

## Budget overview

### Finance Bill 2025: An Overview

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#### Abstract

*On February 01, 2025, the Hon'ble Union Finance Minister placed the Budget before the Parliament. The Finance Bill has proposed several amendments for Direct and Indirect taxes. This article is aimed at analysing some of the important proposed amendments to the Income-tax Act, 1961 (Act)*

#### 1. Introduction

The Hon'ble Finance Minister Nirmala Sitharaman emphasized that these reforms aim to modernize India's tax system, reduce compliance burdens, and foster a taxpayer-friendly environment. The Finance Bill 2025 reflects the government's commitment to fiscal prudence while supporting economic growth and development. The Bill has placed emphasis on the middle class and the ease of doing business in India. Overall, the very sincere efforts of the Honourable Finance Minister Mrs Nirmala Sitharaman is highly appreciated by the citizens across the Country. Honourable Prime Minister of India Shri Narendra Modi has an ambitious dream of Viksit Bharat 2047 when we celebrate our centenary year of independence, and the honourable Prime Minister is making all his sincere attempts. Every citizen of our country desires to see our great nation as a developed nation. No doubt, we are all achieving most of the area's desired results; however, though we have completed 75 years of independence, we are not able to bring the desired reform in the Judiciary to bring the pendency of cases before various High Courts and other courts. The judiciary is the guardian of our democracy. The common men have faith in the Judiciary. The only criticism against the judiciary is that there is a delay in disposing of the matters. Delays in the disposal of matters are not on account of Judges, it is only due to a shortage of judges and a lack of infrastructure. The Honourable Finance Minister has made an announcement of constituting a high-level committee for regulatory Reforms for the review of all financial sectors, regulations, certifications, licenses and permissions. The Committee will be expected to make recommendations within a year. The objective is to strengthen trust-based economic governance and take transformational measures to enhance ease of doing business, especially in matters of inspections and compliance. States will be encouraged to join in this endeavor. We highly appreciate the initiative by the Government. We suggest that a similar committee may be desired for reducing the tax litigation on direct and Indirect taxes, which will help to achieve the goal of measures to enhance 'ease of doing business'.

For the benefit of readers, we have made an attempt to discuss a few important provisions.

#### 2. Proposed Amendments

##### 2.1. Change in tax slabs [clause 2, 20, 24 and First Schedule]:

The income tax slabs for resident individuals have been revised, increasing the tax-free income threshold from ₹ 7 lakh to ₹ 12 lakh. This adjustment aims to provide greater financial relief to taxpayers by reducing their tax liability.

Starting from the Assessment Year 2026-27, individuals in India who are taxed under Section 115BAC(1A) will benefit from an increased rebate limit under Section 87A. The maximum taxable income eligible for a rebate has been raised from ₹ 7,00,000 to ₹ 12,00,000, and the rebate amount specified under the first proviso to Section 87A(a) of the Act has been enhanced from ₹ 25,000 to ₹ 60,000.

Comments: This is a rationalising amendment considering the increase in the slab rates. The increase in slab rates was necessary as the slab rates had not been significantly improved in the decade. Further, this would improve consumption as there would be more spending capacity with the middle class. Even the individuals earning a higher income over ₹ 1 Crore or 2 Crore stand to gain with the proposed upward revision of slab rates. Therefore, this is a welcome amendment. The Hon'ble Bombay High Court in the case *Chamber of Tax Consultants v Director General of Income Tax (systems)* [2025] 170 taxmann.com 707 (Bom)(HC) held that assessee could not be restrained from claiming rebate under section 87A of

the Act by modifying utility by which assessee was forbidden at threshold itself from making such a claim. It is desirable to get the clarity when the Finance Bill becomes an Act so that the unintended litigation can be avoided.

## **2.2. Charitable Trusts [Clause 7]**

A few changes have been prescribed for Charitable Trusts.

### **2.2.1. Rationalisation of 'specified violation'**

Explanation 12AB(4) of the Act provides that "specified violation" inter alia means the cases where the application referred to in section 12A(1)(ac) of the Act is not complete or contains false or incorrect information.

As the language used in the provision contained "shall", even in the event of any bona fide or inadvertent mistake, the registration of the trust would get cancelled and be subjected to section 115TD of the Act.

It is, therefore, proposed to section 12AB(4) of the Act so as to provide that the situations where the application for registration of trust or institution is not complete shall not be treated as specified violation.

**Comments:** It is a settled principle in taxing statutes that when substantial justice is pitted against technical considerations, the cause of substantial justice should prevail. The law cannot be read so stringently that an incomplete application results in cancellation.

This is a welcome amendment. It should also be widened to include Bonafide mistakes.

Many charitable organisations could not file Form No. 10A, 10B, an application for renewal of registration certificate, etc. In a number of cases, the Tax Department has disallowed the exemptions. The Tribunals have set aside the matters to the Assessing Officer and made observations that the application of the assessee deserves to be condoned. It has been observed that in a large number of cases, the application for condonation of delay is rejected.

The Hon'ble Bombay High Court in the case of *Borivali Educational Society v. CIT(E) WP 5420 of 2024 February 17, 2025 (Bom)(HC)* the assessee up loaded the form 10B within due date, however do to bonafide mistake of the Chartered Accountant the form was not uploaded. It was uploaded later, and there was a delay of 2478 days in uploading form No. 10B. The CIT( E) rejected the application for condonation of delay. On writ, the Honourable Court allowed the condonation of delay and observed that. It is desired that the Revenue should adopt a lenient view, especially in technical default. This will help to overcome the Trust deficit between the Revenue and the taxpayers.

### **2.2.2. Period of registration of smaller trusts or institutions**

To reduce the compliance burden for the smaller trusts or institutions, it is proposed to increase the period of validity of registration of trust or institution from 5 years to 10 years, in cases where the trust or institution made an application under section 12A of the Act, and the total income of such trust or institution, without giving effect to the provisions of sections 11 and 12, does not exceed ` 5 crores during each of the two previous year, preceding to the previous year in which such application is made.

**Comments:** This is a welcome amendment. It reduces the burden of compliance for small trusts.

### **2.2.3. Rationalisation of persons specified under section 13(3) of the Act for trusts or institutions**

There were difficulties in furnishing certain details of persons other than the author, founder, trustees or manager, etc., who have made a 'substantial contribution to the trust or institution', that is to say, any person whose total contribution up to the end of the relevant previous year exceeds fifty thousand rupees. These details are about their relatives and the concerns in which they are substantially interested. Hence, it is proposed to increase the threshold to ` 1 lakh and remove the term "relative" and "concern" from section 13 (3)(i) of the Act.

**Comments:** This is a welcome amendment. This reduces confusion and uncertainties.

## **2.3. Income from House Property [Clause 10]**

An amendment is proposed to provide that the annual value of the property consisting of a house or any part thereof shall be taken as nil if the owner occupies it for his own residence or cannot actually occupy it due to any reason.

**Comments:** This is a logical and welcome amendment. It has reduced the need to provide an explanation to the tax authorities as to why the residential house property was vacant.

#### **2.4. Presumptive Income [Clause 11]**

In order to position India as the global hub for Electronics System Design and Manufacturing, a comprehensive program for the development of semiconductors and display manufacturing ecosystem in India was approved by the Government of India. The Ministry of Electronics and Information Technology has notified Schemes for setting up such facilities in India. Non-residents will be providing support in setting up such electronics manufacturing facilities by deploying the technology and providing support services.

In order to ensure certainty and promotion of this industry, it is proposed to provide a presumptive taxation regime for non-residents engaged in the business of providing services or technology, to a resident company which are establishing or operating electronics manufacturing facility or a connected facility for manufacturing or producing electronic goods, article or thing in India.

It is, therefore, proposed to insert a new section 44BBD of the Act, which deems twenty-five per cent of the aggregate amount received/ receivable by, or paid/ payable to, the non-resident, on account of providing services or technology, as profits and gains of such non-resident from this business. This will result in an effective tax payable of less than 10 per cent on gross receipts by a non-resident company.

**Comments:** This is a welcome amendment. It will boost the industry and help India bring technology and qualified personnel. *Au contraire*, before the proposed amendment, if a non-resident constituted a permanent establishment in India and the royalty and fee for technical services were connected with the permanent establishment, then the tax rate would have been 38.22 per cent, which has now effectively come down to 9.55 percent.

For non-treaty jurisdiction, it is advisable to avail section 44BBD of the Act as the benefit of lower tax cannot be claimed.

#### **2.5. Carry Forward of Losses**

Section 72A and 72AA of the Act provide that accumulated loss of the amalgamating entity or predecessor entity shall be deemed to be the loss of the amalgamated entity or the successor entity for the previous year in which amalgamation or business reorganisation has been effected or brought into force. Further, section 72 of the Act provides that no loss (other than loss from speculation business) under the head “Profits and gains from business or profession” shall be carried forward for more than 8 assessment years immediately succeeding the assessment years for which the loss was first computed.

In order to bring clarity and parity with the provisions of section 72 of the Act, it is proposed to amend section 72A and section 72AA of the Act to provide that any loss forming part of the accumulated loss of the predecessor entity, which is deemed to be the loss of the successor entity, shall be eligible to be carried forward for not more than eight assessment years immediately succeeding the assessment year for which such loss was first computed for original predecessor entity. The proposed amendment is aimed to prevent evergreening of the losses of the predecessor entity resulting from successive amalgamations and also to ensure that no carry forward and set off of accumulated loss is allowed after eight assessment years from the immediately succeeding the assessment year for which such loss was first computed for the original predecessor entity.

**Comments:** This would reduce the possibility of strategic tax planning through mergers. The amendment comes into effect on April 01, 2025. The amendment does not provide clarity for a case where the order of amalgamation is passed subsequent to April 01, 2025, but the appointed date is prior to April 01, 2025. The Hon’ble Supreme Court in the case of *Marshall Sons & Co. (India) Ltd. v. ITO [1996] 223 ITR 809 (SC)*, the scheme of amalgamation takes effect from the appointed date specified in the scheme, unless modified by the Court.

## **2.6. Updated return [Clause 39 and 40]**

With a view to further nudging voluntary compliance, the Bill proposed to amend the said subsection so as to extend the time limit to file the updated return from existing 24 months to 48 months from the end of the relevant assessment year. The rate of additional income tax payable for updated returns filed after the expiry of 24 months and up to 36 months from the end of the relevant assessment year shall be 60 per cent of the aggregate of tax and interest payable. The additional income tax payable for an updated return filed after the expiry of 36 months and up to 48 months from the end of the relevant assessment year shall be 70 per cent of the aggregate of tax and interest payable. It is further proposed to provide that no updated return shall be furnished by any person where any notice to show cause under section 148A of the Act has been issued in his case after thirty-six months from the end of the relevant assessment year. However, where subsequently an order is passed section 148A(3) of the Act determining that it is not a fit case to issue notice under section 148 of the Act, the updated return may be filed up to 48 months from the end of the relevant assessment year.

**Comments:** It is a welcome amendment. The progressive rate of tax will demotivate honest taxpayers who might have missed a certain transaction on account of oversight etc.

## **2.7. Immunity from Penalty [Clause 74]**

The time period for granting immunity from penalty under section 270AA of the Act is increased from 1 month from the end of the month in which the Application is made to 3 months.

**Comments:** Once again, it is a welcome amendment, which gives sufficient time for the proceedings and adheres to the principles of Natural Justice.

## **2.8. Search and Seizure [Clause 46, 47, 48 and 49]**

Amendments were introduced to streamline and rationalize the provisions of search and seizure.

**Virtual Digital Asset:** The definition of 'undisclosed income' has been widened to include virtual digital assets. It is also clarified that the tax rate of undisclosed virtual digital assets would be 60 percent under section 113 of the Act.

## **2.9. Faceless Tribunal [Clause 70]**

An amendment has been introduced by way of omitting the proviso to section 255(7) of the Act, which said that the Faceless Tribunal Scheme shall not be issued by way of a Notification after March 31, 2025

**Comments:** There is no clause for a Faceless Tribunal in the Income-tax Bill 2025. Therefore, it appears that the recommendations made by professional bodies viz. All India Federation of Tax Practitioners and Income-tax Appellate Tribunal Bar Association, Mumbai are accepted by the Government. This shows the Government is willing to accept the suggestions of the stakeholders.

## **3. Conclusion:**

The Finance Bill 2025 introduces progressive tax reforms while focusing on reducing compliance burdens and modernizing tax laws. While many of these reforms are positive, certain provisions—such as steep penalties for delayed tax filings—may require further review to ensure fairness. Nonetheless, the bill marks a significant step toward a more efficient and growth-oriented tax framework. We have observed that if professional organisations sincerely attempt to forward very objective suggestions. We hope the tax administration will consider the suggestions in the interest of better law and administration.

**[Source : AIFTP Journal-February, 2025]**