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Tax alert: Income-tax Bill 2025 as tabled in the Lok Sabha by Select Committee

21 July 2025

The Lok Sabha has tabled the suggestions received from the Select Committee report in the Income-tax Bill, 2025 with certain changes.

Background

The Income-tax Bill, 2025 (ITB 1) was presented by the Hon'ble Finance Minister (FM) in the Lok Sabha on 13 February 2025. The Select Committee set up to examine ITB 1 has submitted its report with 285 changes/suggestions. The Select Committee's report was tabled before the Lok Sabha on 21 July 2025.

For ease of reference, we have referred in this document the Income-tax Act, 1961 as 'Existing Act'; first draft of the Income-tax Bill, 2025 as 'ITB 1'; and revised draft of ITB 1 after considering select Committee's report as 'ITB 2'.

We have provided in this document the key highlights of the amendments to ITB 1 and Existing Act:

1. Changes in ITB 2 vis-a-vis the Existing Act

Clause 2(104A) of ITB 2 – relating to the definition of the term 'Specified Banking or online mode'

- The term "Specified Banking or online mode" has now been included in the general definition provisions and has been defined as a transaction by an account payee cheque or an account payee bank draft or use of electronic clearing system through a bank account or through such other electronic mode, as prescribed.

Clause 119(6) corresponding to section 79 of the Existing Act – relating to carry forward and set off of losses not permissible in certain cases

- Clause 119 parallel to section 79, provides that a company can carry forward and set-off losses only if 51% of the beneficial owners of the shares (in the year in which loss is incurred) continue to remain the same.

  Similar provision was provided in ITB 1. In comparison to ITB 1 and the Existing Act, the ITB2 introduces a definition for "beneficial owner" under Clause 119, which deals with the carry forward and set-off of losses in certain cases. As per the same, "beneficial owner" now means an individual who derives benefits directly or indirectly from the shares during the tax year.

The term "beneficial owner" has not been defined under the Existing Act and has been subject matter of interpretation (i.e. whether it is immediate shareholding or ultimate shareholding) for the purpose of carry forward and set-off of losses by companies. Further, under the Existing Act, there is no restriction on the beneficial owner of shares being an individual or any other person (eg. Company).

The definition under ITB2 attempts to identify shareholder at the individual level who benefits directly or indirectly from such shares.

The Committee, after reviewing the clause and stakeholder feedback, amongst others, had also recommended the following:

"…(ii) The provision shall be suitably amended to allow carry forward and set-off of losses where the shareholding pattern, though altered temporarily, is restored in subsequent years and the 51% continuity requirement is met thereafter. This would preserve the legislative intent of preventing misuse while ensuring fair treatment for companies whose shareholders remain ultimately liable to tax."

Clause 22 corresponding to section 24 of the Existing Act – relating to deductions from income from house property

- Deduction for pre-construction/ acquisition interest (in five equal instalments) in the case of SOP is available in addition to the deduction for interest post construction/ acquisition (subjected to cap of INR two lacs per tax year).

  Clause 21 of ITB 2 stipulates that annual value of the property is determined post reducing taxes levied by local authority which is in line with the Existing Act.

  Standard deduction @ 30% of the annual value is available against income from house property. In this regard, the Committe has recommended the following:

  "in Clause 22(1)(a), to explicitly state that the standard 30% deduction is computed on the annual value after deducting municipal taxes"

  The ITB2 stipulates the following:

  *(1) The income under the head "Income from house property" shall be computed after **(**) making** the following deductions:—*

  *30% of the annual value **of the property before computing municipal tax;***

  As can be seen from the above, while it has been recommended that standard **deduction of 30%** is to be computed on **annual value after deduction of municipal taxes**, the amendment proposed in ITB 2 may create ambiguity.

Clause 162 corresponding to section 92A of the Existing Act – relating to the term 'Associated Enterprise'

- Associated Enterprise (AE) under the existing section 92A(1) of the Existing Act means an enterprise:
  - Which participates, directly or indirectly, or through one or more intermediaries, in the management or control or capital of the other enterprise; or
  - In respect of which one or more persons who participate, directly or indirectly, or through one or more intermediaries, in its management or control or capital, are the same persons who participate,

directly or indirectly, or through one or more intermediaries, in the management or control or capital of the other enterprise.

- Further, section 92A(2) provides situations (such as holding, directly or indirectly, shares carrying at least 26% of the voting power of other enterprise) where two enterprises shall be deemed to be associated enterprises for sub-section 1 i.e. section 92A(1).
- Further, the Ahmedabad Bench of the Income-tax Appellate Tribunal in the case of ACIT vs. Veer Gems [2017] 77 taxmann.com 127 (Ahmedabad - Trib.)/[2017] 183 TTJ 588 (Ahmedabad - Trib.)[03-01-2017] had held that:
  - Section 92A(2) governs the operation of section 92A(1) by controlling the definition of participation in management or capital or control by one of the enterprise in the other enterprise. If a form of participation in management, capital or control is not recognized by section 92A(2), even if it ends up in de facto or even de jure participation in management, capital or control by one of the enterprise in the other enterprise, it does not result in the related enterprises being treated as 'associated enterprises'.
- Clause 162 of ITB 1 provided definition of AE similar to section 92A of the Existing Act. However, clause 162(2) of the ITB 1 provided that, without affecting the generality of the provisions of sub-Clause (1), two enterprises shall be deemed to be AE if, at any time during the tax year certain specified conditions are satisfied (such as holding, directly or indirectly, shares carrying at least 26% of the voting power of other enterprise).
- The term 'without affecting the generality of the provisions' gave the impression that sub-clause 1 and 2 operate independently. Thus, amongst others, any enterprise participating, directly or indirectly, or through one or more intermediaries, in the management or control of the other enterprise, could have qualified as AE (even if the conditions under sub-clause 2 were not satisfied).
- Clause 162 of the ITB 2, now does away with sub-clauses. Further, it specifically enumerates situations in which an enterprise can be considered to participate, directly or indirectly, or through one or more intermediaries in the management or control or capital of the other enterprise. Amongst others it includes a situation:
  a. Where the persons who participate, directly or indirectly, or through one or more intermediaries, in management or control or capital of one enterprise, also participate, directly or indirectly, or through one or more intermediaries, in the management or control or capital of the other enterprise; or
  b. Where an enterprise holds, directly or indirectly, shares carrying at least 26% of the voting power in the other enterprise; or

  One needs to evaluate if the condition in point 'a.' is to be read independent of the thresholds such as 26% voting power, advancing a loan to an enterprise and the value of loan constitutes at least 51% of the book value of the total assets, etc.

  Also, the amended provision does not include the words "at any time during the (tax) year". The question then arises whether the transfer pricing provisions apply for an international transaction with an AE only for the period of existence of AE relationship. This would need to be further evaluated.

Clause 287 corresponding to section 154 – relating to rectification of mistake

- Corresponding to section 154 of the Existing Act, clause 287(1) of the ITB2, enables the income-tax authorities to rectify any mistake apparent from the record in an:

  (a) order passed by it under the ITB 2;

  (b) intimation or deemed intimation under clause 270(1) of the ITB 2;

  (c) intimation under clause 399 of the ITB 2.

  Under the Existing Act the authority concerned has power to **amend any order** under subsection (1) to section 154 **in relation to any matter, other than the matter considered and decided in any proceeding** by way of appeal or revision, relating to such order. Similar powers are provided under the ITB 2 as well as have been extended to an **intimation** (unlike the Existing Act).

Clause 302 corresponding to section 159 of the Existing Act – relating to liability of Legal representatives

- Section 159 of the Existing Act provides that every legal representative shall be personally liable for any **tax payable** by him in his capacity as legal representative if, while his liability for tax remains undischarged, he creates a charge on or disposes of or parts with any assets of the estate of the deceased, which are in, or may come into, his possession.

  Clause 302(5) in ITB 2 expands the scope of personal liability of the legal representative to **any sum payable** by him in his capacity as legal representative, which may include interest, fine, penalty, etc. One may want to evaluate the meaning of the term 'any sum payable' as compared to 'tax payable' and the impact thereof as a representative taxpayer.

Clause 536 of ITB 1 and ITB2 – relating to repeals and savings

- Circulars issued under the repealed Act will now continue to remain valid once the New Act is enacted as it has been included in the 'Repeals and Savings' clause in the July 2025 Bill.

- The following anomalies in ITB 1 have now been rectified:
  - Provisions for set-off and carry forward of capital loss originating under the Existing Act (referred as repealed Act in the ITB 2) and carried forward under the proposed ITB 2 will follow the same provisions of the Existing Act. ITB 1 had inadvertently stated that both long-term and short-term capital loss could be set-off against income under the head capital gains, which has now been rectified in line with the Existing Act.
  - Section 47A(1) of the Existing Act is triggered if certain specified conditions are violated in respect of non taxable transfers resulting in taxability of the gains in the year of transfer. ITB 1 inadvertently provided for taxation of such gains in the year of violation of conditions. Therefore, the repeal provisions have now been aligned with the Act.
  - Section 35ABA corresponding to clause 52 (relating to obtaining right to use spectrum for telecommunication services) has now been included in Repeals and Savings under clause 536 of the ITB2. Thus, a continuity of the deduction for expenses in connection with obtaining right to use spectrum for telecommunication services would be available under the ITB 2.

2. Changes in line with the Existing Act

Clause 2(22) corresponding to section 2(14) of the Existing Act – relating to definition of 'capital asset'

- Investment in securities by specified investment funds in accordance with the provisions of International Financial Services Authority Act, 2019 was inadvertently omitted from the definition of the term 'capital asset'. This has now been rectified in line with the Existing Act.

Clause 2(29) corresponding to section 2(18) of the Existing Act – relating to definition of 'company in which the public are substantially interested'

- In ITB 1, conditions to be fulfilled by a public company in order to be considered as a "company in which the public are substantially interested" were provided as cumulative conditions. This has been now rectified to alternative conditions in line with the Existing Act.

Clause 2(49) corresponding to section 2(24) of the Existing Act – relating to definition of 'income'

- Income includes voluntary contributions received by specified organisations. It is proposed to rectify the referencing error relating to contributions received by any university or other educational institution or any hospital or other institution referred to in Schedule VII (persons exempt from tax) rather than Schedule III (incomes exempt from tax) as per ITB 1.

Clause 2(101)(a) corresponding to section 2(42A) of the Existing Act – relating to definition of 'short-term capital asset'

- Reference to the term 'share held in a company in liquidation' which was inadvertently omitted in ITB 1 with reference to computation of period of holding of the share has now been restored.

Clause 4 corresponding to section 4 of the Existing Act – relating to charge of income-tax

- It is proposed to re-insert the phrase 'subject to the provisions of the Act' which is currently present in the provisions of the Existing Act but appeared to have been inadvertently omitted in ITB 1.

Clause 6 corresponding to section 6 of the Existing Act – relating to residence in India

- Section 6 of the Existing Act applies higher threshold (182 days) for Indian citizens who leaves India ***for the purposes of employment***.
- ITB 2 has reinstated the phrase ***for the purposes of employment*** in clause 6 vis-a-vis the phrase ***'for employment'*** appearing in ITB 1, in line with the Existing Act.

Clause 9 (6) corresponding to section 9(1)(vi) of the Existing Act – relating to royalties

- The second source rule in respect of royalties payable by a non-resident referred to royalty payable in respect of any right, property or information used or services utilised for the purposes of making or earning income from any source outside India rather than 'in India'. The provisions are now aligned to the Existing Act.

Clause 22 corresponding to section 24 of the Existing Act – relating to deductions from income from house property

In ITB1, deduction for pre-construction/ acquisition interest was restricted to self-occupied property. ITB2 has extended the deduction to all house properties in line with the Existing Act.

Clause 28 corresponding to section 30 and 31 of the Existing Act - relating to deduction for rent, rates, taxes, repairs and insurance

- **Term 'wholly and exclusively'**

  As per section 30 of the Existing Act, deduction is allowed for rent, rates, taxes, repairs and insurance in respect of premises, machinery, plant or furniture used for the purpose of business or profession.

  ITB 1 required that such use of premises, machinery, plant or furniture is "**wholly and exclusively**" for the purpose of business or profession.

  The words 'wholly and exclusively' have been deleted in ITB2 in line with the Existing Act.

- **Deduction for current repairs and insurance**

  As per section 31 of the Existing Act, a deduction in respect of repairs and insurance of machinery, plant or furniture is allowed in respect of

  - Current repairs (not being capital expenditure); and
  - Insurance premium for insurance against risk of damage or destruction.

  In ITB 1, deduction for current repairs to machinery, plant or furniture was not provided. The same has now been provided under ITB 2.

Clause 33 corresponding to section 38 of the Existing Act - relating to depreciation

- Section 38 of the Existing Act restricts depreciation to the fair proportionate part as determined by the Assessing Officer in case of **tangible assets** partly, or not wholly and exclusively, used for business purposes.

  Clause 33 of ITB 1 referred to **block of assets** and was not restricted to tangible assets.

  In ITB 2, the words "block of assets" are now replaced by any "building, machinery, plant or furniture" which is in line with the Existing Act.

Clause 37 corresponding to section 43B of the Existing Act – relating to deduction on payment basis

- Section 43B of the Existing Act covers deductions for sum payable, which are otherwise allowable, on payment basis. The term "the sum payable" was defined to mean a sum for which assessee incurred liability in the previous year even though such sum might not have been payable within that year under the relevant law.

  In ITB 1, amongst others, reference to the term "otherwise allowable" and definition of the term "the sum payable" was missing.

  In ITB 2, the term 'otherwise allowable' and the definition of "the sum payable" have been included in line with the Existing Act.

Clause 41 corresponding to section 43 of the Existing Act – relating to Written Down Value (WDV)

- Cost of asset in case of transfer of block of asset by a holding company to subsidiary and vice versa and from amalgamating company to amalgamated company is inserted to align with Explanation 2 to section 43(6) of the Existing Act.

Thus, the actual cost of block of assets shall be the same as the WDV of the block as in case of transferor/ amalgamating company in the immediately preceding tax year as reduced by depreciation allowed relating to that year.

Clause 45 corresponding to section 35 of the Existing Act – relating to expenditure on scientific research

- Under section 35 of the Existing Act, deduction for sum paid for scientific research is available, amongst others, if paid (to *National Laboratory, University, Indian Institute of Technology or specified person*) with specific direction that it would be used for approved scientific programme in this behalf.

  In ITB1, clause 45(3) required that such condition of payment with specific direction would be applicable to all sums paid (including deduction for payments which were made without any specific direction such as payment to research association having the object of undertaking scientific research or to a university, college or institution to be used for scientific research, etc.).

  In ITB 2, the provisions have now been brought at par with the Existing Act.

Clause 58 corresponding to section 44AD of the Existing Act – relating to presumptive taxation for resident

- Under the Existing Act, resident taxpayer availing presumptive taxation for eligible business can claim presumptive profit of 6% of the turnover if the receipts are realised in electronic / online mode during the year or before due date of filing return of income. If not realised, then, presumptive profit of 8% is to be considered. The timeline of realizing receipts in electronic / online mode was missing in the ITB 1.

  This has now been aligned in ITB 2 as per the Existing Act.

Clause 197 corresponding to section 112 – relating to tax on long-term capital gains (LTCG)

- Section 112 of the Existing Act provides that LTCG on unlisted securities or shares of a company (not being company in which the public are substantially interested) by non-residents is to be computed without giving effect to the foreign exchange fluctuation benefit as per first proviso to section 48 of the Existing Act.

  ITB1 did not provide for such restriction on claiming foreign exchange fluctuation benefit while computing LTCG.

  ITB 2 now restricts claim of foreign exchange fluctuation benefit in line with the Existing Act.

Clause 200 corresponding to section 115BAA of the Existing Act – relating to tax on income of certain domestic companies

- As per section 115BAA of the Existing Act, domestic companies are eligible for lower rate of 22% subject to certain conditions. One of the conditions includes computation of total income without Chapter VI-A deductions. However, deductions under section 80JJAA (deduction in respect of employment of new employees) and section 80M (deduction in respect of inter corporate dividends) are permissible under the Existing Act.

  In the ITB1, reference of section 80M (corresponding clause 148) was not provided and such deduction would not be available to a domestic company opting for taxation under clause 200. Now, in the ITB 2, this has been rectified in line with the Existing Act.

Clause 263 corresponding to section 139 of the Existing Act – relating to return of income

- Mandatory claim of refund by furnishing return of income (ROI)

Clause 263 of the ITB 1 had introduced a new provision mandating that a claim for refund must be made by furnishing the ROI within the original due date.

Provision for entitlement to refund claim only if ROI is filed within original due date, is sought to be deleted in line with the Existing Act.

- **Computing income for determining the threshold for furnishing ROI**

  Sixth proviso to section 139(1) of the Existing Act states that every person, being an individual or a Hindu Undivided Family (HUF) or an Association of Persons (AOP) or a Body of Individuals (BOI), whether incorporated or not, or an Artificial Juridical Person (AJP), if his total income or the total income of any other person in respect of which he is assessable under this Act during the previous year, without giving effect to certain provisions including specific deduction provision (such as section 54 or section 54B or section 54D or section 54EC or section 54F or section 54G or section 54GA or section 54GB) exceeds the maximum amount which is not chargeable to income-tax, shall, on or before the due date, furnish a ROI in the prescribed form.

  The corresponding provision in ITB 1 instead of specifying the deductions, mentioned that any deduction under Chapter IV-E relating to Capital Gains should not be considered while computing total income for the purpose of determination of the obligation to file ROI for a tax year. Thus, the taxpayer being individual, HUF, AOP, BOI, AJP would not be eligible to consider any deductions whatsoever while computing income under the head capital gains while determining the obligation for furnishing a ROI.

  ITB 2 now specifies the relevant deductions i.e. clause 82, 83, 84, 85, 86, 87 and 88 of the ITB 2 for computing the total income for determining the obligation to file the ROI.

- **Due date for furnishing ROI**

  The due date for furnishing a ROI has now been streamlined in accordance with the provisions of the Existing Act particularly for overlaps.

Clause 270 corresponding to section 143 of the existing Act – relating to processing of returns/ summary assessments

- Section 143(1) of the Existing Act provides for processing of income-tax returns after making certain specified adjustments to total income/ loss including an adjustment for making a disallowance of deduction claimed under Heading C – "Deductions in respect of certain incomes" within Chapter VI-A of the Existing Act if the return is furnished beyond the due date [section 143(1)(a)(v) of the Existing Act]. However, proposed Clause 270(1)(a)(v) of ITB1 stipulated a broad disallowance of any deduction under corresponding Chapter VIII if the return is furnished beyond the due date.

  Therefore, to align the provisions with the Existing Act, Clause 270(1)(a)(v) is sought to be modified to restrict the disallowance only to deductions under the **heading "C.—**

  Deductions in respect of certain incomes" of Chapter VIII of ITB2 where return is furnished beyond the due date.

  Clauses 292 to 301 corresponding to sections 158B to 158BH of the existing Act – relating to special procedure for assessment of search cases

- As per amendments made vide Finance Act, 2025 (FA 2025) post ITB 1 released in February 2025, the concept of assessment of total income in case of search/ requisition was replaced with the assessment

of undisclosed income with an objective to identify and tax income that has not been disclosed at higher rates.

The changes in the FA 2025 have now been incorporated in ITB 2.

Clause 395 corresponding to section 197 of the Existing Act – relating to certificates

- Existing Act allows payee to obtain **lower or nil** Tax Deduction at Source (TDS) / Tax Collection at Source (TCS) certificate for specific nature of payments.

  In ITB1, provisions allowed obtaining **lower** TDS/TCS certificate for all payments/ receipts including for non-residents. However, there was no mention of obtaining **Nil** TDS certificate.

  ITB 2 has been amended to provide obtatining **Nil** TDS certificate in line with the Existing Act.

  Clause 470 corresponding to section 273B of the Existing Act – relating to penalty not to be imposed in certain cases

- Summary of penalty for repayment of any loan or deposit or specified advance is as under:

Particulars	Section of the Existing Act	ITB 1 Clause
Penalty for repayment of any loan or deposit or specified advance referred to in section 269T/ clause 188 otherwise than in accordance with the provisions of that section, of a sum equal to the amount of loan or deposit or specified advance so repaid	271E	453
No penalty under section 271E shall be imposable on any person for the failure if he proves that there was reasonable cause for such failure	273B	470

Clause 470 of ITB 1 (which provides relief from penalty leviable under various provisions if reasonable cause is proved) omitted reference to clause 453 (which provides for penalty for failure to comply with the provisions of clause 188).

This anomaly is rectified by inserting reference to clause 453 in clause 470 in ITB 2. Thus, the provision is in line with the Existing Act.

Comment:

The Lok Sabha will forward the Select Committee's report to the Finance Ministry which will examine the report and place the revised Income-tax Bill, 2025 in the Lok Sabha for passage. Once passed, the Bill will then be sent to Rajya Sabha and further to the President of India for passing it into an Act.

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