



Tax alert: Taxation Laws (amendment) Bill, 2025, passed by Parliament

18 August 2025

The Parliament has passed the Taxation Laws Bill, 2025, to amend the Income-tax Act, 1961 and the Finance Act, 2025.

Background

The Taxation Laws (Amendment) Bill [TLA], 2025 was introduced in the Lok Sabha on 11 August 2025 to amend the Income-tax Act, 1961 (ITA) and Finance Act (FA) 2025.

The highlights of TLA 2025 are as follows:

- **Section 10 exemption and section 80CCD deduction for Unified Pension Scheme (UPS) subscribers**
The Central Government had introduced UPS¹, as an option under the National Pension System (NPS) for Central Government employees (covered under the National Pension System).
- **Tax benefit on withdrawal/ superannuation:**
 - It is now proposed to introduce section 10(12AA) and 10(12AB) to exempt payment:
 - On up to 60% of the individual corpus² from the NPS Trust on account of retirement or voluntary retirement or superannuation under specified rules³,
 - Of specified lumpsum amount⁴ from an NPS Trust, to a taxpayer who is a subscriber to the UPS, with effect from 1 April 2025, respectively.
- **Tax benefit on superannuation or voluntary retirement or retirement:**
Section 80CCD(3A) is proposed to be inserted, whereby:
 - The amount which is in credit of the UPS subscriber (on which deduction was allowed in earlier years under section 80CCD of the ITA); and
 - The amount that has been accrued and

¹ As specified in notification number FX-1/3/2024-PR, dated the 24 January, 2025 of the Department of Financial Services

² 60% of the individual corpus under section 10(12AA) of the ITA and lumpsum payment under Para 2(vi) of the notification number FX-1/3/2024-PR, dated 24 January 2025 of the Department of Financial Services. As per Para 2(vi) a lump sum payment is allowed on superannuation @10% of monthly emoluments (basic pay + Dearness Allowance) for every completed six months of qualifying service. This lump sum payment will not affect the quantum of assured payout.

³ Rule56(j) of the Fundamental Rules [which is not treated as penalty under the Central Civil Services (Classification, Control and Appeal) Rules, 1965]

⁴ Lump sum amount as per paragraph 2(vi) of the notification number FX-1/3/2024-pr DATED 25 January 2025.

received by the taxpayer or his nominee due to his superannuation or voluntary retirement or retirement, will be deemed to be the income of the taxpayer or the nominee in the year of receipt of the amount.

Further, section 80CCD(6) is proposed to be inserted so that the amount received under 80CCD(3A) will not be taxable if it is transferred to a pool corpus, from an individual corpus, due to superannuation or voluntary retirement or retirement under specified rules⁵.

- **Exemption under section 10(23FE) available to the Public Investment Fund of the Kingdom of Saudi Arabia and its subsidiary**

Section 10(23FE) of the ITA provides exemption for certain incomes earned by specified investment entities, such as sovereign wealth funds and pension funds, from their investments in India, subject to certain conditions.

It is proposed to extend and include the following entities under section 10(23FE) of the ITA:

(i) the Public Investment Fund of the Government of the Kingdom of Saudi Arabia; and
(ii) a wholly owned subsidiary of the Public Investment Fund of the Government of the Kingdom of Saudi Arabia, which—

(A) is a resident of Saudi Arabia; and
(B) makes investment, directly or indirectly, out of funds owned by the Government of Saudi Arabia.

- **Standard deduction of INR 75,000 applicable for AY 2026-27**

The standard deduction of INR 75,000 for taxpayers having 'Income from Salary' under new tax regime, is proposed to be extended to Assessment Year 2026-27.

Amendment in Finance Act, 2025

- **Section 49 of the Finance Act, 2025 has been amended as follows:**

The ITA has been amended to align it with the new provisions relating to block assessment for search cases, which typically restricts assessments to undisclosed income in the block period.

Comment:

The amendments and TLA 2025 will become an Act after the President's assent. It may be pertinent to note that the same are in line with the Income-tax (No. 2) Bill, 2025.

⁵ Under Rule 56(j) of the Fundamental Rules [which is not treated as penalty under the Central Civil Services (Classification, Control and Appeal) Rules, 1965],

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