23 of the Act relates to the determination of annual value. Sub-section (2) of the said section provides that where house property is in the occupation of the owner for his residence, or the owner cannot occupy it due to his employment, business or profession carried on at any other place, in such cases, the annual value of such house property shall be taken to be nil.

Further, sub-section (4) of the said section provides that provisions of sub-section (2) of the Act will be applicable concerning two house properties only, which are to be specified by the owner.

To simplify the provisions, it is proposed to amend sub-section (2) to provide that the annual value of the property consisting of a house or any part thereof shall be taken as nil if the owner occupies it for his residence or cannot occupy it for any reason. The provision of sub-section (4) of section 23 of the Act, which allows this benefit only for two of such houses, shall continue to apply as earlier.

This amendment will take effect on April 1, 2025, and shall accordingly apply from that date onwards for the assessment year 2025-26.

18. Obligation to furnish information in respect of Crypto-asset

Vide Finance Act 2022, taxation of virtual digital assets (VDA) has been introduced in the Income-tax Act, 1961 (‘the Act’), under section 115BBH of the Act in which the transfer of VDA is to be taxed at the rate of 30% with no deduction in respect of expenditure (other than the cost of acquisition) to be allowed.

Section 2 of the Act contains a clause (47A) defining VDA. To capture VDA transaction details, section 194S provides for the deduction of tax on payment for the transfer of VDA at the rate of 1% of transaction value, including cases where the transaction occurs in kind or partly in cash.

It is now proposed to insert section 285BAA in the Act, being the Obligation to furnish information of crypto-asset, wherein –

(I) Sub-section (1) of section 285BAA of the Act states any person, being a reporting entity, as may be prescribed, in respect of a crypto asset, shall furnish information in respect of a transaction in such crypto asset in a statement, for such period, within such time, in such form and manner and to such income-tax authority, as may be prescribed;

(II) Sub-section (2) of said section states that where the prescribed income-tax authority considers that the statement furnished is defective, he may intimate the defect to the person who has furnished such statement and allow him to rectify the defect within thirty days from the date of such intimation or such further period as may be allowed, and if the defect is not remedied within the period above allowed, the provisions of this Act shall apply as if such person had furnished inaccurate information in the statement;

(III) Sub-section (3) of the said section states that where a person who is required to furnish a statement has not furnished the same within the specified time, the prescribed income-tax authority may serve upon such person a notice requiring him to furnish such statement within a given period and he shall provide the statement within the time specified in the notice;

(IV) Sub-section (4) of the said section states that if any person, having furnished a statement or in pursuance of a notice issued, comes to know or discovers any inaccuracy in the information provided in the statement, he shall, within a given period inform the income-tax authority, the inaccuracy in such statement and furnish the correct information in such manner as prescribed;

(V) Sub-section (5) of the said section states that the Central Government may, by rules, specify the persons to be registered with the prescribed income-tax authority, the nature of information and how the persons shall maintain such information, and the due diligence to be carried out by such persons for identification of any crypto-asset user or owner;

It is also proposed to amend clause (47A) of section 2 to insert sub-clause (d), which states that the definition of virtual digital asset also includes any crypto-asset that is a digital representation of value that relies on a cryptographically secured distributed ledger or a similar technology to validate and secure transactions, whether or not already included in the definition.

These amendments will take effect from the 1st day of April 2026.

19. Increase in time limit available to pass orders under Section 115VP for Tonnage Tax Scheme

Sub-section (3) of the said section requires that the Joint Commissioner, on receipt of such application, may call for information or documents from the company as deemed fit and, after satisfying themselves about the eligibility of such company to make an option for tonnage tax scheme, pass an order in writing, approving the option for tonnage tax scheme or if not so satisfied, refuse such approval, after providing reasonable opportunity of being heard.

Sub-section (4) of the said section requires an order under sub-section (3) of section 115VP of the Act, whether approving or rejecting the application to exercise the option of tonnage tax scheme, to be passed before the expiry of one month from the end of the month in which the application was received under sub-section (1) of said section.

It is seen that very little time is available under sub-section (4) of section 115VP of the Act with the Joint Commissioner of Income-tax for verification of information and documents, including physical inspection of the ships if necessary, providing an opportunity to be heard, and then passing a reasoned order approving or rejecting the application.

It is hence proposed to amend sub-section (4) of section 115VP to provide that for application received under sub-section (1) on or after the 1st day of April 2025, order under sub-section (3) shall be passed before the expiry of three months from the end of the quarter in which such application was received.

This amendment will take effect from the 1st day of April 2025.

20. Exemption from prosecution for delayed payment of TCS in some instances

Section 276BB of the Act provides for prosecution in case of failure to pay the tax collected at source to the credit of the Central Government. The provision of the said section states that if a person fails to pay to the credit of the Central Government, the tax collected by

As required under section 206C of the Act, he shall be punishable with rigorous imprisonment for a term of not less than three months but may extend to seven years with a fine.

It is proposed to amend section 276BB of the Act to provide that the prosecution shall not be instituted against a person covered under the said section if the payment of the tax collected at source has been made to the credit of the Central Government at any time on or before the time prescribed for filing the quarterly statement under proviso to sub-section (3) of section 206C of the Act in respect of such payment.

This amendment will take effect from the 1st day of April 2025.

21. Extending the processing period of application seeking immunity from penalty and prosecution

Section 270AA of the Act provides an inter-alia procedure of granting immunity by the Assessing Officer from the imposition of penalty or prosecution, subject to the fulfilment of certain conditions mentioned therein. Sub-section (2) of the said section provides that an application for granting immunity from imposition of penalty shall be made within one month from the end of the month in which the order referred to in clause (a) of sub-section (1) of the said section has been received by the assessee. Sub-section (4) of the said section provides that the Assessing Officer shall pass an order accepting or rejecting the application within one month from the end of the month the application requesting immunity is received.

It is proposed that sub-section (4) of section 270AA of the Act be amended to extend the processing period to three months from the end of the month the Assessing Officer receives the application for immunity.

This amendment will take effect from the 1st day of April 2025

22. Extending the time limit to file the updated return

Sub-section (8A) of section 139 of the Act relates to furnishing updated returns. Per the present provisions, a revised return can be filed up to 24 months from the end of the relevant assessment year. The facility of updated returns has promoted voluntary compliance against payment of additional income tax of 25% of aggregate tax and interest payable for updated returns filed up to 12 months from the end of the relevant.

Assessment year. For an updated return filed after the expiry of 12 months and up to 24 months from the end of the relevant assessment year, an additional income tax of 50% of the aggregate tax and interest will be paid.

To further nudge voluntary compliance, it is proposed to amend the subsection to extend the time limit to file the updated return from the existing 24 months to 48 months from the end of the relevant assessment year. The additional income tax rate payable for updated returns filed after the expiry of 24 months and up to 36 months from the end of the relevant assessment year shall be 60% of tax and interest payable aggregate. The additional income tax payable for updated returns filed after the expiry of 36 months and up to 48 months from the end of the relevant assessment year shall be 70% of tax and interest payable aggregate.

It is further proposed that no updated return shall be furnished by any person where any notice to show cause under section 148A of the Act has been issued in his case after thirty-six months from the end of the relevant assessment year. However, where subsequently an order is passed under sub-section (3) of section 148A of the Act determining that it is not a fit case to issue notice under section 148 of the Act, the updated return may be filed up to 48 months from the end of the relevant assessment year.

These amendments will take effect from the 1st day of April 2025.

23. Scheme of presumptive taxation extended for non-residents providing services for electronics manufacturing facility

It is proposed to insert a new section 44BBD, which deems twenty-five per cent of the aggregate amount received/ receivable by, or paid/ payable to, the non-resident, on account of providing services or technology, as profits and gains of such non-resident from this business. This will result in a non-resident company's effective tax payable of less than 10% on gross receipts.

This amendment will take effect on the 1st day of April 2026 and shall accordingly apply to the assessment years 2026-27 and subsequent assessment years.

24. Extension of benefits of tonnage tax scheme to inland vessels

To promote inland water transportation in the country and to attract investments in the sector, it is proposed that the benefits of the tonnage tax scheme be extended to Inland Vessels registered under the Inland Vessels Act 2021. Accordingly, inland vessels have been included in section 115VD for qualified ship eligibility. Further, inland vessels have been defined in section 115V of the Act in the same manner as

provided in the Inland Vessels Act, 2021. Other amendments have been made to extend the tonnage tax scheme to inland vessels.

These amendments will take effect on April 1, 2026, and shall, accordingly, apply to the assessment years 2026-27 and subsequent assessment years.

25. Clarity in respect of income on redemption of Unit Linked Insurance Policy (ULIP)

Clause (10D) of section 10 provides income-tax exemption on the sum received under a life insurance policy, including bonus. There is a condition that the premium payable for any of the years during the policy terms should not exceed ten per cent of the actual capital sum assured.

It may be pertinent to note that to restrict the benefit of exemption under clause (10D) of section 10 to small and genuine cases of life insurance, the Finance Act, 2021, *inter alia*, made amendments to clause (10D) of section 10 to provide that the exemption under this clause shall not apply concerning any unit linked insurance policy or policies issued on or after the 01.02.2021 if the amount of premium or aggregate amount of premium payable during the term of such policy or policies exceeds Rs. 2,50,000;

It is noted that ULIP is a capital asset only when the exemption under clause (10D) of section 10 does not apply to such policies on account of the applicability of the 4th and 5th proviso and, accordingly, taxation as capital gains in case of only such ULIPs. However, in the case of a life insurance policy (other than a ULIP), the sum received is chargeable to income tax under "Income from other sources" for any such policy to which exemption under clause (10D) of section 10 does not apply.

Further, any sum received under an insurance policy as provided in sub-clauses (a) to (d) read with the provisos to clause (10D) of section 10 is not eligible for exemption under clause (10D) of section 10. Such sub-clauses apply to unit-linked insurance policies as well.

It is, therefore, proposed to rationalise the provisions for unit-linked insurance policies to provide that–

(I) ULIPs to which exemption under clause (10D) of section 10 does not apply is a capital asset [clause (14) of section 2];

(II) the profit and gains from the redemption of ULIPs to which exemption under clause (10D) of section 10 does not apply, shall be charged to tax as capital gains [sub-section (1B) of section 45]; and

(III) ULIPs to which exemption under clause (10D) of section 10 does not apply shall be included in the definition of equity-oriented fund [clause (a) of Explanation to section 112A]

These amendments will take effect on April 1, 2026, and shall accordingly apply to the assessment years 2026-27 and subsequent assessment years.

26. Extension of Sunset dates for several tax concessions about IFSC

The sunset dates for the commencement of operations of IFSC units for several tax concessions or relocation of funds to IFSC, in clause (d) of sub-section (2) of section 80LA, clause (4D), clause (4F), clause (4H) of section 10, and clause (viii) of section 47, are proposed to be extended to the 31st day of March 2030.

These amendments will take effect from the 1st day of April 2025.

27. Rationalisation of transfer pricing provisions for carrying out multi-year arm's length price determination

Transfer pricing provisions enable the computation of income from an international transaction or a specified domestic transaction about an arm's length price. These provisions are contained in sections 92 to 92F.

Section 92CA provides the procedure for referencing an international transaction or a specified domestic transaction to the Transfer Pricing Officer (TPO) to compute their arm's length price (ALP). Section 92C provides for calculating the ALP about an international or a specified domestic transaction.

It has been noted that about section 92CA for computation of arm's length price, in many cases, there are similar international transactions or specified transactions for various years, same facts like enterprises with whom such transaction is done, proportionate quantum of transaction, location of associated enterprises etc., and same arm's length analysis are repeated every year, creating compliance burden on the assessee as well as administrative burden on the TPOs. Therefore, carrying out TP assessments in a block in such situations is proposed.

It is proposed that the ALP determined about an international transaction or a specified domestic transaction for any previous year shall apply to a similar transaction for the two consecutive previous years immediately following such previous year. For the same, it is proposed to make the following amendments,–

A. Reference to TPO

(I) the assessee shall be required to exercise an option or options for the above effect in the form, manner and within such period as may be prescribed [new sub-section (3B) in section 92CA];

(II) the TPO may, by an order within one month from the end of the month in which such option is exercised, declare that the option is valid subject to the prescribed conditions [new sub-section (3B) in section 92CA];

(III) IIif the TPO declares that the option exercised by the assessee is valid–

- *the ALP determined about an international transaction or a specified domestic transaction for any previous year shall apply to the similar international transaction or the specified domestic transaction for the two consecutive previous years immediately following such previous year [new sub-section (3B) in section 92CA];*
- *the TPO shall examine and determine the ALP about such similar transaction for such consecutive previous years, in the order referred to in subsection (3) of section 92CA [new subsection (4A) in section 92CA];*
- *on receipt of such order from the TPO, the AO shall recompute the total income of the assessee for such consecutive previous years as per the provisions of sub-section (21) of section 155 [new sub-section (4A) in section 92CA];*
- *no reference for computation of ALP about such transaction shall be made [new first proviso to sub-section (1) of section 92CA];*
- *if any reference is made in such scenarios, before or after the above declaration by the TPO, the provisions of sub-section (1) of section 92CA shall have the effect as if no reference is made for such transaction [new second proviso to sub-section (1) of section 92CA];*

(IV) the provisions of exercising the option mentioned above and consequent proceedings shall not apply to any proceedings under Chapter XIV-B [proviso to new sub-section (3B) in section 92CA];

(V) If any difficulty arises in giving effect to the provisions of sub-section (3B) and sub-section (4A) of section 92CA, the Board may, with the previous approval of the Central

The government issues guidelines to remove the difficulty. Every guideline issued by the Board shall be laid before each House of Parliament and binding on the income-tax authorities and the assessee [new sub-section (11) in section 92CA].

B. Recomputation of income under section 155

A new sub-section (21) shall be inserted in section 155 so that where the ALP determined for an international transaction or a specified domestic transaction for any previous year and the TPO has declared an option exercised by the assessee as a valid option in respect of such transaction for two consecutive previous years immediately following such last year, then:-

(I) the AO shall recompute the total income of the assessee for such consecutive previous years by amending the order of assessment or any intimation or deemed intimation under sub-section (1) of section 143,–

- *in conformity with the ALP so determined by the TPO under sub-section (4A) of section 92CA in respect of such transaction;*
- *taking into account the directions issued under sub-section (5) of section 144C, if any, for such previous year;*

(II) such recomputation shall be done within three months from the end of the month in which the assessment is completed in the case of the assessee for such previous year;

(III) The first and second proviso to sub-section (4) of section 92C shall apply to such recomputation;

(IV) such recomputation shall be made within three months from the end of the month in which order of assessment or any intimation or deemed intimation is made, in case that is not made before the period of three months as mentioned above.

These amendments will take effect on April 1, 2026, and shall, accordingly, apply to the assessment years 2026-27 and subsequent assessment years.

28. Other Miscellaneous Changes

It is essential to note some of the few other amendments that have been highlighted by the Hon’ble FM in her speech –

- **Alternate Investment Funds (AIFs):** Proposal to provide certainty of taxation to Category I and Category II AIFs, which are undertaking investments in infrastructure and other such sectors, on the gains from securities.
- **Extension of investment date for Sovereign and Pension Funds:** Proposal to extend the investing date by five more years, to 31.03.2030, to Promote funding from Sovereign Wealth Funds and Pension Funds to the infrastructure sector.

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