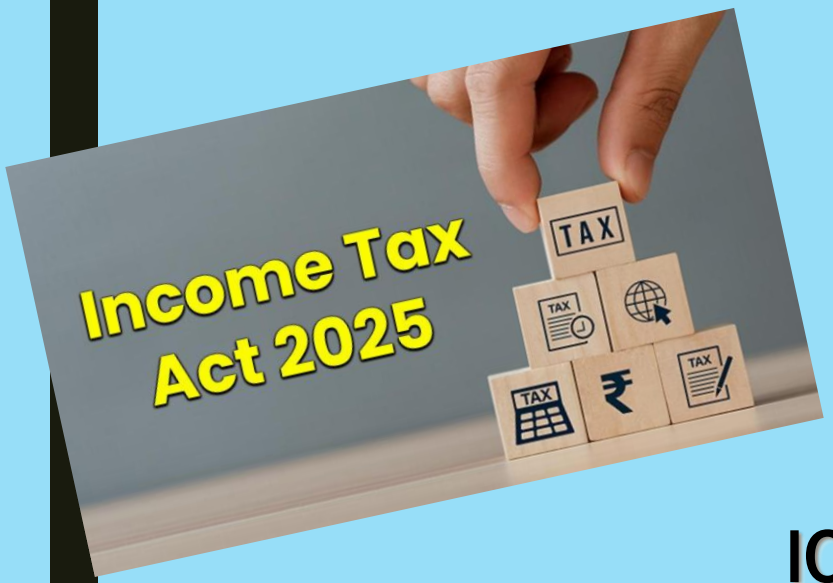
Critical issues
in
Income Tax Act 2025





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FCA, FCS, FCMA, LL.B, MIMA, DISA, IP

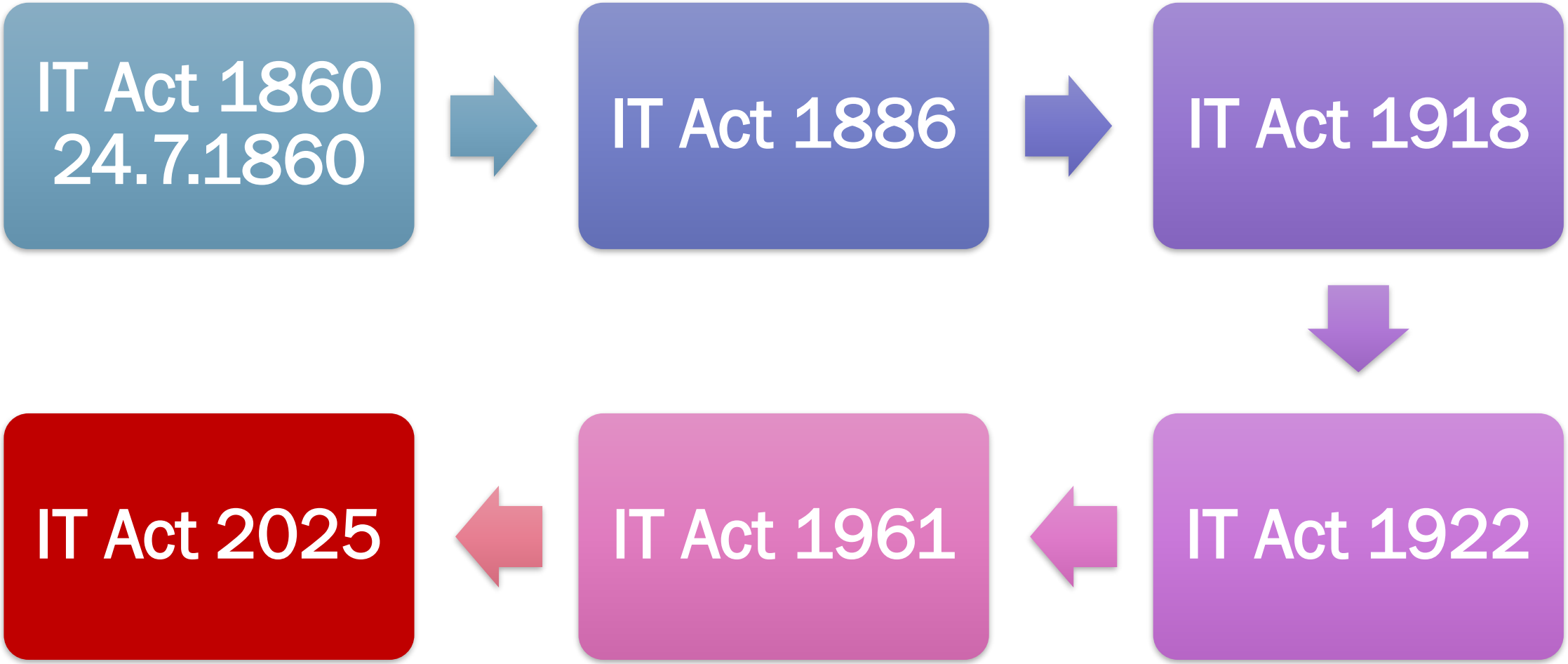
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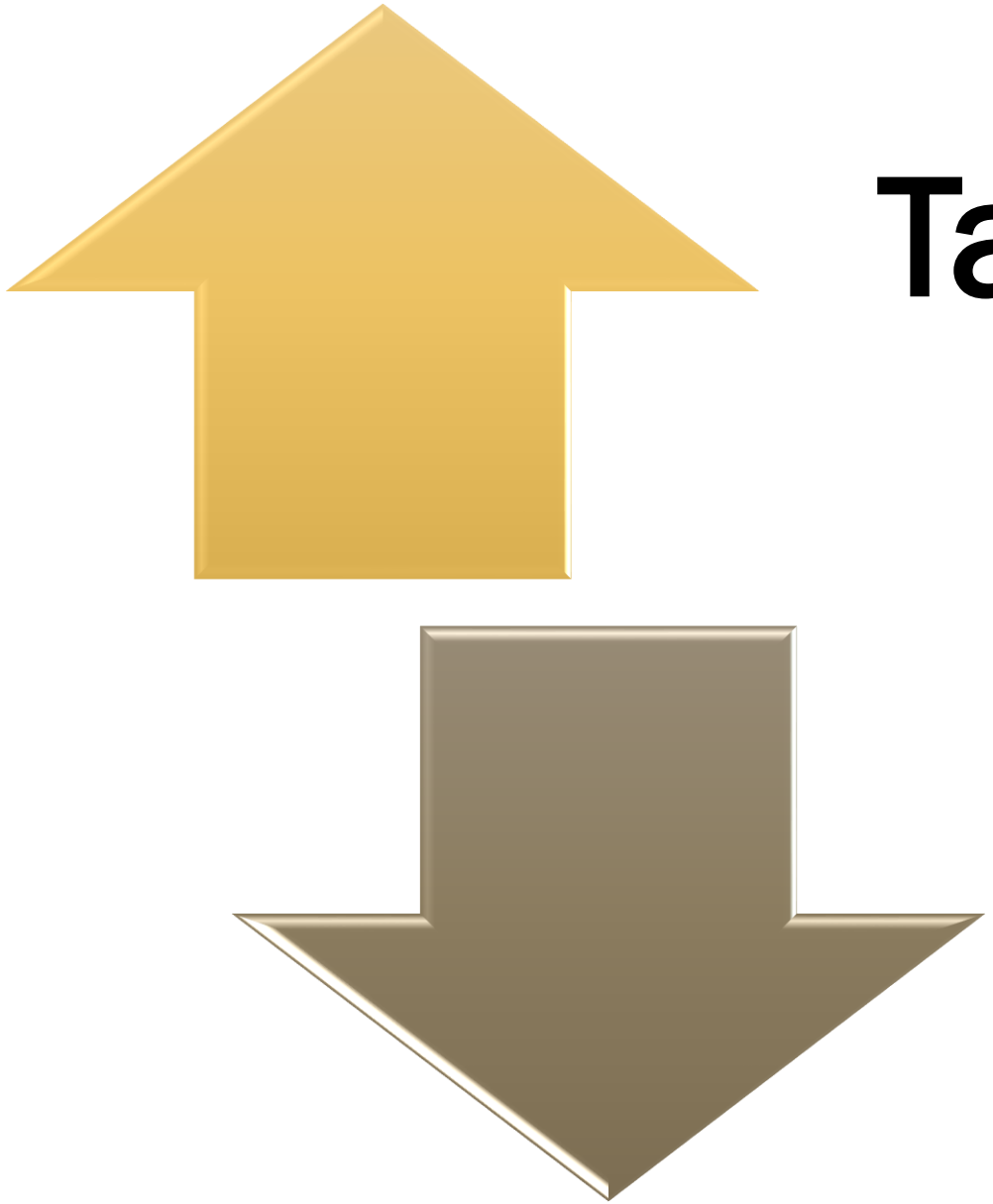
ICAI – Ludhiana Branch (CIRC)

24th October 2026

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HISTORY OF INCOME TAX IN INDIA





Tax year

Assessment Year

EXEMPT INCOMES - SECTION 10 (OLD)

Sch II	• To any person – 17 incomes including agriculture
Sch III	• Eligible persons – 42 incomes (Sl. No. 39A to 39D inserted in 2026), including partners, HUF, LTC
Sch IV	• Non- Residents, Foreign Co – 17 incomes (Sl. No. 13A to 13C inserted in 2026)
Sch V	• Investment funds, business trusts & unit holders – 8 incomes
Sch VI	• IFSC – 12 incomes
Sch. VII	• Persons Exempt – 48 persons
Salary Related	• Gratuity, leave encashment, Voluntary Retirement Scheme, etc in S. 19


SALARIES

SALARIES - DEDUCTIONS

- From S. 16 (1961 Act) to S. 19 now
- Apart from standard deduction, etc. it includes:
  - *Gratuity (Old S. 10(10))*
  - *Commutation of Pension (Old S. 10(10A))*
  - *Workmen Compensation (Old S. 10(10B))*
  - *Leave Encashment (Old S. 10(10AA))*
  - *Voluntary Retirement Scheme (Old S. 10(10C))*
- These deductions are allowed in New Tax Regime too, as per s. 202 (old S. 115BAC).

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CHANGES IN PERQUISITE RULES

S. No.	Related to	2026 Rules	1962 Rules
1	Motor car, which is either EV or its engine capacity is < 1.6 liters & expense met by employer	Rs. 5000 pm + Rs. 3000 chauffeur	Rs. 1800 pm + Rs. 900 chauffeur
2	Motor car where its engine capacity > 1.6 liters & expense met by employer	Rs. 7000 pm + Rs. 3000 chauffeur	Rs. 2400 pm + Rs. 900 chauffeur
3	Motor car, which is either EV or its engine capacity is < 1.6 liters & expense met by assessee.	Rs. 2000 pm + Rs. 3000 chauffeur	Rs. 600 pm + Rs. 900 chauffeur
4	Motor car, where its engine capacity > 1.6 liters & expense met by assessee	Rs. 3000 pm + Rs. 3000 chauffeur	Rs. 900 pm + Rs. 900 chauffeur

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CHANGES IN PERQUISITE RULES

S. No.	Related to	2026 Rules	1962 Rules
5	Free or concessional education facilities for any member of household where education institution is owned and maintained by employer or in any other education institution by reason of hid employment	Cost in similar institution in near locality as reduced by recovery where cost of such education or value per child > Rs. 3k pm	Cost in similar institution in near locality as reduced by recovery where cost of such education or value per child > Rs. 1k pm
6	Interest-free or concessional loan for any purpose made available to employee or member of his household	Nil, for specified diseases, or amt is not exceeding Rs. 2 L in agg.	Nil, if for specified diseases, or amt is not exceeding Rs. 20k in agg
7	Free food and non-alcoholic beverages through paid meal vouchers usable at eating joints only	Not exceeding Rs. 200 per meal	Not exceeding Rs. 50 per meal
8	Value of any gift or voucher or token received by employee or member of his household on ceremonial occasions or otherwise from his employer	Nil if aggregate of such gift, etc. is below Rs. 15000 in aggregate in a tax year	Nil if aggregate of such gift, etc. is below Rs. 5000 in aggregate during PY

CHANGES IN HRA – OLD REGIME

- Available only in old regime. Lower of:
  - *Actual amount*
  - *Actual expenditure incurred for rent exceeding 1/10th of salary*

S. No.	Related to	2026 Rules	1962 Rules
1	50% of Salary (includes only DA)	Delhi, Mumbai, Kolkata, Chennai, Hyderabad, Pune, Ahmedabad & Bengaluru	Delhi, Mumbai, Kolkata & Chennai,
2	40% of Salary (includes only DA)	Any other place	Any other place

CHANGES IN ALLOWANCE EXEMPTION

- Related to Education - Available only in old regime

S. No.	Related to	2026 Rules	1962 Rules
1	Children Education Allowance per child per month (Maximum 2 children)	Rs. 3000/-	Rs. 100/-
2	Children Hostel Allowance per child per month (Maximum 2 children)	Rs. 9000/-	Rs. 300/-

BUSINESS & PROFESSION

1961 Act	2025 Act
Chapter IV-D	Chapter IV-D
Sections 28 to 44DB	Sections 26 to 66
65 sections	41 sections

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SOME SECTIONS

1961 Act	Related to	2025 Act
35D	Amortisation of preliminary expenses	44
44AD/44ADA/44AE	Presumptive Taxation for Residents	58
44AA	Maintenance of Books	62
44AB	Tax Audit	63
47	Transactions not regarded as transfer	70
50C	Special provision for full value of consideration in certain cases.	78
68	Unexplained Credits	102
269SS / 269T	Taking / repayment of deposits, loans, etc	185 / 188
112A	Tax on LTCG in certain cases	198
115BAC	New Tax Regime	202

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SOME SECTIONS

1961 Act	Related to	2025 Act
115JA to 115JF	MAT & AMT	206
132	Search & Seizure	247
133A	Power of Survey	253
139	Return of Income	263
143	Assessment	270
147	Income Escaping Assessment	279
12A	Application for Registration	332
11 / 12 / 13 / 80G	Charities	334 to 355
246A	Appeals to CIT(A)	357
253	Appeals to ITAT	362
193 to 197A / 206C	TDS / TCS	393 / 394

BUSINESS - DEDUCTIONS

- Section 28 now consolidates:
  - *Old s. 30 (Rent, rates, taxes, repairs & insurance for buildings),*
  - *Old s. 31 (Repairs and insurance of machinery, plant and furniture)*
  - *Old s. 38 (Building, etc., partly used for business, etc., or not exclusively used)*

BUSINESS – DEDUCTIONS – EMPLOYEE WELFARE

- Expenses for contributions to PF, Gratuity Fund, Superannuation Fund, etc., were spread across various sections in 1961 Act, -40A(7), (9) & 36(1)(iv), (iva), (v) & (va). In 2025 Act, consolidated u/s. 29.
- It includes:
  - *Contribution towards recog.PF or approved superannuation fund.*
  - *Contribution towards a pension scheme.*
  - *Contribution towards an approved gratuity fund.*
  - *Contribution received from an employee (ESI, PF) – allowed if paid till due date u/s 263(1)*
  - *Non allowability for setting up/formation of/contribution to, any fund, trust, company, AOP, BOI, society*
  - *Non- allowability for gratuity unless paid.*

BOOKS

- Section 62 as compared to Old S. 44AA
- Specified Profession - Information Technology & Company secretary professions have been added in the section as specified professions, earlier - notifications.
- Earlier books of accounts were required for assessee, who was engaged in business which was covered u/s 44AD(4) and his TI exceeded the MANCT. Now:
  - *condition of TI exceeding MANCT is not there,*
  - *hence even if an specified assessee is not declaring profits as per presumptive basis and as his income is below MANCT*
  - *consequently tax audit is not required,*
  - *still the assessee would have to prepare its books of accounts.*

BOOKS – BACK-UP

- Rule 46 (8) - The books of account and other documents specified in sub-rules (1), (4) and (6) maintained in electronic mode shall remain accessible in India at all times, and the back-up of such books of account and other documents maintained in electronic mode, shall be kept on a daily basis in servers physically located in India.
- Companies (Accounts) Rules 2014
  - *Rule 1 - The books of account and other relevant books and papers maintained in electronic mode shall remain accessible in India, at all times so as to be usable for subsequent reference.*
  - *Proviso to Rule 3(5) - Provided that the back-up of the books of account and other books and papers of company maintained in electronic mode, including at a place outside India, if any, shall be kept in servers physically located in India on a daily basis.*

AUDIT / PRESUMPTIVE TAXATION

- Section 58 (Old s. 44AD/44ADA/44AE) r.w.s. 63 (Old S. 44AB)
- Earlier Old S. 44AD was optional, now mandatory.
- Now not declaring income lower than specified % of profit, and its TI exceeds MANCT, would require to:
  - *Maintain books of accounts; and*
  - *Get the audit done u/s 63*
- However, u/s 63, condition of TI exceeding MANCT is not mentioned.
- Earlier condition of TI exceeding MANCT was not there for business of plying, hiring or leasing of goods carriage, which is now required in 2025 Act.

Legislation for TY 2026-27

S. 63(1) Tbl	• 1(a)/(b)- Business – exceeds Rs. 1 Cr. / 10 Cr • 1(c) - Profession – exceeds Rs. 50 L • 2 - Business/Profession u/s 58(2); income<deemed profit • 2 - Business u/s 61(2) (Tbl. S. No. 4&5) < deemed profit
S. 58 (2)	1.Old 44AD 2.Old 44AE 3.Old 44ADA
Rule 47	• Report Prescribing the Forms for Report
Form 26	• Tax Audit Report
S. 428(c)	• Late Fee 75K/150K

Applicability of S. 58(2) (Tbl S. No.1/3) / 63(1)

Mr. A Mfg - Turnover (all cash) – 150L; NP – 8 L; TI - 8.50 L

- 58 - No
- 63 - Yes

Ms. B - Trading - Turnover (all cash) – 90L; NP - 10L; Doctor– Fee – 45 L; NP- 25 L; TI -32L

- 58(1) – No
- 58(3) - Yes
- 63 - No

Ms. C – Trading Turnover (all cash)– 80L; NP – 5 L; TI- 5 L

- 58 – No
- 63 - Yes

Mr. D - Trading; Turnover (all cash) - 95L; Profit 9 Lacs; Commission – 6 L; NP- 15L; TI - 14L

- 58 - No
- 63 – Yes

Mr. I – Salaried Employee - 12 lacs; F&O Turnover 26 L, Net Loss – 20K; TI -12 Lacs

- 63 Yes

FORM 3CD / FORM 26

1962 Rules		2026 Rules		Comments
Form No.	No. of clauses	Form No. 26	No. of clauses	
3CA	3	Part A	5	For person who is required by or under other law to get his accounts audited. Also requires to report on 'impact of statutory audit qualifications'
3CB	5	Part B	5	For person not being a person covered in Part A. Also requires to report on 'impact of audit qualifications'
3CD Part A	9	Part C	8	For all persons. Particulars of assessee.
3CD Part B	41	Part D	45	For all persons. Contains 11 sub-parts.

PENALTY / FEE

- Tax Audit – Penalty to Fee - graded
- TP Report – Penalty to fee - graded
- SFT – Rs. 200 p.d. Max Rs. 1 L – Penalty to fee
- Misreporting Penalty 100% / 120% if paid with 30 days++
- Penalty order along with assessment Order – Interest on penalty only after 1st appeal order – from 1.4.27

CG - S. 85 (S. 54EC)

- ’Capital gain’ has changed to ‘Long-term capital gain’
- ‘Long-term capital asset’ has been omitted.
- CIT vs. Ace Builders (P) Ltd. (2006) 281 ITR 210 (Bom) approved in CIT v. Dempo Co. Ltd. (2016) 387 ITR 354 (SC) - ineffective to the extent of claiming deduction u/s 85 for transfer of a depreciable asset being building.
- Though it remains long term capital asset (due to its period of holding) but becomes STCG by virtue of s. 74

UNEXPLAINED SUMS

1961	Heading	2025	Heading
68	Cash Credits	102	Unexplained Credits
69	Unexplained Investments	103	Unexplained Investment (69 & part of 69B)
69A	Unexplained Money, etc.	104	Unexplained Asset (69A & part of 69B)
69B	Amt. of Investments, etc. not fully disclosed in books of Accounts		
69C	Unexplained expenditure, etc.	105	Unexplained Expenditure
69D	Amt. borrowed or repaid on hundi	106	Amt. borrowed or repaid through negotiable instrument, hundi, etc.

- 'May' replaced with 'Shall' except for S. 69D (as it already had 'shall')

UNEXPLAINED SUMS - TAX

- S. 195 – (s. 115BBE) when income u/s 102 to 106 (S. 68 to 69D)– 60% to 30%
  - *Surcharge of 25% continues.. Effective rate 39%*
  - *Penalty u/s 443 Omitted*
  - *Subsume this penalty in s. 439(11) - (misreporting : Penalty - 200%)*
  - *S. 439(11)(g)– income referred to in s. 195(b)*
    - Penalty only if AO assess

MAT

- S. 206 – (MAT S. 115JB)
  - *Rate reduced from 15% to 14%*
  - *No MAT Credit from Tax Year 2026-27*
  - *No fresh MAT credit in old regime. Old allowed till 15 years if shift to S. 200 (115BAA)*
  - *Those who shift – allowed to extent of 1/4th of tax liability for domestic Companies*
  - *Foreign company – full credit*

BUY-BACK – CG FROM 1.4.26

TABLE

Sl. No.	Income	Rate, where the promoter is a domestic company	Rate, where the promoter is other than a domestic company
A	B	C	D
1.	Short-term capital gains referred to in section 196 arising from the transfer of such securities.	2%	10%
2.	Long-term capital gains referred to in section 197 or section 198 arising from the transfer of such securities.	9.5%	17.5%

BUY-BACK TAX RATES

Type of Gain	Promoter		Non-Promoter
	Domestic Company	Other than Domestic Company	
LTCG	22%	30%	12.5%
STCG	22%	30%	Applicable / Slab rate

- **Promoter:**
  - *Listed Co- Regulation 2(k) of SEBI (Buy-back) Reg.*
  - *Other:*
    - S. 2(69) of Companies Act 2013
    - Person who hold directly/indirectly more than 10%

UPDATED ITRs

- Now allowed for:
  - *Reduction in losses*
  - *If notice u/s 280 (s. 148)*
    - Can file with addl. 10% tax
    - No return then u/s 280

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S. 149 / S. 282

Notice Type	Condition (Likely Income Escaped)	1961 Act (S. 149) Time Limit	2025 Act (S. 282) Time Limit
Show cause / Pre Notice (S. 148A / S. 281)	< Rs. 50 Lacs	Within 3 years from end of AY	Within 4 years from end of Tax year
Show cause / Pre Notice (S. 148A / S. 281)	> Rs. 50 Lacs	Within 5 years from end of AY	Within 6 years from end of Tax year
Reassessment Notice (S. 148 / S. 280)	< Rs. 50 Lacs	Within 3 years 3 months from end of AY	Within 4 years 3 months from end of Tax year
Reassessment Notice (S. 148 / S. 280)	> Rs. 50 Lacs	Within 5 years 3 months from end of AY	Within 6 years 3 months from end of Tax year

CHARITIES

- 2.50 L ITR for AY 2023-24. They applied Rs 10 L Crs. for charitable & religious purposes in FY 2022-23
- 1961 provisions
  - *Chapter I: Charitable Purpose (S. 2(15))*
  - *Chapter III: S. 10(23C), 11, 12, 12A, 12AA, 12AB, 12AC & 13*
  - *Chapter VIA: Section 80G*
  - *Chapter XII / XIIEB: Sections 115BBC, 115BBI, 115TD, 115TE, 115TF*

CHARITIES

- 2025 Act – Sections 332 to 355
  - *Unified term "registered non-profit organization" is used instead of various terms like trust, institution, etc.*
  - *"Registration" replaces "approval"*
  - *All provisions are consolidated in Part B of Chapter XVII under "Special Provisions for Registered NPOs."*
- Capital gains u/s 11(1A) done away with.
- Deemed application under Explanation 1(2) of section 11(1) done away wit. Accumulation u/s 11(2) for up to five years continues

CHAPTER XVII - PART B

SPECIAL PROVISIONS FOR REGISTERED NON-PROFIT ORGANISATION

Sub-Part	Heading	Sections
1	Registration	332-333
2	Income of registered non-profit organisation	334-343
3	Commercial activities by registered non-profit organisation	344-346
4	Compliances	347-350
5	Violations	351-353
6	Approval for purpose of deduction under section 133(1)(b)(ii)	354-355

CHARITIES

- Now only certain persons specified can register – S.332
- Application, duration, validity, etc. all in one table
- Incomes:
  - *Regular income.*
  - *Specified income.*
  - *Income not to be included in regular income.*
  - *Corpus donation.*
  - *Deemed corpus donation*

TDS

- 65 sections in 1961 Act specifying TDS liabilities, based on payer / payee's status & applicable limits, consolidated into 2 – S. 392/393.
- Now it is a ready-reckoner itself. S. 393 contains tables for:
  - *Sub s. (1) - Payments to Residents – 8 incomes*
  - *Sub s. (2) - Payments to Non-residents – 17 incomes*
  - *Sub s. (3) - Payment to any person – 7 incomes – lottery, 194T..*
  - *Sub s. (4) - No TDS required – 19 Sl. Nos. (exceptions)*
  - *Sub s. (5) - Declaration for no TDS – 15G/H Now Form No. 121*
- UDIN introduced for real-time verification through the ICAI API - Tax audit /15CB.

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TDS - RESIDENTS

S. No.	Nature of Income	1961 Act sections
1	Commission / Brokerage	194-H & 194D
2	Rent	194-I & 194 IB
3	Transfer of Immovable Property	194-IA, 194-IC & 194-LA
4	Income from Capital Market	194K, 194LBA, 194LBB & 194 LBC
5	Interest Income	193 & 194A
6	Contractors, FTS & Professional Services	194C, 194M & 194J
7	Dividend	194
8	Other cases	194-DA, 194Q, 194P, 194R, 194-O & 194S

TCS

- Provisions related to TCS also consolidated – S. 394.
- It includes one table listing nature of receipts, monetary thresholds, collectors, and applicable TCS rates.
- Conditions for no collection of TCS are also in it.
- Other Provisions that were scattered across existing Act are now consolidated into independent sections:
  - Certificates (Lower Deduction/Collection Certificates) – S. 395
  - Compliance & reporting (PAN/TAN, filing of statements..) – S. 397
  - Consequences of failure to deduct/collect, or failure to pay–S. 398
  - Processing of statements – S. 399
- Correction statement period reduced from 6 years to 2 years

TDS/TCS- ISSUES

- Table to s. 393(3) Sl. No. 5 (S. 194N) TDS @2% on the entire amount of cash withdrawals, if such withdrawals exceed Rs. 3 crores, for co-operative society and 1 crore for others. 1961 Act on excess.
- TCS on Motor Vehicles – 1% on Sale consideration exceeding Rs. 10 lakhs (2025 Act) – 1961 Act – on total amount
- Compensation or Enhanced Compensation (Sl. No. 3(iii) Section 393(1) Table vs. Section 194LA) – 2025 Act - the time of credit or payment, whichever is earlier @10% on the entire amount if such sum exceeds Rs. 5 L – 1961 Act at time of payment only
  - *LIC (194DA)*
  - *Total income of a specified senior citizen (194 P was silent)*

RELATIVE

- S. 2(94) - expanded to include both maternal as well as paternal lineal ascendant.
  - *Husband,*
  - *Wife,*
  - *Brother,*
  - *Sister*
  - *Any lineal ascendant (maternal as well as paternal)*
  - *Descendant of that individual;*
- Relatives are also defined in ss. 92(5)(g), 355(i) and 515(8) which is much wider than as defined in 2(94).
  - *S. 92(5)(g) (S. 56(2)(x) of 1961 Act), This is also applicable for purposes of GAAR - s. 184(8).*
  - *S. 355(i) - Special provisions for registered non-profit organization.*
  - *S. 515(8) - defining authorized representative & Accountant (CA).*

RELATIVE

- Relatives defined in ss. 92(5)(g), 355(i) and 515(8):
  1. *spouse;*
  2. *brother or sister;*
  3. *brother or sister of the spouse;*
  4. *brother or sister of either of the parents;*
  5. *any lineal ascendant (maternal as well as paternal) or descendant;*
  6. *any lineal ascendant (maternal as well as paternal) or descendant of the spouse;*
  7. *spouse of the person referred to in 2 to 6*
- Apart from these 3 provisions, term used in the Act would mean as per this sub-section, unless specifically defined, like in s. 129(3)(e), which is for the purpose of education loan interest deduction for relative.

PAN DATA CORRECTION

Form No.	Purpose
PAN CR-01	For Individual – Request for changes or correction in PAN Data
PAN CR-02	For Non-Individual – Request for changes or correction in PAN Data

Vide Order dated 1st April 2026 – S. 262(4) read with Rule 158(12)

1961 ACT REPEALED

- 1961 Act repealed vide s. 536 (Repeal and savings)
- Repealed Act to continue to apply to any pending proceedings
- Penalty can be imposed in the repealed Act
- Losses allowed to be carried forward
- MAT / AMT also allowed to be carried forward
- Many other allowed…
- General clauses Act applicable

IN TY 2026-27 ????

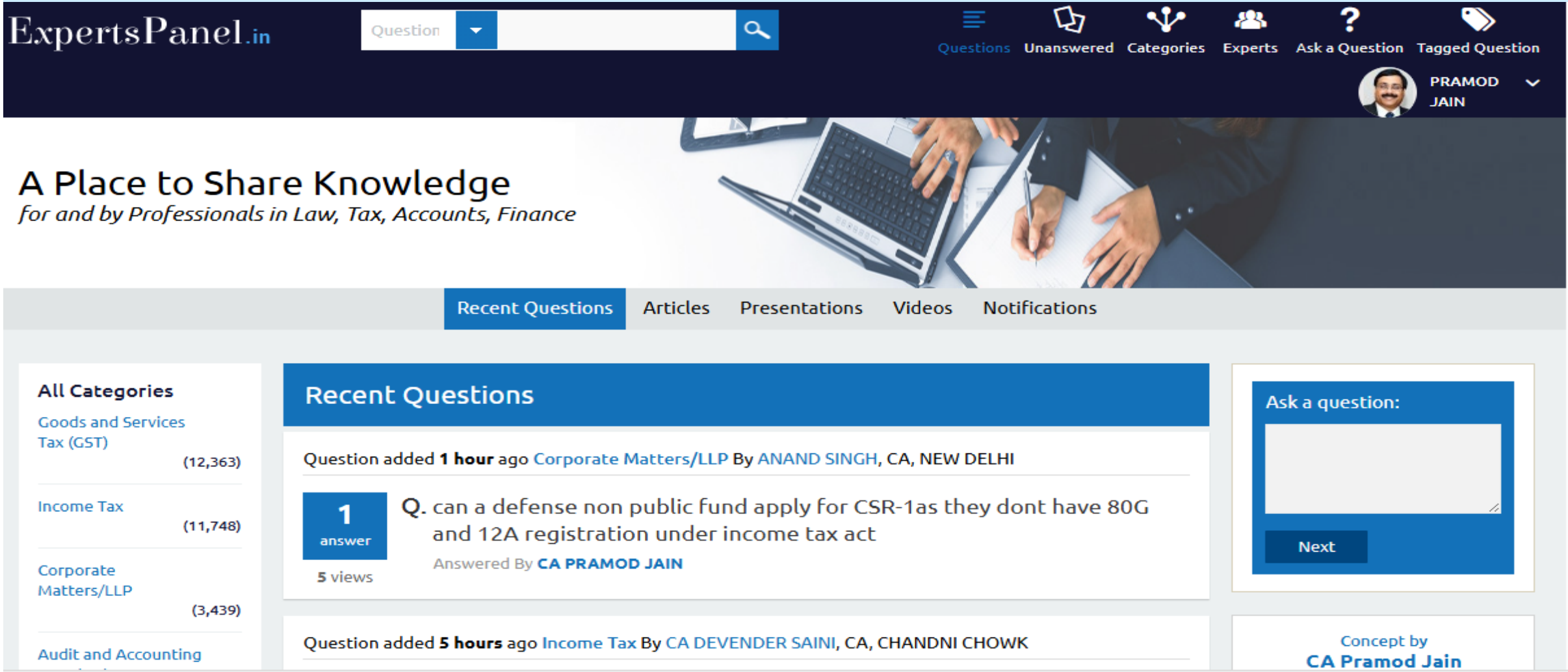
- ITR for AY 2026-27
- TDS / TCS for TY 2026-27
- Advance Tax for TY 2026-27
- Self assessment tax for AY 2026-27
- Presumptive Income
- Books
- Lower TDS/TCS certificate form
- Forms for informing other income / tax regime to be chosen by employee to employer

FORMS / RULES

- 333 Rules as compared to 130 ++
- 190 Forms Eg. for PAN allotment - 4 forms (93-96 / 49A & 49AA of 1962 Rules)
- Form 26 - Form 3CA/CB/CD
- Form 44 – Form 67
- Form 48 – Form 3CEB
- Form 121 – Form 15G/H
- Form 130 / 131 – Form 16/16A
- Form 145/146 – Form 15CA/CB

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