Direct Tax, 2025

KEY HIGHLIGHTS & AMENDMENTS FROM FINANCE BILL

📜 **Presented to Parliament on:** February 13, 2025
📅 **Effective from:** April 1, 2025 (Subject to Approval)
📌 **Prepared by:** MyTaxMentor

ABOUT THE DOCUMENT

The Finance Bill 2025 aims to introduce a restructured and simplified version of tax law, replacing the Income Tax Act of 1961. This document highlights key amendments, tax reforms, and structural changes proposed in the bill, providing an overview for businesses, professionals, and taxpayers.

KEY FEATURES

- ✅ Simplified tax laws with reduced complexity
- ✅ Revised income tax slabs for FY 2025-26
- ✅ Clarifications on Virtual Digital Assets taxation
- ✅ Tax benefits extended for startups
- ✅ Streamlined compliance & reduced tax burdens
- ✅ Amendments to various TDS & TCS provisions

Website: https://mytaxmentor.in

Contact: sales@mytaxmentor.in

Disclaimer: This document is for informational purposes only and subject to further modifications based on parliamentary approval. Readers are advised to consult tax professionals for personalized guidance.

PREFACE

The **Finance Bill 2025** marks a significant step toward a more streamlined and transparent taxation system in India. This bill, introduced in Parliament on February 13, 2025, seeks to replace the long-standing **Income Tax Act of 1961** with a modernized, more concise legal framework. The revisions emphasize simplicity, compliance ease, and improved clarity for taxpayers, fostering a more efficient and equitable tax environment.

This document serves as a **comprehensive summary** of the key amendments and reforms proposed in the Finance Bill 2025. It highlights the structural changes in tax law, adjustments in tax rates, and specific measures aimed at boosting economic growth, supporting digital assets, and encouraging startup innovation.

By simplifying complex terminologies, enhancing compliance structures, and optimizing the tax and salary framework, this bill aligns with the government's commitment to fostering a **taxpayer-friendly** ecosystem while ensuring **fiscal responsibility**.

We hope this document provides valuable insights into the upcoming changes and helps businesses, professionals, and individuals navigate the evolving tax landscape effectively.

mytaxmentor.in
sales@mytaxmentor.in
1st Floor, 6, Asha Nivas, BTM 1st Stage, Bengaluru - 560068
+91 - 70033 15600

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1st Floor, 6, Asha Nivas, BTM 1st Stage, Bengaluru - 560068
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CHANGES IN THE TERMINOLOGY

The **Income Tax Bill 2025** was tabled in Parliament on **February 13, 2025** to replace the **Income Tax Act of 1961** with a more structured and simplified tax framework. Below are the important changes:

- The number of **chapters** has been reduced from **51 to 23**, while the number of **sections** has increased from **298 to 536**.
- The total **word count** has been reduced by half from **5.20 lakh words**, making the law more concise and easier to understand.
- Complex terms like **"assessment year"** and **"previous year"** have been replaced with **"tax year"** and **"financial year"** for better clarity.
- **Explanations and provisos** have been removed to **minimize ambiguity** and simplify interpretations.
- **Cross-referencing** between sections has been reduced, allowing taxpayers to understand provisions without unnecessary complexity.
- The bill retains **most existing laws** without major changes, ensuring continuity.
- **Penalties for misreporting, non-compliance, and incorrect disclosures** have been **enhanced** to promote better adherence to tax regulations.

PRECISE TAXATION RULES FOR DIGITAL ASSETS

Virtual digital assets (VDAs), including cryptocurrencies and NFTs, are now explicitly classified as **taxable assets** under the definition of "property".

- The **30% taxation rate** on VDAs remains unchanged.
- VDAs are categorized similar to **property, jewellery, shares, paintings, and drawings** for taxation purposes.
- **Key Implications:**
  - **Legal Recognition:** Cryptocurrencies and other digital assets are formally acknowledged as taxable assets.
  - **Tax Treatment:** VDAs are subject to **capital gains tax**, similar to stocks and real estate.
  - **Compliance Requirements:** Entities handling VDAs must report **transaction details** to tax authorities, enhancing transparency.

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NEW TAXATION FRAMEWORK IN BUDGET 2025

Key Highlights:

- **New tax regime introduced** under the Finance Bill 2025.
- **Updated tax slabs and rates** applicable for **FY 2025-26**.
- **Tax exemption limit increased** to **₹12 lakh**.
- **Standard deduction for salaried employees** raised to **₹75,000**, making income up to **₹12.75 lakh tax-free**.
- **Objective:** Reduce the tax burden on the middle class, increase disposable income, and boost economic growth.
- **Implementation:** Proposed to take effect from **April 1, 2025**, subject to **parliamentary approval**.

New Tax Regime for FY 2025-26:

Annual Income Range (₹)	Tax Rate (%)
Up to 4,00,000	No tax
4,00,001 – 8,00,000	5%
8,00,001 – 12,00,000	10%
12,00,001 – 16,00,000	15%
16,00,001 – 20,00,000	20%
20,00,001 – 24,00,000	25%
Above 24,00,000	30%

OPTIMIZATION OF TAX AND SALARY STRUCTURE

Key Highlights:

- **Full deduction** of professional tax paid under **Article 276(2)**.
- **Increased standard deduction** under the new tax regime.
- **Clearer definition of salary** to cover all components.
- **Simplified tax provisions** by removing redundant clauses.
- **Objective:** Enhance tax clarity, ease compliance, and optimize salary structure.

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Major Changes in Tax and Salary Structure:

Aspect	Details
Standard Deduction (Old Regime)	₹50,000 retained
Standard Deduction (New Regime)	Increased to ₹75,000 or actual salary amount (whichever is lower)
Salary Definition	Now includes wages, annuities, pensions, gratuities, fees, commissions, perquisites, profits in lieu of salary, advance salary, and leave encashment
Simplification of Tax Provisions	Redundant sections removed; tax laws made more straightforward

These changes aim to make the tax system **more user-friendly** and help taxpayers **optimize their salary structures efficiently**.

EXTENSION OF TAX HOLIDAY ELIGIBILITY FOR STARTUPS

Key Highlights:

- **Tax holiday extended** under **Section 80-IAC** of the Income Tax Act.
- **New eligibility deadline:** Startups incorporated until **April 1, 2030** can avail tax benefits.
- **100% tax exemption** on profits for **three consecutive years** within the first **ten years** of operation.
- **Eligibility Criteria:**
    - Must have a **certificate of eligible business** from the **Inter-Ministerial Board of Certification**.
    - **Turnover should not exceed ₹100 crore**.

Updated Tax Holiday Framework for Startups:

Criteria	Details
Previous Eligibility Period	Startups incorporated between **April 1, 2016 – March 31, 2024**
Extended to (Budget 2024)	**March 31, 2025**
Current Extended Deadline	**March 31, 2030**
Tax Exemption	**100% tax-free** for **three consecutive years** within the first **ten years**

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Eligibility Conditions	Must have an **Inter-Ministerial Board Certification** and **turnover ≤ ₹100 crore**

This extension aims to **support startup growth, encourage innovation, and drive entrepreneurship**.

SIMPLIFICATION OF TAX PROVISIONS – WITHDRAWAL OF SECTION 206C(1H) OF THE INCOME TAX ACT 1961

Key Highlights:

- **Finance Bill 2025 proposes the removal** of **Section 206C(1H)** of the Income Tax Act.
- **Reason for withdrawal:**
    - Industry concerns over **compliance burdens** and **cash flow challenges**.
    - **Overlap with TDS under Section 194Q**, leading to dual taxation issues.
- **Objective:**
    - **Simplify tax compliance** for sellers.
    - **Prevent liquidity blockage** and **improve ease of doing business**.
    - **Enhance transaction clarity** for buyers.
- **Effective Date: April 1, 2025**.

Impact of Section 206C(1H) Withdrawal

Aspect	Previous Rule (Before April 1, 2025)	New Rule (From April 1, 2025)
Applicability	Sellers collecting **0.1% TCS** on sales exceeding **₹50 lakh**	**TCS on sale of goods removed**
Overlap Issue	**TCS under Section 206C(1H)** & **TDS under Section 194Q** applied to the same transaction	**Only TDS under Section 194Q remains applicable**
Compliance Burden	**High** due to dual taxation	**Reduced**, making transactions simpler
Liquidity Impact	**Cash flow constraints** for businesses	**Prevents unnecessary liquidity blockage**

This amendment aims to **streamline tax provisions, eliminate redundancy, and promote ease of business operations**.

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sales@mytaxmentor.in
1st Floor, 6, Asha Nivas, BTM 1st Stage, Bengaluru - 560068
+91 - 70033 15600

SIMPLIFICATION OF TRANSFER PRICING COMPLIANCES

Key Highlights:

- **Simplified transfer pricing compliance** for taxpayers.
- **Taxpayers can opt to use** the **arm's length price (ALP) determined in one year** for **similar transactions in the next two years**.
- **Optional provision**, subject to **approval from tax authorities**.
- **Effective Date: April 1, 2026** (for **Assessment Year 2026-27 and beyond**).

Expansion of Safe Harbour Rules (SHR):

- **Objective:** Reduce litigation and provide certainty.
- **Scope of Safe Harbour Rules (SHR) broadened** to cover:
  - **More industries**.
  - **A wider range of transactions**.
  - **Predefined margins** that will **not be challenged** by tax authorities.
- **Expected Impact:**
  - Simplifies compliance for taxpayers.
  - Reduces disputes with tax authorities.
  - Enhances ease of doing business.

Key Provisions of Transfer Pricing & Safe Harbour Rules:

Aspect	Previous Rule	New Rule (Effective from April 1, 2026)
Arm's Length Price (ALP) Applicability	Determined separately for each year	Can be applied to **similar transactions for the next two years**
Approval Requirement	Not applicable	**Subject to tax authority approval**
Safe Harbour Rules (SHR) Scope	Limited to specific industries & transactions	**Expanded to cover more industries & transactions**
Dispute & Litigation Reduction	Higher disputes due to uncertain margins	**Predefined margins reduce litigation risk**

Overall Impact

- **Encourages tax certainty** for multinational enterprises.
- **Enhances India's tax environment** and **improves ease of doing business**.

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sales@mytaxmentor.in
1st Floor, 6, Asha Nivas, BTM 1st Stage, Bengaluru - 560068
+91 - 70033 15600

REMOVAL OF HIGHER TDS / TCS FOR NON-FILERS OF RETURN OF INCOME

Key Highlights:

- **Section 206AB** (higher **TDS** for non-filers) and **Section 206CCA** (higher **TCS** for non-filers) are proposed to be **removed**.
- **Reason for removal:**
  - **Difficulties for deductors /collectors** in verifying the tax return filing status of deductees /collectees.
  - **Increased compliance burden** and **capital blockage** due to higher deductions /collections.
- **Objective:**
  - **Simplify tax compliance** for businesses and taxpayers.
  - **Ensure smoother transaction processes** without unnecessary higher deductions.
- **Effective Date: April 1, 2025**.

Impact of the Removal of Sections 206AB & 206CCA:

Aspect	Previous Rule (Before April 1, 2025)	New Rule (From April 1, 2025)
Higher TDS (Section 206AB)	Applied to non-filers of ITR	**Removed**
Higher TCS (Section 206CCA)	Applied to non-filers of ITR	**Removed**
Verification Requirement	Deductors/collectors had to check if deductee/collectee filed ITR	**No verification needed**
Compliance Burden	**High** due to additional checks and reporting	**Reduced**, easing tax compliance
Capital Blockage	Businesses faced **liquidity constraints**	**Improved cash flow**

Overall Impact:

- **Simplifies tax deduction/collection process**.
- **Reduces administrative burden on businesses**.
- **Enhances ease of doing business** by streamlining tax compliance.

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sales@mytaxmentor.in
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HIGHER THRESHOLD FOR BUSINESS AS WELL AS PROFESSION UNDER PRESUMPTIVE TAXATION SCHEME

Key Highlights:

- **Finance Bill 2025** proposes changes to **Presumptive Taxation Scheme (PTS)** under **Sections 44AD & 44ADA**.
- **Objective:**
  - **Simplify tax compliance** for small businesses and professionals.
  - **Encourage digital transactions** by offering higher turnover limits.
  - **Ensure fair taxation** with profit declaration requirements.

Key Changes in Presumptive Taxation Scheme (PTS)

Aspect	Previous Rule	New Rule (From FY 2025-26)
Turnover Limit for Businesses (44AD)	₹2 crore	**₹3 crore (if 95% of transactions are digital)**
Turnover Limit for Professionals (44ADA)	₹50 lakh	**₹75 lakh**
Profit Declaration (for Businesses - 44AD)	6% for digital transactions, 8% for cash transactions	**Higher of prescribed rate or actual profit**
Profit Declaration (for Professionals - 44ADA)	50% of gross receipts	**Higher of 50% or actual profit**

Clarification on Profit Declaration

- Taxpayers must report the **higher of**:
  - **Prescribed percentage** under presumptive taxation:
    - **6% for digital transactions** and **8% for cash transactions** (Businesses).
    - **50% for professionals**.
  - **Actual profit earned** during the financial year.
- Ensures **fair taxation** and prevents misuse of the presumptive scheme.

Overall Impact

- **Eases tax compliance** for small businesses and professionals.
- **Encourages digital transactions** with **higher turnover limits**.
- **Promotes transparency** and **reduces tax evasion risks**.

PRESUMPTIVE TAXATION SCHEME FOR NON-RESIDENTS – SECTION 44BBD

Key Highlights:

- **New Presumptive Taxation Scheme** under **Section 44BBD**.
- **Applies to non-resident entities** providing services or technology to **India's electronics manufacturing sector**.
- **Objective:**
  - **Simplify tax compliance** for foreign entities.
  - **Encourage foreign investment** in **electronics manufacturing in India**.

Key Features of Section 44BBD

Aspect	Details
Applicability	Non-resident entities providing services/technology to **resident electronics manufacturing companies** in India
Eligible Resident Companies	Must operate under a scheme **notified by the Ministry of Electronics and IT** and meet prescribed conditions
Presumptive Income Calculation	**25% of total receipts** deemed as profits & gains from business
Effective Tax Rate	**Less than 10%** on gross receipts
Restrictions	Cannot set off **unabsorbed depreciation (Sec 32(2))** or **carry forward business losses (Sec 72(1))**
Effective Date	**April 1, 2026** (Applicable for **Assessment Year 2026-27 onwards**)

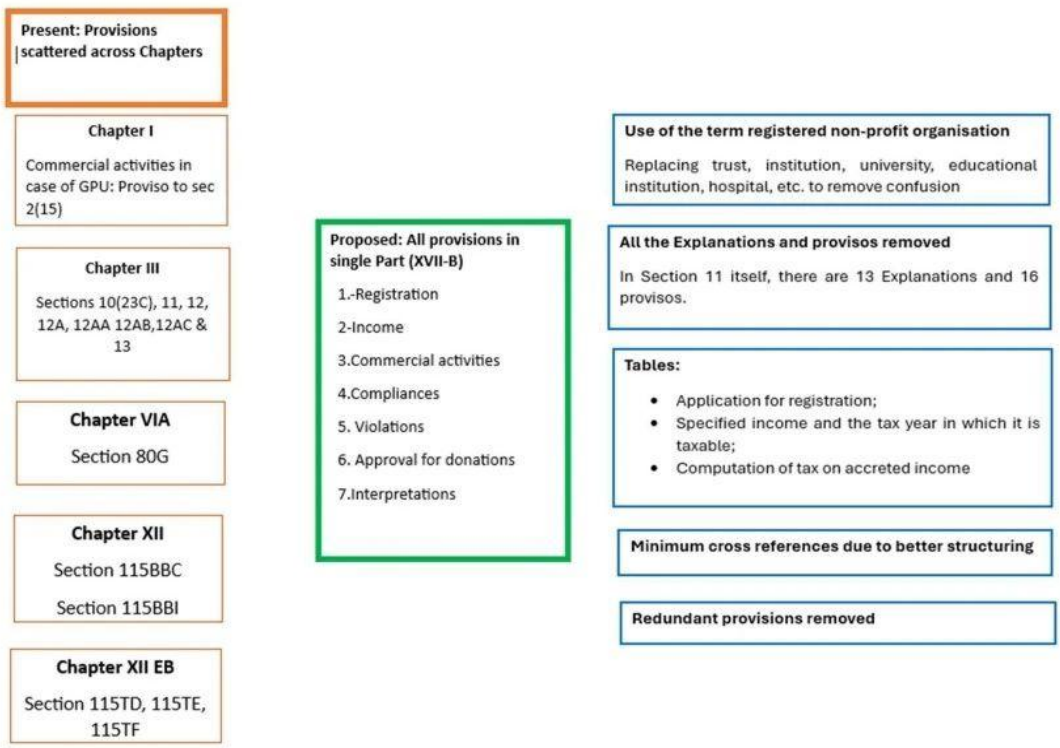
Overall Impact

- **Simplifies taxation** for non-residents investing in India's **electronics manufacturing sector**.
- **Encourages foreign participation** by offering a **low effective tax rate**.
- **Streamlines compliance**, making India a more attractive hub for **technology and electronics investments**.

CHANGES IN PROVISIONS RELATED TO NON-PROFIT ORGANIZATIONS (NPOs)

Key Highlights:

- **Finance Bill 2025** introduces **a dedicated section for NPO taxation**.
- **Previously scattered provisions** under the **Income Tax Act, 1961** are now **consolidated** in the **new Income Tax Bill, 2025**.
- **Objective:**
  - **Simplify compliance** for non-profit organizations.
  - **Enhance clarity** in tax regulations.
  - **Modernize the tax framework** for better accessibility.



Key Changes in NPO Taxation Provisions

Aspect	Previous Rule (Income Tax Act, 1961)	New Rule (Income Tax Bill, 2025)
Regulatory Structure	NPO tax provisions **scattered across multiple sections**	**Consolidated into a dedicated section**
Relevant Clauses	Various sections of the IT Act	**Clauses 334 to 346**
Compliance Complexity	**Higher** due to dispersed provisions	**Simplified & structured approach**

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Accessibility for Taxpayers	**Complex and fragmented** regulations	**More transparent and easy to understand**

Overall Impact

- **Reduces confusion** by organizing NPO-related tax provisions in one section.
- **Eases compliance** for non-profits by providing **clearer regulations**.
- **Supports a modern tax framework**, making it easier for NPOs to navigate tax laws.

CHANGES IN SECTION 194 – TDS ON DIVIDENDS

Key Highlights:

- **Finance Bill 2025** proposes an amendment to **Section 194** of the **Income-tax Act**.
- **Threshold for TDS on dividend payments increased** from **₹5,000 to ₹10,000**.
- **Objective:**
  - Reduce **tax compliance burden** for small shareholders.
  - Provide **relief to retail investors** by exempting smaller dividend amounts from TDS.
- **Effective Date: April 1, 2025**.

Updated TDS on Dividend Payments (Section 194):

Aspect	Previous Rule (Before April 1, 2025)	New Rule (From April 1, 2025)
TDS Rate on Dividends	10%	**10%** (Unchanged)
Threshold for TDS	**₹5,000 per financial year**	**₹10,000 per financial year**
Applicability	Resident shareholders receiving dividends	**Same, but with higher exemption limit**
Compliance Impact	More shareholders subject to TDS	Fewer small shareholders impacted, reducing compliance burden

Overall Impact

- **Small shareholders benefit** as dividend income up to **₹10,000** is now **TDS-free**.
- **Lowers compliance requirements** for companies deducting TDS.
- **Encourages retail investment** in dividend-yielding stocks.

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sales@mytaxmentor.in
1st Floor, 6, Asha Nivas, BTM 1st Stage, Bengaluru - 560068
+91 - 70033 15600

CHANGES IN SECTION 194A – TDS ON INTEREST (OTHER THAN SECURITIES)

Key Highlights:

- **Amendment under Clause 53** of the **Finance Bill 2025**.
- **Threshold for TDS on interest payments increased** to ease compliance.
- **Effective from April 1, 2025**.

Updated TDS Thresholds Under Section 194A

Category	Current Threshold	Proposed Threshold
Banks, Cooperative Societies (Banking), Post Offices	₹40,000 (General) / ₹50,000 (Senior Citizens)	₹50,000 (General) / ₹1,00,000 (Senior Citizens)
Other Cases	₹5,000	₹10,000

These changes reduce compliance burdens, particularly benefiting **senior citizens** with a **higher exemption limit**.

CHANGES IN SECTION 194B – TDS ON WINNINGS FROM LOTTERIES, GAMINGS & GAMBLING

Key Highlights:

- **Amendment under Clause 54** of the **Finance Bill 2025**.
- **TDS applicability shifted** from **annual aggregate basis** to **per-transaction basis**.
- **Effective from April 1, 2025**.

Updated TDS Rule for Winnings

Criteria	Current Rule	New Rule (From April 1, 2025)
TDS Threshold	₹10,000 (Annual Aggregate)	₹10,000 (Per Transaction)

This change ensures **TDS deduction on every winning exceeding ₹10,000**, making compliance more stringent.

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CHANGES IN SECTION 194BB – TDS ON INCOME BY WAY OF WINNINGS FROM HORSE RACES

Key Highlights:

- **Amendment under Clause 55** of the **Finance Bill 2025**.
- **TDS threshold shifted** from **annual aggregate basis** to **per-transaction basis**.
- **Effective from April 1, 2025**.

Updated TDS Rule for Horse Race Winnings

Criteria	Current Rule	New Rule (From April 1, 2025)
TDS Threshold	₹10,000 (Annual Aggregate)	₹10,000 (Per Transaction)

TDS will now be **deducted on each winning exceeding ₹10,000**, making tax compliance stricter.

CHANGES IN SECTION 194D – TDS ON INSURANCE COMMISSION

Key Highlights:

- **Amendment under Clause 56** of the **Finance Bill 2025**.
- **TDS threshold increased** from **₹15,000 to ₹20,000**.
- **TDS rate reduced** from **5% to 2%**.
- **Effective from April 1, 2025**.

Updated TDS Rules for Insurance Commission

Criteria	Current Rule	New Rule (From April 1, 2025)
TDS Threshold	₹15,000	₹20,000
TDS Rate	5%	2%

These changes **reduce tax burden** on small insurance agents and **improve cash flow**, encouraging participation in the sector.

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sales@mytaxmentor.in
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CHANGES IN SECTION 194G – TDS ON COMMISSION ON SALE OF LOTTERY TICKETS

Key Highlights:

- **Amendment under Clause 57** of the **Finance Bill 2025**.
- **TDS threshold increased** from **₹15,000 to ₹20,000**.
- **TDS rate remains unchanged at 2%**.
- **Effective from April 1, 2025**.

Updated TDS Rules for Lottery Commission

Criteria	Current Rule	New Rule (From April 1, 2025)
TDS Threshold	₹15,000	₹20,000
TDS Rate	2%	2% (Unchanged)

This change **reduces compliance burden** for small lottery agents while maintaining the existing tax structure.

CHANGES IN SECTION 194H – TDS ON COMMISSION OR BROKERAGE

Key Highlights:

- **Amendment under Clause 58** of the **Finance Bill 2025**.
- **TDS threshold increased** from **₹15,000 to ₹20,000**.
- **TDS rate remains unchanged at 2%**.
- **Effective from April 1, 2025**.

Updated TDS Rules for Commission & Brokerage

Criteria	Current Rule	New Rule (From April 1, 2025)
TDS Threshold	₹15,000	₹20,000
TDS Rate	2%	2% (Unchanged)

This change **reduces compliance burden** for small taxpayers in commission or brokerage activities.

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CHANGES IN SECTION 194I – TDS ON RENT

Key Highlights:

- **Amendment under Clause 59** of the **Finance Bill 2025**.
- **TDS threshold shifted** from an **annual basis (₹2,40,000 per year) to a monthly basis (₹50,000 per month)**.
- **Effective from April 1, 2025**.

Updated TDS Rules for Rent Payments

Criteria	Current Rule	New Rule (From April 1, 2025)
TDS Threshold	₹2,40,000 per financial year	₹50,000 per month
Applicability	Annual aggregate rent paid	Monthly rent paid or credited

TDS will now be **deducted on each month's rent exceeding ₹50,000**, making compliance more frequent.

CHANGES IN SECTION 194J – TDS ON FEE FOR PROFESSIONAL OR TECHNICAL SERVICES

Key Highlights:

- **Amendment under Clause 60** of the **Finance Bill 2025**.
- **TDS threshold increased** from **₹30,000 to ₹50,000**.
- **TDS rate remains unchanged at 10%**.
- **Effective from April 1, 2025**.

Updated TDS Rules for Professional & Technical Fees

Criteria	Current Rule	New Rule (From April 1, 2025)
TDS Threshold	₹30,000	₹50,000
TDS Rate	10%	10% (Unchanged)

This change **reduces compliance burden** for small taxpayers and professionals.

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sales@mytaxmentor.in
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CHANGES IN SECTION 194K – TDS ON INCOME IN RESPECT OF UNITS OF A MUTUAL FUND OR SPECIFIED COMPANY OR UNDERTAKING

Key Highlights:

- **Amendment under Clause 61** of the **Finance Bill 2025**.
- **TDS threshold increased** from **₹5,000 to ₹10,000**.
- **TDS rate remains unchanged at 10%**.
- **Effective from April 1, 2025**.

Updated TDS Rules for Income from Mutual Funds

Criteria	Current Rule	New Rule (From April 1, 2025)
TDS Threshold	₹5,000	₹10,000
TDS Rate	10%	10% (Unchanged)

This change **reduces compliance burden** for small investors receiving mutual fund income.

CHANGES IN SECTION 194LA – TDS ON INCOME BY WAY OF ENHANCED COMPENSATION

Key Highlights:

- **Amendment under Clause 62** of the **Finance Bill 2025**.
- **TDS threshold increased** from **₹2,50,000 to ₹5,00,000**.
- **TDS rate remains unchanged at 10%**.
- **Effective from April 1, 2025**.

Updated TDS Rules for Compensation on Compulsory Acquisition

Criteria	Current Rule	New Rule (From April 1, 2025)
TDS Threshold	₹2,50,000	₹5,00,000
TDS Rate	10%	10% (Unchanged)

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This change **reduces compliance burden** for taxpayers receiving compensation for compulsory acquisitions.

CHANGES IN SECTION 194LBC - TDS ON INCOME IN RESPECT OF INVESTMENT IN A SECURITISATION TRUST

Key Highlights:

- **Amendment under Clause 63** of the **Finance Bill 2025**.
- **TDS rate standardized and reduced** to **10% for all payees**.
- **Effective from April 1, 2025**.

Updated TDS Rates for Income from Securitization Trusts

Payee Category	Current TDS Rate	New TDS Rate (From April 1, 2025)
Individuals / HUF	25%	10%
Other Entities	30%	10%

This change **reduces the tax burden** on investors and aligns the securitization sector with a **uniform TDS rate**.

CHANGES IN SECTION 194Q - TDS ON PURCHASE OF GOODS

Key Highlights:

- **Amendment under Clause 64** of the **Finance Bill 2025**.
- **Removal of exclusion for transactions under Section 206C(1H)**.
- **Purchasers may now need to deduct TDS under Section 194Q** even for transactions previously covered by **TCS under Section 206C(1H)**.
- **Effective from April 1, 2025**.

Impact of the Amendment

Criteria	Current Rule	New Rule (From April 1, 2025)
Applicability of Section 194Q	Excluded transactions under **Section 206C(1H)**	**Now applies to all transactions, including those under 206C(1H)**
Tax Deduction Requirement	Purchasers not required to deduct TDS on 206C(1H) transactions	**Purchasers may need to deduct TDS under 194Q**

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sales@mytaxmentor.in
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This amendment **removes overlaps between TDS and TCS provisions** and **ensures consistency in tax deduction on goods purchases**.

CHANGES IN SECTION 194S – PAYMENT ON TRANSFER OF VIRTUAL DIGITAL ASSET (VDAs)

Key Highlights:

- **Amendment under the Finance Bill 2025**.
- **Reference to Section 206AB removed**, eliminating higher TDS rates for non-filers.
- **Standard TDS rates will now apply** to VDA transactions, regardless of the payee's tax filing status.
- **Effective from April 1, 2025**.

Impact of the Amendment

Criteria	Current Rule	New Rule (From April 1, 2025)
TDS Rate for Non-Filers	Higher TDS under Section 206AB	**Standard TDS rate applies**
TDS Complexity	Additional compliance burden	**Simplified compliance**
Objective	Enforce tax compliance for non-filers	**Encourage voluntary compliance & reduce legal disputes**

This change **simplifies tax compliance** on **VDA transactions** and aligns with efforts to **make tax laws more concise and clearer**.

CHANGES IN SECTION 80CCA - DEDUCTION IN RESPECT OF DEPOSITS UNDER NATIONAL SAVINGS SCHEME OR PAYMENT TO A DEFERRED ANNUITY PLAN

Key Highlights:

- **Amendment under Clause 16** of the **Finance Bill 2025**.
- **Tax exemption on withdrawals** from specified schemes **(effective retrospectively from August 29, 2024)**.
- **Section 80CCA to be removed** as part of efforts to **streamline the tax code**.

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Impact of the Changes

Aspect	Previous Rule	New Rule (From August 29, 2024)
Tax on Withdrawals	Withdrawals from National Savings Scheme were taxable	Withdrawals on or after August 29, 2024, are **tax-free**
Provision Status	Section 80CCA allowed deductions for specified savings schemes	Section 80CCA is **removed** under the new Income Tax Bill

Overall Impact

- **Taxpayers benefit from tax-free withdrawals**, reducing their tax liability.
- **Simplifies compliance** by removing obsolete provisions.
- **Encourages financial planning** with greater clarity on savings and withdrawals.

These amendments reflect the **government's commitment to a modern, simplified tax system**. Taxpayers should review their **investment and withdrawal strategies** accordingly.

CHANGES IN SECTION 80CCD - DEDUCTIONS FOR NPS & ATAL PENSION YOJANA CONTRIBUTIONS

Key Highlights:

- **Amendment under Clause 17** of the **Finance Bill 2025**.
- **Higher deduction for employer contributions** to NPS for **non-government employees**.
- **Tax benefits extended to NPS Vatsalya**, allowing **parents/guardians to invest for minors**.

Impact of the Changes:

Aspect	Previous Rule	New Rule (From FY 2025-26)
Employer Contribution Deduction	Up to **10%** of salary (basic + DA)	Increased to **14%** for non-government employees
Additional NPS Deduction (80CCD(1B))	Up to **₹50,000** for individual NPS contributions	Now includes **contributions to NPS Vatsalya** (for minors & dependents)

Overall Impact

- **Encourages employers to contribute more** to employees' retirement savings.
- **Promotes early financial planning** by allowing NPS investments for minors.

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+91 - 70033 15600

- **Makes NPS a more attractive retirement investment tool** with expanded tax benefits.

These changes aim to **boost retirement security, encourage long-term savings, and simplify financial planning** for individuals and families.

CHANGES IN SECTION 80LA - DEDUCTIONS IN RESPECT OF CERTAIN INCOMES OF OFFSHORE BANKING UNITS AND INTERNATIONAL FINANCIAL SERVICES CENTRE

Key Highlights:

- **Amendment under Clause 19** of the **Finance Bill 2025**.
- **Deadline for IFSC units to commence operations extended** to **March 31, 2030**.
- **Ship leasing income now eligible** for tax deductions under Section 80LA.

Impact of the Changes:

Aspect	Previous Rule	New Rule (From FY 2025-26)
Eligibility Deadline for IFSC Units	Must commence operations by **March 31, 2025**	Extended to **March 31, 2030**
Tax Deduction on Leasing Income	Applied to **aircraft leasing** only	Now includes **ship leasing income**

Overall Impact

- **Encourages more financial institutions** to set up operations in IFSCs.
- **Boosts ship leasing activities**, expanding IFSC's financial services portfolio.
- **Enhances India's position as a global financial hub** by providing long-term tax incentives.

These amendments aim to **strengthen IFSCs, diversify financial services, and attract international investments**.

CHANGES IN SECTION 112A – LONG TERM CAPITAL GAIN FROM SALE OF SECURITIES

Key Highlights:

- **Amendment under Clause 22** of the **Finance Bill 2025**.

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- **LTCG tax rate increased** from **10% to 12.5%**.
- **Exemption limit for LTCG remains ₹1 lakh**.
- **Clarification on tax applicability** to eliminate ambiguities.
- **Effective from April 1, 2026** (for AY 2026-27 onwards).

Impact of the Changes:

Aspect	Previous Rule	New Rule (From April 1, 2026)
LTCG Tax Rate on Securities	10%	12.5%
Tax Exemption Threshold	₹1 lakh	₹1 lakh (Unchanged)
Clarification in Explanation Clause	Contained references to specific provisos	References removed for consistent tax application

Overall Impact

- **Higher tax burden on long-term capital gains**, reducing post-tax returns.
- **Maintains relief for small investors** with the ₹1 lakh exemption threshold.
- **Ensures uniformity** in taxation across different investor categories.

These amendments align LTCG taxation with broader tax reforms, **enhancing clarity and consistency in capital gains taxation**.

CHANGES IN SECTION 115AD – TAX ON INCOME OF FOREIGN INSTITUTIONAL INVESTORS FROM SECURITIES OR CAPITAL GAINS

Key Highlights:

- **Amendment under Clause 23** of the **Finance Bill 2025**.
- **Increase in tax rates** on both **short-term and long-term capital gains** for FIIs.
- **Surcharge cap of 15%** on certain dividend and income tax calculations.
- **Effective from April 1, 2026** (for AY 2026-27 onwards).

Impact of the Changes:

Aspect	Previous Rule	New Rule (From April 1, 2026)
Short-Term Capital Gains (STCG) Tax	15%	**17.5%**
Long-Term Capital Gains (LTCG) Tax	10%	**12.5%**

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+91 - 70033 15600

Surcharge on Dividends & Income (Clause b of 115AD(1))	No explicit cap	**Capped at 15%**

Overall Impact

- **Higher tax burden for FIIs**, potentially affecting foreign investments in Indian markets.
- **Increased certainty for investors** with a defined surcharge cap.
- **Aligns FII taxation with broader fiscal policies** to ensure equitable taxation across market participants.

These amendments **bring FIIs under a revised tax structure**, balancing government revenue objectives while maintaining investor confidence.

CHANGES IN SECTION 139 – RETURN OF INCOME

Key Highlights:

- **Amendment under Clause 39** of the **Finance Bill 2025**.
- **Extended timeframe** for filing updated returns **from 24 months to 48 months**.
- **Restriction on filing updated returns** if a **show cause notice under Section 148A** is issued after **36 months**.
- **Exception for cases where no further notice under Section 148 is issued**.
- **Effective from April 1, 2025**.

Impact of the Changes

Aspect	Previous Rule	New Rule (From April 1, 2025)
Timeframe to File Updated Return	24 months from the end of the relevant assessment year	**Extended to 48 months**
Filing Restriction After Notice Under 148A	No specific restriction	**Updated return cannot be filed if notice issued after 36 months**
Exception to Restriction	Not applicable	**If no notice is issued under Section 148, the restriction does not apply**

Overall Impact

- **Provides taxpayers more time** to update or rectify returns, reducing compliance pressure.
- **Prevents misuse** by ensuring returns cannot be updated after an investigation has begun.
- **Encourages voluntary compliance**, allowing corrections without penalties.

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sales@mytaxmentor.in
1st Floor, 6, Asha Nivas, BTM 1st Stage, Bengaluru - 560068
+91 - 70033 15600

These changes **strike a balance between flexibility for taxpayers and safeguards against misuse**, ensuring **a fair and transparent tax compliance system**.

CHANGES IN SECTION 140B – TAX ON UPDATED RETURN

Key Highlights:

- **Amendment under Clause 40** of the **Finance Bill 2025**.
- **Higher additional tax rates for delayed updated returns**.
- **Extended timeframe for filing updated returns** from **24 months to 48 months**.
- **Effective from April 1, 2025**.

Impact of the Changes:

Aspect	Previous Rule	New Rule (From April 1, 2025)
Timeframe for Filing Updated Return	24 months from the end of the assessment year	**Extended to 48 months**
Additional Tax Rate (24-36 months delay)	Not applicable	**60% tax on outstanding liability**
Additional Tax Rate (36-48 months delay)	Not applicable	**70% tax on outstanding liability**

Overall Impact

- **Encourages early tax compliance** by penalizing delayed filings.
- **Higher tax burden for late updates** discourages misuse of extended filing periods.
- **Provides more flexibility** for taxpayers needing extra time to correct their returns.

These amendments aim to **strike a balance between flexibility and accountability**, ensuring **timely and voluntary tax compliance**.

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sales@mytaxmentor.in
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+91 - 70033 15600

CONCLUSION

Direct Tax Amendments, 2025 – Key Takeaways

The **Finance Bill 2025** introduces a **simplified and modernized tax framework**, replacing the **Income Tax Act, 1961** with **structured provisions** aimed at **reducing complexity and improving compliance**.

Major Highlights:

- ✅ **Revised Income Tax Regime:** Increased tax exemption limits and updated tax slabs.
- ✅ **TDS & TCS Modifications:** Adjustments in threshold limits, making compliance easier.
- ✅ **Presumptive Taxation Reforms:** Higher turnover thresholds benefiting small businesses.
- ✅ **Startup Tax Benefits Extended:** Eligibility for tax holidays extended to 2030.
- ✅ **Ease of Compliance for NPOs:** Consolidated regulations for non-profit organizations.
- ✅ **Encouragement for Digital Transactions:** Incentives for electronic payments and taxation clarity on **Virtual Digital Assets (VDAs)**.

With **an emphasis on transparency, ease of doing business, and economic growth**, these amendments mark a **significant shift towards a taxpayer-friendly system**. Businesses, professionals, and individuals must **stay updated and adapt** to these changes to ensure smooth compliance and optimize tax benefits.

THANK YOU

We appreciate your time in reading the **Direct Tax Amendments, 2025**. The **Finance Bill 2025** brings significant changes to India's tax framework, and staying informed is crucial for effective tax planning and compliance.

For any further inquiries, professional guidance, or clarifications, feel free to reach out.

Contact Us: 1st Floor, 6, Asha Nivas, BTM 1st Stage, Bengaluru - 560068
Website: mytaxmentor.in
Email: sales@mytaxmentor.in
Phone: +91 - 70033 15600

Your trust and engagement are invaluable, and we look forward to assisting you in navigating the evolving tax landscape.

- **MyTaxMentor Team**