

DECODING THE NEW INCOME TAX ACT, 2025 & ITS COMPARISON WITH THE OLD REGIME

Introduction:

India's tax laws have long carried a notorious reputation it is not because they were unjust or punitive, but because they were genuinely difficult to read. Over the years, the Income Tax Act, 1961, accumulated decades of amendments, provisos, explanations, and cross-references until it became a document that even seasoned professionals approached with caution. The Income Tax Act, 2025, which came into force on 1st April 2026 along with Income Tax rules, 2026, is the legislature's attempt to fix that. Rather than introducing a fundamentally new system of taxation altogether, the Act reorganises and streamlines the existing framework with a focus on clarity, accessibility, and alignment with the digital economy¹. It does not reinvent the wheel altogether, the core principles of taxation remain intact, but it surely clears away the undergrowth that had made the old law so difficult to navigate. The new Act will be applicable from Financial Year 2026–27 onwards, and for Financial Year 2025–26 (Assessment Year 2026–27), the provisions of the 1961 Act continue to govern in the meantime.

Statutorily speaking, one of the defining features of the new Act is its simplified structure. The number of sections has been reduced down to 536, from more than 700 of 1961 Act, and the overall length has also been condensed from over 800 pages to approximately 622 pages². The number of chapters remains unchanged at 23, while schedules have increased slightly from 14 to 16. Most importantly, the Act adopts a sequential numbering system, eliminating the earlier alphanumeric structure (such as Sections 80C or 80D), thereby improving readability and navigation. Redundant provisions have been removed, and related provisions have been grouped together, for instance, all Tax Deducted at Source (TDS) provisions are now consolidated under a single section.

¹ “FAQs on Interplay and Transition from Income Tax Act,1961 to Income Tax Act, 2025.” <https://www.incometaxindia.gov.in/documents/81799/11848482/FAQs-on-Interplay-and-Transition.pdf/05f80c1a-073c-a5d7-fb6f-55509242be53?t=1774082865717>.

² Anandan, Chandni. “Old Income Tax Act 1961 vs New Income Tax Act 2025.” *Cleartax*, <https://cleartax.in/s/income-tax-act-1961-vs-income-tax-act-2025>.

The act introduces a key concept of a “Tax Year”.³ This, is different from the earlier regime, where taxpayers were required to distinguish between the “previous year” (the year in which income is earned) and the “assessment year” (the year in which such income is taxed). This dual framework often led to confusion in compliance and interpretation. The new Act replaces this with a single concept of “Tax Year,” defined as the financial year running from 1st April to 31st March, and introduces the term “succeeding tax year” wherever necessary. This change majorly simplifies the temporal framework of taxation.

One of the objectives of introducing the act was inclusion of the “digital economy”. The Act expands the definition of ‘Virtual Digital Assets (VDA)’, to include “*any asset with a digital representation of value secured by cryptographic or similar technologies, thereby explicitly covering cryptocurrencies, non-fungible tokens, and similar instruments*”⁴. In addition, undisclosed income now includes such digital assets, ensuring that they fall squarely within the tax net. Furthermore, the Act strengthens enforcement mechanisms in the digital domain by enabling the tax authorities to access electronic records during search operations, including emails, cloud storage, social media accounts, and online financial platforms. For this purpose, the Assesseees are required to provide access and assistance in such searches, reflecting a shift towards a more data-centric tax administration.

Comparison With the Old Regime: What Actually Changed?

When compared with the Income Tax Act, 1961, the new 2025 Act reflects continuity in the substance but shows a departure in its form and administration. The older Act, was often criticized for being fragmented and difficult to navigate, it had numerous provisos, explanations, and cross-references which essentially proved difficult for any layman to understand the ‘letter’ of law, presenting a gap in understanding and ultimately in its compliance. The new Act, addresses this by reorganizing provisions in a logical sequence, removing unnecessary redundancies, and simplifying the language. Even though, the number of sections appears high on paper, the actual content has been reduced and made more concise.

The new tax regime, previously governed by *Section 115BAC*, has been retained and repositioned as *Section 202* in the new Act. While the earlier provision applied only to

³ Income Tax Act, 2025 (No. 30 of 2025), India.

⁴ CA Chokhawala, CA Mohammed. “New Income Tax Act 2025: What Changed and What Remains Unchanged?” *Clartax*, <https://clartax.in/s/new-income-tax-act>.

individuals and Hindu Undivided Families (HUFs’), the scope has now been expanded to include associations of persons, bodies of individuals, and artificial juridical persons⁵. The new regime continues to operate as the default option, with the flexibility to opt out. Importantly, the structure of deductions remains largely consistent with the earlier framework, preserving policy continuity. Timelines for compliance have also been adjusted. The due date for filing ITR-3 and ITR-4 (non-audit cases) has been extended to 31st August, while the deadline for filing revised returns has been extended to 31st March. These changes are intended to provide taxpayers with greater flexibility and reduce procedural pressure, and ensure a smooth transition.

At the same time, certain areas reflect a shift in regulatory emphasis. Such as the expanded recognition of digital assets and the inclusion of such assets within the definition of undisclosed income represent a substantive update to the law. On the other hand, enhanced powers of search and seizure in the digital space, mark a departure from the traditional focus on only physical records.

The Constitutional Concern

The most consequential legal development surrounding the new Act, is not in the text of the statute itself, but in a challenge currently pending before the Supreme Court of India. In the WP of *Vishwaprasad Alva v. Union of India*, the petitioner has questioned the constitutional validity of *Section 247* of the Income Tax Act, 2025 and its counterpart, *Section 132* of the 1961 Act, both of these sections authorise searches of "computer systems" and "virtual digital space," including but not limiting to personal devices, cloud servers, and electronic communications, etc⁶.

The petition here challenges what it terms as an "anticipatory search framework", one that permits ‘intrusive’ searches based not on any established violation, but merely on a belief that an assessee may fail to produce documents or disclose assets in the future. This, the petitioner argues, allows the State to intervene before any actual wrongdoing has occurred, and amounts to an overreach of executive power. The challenge is grounded in the right to privacy

⁵ Venkat, Vaishali R. "New Income Tax Act 2025: Breaking down Benefits for Individuals." *The Hindu*, 31 Mar. 2026. Business. [www.thehindu.com, https://www.thehindu.com/business/new-income-tax-act-2025-breaking-down-benefits-for-individuals/article70805979.ece](https://www.thehindu.com/business/new-income-tax-act-2025-breaking-down-benefits-for-individuals/article70805979.ece).

⁶ NETWORK, LIVELAW NEWS. *PIL In Supreme Court Challenges New Income Tax Law Allowing Search Of Digital Devices*. 10 Feb. 2026, <https://www.livelaw.in/top-stories/pil-in-supreme-court-challenges-new-income-tax-law-allowing-search-of-digital-devices-522562>.

under *Article 21*, as recognised in *K.S. Puttaswamy v. Union of India*. The petitioner contends that digital searches are far more invasive than the examination of physical records and demands stronger procedural safeguards, particularly given the absence of prior judicial approval and the statutory bar on disclosing the "reasons to believe" behind any such given search. Senior Advocate Sanjay Hegde, appearing for the petitioner, further argued that earlier precedents such as *Pooran Mal v. Director of Inspection* warrant a reconsideration in light of how privacy jurisprudence has evolved since *Puttaswamy* judgement.

The Bench, led by Chief Justice of India Surya Kant and comprising Justices Joymalya Bagchi and N.V. Anjaria, acknowledged the privacy concerns but noted that the framework in fact does carry certain safeguards. Referring to *Principal Director of Income Tax v. Laljibhai Kanjibhai Mandalia*, the Court observed that limited judicial review over the "reasons to believe" is available, and that search powers must be supported by material evidence which has a rational nexus to the investigation. Furthermore, the bench also recognised the practical concern, that prior notice of search could allow digital evidence to be destroyed altogether. That said, the Court indicated that searches premised entirely on anticipatory grounds may warrant a higher degree of judicial scrutiny than the current framework provides. The matter currently remains pending.

The outcome will surely carry implications well beyond tax law. It will help define where India draws the line between effective enforcement and individual privacy, especially in an era where a person's entire financial life may sit across a few digital platforms and cloud servers. Moreover, that is not a question the Act can answer, it is one only the Court can resolve.

A Reform Worth Watching

The Income Tax Act, 2025 is a serious effort to make India's direct tax law cleaner, more accessible, and better suited to a digital economy. For most taxpayers, the experience of filing returns and computing liability will not change dramatically overnight but the law governing that actual process will be meaningfully easier to read and apply. The larger question mark, however, hangs over its enforcement provisions, and the Supreme Court's eventual ruling in *Vishwaprasad Alva* will shape how those powers are exercised for years to come.