Select Committee Report Summary

The Income-Tax Bill, 2025

- The Income-Tax Bill, 2025 was introduced in Lok Sabha on February 13, 2025. The Bill seeks to replace the Income-Tax Act, 1961. It was referred to a Select Committee of Lok Sabha (Chair: Mr Baijayant Panda). The Report of the Committee was tabled in Lok Sabha on July 21, 2025. The Committee observed that the Bill mainly seeks to simplify the language, and does not aim to bring any substantive changes. It noted several drafting issues and recommended addressing them. Key observations and recommendations of the Committee include the following:
- **Inconsistencies with the 1961 Act:** The Committee noted that implications of some provisions will change as compared to the 1961 Act. This is owing to inadvertent omissions or changes in meaning because of the way provisions have been re-drafted. For instance, for companies which avail a concessional corporate tax rate, the Act provides deductions for inter-corporate dividends passed on to shareholders. The Bill removes this deduction for certain companies. The Committee recommended re-instating it.
- The Act provides for a general principle and specified conditions for defining associate enterprises. However, the provisions under the Bill imply that the general principle may apply independently. This would include companies which are currently excluded under the Act. The Bill allows setting off long-term capital losses incurred until March 2026 against short-term capital gains, which contradicts the general principle under the Act and the Bill. The general principle is that long-term capital losses can be set off only against long-term capital gains, as they are taxed at a lower rate than the short-term capital gains. The Committee recommended re-drafting these provisions to align with the 1961 Act.
- The Committee noted that the definition for investment fund in the Bill will include certain unintended funds. Instead of "inland vessels", the Bill uses the term "new inland vessels" at some places. The Committee noted that this could create confusion about who is covered. It also noted that the Bill lacks a provision regarding zero tax liability for senior citizens in case of TDS. It recommended amending such provisions to maintain parity with the Act.
- **Continued references to the 1961 Act:** For definition of 'income', the Bill refers to the sections of the 1961 Act. The Ministry of Finance recognised this to be a drafting error. The Bill refers to the 1961 Act in several provisions. The Committee observed that this will require a person to continue referring to the old Act. Where such references are for provisions which are due to be phased out, it suggested placing them under the savings clauses instead. These include provisions for profit-linked incentives to specified businesses such as infrastructure companies, certain hotels and convention centres, and SEZ. In other instances, it recommended removing such references.
- **Undefined terms:** The Committee noted that the term "parent company" is undefined in case of withdrawal of exemptions in relation to capital gains. It recommended defining the term. In another instance, it recommended adding the definition for cooperative bank. The Committee noted that the Bill uses a new term "beneficial owner" in relation to pension contributions by employers but has not defined it. It recommended changing the drafting to align with the Act and address any ambiguity in this regard.
- **Incorporating provisions of the Finance Acts of 2024 and 2025:** The Committee highlighted that the Bill has not incorporated some changes made by the Finance Acts of 2024 and 2025 to the 1961 Act. These include changes regarding the definition of capital assets, assessment of undisclosed income, compliance and reporting of tax collected at source, and removal of equalisation levy on specified services. It recommended incorporating such changes into the Bill.
- **Clarifications, redundant text, reference and typographical errors:** The Committee recommended removing redundant text in some cases. It has also suggested modifications to enhance clarity in certain other cases. It highlighted that in some instances, references to other sections of the Bill or other Acts are either incorrect or missing. It also identified and recommended addressing spelling and other typographical errors.
- **Ministry's response:** The Report indicates that the Ministry of Finance has accepted the recommendations of the Committee.

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