Direct Tax Newsletter August 2025

New tax rules from 2026? 5 changes in Income Tax Bill that make it different from existing law

New Income Tax Bill, 2025: The Centre has taken a big step towards making the tax system simple and transparent in the country. The Modi government introduced the 'Income Tax Bill, 2025' in Parliament during the budget session this year to replace the existing Income Tax Act, 1961. This Bill, after being introduced in the Lok Sabha in February this year, was sent to the Select Committee of the Lok Sabha. The panel recently submitted an over 4,500-page report with observations and suggestions on the Bill to the government.

Now, the government has plans to table the Bill in the ongoing monsoon session of Parliament on August 11. Experts are of the view that this Bill once passed will be the biggest change in India's tax system after decades.

Here are 5 major changes in the Income Tax Bill, 2025

1. Number of chapters reduced to 23

The existing Income Tax Act, 1961 has a total of 47 chapters, which became very complex due to multiple amendments. In the new Bill, the number of chapters has been reduced to only 23, making it easier to read and understand. This change is a relief especially for taxpayers and professionals.

2. Number of words reduced by almost half

The old law has 4.1 lakh words, while the new Income Tax Bill, 2025 has only 2.6 lakh words. The government aims to make this law accessible not only to tax consultants but also to common people. The language has been simplified so that compliance increases and disputes reduce.

3. Tax calculation will be easy through formula and table

In the new Bill, instead of complex legal language, such formulas and tables have been given, which can easily calculate tax. This will make it easier for taxpayers to understand how much tax they have to pay and how.

4. The current tax structure will remain intact, but interpretation will be easier

The old tax principles such as taxable income, tax slabs and rebates have been retained in the Bill, so that stability is maintained. However, their presentation and interpretation have been made clearer and easier than before.

5. Old and obsolete provisions removed

There are many provisions in the 1961 law which are no longer relevant. Such provisions have been removed in the new Bill so that only those things remain in the law which are necessary in terms of the current economic and tax structure.

Role of the Lok Sabha Select Committee and the way forward

The Select Committee of the Lok Sabha reviewed this Bill in detail and has given many suggestions to the government. The committee also said that there should be amendments in it according to the digital age, so that technological developments can also be taken into account in the future.
Now, the government will re-introduce this Bill in Parliament on 11 August 2025. If the Bill is passed in the monsoon session, the law could come into effect from 2026.

Summing up...

The Income Tax Bill, 2025 is a comprehensive effort to make the tax system simple, transparent and futuristic. Through this, the government wants to make compliance easier for taxpayers, thereby promoting voluntary tax payment and also increasing tax collection.

Income Tax Department enables updated return filing for these two years:

The Income Tax Department has now enabled utilities for filing updated income tax returns (ITR-U) in ITR-1 and ITR-2 for the assessment years (AY) 2021-22 and 2022-23 as per Finance Act, 2025.

Union Budget 2025 announced that taxpayers will now have up to 48 months from the end of the relevant assessment year to file an updated return under Section 139 (8A) of the Income Tax Act. This extended time allows individuals to fix errors or omissions in their previous filings by paying more taxes, even if they did not submit a return or filed it incorrectly. However, there are some limits and restrictions on who can file an updated income tax return and when.

What is an Updated Income Tax Return (ITR-U)?

ITR-U provides an opportunity for voluntary compliance to taxpayers in order to rectify errors/ omissions with an objective to reduce litigation.

The deadline for taxpayers to file updated income tax returns has been extended from 24 months to 48 months from the end of the relevant assessment year (A.Y).

Who can file ITR-U?

Updated returns can be filed by any person within 48 months from the end of the relevant assessment year, whether or not an original, revised or belated return has been furnished under section 139 for such A.Y. It can be filed in following cases:

- If the return was previously not filed
- If return was filed but
- Income was not reported correctly
- Wrong heads of income was chosen
- To reduce unabsorbed depreciation
- To reduce tax credit
- Tax of tax not correct

Who cannot file ITR-U?

Updated return cannot be filed if such return:

- Is a Nil return or a return of a loss or
- Has the effect of decreasing the total tax liability determined on the basis of return furnished for the relevant A.Y or
- Results in refund or increases the refund due on the basis of return furnished for the relevant assessment year.
- Taxpayer cannot file an updated return in case of search and seizure or case where any prosecution proceedings have been initiated.

Can I file an ITR-U under the new/ old tax regime?

A taxpayer has to choose for the tax regime within the due date prescribed as per section 139 (1) of the Income Tax Act. Once chosen within the due date the taxpayer cannot change the regime cannot be changed.

How many times can I file ITR U in the same AY?

The e- filing portal will not allow you to file ITR u/s139(8A) more than one time.

Last date to file ITR-U

According to income tax rules, the last date to file ITR-U is 48 months from the end of the relevant fiscal year. Hence, for AY 2025-26, the last date to file ITR-U is March 31, 2030.

Penalty applicable on filing ITR-U

A penalty applies to filing an updated return using ITR-U, depending on how quickly the ITR is filed. Madaan says, "This extended window allows taxpayers to rectify past omissions, supporting the government's objective of improved compliance without prolonged litigation. The additional tax payable on updated returns has also been revised, with rates of 25%, 50%, 60%, and 70% applicable in the first, second, third, and fourth years, respectively."

According to income tax rules, 25% of an additional tax on aggregate tax and interest is levied if the updated ITR is filed within 12 months from the end of the assessment year. This will hike to 50% as an additional tax if the updated return is filed between 12 months and 24 months. If the updated return is filed between 24 months and 36 months, then 60% as an additional tax is payable by the taxpayer. For updated returns filed between 36 months and 48 months, 70% of the additional tax is payable by the taxpayer.

Form 10E: Why salaried employees must file this to get relief from tax on arrears

Why you need to claim Form 10E when you receive salary arrears?

If you have received a salary hike or promotion with arrears—salary that should have been paid in the previous years—it can inflate your taxable income in the year you receive it. Unless you can claim tax relief, you may end up paying more tax than necessary. Enter Form 10E. It assists you in reducing your taxation by allowing you to claim relief under Section 89(1) of the Income Tax Act for advance or excess income.

How it reduces your tax burden?

Tax in India is calculated through a slab system that is progressive in nature. If you are getting arrears for one year, your total income will go up—maybe pushing you into a higher tax slab than usual. But you did not earn the whole income in the said year. Form 10E allows the Income Tax Department to adjust the arrears to the years it was actually due in. This helps you to get relief from the additional tax due to bunching of income.

Don't just add the arrears to your ITR

The majority of salaried people ignore or miss out on filing Form 10E, believing that they can simply add the arrears to their ITR. But the Income Tax Department has made one thing very clear: if you do not file Form 10E, your claim for relief under Section 89(1) may be disallowed even if you are eligible for it. Filing Form 10E online from the income tax portal before filing your ITR ensures that your arrears relief is done correctly and your refund (if any) is not delayed.

When and how to file it online

Form 10E must be filed before filing your income tax return (ITR). To do this, log into your account on the income tax e-filing portal, go to 'e-File' > 'Income Tax Forms' > 'File Income Tax Forms', and select Form 10E. Fill in the details of your arrears and income from the previous years as well as the current financial year. Once submitted, the system recalculates your tax liability and applies the necessary relief.

Keep documents handy

Keep handy your salary slips, employer certificates, or Form 16 with the breakup of your arrears. You will need these documents to correctly calculate the amount of income received in which year and to support your claim, should the Income Tax Department request the documents for any clarification.

Avoid penalties and delays—file it correctly

If you don't file Form 10E but still claim relief while filing your ITR, your return will be processed without the benefit, resulting in a greater notice of tax or lesser refund. Worse, you will receive a notice for mismatch or incorrect filing. Filing Form 10E is simple, free of charge, and can save you thousands of taxes—do it.

Let arrears be a gain, not a tax pain

Salary arrears are a pleasant bonus to your pay, but if not planned, they could also lead to an unpleasant spike in your tax outgo. Form 10E ensures that you are taxed appropriately, based on what you have earned and when. File it punctually, and have your arrears working for your goals—not the taxman's.

Simpler TDS refund route on anvil for those below tax limit

Taxpayers whose income falls below the taxable threshold, but who end up having tax deducted at source for a variety of reasons and then file income tax returns solely for the purpose of a refund, may no longer have to do so.

Instead, they may be able to claim a refund by filling up a simple form.

A recommendation to this effect was made by the Select Committee on the Income-Tax Bill 2025 , according to government functionaries directly familiar with the legislation.

"The panel felt that the current mandatory requirement to file a return solely for the purpose of claiming a refund can inadvertently leads to prosecution, particularly for small taxpayers whose income falls below the taxable threshold but from whom TDS has been deducted. In such cases, the law should not compel a return merely to avoid penalty," one of the functionaries said, asking not to be named.

Relief for these house property buyers and other taxpayers who got tax demand notice due to short deduction of TDS from in-operative PAN holders;

The Income Tax Department has given relief to those income tax payers who got an income tax demand notice due to short deduction of TDS and short collection of TCS from those deductors and collectors, who have an in-operative PAN. An PAN will be termed in-operative, if it is not linked with Aadhaar.

The income tax department said that all such tax demand notices issued due to short deduction/collection of the TDS/TCS, will be deleted, if the PAN is made operative again within a specified deadline.

What did the income tax department say?

In a circular dated July 21, 2025 the Income Tax Department said: "...There shall be no liability on the deductor/collector to deduct/collect the tax under section 206AA/206CC of the Act, as the case maybe, in the following cases:

- Where the amount is paid or credited from April 1, 2024 to July 31, 2025 and the PAN is made operative (as a result of linkage with Aadhaar) on or before September 30, 2025.
- Where the amount is paid or credited on or after August 1, 2025 and the PAN is made operative (as a result of linkage with Aadhaar) within two months from the end of the month in which the amount is paid or credited.
- The table below shows by when the PAN-Aadhaar should be linked, so that the TDS and TCS deductor and collector, respectively can get relief from tax demand notice:

Particulars	Action
TDS or TCS paid or credited from April 1, 2024 to July 31, 2025	PAN should be made operative (as a result of linkage with Aadhaar) on or before September 30, 2025.
TDS or TCS paid or credited on or after August 1, 2025	PAN is made operative (as a result of linkage with Aadhaar) within two months from the end of the month in which the amount is paid or credited.

How can property buyers get relief due to this circular?

As per Section 194-IA on property sales of Rs 50 lakh and above, buyers have to deduct TDS at 1% rate before making the payment to the sellers. However if the seller's PAN is in-operative then TDS at 20% rate is required to be deducted. The problem is in cases where the buyer deducted 1% TDS instead of 20% as it should be when the seller's PAN is in-operative. In such cases the property buyer will get income tax demand notice for 19% short deduction in TDS. This circular can give relief to such buyers.

- "Inoperative PANs cannot be used for filing income tax returns (ITR) or conducting key financial transactions. This poses a challenge in cases such as property sales, where the seller's PAN is inactive due to non-linkage with Aadhaar.

- In such situations, the law mandates that the buyer must deduct TDS at 20% instead of the regular 1%. However, many buyers, unaware of the PAN status, end up deducting TDS at 1%, assuming compliance. This typically leads to a tax demand notice to the property buyer from the Income Tax Department for the shortfall of 19%."

How this relief works for those who short deducted TDS from April 1, 2024 to July 31, 2025:

- The recent CBDT Circular No. 9/2025, issued on July 21, 2025, offers relief in such cases. It provides that no demand for short deduction will be raised if the deductee—i.e., the property seller—makes their PAN operative by linking it with Aadhaar within two months from the end of the month in which the payment was made.

- For example, if a property is purchased on August 2, 2025, from a seller with an inoperative PAN and the buyer deducts TDS at 1%, the buyer will not be penalized, provided the seller regularizes their PAN by October 31, 2025.

The ambit of Circular No. 9/2025 extends beyond property transactions and is applicable to all deductors and collectors who have applied standard TDS or TCS rates without enforcing the enhanced rates mandated under Section 206AA or Section 206CC, due to the recipient's PAN being inoperative —provided such PAN is regularised within the stipulated timeframe.

CASE LAW UPDATE

Delhi High Court Quashes BAR Ruling and Reads Down CBDT Circular 13/2014: Major Relief for Category III AIFs on Taxation of Trusts

Equity Intelligence AIF Trust v. The Central Board of Direct Taxes & Anr

On July 29, 2025, the Delhi High Court delivered an important verdict in Equity Intelligence Equity Intelligence AIF Trust v. Central Board of Direct Taxes & Anr 1 quashing the order passed by the Board for Advance Rulings' ("BAR") and "reading down" CBDT Circular No. 13/2014 ("CBDT Circular") 2 . The judgment addresses and settles a long-standing controversy on the tax treatment of Category III Alternative Investment Funds ("AIFs") structured as trusts and governed by the Securities and Exchange Board of India (Alternative Investment Funds) Regulations,
2012 ("SEBI AIF Regulations").

Nature of Private Trusts

The Indian Trusts act, 1882 ("Trusts Act") regulates the formation and governance of private trusts in India. Indian law does not treat a trust as a separate legal entity with its own legal personality. Instead, Section 3 of the Trusts Act defines a trust as "an obligation annexed to the ownership of property". Legally, the property of the trust vests in the trustee, who holds it for the benefit of the beneficiaries. Proceedings relating to trust property are generally in the name of the trustee rather than the trust itself.

However, under the Income Tax Act, 1961 ("IT Act"), trusts are recognised and taxed as entities that are distinct from the trustee or beneficiaries of the trust. Section 2(31) of the IT Act defines "person" to include "every artificial juridical person not falling within any of the preceding sub-clauses" and a trust is a person for the purpose of taxation. Sections 161 and 164 of the IT Act provide specific rules for the assessment and taxation of trusts (including through the trustee in a representative capacity).

The Legal Controversy

Category I and II AIFs have been accorded pass through status under Section 115UB of the IT Act and therefore lie outside the scope of the present controversy. As per Section 164 of the IT Act, the taxation of all other AIFs set up in the form of a trust i.e., Category III AIFs, would depend on whether such trust qualifies as a "determinate trust" or an "indeterminate trust". The terms "determinate trust" and "indeterminate trust" are not to be found in the Trusts Act.

Indeterminate Trusts

Section 164 of the IT Act expressly states that in situations where the beneficiaries of the trust are not explicitly identified in the trust deed itself, the trust would be an 'indeterminate trust' (discretionary) and hence be taxed at the maximum marginal rate ("MMR"). Even if some beneficiaries are non-residents or exempt entities, the entire income would be taxed at MMR, unless specific exclusions apply.

CBDT Circular 13/2014, issued in 2014, again states that AIFs whose trust deeds do not explicitly name investors or specify their beneficial interests would be considered as an "indeterminate trust" under Section 164 of the IT Act leading to taxation at MRR, which is currently fixed at 40% (forty percent).

Determinate Trusts

In the case of determinate trusts, Section 166 of the IT Act empowers the Assessing Officer to levy tax either in the hands of the trustee (as representative assessee under Section 161 of the IT Act) or directly in the hands of the beneficiaries. In either case, the trust itself is not regarded as a separate taxable unit, and taxation follows the applicable slab rate for each beneficiary.

Interestingly, some High Courts, including Karnataka 3 and Madras 4 , had previously held that trusts could still be regarded as "determinate" if the shares of beneficiaries were ascertainable through other formal documents (such as contribution agreements), even if not named in the deed. This led to a situation wherein similar AIFs in the aforementioned two states were being charged at a lower tax rate of 12% (twelve percent), due to paragraph 6 of the CBDT Circular (detailed below).

Conflict with SEBI Regulations

However, pursuant to Regulations 3(1), 4(c), and 6(5) of the SEBI AIF Regulations, and Section 12(1) and 12(1C) of the SEBI Act, 1992, an AIF must register its trust deed and obtain Securities and Exchange Board of India ("SEBI") approval before receiving investments from its investors, as a result of which the trust which constitutes the AIF cannot name its beneficiaries in the trust deed, thereby not meeting the CBDT Circular's requirements to qualify as a determinate trust.

Facts of the current case

Equity Intelligence India PMS Trust ("Equity") is a single open-ended scheme registered with SEBI as a Category III AIF with the objective of investing in listed equity shares. Equity had entered into contribution agreements with its investors, but such investors however were not named in its trust deed. Equity had made an application to the Authority of Advance Ruling ("AAR"), which it sought to withdraw. Such withdrawal was refused by AAR's successor-BAR, which further held that Equity was an "indeterminate" trust by virtue of beneficiaries not being listed in the trust deed and was hence to be taxed at MRR. Equity filed the current writ petition before the Hon'ble Delhi High Court, challenging the validity of the CBDT Circular and the BAR's order.

Harmonizing SEBI and Income Tax Laws: The Court recognized that SEBI AIF Regulations prohibit AIFs from receiving investment commitments or finalizing beneficiary lists before obtaining a certificate of registration from SEBI. This made it impossible to specify investor names in the trust deed at the time of registration of the trust, which precedes the application to SEBI seeking registration as an AIF.

The Court invoked the legal maxim lex non cogit ad impossibilia, i.e., the law does not compel the impossible (doctrine of impossibility), finding that requiring AIF trust deeds to name beneficiaries at inception was unworkable for regulatory and practical reasons and reaffirmed that what makes a trust "determinate" for the purposes of Section 164 of the IT Act was not whether the original trust deed included the beneficiaries' details. Instead, the courts depended on whether such beneficiaries were ultimately determinable in any manner.

Prevailing High Court Precedents: The Court, held that para 6 of the CBDT Circular was contrary to the settled principles of law by stating that the CBDT Circular would not apply in jurisdictions where High Courts had a contrary view, as it created a fragmented and uncertain compliance environment for funds operating nationally, violating the mandate of uniform tax administration. The Court therefore ordered for the CBDT Circular to be construed in the manner interpreted by them and the Karnataka and Madras High Court in the precedents, while clearly holding for para 6 to be untenable in law.

ELP Comments

- This decision by the Delhi High Court supports the demand long advocated for by Category III AIFs, whose business model critically depends on periodic additions of investors and confidentiality obligations towards such investors. Trusts can now demonstrate that beneficiary shares are ascertainable through contribution agreements executed after the trust deed, in compliance with SEBI AIF Regulations. AIF Managers, however, now must ensure robust contribution agreements and clear audit trails are established to determine the beneficiaries of the trust and the shares of such beneficiaries.

- By reading down the CBDT Circular's "geographic carveout" for contrary High Court rulings, the judgment seeks to end the anomalous and arbitrary position wherein a central law was interpreted differently across states. This enhances predictability and legal consistency for Category III AIFs and investors irrespective of their domicile within India, while making India a more tax- friendly jurisdiction for fund houses.

- With this view now having been endorsed by three different High Courts, the CBDT can be expected to issue a nationwide clarification in line with these rulings to officially settle this issue once and for all.