

Simplified income tax law in Budget session likely

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THE MUCH-AWAITED REVAMPED Income-Tax Act, which will be far simpler and more unambiguous than the current one, may be tabled in the Budget session of Parliament, with finance minister Nirmala Sitharaman piloting it in her Budget speech. The new law, however, is unlikely to be used as a vehicle for any major policy change, or tax reforms, sources said.

In the full Budget for FY25 presented in July, Sitharaman stated that the purpose of the exercise to rewrite the I-T Act 1961, is "to make it

concise, lucid, easy to read and understand... reduce disputes and litigation, provide tax certainty and bring down the (tax) demand embroiled in litigation".

It was announced to undertake a comprehensive review of the current law, and complete in six months.

This was the latest attempt by the government to thoroughly redraft the direct tax laws, which have become complex and unwieldy, with nearly 3,000 amendments carried out over the years, and scores of court judgments.

However, there were uncertainties about whether the simplified

THE REVAMP



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■ Draft law may not be taken up in the upcoming Budget on February 1

■ This is due to a lack of time for adequate stakeholder consultation

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draft law would be taken up in the upcoming Budget on February 1 due to a lack of time for adequate stakeholder consultation.

Sources told *FE* that the draft of the simplified income tax law is "ready". It is being discussed within the government before presenting it to Parliament during the upcoming Budget session.

"The redrafting of the law is not about tax rates. It is just rewriting of the law in simple language and procedures," an official said, requesting anonymity.

Sudhir Kapadia, partner, EY India Tax & Regulatory Services, said the new tax regime for corporates and individuals without deductions and exemptions is more or less set. But it would be good if the rewritten law is shared for public consultation, like the data privacy Bill, before it is finalised, he said.

"Businesses and other taxpayers should be given enough time to go through it and give suggestions," Kapadia said.

The current framework is burdened with multiple sub-sections, numerous provisos, explanations and intricate cross-references, making compliance challenging, particularly for individuals and small businesses.

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HOWEVER, REWRITING THE Act alone may not fully address the underlying challenges, said Rakesh Nangia, founder & managing partner, Nangia & Co.

“While this measure is indispensable, redrafting alone is insufficient and must be complemented by alternative reforms,” Nangia said. Ultimately, it's not what you draft but how you draft it should be paramount while laying down the new law, he added.

Kapadia said the proposed rewritten I-T Act should be a good attempt to weed out redundant provisions, put together relevant provisions rather than in different places, simplify the TDS rates and

Similar attempts in the past to simplify the I-T law, most notable being the Direct Taxes Code drafted in 2009 by the UPA govt

remove the penalty provisions for every small defaults.

There were similar attempts in the past too to simplify the I-T law, most notable being the Direct Taxes Code drafted in 2009 by the UPA government. The DTC Bill in its original form in 2010 as well as in 2013 proposed a big-ticket overhaul in the taxation regime on the foundation of simplification of personal and corporate income

taxes. While the DTC wasn't legislated, most proposals in the Bill did see the light of the day, by way of annual amendments to the Income Tax Act 1961, such as the introduction of General Anti-Avoidance Rules provisions, taxation of indirect transfers, reduction in corporate tax rates with gradual withdrawal of tax deductions and exemptions, new income tax regime sans deductions, etc.

Discussions around the need for new direct tax legislation surfaced again with the formation of the DTC Task Force in 2017 (led by Arvind Modi and later by Akhilesh Ranjan) which submitted its report in 2019.