

## Business Taxation in India



**B.D. Jokhakar & Co**

*Chartered Accountants*

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**This document is prepared for general information.  
Appropriate professional advice should be obtained before taking any decision**

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## 1. Overview

Two largest tax incidences on businesses can be classified under two heads - Direct Taxes (Taxes on Income) and Indirect Taxes (Taxes on Sale of Goods and Services). In 2017 India undertook what is known as the largest tax reform anywhere in the world when it brought GST (Goods and Services Tax which is a value added tax) to replace 13 different taxes. In 2019 the income tax on corporate was reduced to 25% and in 2020, the same was further reduced to 22% with certain conditions and for new entities in certain sectors it is reduced to 15%.

## 2. Introduction of Income Tax Bill, 2025

Here's a brief summary of The Income-Tax Bill, 2025:

- Purpose: Replaces the Income-Tax Act, 1961, aiming to simplify language and remove outdated provisions. Most tax rates, definitions, offences, and penalties remain unchanged.
- Effective Date: Proposed to come into force from April 1, 2026.

### Key Changes:

#### 1. Schemes for Tax Administration:

- Retains faceless tax processes.
- Empowers the central government to create new schemes to boost efficiency and transparency, using tech and resource optimization.

#### 2. Undisclosed Income:

- Expands the definition to include virtual digital assets (e.g., cryptocurrencies).

#### 3. Virtual Digital Space Access:

- Authorizes tax officials to access virtual spaces (e.g., email, social media, trading accounts) during searches, overriding access codes if needed.

#### 4. Dispute Resolution Panel:

- Panel must now provide reasons and specific points for its directions in tax assessment disputes.

#### 5. Tax Treaties Interpretation:

- If a term isn't defined in the treaty, the Act, or government notifications, its meaning may be taken from other central laws.

# FAQs on the New Income-Tax Bill



## Background and Need for Change

- Current income-tax Act, 1961 has been amended over 4000 times, making it complex and bulky
- Concerns raised about intricate language, redundant provisions, and difficult structure
- Unlike other laws, tax legislation evolves annually to reflect economic, social, and policy changes



## Key Objectives of the New Bill

- Provisos (> 1200) and (>800) and (900) Explanations have removed
- Cross-references have simplified
- **Use of tables, 57 in new Bill (versure form 15))**
- T/Movel T/CS provisions and others are now in tabular format
- Consolidation of scattered provisions into unified sections or chapters



## Quantitative Comparison

Feature	New Income-tax Bill
Chapters	47
Sections	819
Word Count	2.6 lakhs



## Specific Simplifications

- All Salary income provisions now in chapter Allowances (e.g. HRA) in Schedules
- **Non-Profit Organizations**
- Exemptions moved to clearly laid out Schedules (e.g. Schedules II-VII for various exemptions)
- **Virtual Digital Assets.** No scope change, but updates from Finance Bill 2025 Included



## Transition and Next Steps

- Repeals and Savings clauses ensure continuity for past rights/liabilities
- Rules and forms to be notified post-enactment
- Extensive internal review by a committee of 150 officers, 60,000 - man-hours invested



## Stakeholder Involvement

- Over 20,000 suggestions
- Consultations with UK and Australian tax bodies
- Repeals and Savings' clauses ensure continuity for past rights/liabilities
- Rules and forms to be notified post-enactment

### 3. Scope of Income

Nature of income	Taxability in India in the case of		
	ROR	RBNOR	NR
Income received or deemed to be received in India	√	√	√
Income accruing or deemed to be accrued/arising in India	√	√	√
Income from a business controlled from India or from a profession set up in India but not received or accrued in India	√	√	X
Other income (than from business controlled from India) not received or not deemed to be received in India	√	X	X
Other income (than from business controlled from India) not accruing or not deemed to be accrued in India	√	X	X

An example of income not taxable in India for RBNOR & NR:

- Income from house property earned outside India
- Income from business controlled outside India and not received in India
- Income from sale of shares of a company registered outside India having no business connection in India.

### 4. Residential Status of the Tax Payer

Since taxability depends amongst other things on residential status of a tax payer, it is important to understand what the rules in that regard are.

#### ☞ Company

A Company is a resident if:

- It is an Indian company
- A Foreign company which fulfils following condition

For the period up-to AY 2016-17	The control and management of its affairs is situated WHOLLY in India during the year
With effect from AY 2017-18	Its place of effective management, at any time in that year, is in India (POEM).

POEM is determined using two steps

- Active business outside India (ABOI) test &

- Board meetings Venue and decision making

POEM is said to be outside India if, the company passes the active business test outside India (ABOI) and the majority of board meetings are conducted outside India.

A company shall be said to be engaged in Active business outside India (ABOI),

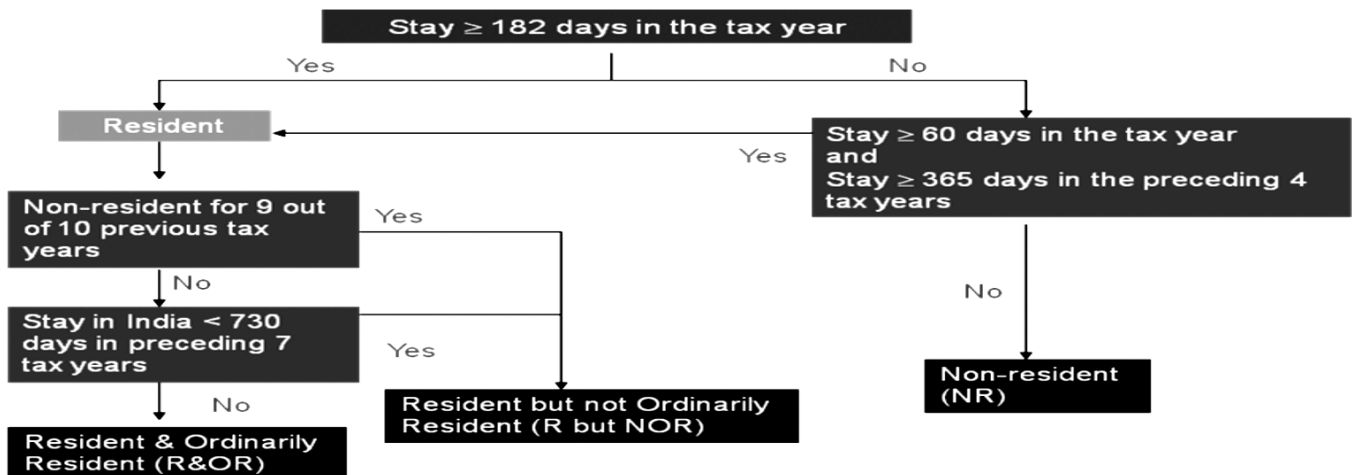
- If the passive income is not more than 50% of its total income, and
- Less than 50% of its total assets are situated in India, and
- Less than 50% of its total number of employees are situated in India or are resident in India, and
- Payroll expenses incurred on such employees is less than 50% of its total payroll expenditure.

**Note:** For POEM to apply, the turnover or the gross receipts of the company should be equal to or more than Rs. 50 crores during a financial year.

☞ **LLP/Firm/AOP/BOI/HUF/Any other person except an Individual & Company**

Control and management of its affairs	Status
Wholly outside India	Non-Resident
Any other case	Resident

☞ **Individual**



\*\* While determining the residential status of an Indian citizen or person of Indian origin, the stay in India as mentioned above as 60 days in the second limb will need to be tested as follows: -

Level of income from Indian source and/or from business/profession set up in India (even if received outside India)	If liable to pay tax in resident domiciled country
More than RS. 1.5 million	120 days
Less than RS. 1.5 million	182 days

### Deemed Resident of India:

An individual who is a citizen of India or a person of Indian origin will be considered as deemed resident in India who is not liable to tax in any other country or territory by reason of domicile or residence or any other criteria of similar kind will be treated as a deemed resident. He will be liable to tax only on the income like that of a resident but not an ordinarily resident (RBNOR) as mentioned below.

## 5. Taxable Income

### Which income can be taxed in India?

All incomes arising or accruing in India will be taxed in India. The taxation of income is dependent on the **type** of tax payer (assessee), **nature** of income and the **residence** of the assessee. Income is defined u/s 2(24) of the Income Tax Act, 1961 (ITA).

Income is calculated in respect of the period April to March called the *previous year* (Financial Year). All taxpayers will compute the income of the previous year and file the return of income in the assessment year (year following the *previous year* in which they earned the income.)

The income that will be subjected for tax is known as taxable income. This will generally be the net of income mentioned above reduced by the deductions and adjustments permitted under the tax laws. Tax will be levied on this taxable income.

Section 9 of the ITA illustrates several situations where specific types of transactions are taxable in India. It says that incomes that accrue or arise, directly or indirectly, can be taxed in India. For example, salary earned in India by a non-resident person or royalty paid by a resident to a non-resident is 'deemed' to be income earned in India.

Certain incomes are placed under the category of exempt income, meaning that they are income within the definition but cannot be subjected to tax. They are given in Section 10 and cannot form part of total income. An example could be agriculture income or certain amounts earned out of superannuation etc.



## 6. Classification of Income (Heads)

For the computation of total income, the income is to be classified into heads of income and then charged to tax. The different heads of income are:

1. Income from Salary [Sections 15-17]
2. Income from House Property [Sections 22-27]
3. Income from Business / Profession [Sections 28-44D]
4. Income from Capital gains [Section 45-55]
5. Income from Other Sources [Residual head - Section 56- 57]

## 7. Income from House Property

- Income from house property refers to the monies received in the connection with renting of a house property, unless the same is used for the purpose of taxpayer's business or profession. A resident & ordinarily resident of India will be liable to house property tax regardless where the house is situated or where the rental incomes are received.
- Whereas for RBNOR and NR, will not be liable to tax in India as long as house property is outside India, regardless of the place of receipt of income.
- One house, being self-occupied, did not attract tax up to FY 2018-19 (AY 2019-20). Starting FY 2019-20 (AY 2020-21), there will be no tax on any 2 house properties owned and as per the choice of the taxpayer.
- Third house and any other residential property will attract tax, even if no rent is earned unless it is used for the purpose of business or profession in India.

### **Amendment: Finance Act 2025**

Section 23 of the Act determines the annual value of house property for taxation. If a house is self-occupied or cannot be occupied due to employment, business, or profession elsewhere, its annual value is considered as nil, meaning no taxable income. However, this benefit is limited to two properties chosen by the owner.

Amendment effective from April 1, 2025, simplifies this rule by allowing nil annual value if the owner cannot occupy the house for any reason, not just work-related constraints. However, the restriction of two properties remains unchanged. If an owner has more than two houses, the extra properties will be taxed based on their deemed rental value.

- If a person is into business of construction or real estate then income earned from house property can be treated as business income.
- Deduction of interest from income from self-occupied house property [w.e.f. 01.04.2017]:

Interest paid on loans which is borrowed on or after 1.4.1999 for acquiring or constructing a self-occupied house property is allowed as deduction u/s 24(b); if the house is completed within 5 years [previously 3 years] from the end of the financial year in which capital was borrowed. The amount of deduction under this clause shall not exceed **two lakh rupees**.

*Note: Under the New Tax Regime, deduction u/s 24 (b) for the interest paid on self-occupied property is no longer available.*

- Special provision for arrears of rent and unrealised rent received subsequently [w.e.f. 01.04.2017] - Section 25A  
Any rent received from the tenant of a house as arrears or unrealized shall be taxed as house property income in the financial year in which that is received or realized, even if the house is not owned by the taxpayer.
- 30% of rent received/realized/ deemed received will be allowed as a standard deduction every financial year.

## 8. Profits and Gains from Business or Profession

- Receipts / Income must be from business or profession.
- Expenses incurred wholly and exclusively for the purpose of business are allowed as deduction.
- Specific deductions are permitted with conditions.

With effect from 1.4.2023, Payment to MSME beyond time limits specified in MSMED Act will be allowed as deduction only on actual payment. Deduction will be allowed on accrual basis only if payment is within due date of MSMED Act.

- Revised Taxation Limit for Section 44AD/ADA under Budget 2023

The Budget 2023 has set new revised presumptive taxation limits for FY 2023-24 onwards (AY 2024-25) under Section 44AD and *Section 44ADA*. These are as follows:

Category	Previous limits	Revised limits
Sec 44AD: For small businesses	Rs. 2 crore	Rs. 3 crore
Sec 44ADA: For specified professionals like doctors, lawyers, engineers, etc	Rs. 50 lakh	Rs. 75 lakh

The benefit of increased limits will be applicable where the amount or aggregate of the amounts received during the previous year, in cash, does not exceed 5% of the total gross receipts of such previous year.

## Amendment Finance Act 2025

- Significant Economic Presence applicability with Business Connection:

Section 9 specifies the incomes that are deemed to accrue or arise in India. It specifically applies to incomes that are deemed to accrue or arise to foreign entities or non-residents in India.

- Amendment now provides that the transactions or activities of a non-resident in India which are confined to the purchase of goods in India for the purpose of export shall not constitute significant economic presence of such non-resident in India.
- Scheme of Presumptive Taxation Extended for Non-Resident providing for Electronics Manufacturing Facility

Scheme is now extended to the non-resident, providing services or technology to a resident company which is engaged in electronics manufacturing facility including semi-conductor fabrication in India. 25% of the aggregate amount received/ receivable by, or paid/ payable shall be deemed as profits and gains of such non-resident from this business.

## 9. Income from Salary

### Increase in the limits on the income of the employees for the purpose of calculating perquisites

The current provisions of **Section 17(2)** of the Income Tax Act set income limits for perquisites, with ₹50,000 for employer-provided benefits (set in 2001) and ₹2 lakh for employer-covered foreign medical treatment (set in 1993). These outdated limits no longer reflect economic conditions and the rising cost of living.

It is proposed that the provisions of section 17 may be amended so that the power to prescribe rules may be obtained to increase the limit on the gross total income of the employees so that, - the amenities and benefits received by such employees would be exempt from being treated as perquisites. The expenditure incurred by the employer for travel outside India on the medical treatment of such employee or his family member would not be treated as a perquisite.

The amendments will take effect from **April 1, 2026**, applying to **assessment year 2026-27 and onwards**.

## 10. Capital Gains

Gains derived from the disposal of capital assets are subject to capital gains tax. The tax treatment of capital gains depends on whether the gains are long-term or short-term gains as per the holding period of an asset.

Capital Gains				
Short Term		Long Term		
Period of holding				
<= 12 months	<= 24 months	> 12 months	>24 months	
For equity shares or Units of equity-oriented fund or Units of UTI	For unlisted shares and an immovable property being land or building or both  Other Securities like debentures, bonds, etc.	For equity shares or Units of equity-oriented fund or Units of UTI	For unlisted shares and  Other Securities like debentures, bonds, etc.	Immovable property being land or building or both
Sale before 23 <sup>rd</sup> July 2024 Tax @ 15%	Tax as per normal slab rates	Exempt u/s 10(38) up to FY 2017-18 (AY 2018-19) (listed)  - Tax @ 12.5% on gains exceeding RS. 1.25 lakh (listed)	Sale before 23 <sup>rd</sup> July 2024 Tax @ 20%  Sale on or after 23 <sup>rd</sup> July 2024 Tax @ 12.5%	Refer the table below

**Immovable property being land or building or both:**

Acquisition Date	Sale Date	Indexation Available?	Tax Rate
Before 23 Jul 2024	Before 23 Jul 2024	Yes	20 % (with indexation)
	On or after 23 Jul 2024	Choice available with the assessee	• 20 % (with indexation) • 12.5 % (without indexation) Calculation only for choice
On or after 23 Jul 2024	Any date	No	12.5 % (without indexation)

**Taxation of Virtual Digital Asset (Section 115BBH):**

1. Income from transfer of any virtual digital asset will be taxed at the rate of 30% plus additional surcharge and cess as applicable
2. Deduction only in respect of cost of acquisition will be allowed against the income from transfer of virtual digital asset. No expenses will be allowed as a deduction.
3. No set off of losses shall be allowed against the income from the transfer of virtual digital asset.
4. The loss from transfer of virtual digital asset cannot be set off against any other income from the same head or any other head even from Income from any other transfer of virtual digital asset.
5. The loss from transfer of virtual capital asset shall not be carried forward to subsequent assessment year.
6. For the purpose of above, Virtual Digital Asset means:
  - i. Information or code or number or token generated through cryptographic means (Cryptocurrencies) or
  - ii. Non-Fungible Token or
  - iii. Other token of similar nature.

The Finance Act 2025 expands the **definition of Virtual Digital Assets (VDA)** under Section 2(47A) by adding sub-clause (d).

- This change ensures that all crypto-assets, including those using blockchain or similar technology, are included in the VDA category.
- As a result, any gains from trading or selling these assets will be taxed at 30%, and transactions will have a 1% TDS deduction under Section 194S.
- This amendment removes confusion and ensures that all digital assets are rightly taxed and regulated.

## **Limiting the benefit claimed under section 54 and section 54F:**

The Finance Act of 2023 has amended provisions of Sections 54 and Section 54F of the Income Tax Act, 1961. The said amendment seeks to restrict exemption of new house up to Rs 10 Crores

This effectively means that if the cost of the new residential property purchased or constructed exceeds INR 10 crores, the amount above INR 10 crores will not be eligible for exemption under Section 54F.

## **Capital gains in case of Market Linked Debentures:**

MLDs used to be a very attractive investment option among the investors due to the lower tax rate on such instruments. The long-term capital gain on listed debt security (MLD) with holding period of more than one year was taxable @ 10% along with applicable surcharge. The tax on the same being much lower as compared to other debt instruments.

Finance Act, 2023 inserted a new Section 50AA in the Act, from 1st April, 2023 onwards, Capital Gains arising from transfer/ redemption/ maturity of 'Market linked Debenture' (listed) taxable as short-term capital gains.

Earlier, TDS was not required to be deducted on interest income on listed debt instruments, but as per the Finance Act, 2023, TDS will now be deducted @ 10% on interest income earned on listed debt securities including MLDs w.e.f. **1st April 2023**, thereby resulting in tax deduction at source in the amount of interest income being earned by the investor.

## **Amendment by Finance Act 2025:**

- **Amendment of Definition of 'Capital Asset:**

The Finance Act 2025 clarifies that securities held by investment funds under Section 115UB will be treated as capital assets. This means that any income from selling these securities will be taxed as capital gains, not business income. This change removes confusion about how such income should be classified.

The rule will apply from April 1, 2026, for Assessment Year 2026-27 onwards.

- **Rationalization of Capital Gains Tax for Non-Residents**

Presently, the tax rate for income by way of long-term capital gains on transfer of securities (other than units referred to in section 115AB) by a specified fund or Foreign Institutional Investor (FIIs) that are not covered under Section 112A is 10%.

Such securities will be now taxable @ 12.5%,The rule will apply from April 1, 2026, for Assessment Year 2026-27 onwards.

- **Bringing clarity in income on redemption of Unit Linked Insurance Policy**

The Finance Act 2024 proposes changes to the tax treatment of Unit Linked Insurance Policies (ULIPs) where the premium exceeds ₹2,50,000 per year, making them taxable instead of tax-exempt under Section 10(10D). Under the new rules:

- ULIPs without tax exemption under Section 10(10D) will be treated as capital assets (under Section 2(14)).
- Profits from selling or redeeming such ULIPs will be taxed as capital gains (under Section 45(1B)).
- Such ULIPs will be included in the definition of an "equity-oriented fund" (under Section 112A), affecting their tax rates.

These changes aim to standardize taxation for ULIPs and will be effective from April 1, 2026, applying to Assessment Year 2026-27 and onwards.

## **11. Income from Other Sources**

Any income which is not covered under above heads will be chargeable to tax under this head. Income from Other Sources includes interest, rent from letting out plant and machinery, dividend on shares from Foreign Companies, winnings from lotteries, races, transfer of any movable or immovable property at no consideration or below fair market value as applicable etc.

### **Taxation of Proceeds from High Value Life Insurance**

Section 10(10D) of the Income Tax provides for exemption with respect to sum received under a life insurance policy, including sum allocated by way of bonus, subject to certain specific exceptions.

In order to prevent the misuse of tax exemption by high-net-worth individuals by investing in policies having large premium contributions, Finance Act 2023 amended Section 10(10D) to withdraw exemption in respect of life insurance policies **issued on or after 1 April 2023** where premium (or aggregate premium) payable for any of the tax year during the term of such policy/policies exceeds INR5 lakhs (except amount received on death of a person).

Income from such non-exempt policies [i.e., amount received less aggregate premium paid during term of the policy to the extent not claimed as deduction] shall be taxable under the head "Income from Other Sources". In case of multiple life insurance policies, exemption is available only to those policies where aggregate premium of all policies does not exceed INR5 lakhs.

### **Exemption to withdrawals by Individuals from National Savings Scheme from taxation**

Section 80CCA originally allowed deductions for deposits in the National Savings Scheme (NSS), but no new deductions have been permitted since April 1, 1992. Under the existing provisions, any withdrawal of these deposits, along with accrued interest, is considered taxable income if the original deposits were made before April 1, 1992, and a deduction was claimed.

However, a notification issued on August 29, 2024, by the Department of Economic Affairs stated that no further interest would be paid on NSS balances after October 1, 2024. This led to concerns as depositors were forced to withdraw their funds, making them fully taxable under the current law. To address this issue, an amendment to Section 80CCA is proposed, providing a tax exemption for withdrawals made on or after August 29, 2024, from NSS accounts where deposits were made before April 1, 1992.

This ensures that individuals who were compelled to withdraw due to the policy change are not burdened with additional tax liability. The amendment will apply retrospectively from August 29, 2024, providing necessary relief to affected depositors.

## **12. Tax, rates and due dates**

### **➤ Corporate Tax Rates**



Types of Companies	Income not exceeding Rs. 1 crore		Income exceeding Rs. 1 crore and up to Rs.10 crores		Income above Rs.10 crores	
	Effective tax rate (normal)	Effective tax rate (MAT)	Effective tax rate (normal)	Effective tax rate (MAT)	Effective tax rate (normal)	Effective tax rate (MAT)
Domestic Company with turnover up to Rs.400 crores in FY 2022-23 and where the companies continue in section 115BA regime	26%	15.60%	27.82%*	16.69%*	29.12%*	17.47%*
Other domestic company	31.20%	15.60%	33.384%*	16.69%*	34.944%*	17.47%*
Domestic Company exercising option to pay tax as per section 115BAA	25.168%**	Nil	25.168%**	Nil	25.168%**	Nil
New domestic manufacturing companies exercising option to pay tax as per section 115BAB	17.16% **	Nil	17.16%**	Nil	17.16%**	Nil
Foreign Company	41.60%^	15.60%^#	42.43%^	15.912%^#	43.68%^	16.38%^#

\* Includes surcharge at the rate of 7% in case of income from Rs. 1 crore up to Rs. 10 crore and 12% in case of income above Rs. 10 crore.

\*\* Includes surcharge at the rate of 10%. It is assumed that other provisions of Chapter XII are not attracted in these cases.

^ Includes surcharge at the rate of 2% in case of income from Rs. 1 crore up to Rs. 10 crore and 5% in case of income above Rs.10 crore

#If MAT is applicable to the foreign company.

### ➤ Individuals/ HUF Tax Rates

Tax rates for Individual (resident or non-resident) less than 60 years of age anytime during the previous year are as under:

Old Tax Regime		New Tax Regime u/s 115BAC	
Income Tax Slab	Income Tax Rate	Income Tax Slab	Income Tax Rate
Upto Rs. 2,50,000 Nil	Nil	Upto Rs. 4,00,000	Nil
From Rs. 2,50,001 to Rs. 5,00,000	5% above ₹ 2,50,000	From Rs. 4,00,001 to Rs. 8,00,000	5% above ₹ 4,00,000
From Rs. 5,00,001 to Rs. 10,00,000	₹ 12,500 + 20% above ₹ 5,00,000	From Rs. 8,00,001 to Rs. 12,00,000	₹ 20,000 + 10% above ₹8,00,000
Above Rs. 10,00,000	₹ 1,12,500 + 30% above ₹ 10,00,000	From Rs. 12,00,001 to Rs. 16,00,000	₹ 60,000 + 15% above ₹12,00,000
		From Rs. 16,00,001 to Rs. 20,00,000	₹ 1,20,000+ 20% above ₹16,00,000
		From Rs. 20,00,001 to Rs. 24,00,000	₹ 2,00,000 + 25% above ₹ 20,00,000
		Above Rs. 24,00,000	₹ 3,00,000 + 30% above ₹ 24,00,000

Tax rates for Individual (resident or non-resident), 60 years or more but less than 80 years of age anytime during the previous year are as under:

Old Tax Regime		New Tax Regime u/s 115BAC	
Income Tax Slab	Income Tax Rate	Income Tax Slab	Income Tax Rate
Upto Rs. 3,00,000	Nil	Upto Rs. 4,00,000	Nil
From Rs. 3,00,001 to Rs.5,00,000	5% above ₹ 3,00,000	From Rs. 4,00,001 to Rs. 8,00,000	5% above ₹ 4,00,000
From Rs. 5,00,001 to Rs.10,00,000	₹ 10,000 + 20% above ₹ 5,00,000	From Rs. 8,00,001 to Rs. 12,00,000	₹ 20,000 + 10% above ₹8,00,000
Above Rs. 10,00,000	₹ 1,10,000 + 30% above ₹ 10,00,000	From Rs. 12,00,001 to Rs. 16,00,000	₹ 60,000 + 15% above ₹12,00,000

		From Rs. 16,00,001 to Rs. 20,00,000	₹ 1,20,000+ 20% above ₹16,00,000
		From Rs. 20,00,001 to Rs. 24,00,000	₹ 2,00,000 + 25% above ₹ 20,00,000
		Above Rs. 24,00,000	₹ 3,00,000 + 30% above ₹ 24,00,000

Tax rates for Individual (resident or non-resident) 80 years of age or more anytime during the previous year are as under:

Old Tax Regime		New Tax Regime u/s 115BAC	
Income Tax Slab	Income Tax Rate	Income Tax Slab	Income Tax Rate
Upto Rs. 5,00,000	Nil	Upto Rs. 4,00,000	Nil
From Rs. 5,00,001 to Rs.10,00,000	20% above ₹ 5,00,000	From Rs. 4,00,001 to Rs. 8,00,000	5% above ₹ 4,00,000
Above Rs. 10,00,000	₹1,00,000 + 30% above ₹ 10,00,000	From Rs. 8,00,001 to Rs. 12,00,000	₹ 20,000 + 10% above ₹8,00,000
		From Rs. 12,00,001 to Rs. 16,00,000	₹ 60,000 + 15% above ₹12,00,000
		From Rs. 16,00,001 to Rs. 20,00,000	₹ 1,20,000+ 20% above ₹16,00,000
		From Rs. 20,00,001 to Rs. 24,00,000	₹ 2,00,000 + 25% above ₹ 20,00,000
		Above Rs. 24,00,000	₹ 3,00,000 + 30% above ₹ 24,00,000

Surcharge & Education Cess (for Individuals, HUFs, AOP)		
Taxable Income	Surcharge on Income tax Under Old Regime	Surcharge on Income tax Under New Regime
Up-to Rs. 50 lacs	NIL	NIL
More than Rs. 50 lacs up-to Rs. 1 crore	10%	10%
More than Rs. 1 crore up-to Rs. 2 crores	15 %	15 %

More than Rs. 2 crores up- to Rs. 5 crores	25%*	25%*
More than Rs. 5 crores	37%*	25%*
	Health and Education cess at 4% leviable on income tax & surcharge.	

**Note:** The enhanced surcharge of 25% & 37%, as the case may be, is not levied, from income chargeable to tax under sections 111A, 112, 112A and Dividend Income. The highest surcharge rate is 15% under the new regime as opposed to 25 % in the old regime.

2. Rebate u/s 87A: Resident Individuals are also eligible for a Rebate of up to 100% of income tax subject to a maximum limit depending on tax regimes as under:

Total Income	Old Tax Regime	New Tax Regime
	Rebate under Section 87A Applicable	
Up to Rs. Lakh 5	Tax rebate up to Rs.12,500 is applicable for resident individuals if the total income does not exceed Rs 5,00,000 (not applicable for NRIs)	Tax rebate up to Rs.60,000 is applicable for resident individuals if the total income does not exceed Rs 12,00,000 (not applicable for NRIs)
From 5 Lakhs to 12 Lakhs	NIL	

➤ **Tax Rates for Firms (including Limited Liability Partnership)**

Person	Total Income (Rs.)	
	Up to Rs. 1 crore	Above Rs. 1 Crore
Firms, LLP etc.	31.2%	34.944%

*The above includes surcharge and cess except that income upto Rs. 1 Cr does not include surcharge.*

### 13. Which is Better: New or Old Tax Regime for Individuals?

Individuals and several other assesseees are eligible to opt for New Tax Regime (NTR) which largely does not permit exemptions/ deductions (except few). Whereas Old Tax Regime (OTR) permitted several deductions.

Finance Act 2023 has made NTR as default tax regime. This has necessitated certain clarifications as to the modalities which are required to be observed and consequent issues which may arise which are briefly listed hereunder:

- An assessee may opt out of NTR.
- An assessee who does not have business income can CHOOSE the beneficial regime every year.
- An employer is required to obtain declaration from an employee as to the intended tax regime for the financial year. On receipt of such intimation, employer shall deduct TDS based on the intended tax regime. (Thus, employee might have opted for NTR or other regime at the time of deduction of TDS from Salaries)
- Employee has to still indicate choice of the regime at the time of filing of the Return of Income (i.e. Intimation to the employer is for the limited purpose of TDS from salaries). In other words, even if the employer has deducted TDS as per NTR, the employee at the time of filing his/ her ITR can choose old regime if that is beneficial.

#### Slab Rates under OTR vs NTR

Income under OTR (Amount in Rupees)	Tax Rate	Income under NTR (Amount in Rupees)	Tax Rate
Upto 250,000	Nil	Upto 4,00,000	Nil
2,50,001 to 5,00,000	5%	4,00,001 to 8,00,000	5%
5,00,001 to 10,00,000	20%	8,00,001 to 12,00,000	10%
Above 10,00,000	30%	12,00,001 to 16,00,000	15%
		16,00,001 to 20,00,000	20%
		20,00,001 to 24,00,000	25%
		Above 24,00,000	30%

Note: One may note that misleading information related to new tax regime was spread on social media platform indicating changes in New Tax Regime. CBDT has clarified vide press release dated 1st April 2024 that “There is no new change which is coming in from 1-4-2024.”

For List of deductions/ exemptions available under both the regimes please refer below:

Particulars	Old Tax Regime	New Tax Regime (From 1st April 2025)	Remarks
Income level (for Rebate u/s 87A)	₹ 5 lakhs	₹ 12 lakhs	
Rebate u/s 87A	₹ 12,500	₹ 60,000	Or tax amount whichever is lower

Marginal Relief under rebate	x	✓	Relief of amount of tax less amount exceeding Rs.7 Lakhs
Standard Deduction (Rs.50,000)	✓	✓	From salary income ( 75,000 in new regime )
HRA Exemption	✓	x	
Leave Travel Allowance (LTA)	✓	x	
Other allowances (including food allowance)	✓	x	
Entertainment Allowance and Professional Tax	✓	x	
Perquisites for official purposes	✓	✓	
Interest on Home Loan u/s 24b (Self-occupied property)	✓	x	Upto Rs.2,00,000 under old regime
Interest on Home Loan u/s 24b (Let-out property)	✓	✓	
Intra-head Set-off of loss from House Property	x	x	
Deductions - 80C	✓	x	
Employee's contribution to NPS	✓	x	
Employer's contribution to NPS	✓	✓	
Medical Insurance - 80D	✓	x	
Disabled Individual - 80U	✓	x	
Donation to Political Party / Trust - 80G	✓	x	
Interest on Education loan - 80E	✓	x	
Interest on Electric Vehicle loan - 80EEB	✓	x	
Savings Bank Interest - 80TTA / 80TTB	✓	x	
Deduction on Family Pension Income	✓	✓	
Other Chapter VI-A deductions	✓	x	
Contribution from Central Government to Agniveer Corpus Fund - 80CCH	✓	✓	Contribution received from assessee is not allowed as deduction

Deduction for new employees u/s 80JJAA	✓	✓	
Transport Allowance for a specially-abled person	✓	✓	
Gifts upto Rs 50,000	✓	✓	
Daily Allowance (if consumed)	✓	✓	
Exemption on voluntary Retirement 10(10C)	✓	✓	
Exemption on Gratuity u/s 10(10)	✓	✓	
Exemption on Leave encashment u/s 10(10AA)	✓	✓	
Conveyance Allowance	✓	✓	
Deduction for Minor's clubbed income	✓	x	
Deduction u/s 10AA for SEZ	x	x	

Illustrative table explaining tax payable under both the regimes for FY 2025-26 (AY 2026-27) before claiming deductions and exemptions:

Total Income* (Rs)	Tax under OTR (Rs)	Tax under NTR (Rs)	Tax savings under NTR (Rs)
7,50,000	65,000	0	65,000
9,50,000	1,06,600	0	1,06,600
12,00,000	1,79,400	0	1,79,400
15,00,000	2,73,000	1,09,200	1,63,800
17,50,000	3,51,000	1,56,000	1,95,000

\* It is assumed that "Salary" is a part of total income, which is arrived after deducting the standard deduction allowed under both the old and new regimes.

## 14. Tax Deducted at Source and Tax Collected at Source

This is an obligation cast upon those who make certain type of payment.

Present Section	Heads	Threshold Limit	Rate of TDS (%)
192	Salaries	Refer above slabs	As per slab rate

Present Section	Heads	Threshold Limit		Rate of TDS (%)
192A	Payment of accumulated balance of Provident fund which is taxable in the hands of an employee.	50,000		10%
193	Interest on securities	Earlier: Nil	Now: Rs. 10,000/- (Amended FA 2025)	10%
194	Dividend income	Earlier: Rs. 5,000/- any mode other than cash  Nil - Cash	Now: Rs. 10,000/- any mode other than cash (Amended FA 2025)  Nil - Cash	10%
194A	Interest other than Interest on Securities	Earlier:  Rs. 50,000/- for senior citizen  Rs. 40,000/- in case of others when payer is bank, cooperative society and post office  Rs. 5,000/- in other cases	Now:  Rs. 1,00,000/- for senior citizen  Rs. 50,000/- in case of others when payer is bank, cooperative society and post office  Rs. 10,000/- in other cases (Amended FA 2025)	10%
194B	Winnings from lotteries, crossword puzzles, card	Earlier:	Now:	30%



Present Section	Heads	Threshold Limit		Rate of TDS (%)
	games and other games of any sort	Aggregate of amounts exceeding Rs. 10,000/- during the financial year	Rs. 10,000/- in respect of a single transaction (Amended FA 2025)	
194BA	Online Winnings	10,000		30%
194BB	Winnings from Horse Race	Earlier: Aggregate of amounts exceeding Rs. 10,000/- during the financial year	Now: Rs. 10,000/- in respect of a single transaction (Amended FA 2025)	30%
194C	Payments to Contractors	Single bill 30,000  Aggregate annual limit of 100,000& for transport 75,000 plying less than 10 goods carriage		1% - Individual / HUF 2% - Others
194D	Insurance Commission	Earlier: Rs. 15,000/-	Now: Rs. 20,000/-  (Amended FA 2025)	5% - Domestic Non-Corporate assessee 10% - Domestic Corporate assessee
194DA	Payment in respect of life insurance policy, the tax shall be deducted on the amount of income comprised in insurance pay-out	1,00,000		5% (before 1st October 2024) 2% (from 1st October 2024)
194E	Payment to non-resident sportsmen/sports association	Nil		20% (The rate of TDS shall be increased by applicable surcharge)

Present Section	Heads	Threshold Limit		Rate of TDS (%)
				and Health & Education cess.)
194EE	Payment in respect of deposit under National Savings scheme	2,500		10%
194F	Payment on account of repurchase of unit by Mutual Fund or Unit Trust of India	Nil		20% This section is omitted with effect from 1st October 2024
194G	Commission of sale of lottery tickets	Earlier: Rs. 15,000/-	Now: Rs. 20,000/- (Amended FA 2025)	5% (before 1st October 2024) 2% (from 1st October 2024)
194H	Commission or brokerage	Earlier: Rs. 15,000/-	Now: Rs. 20,000/- (Amended FA 2025)	5% (before 1st October 2024) 2% (from 1st October 2024)
194I	Rent	Earlier: Rs. 2,40,000/- during the financial year	Now: Rs. 50,000/- per month or part of a month. (Amended FA 2025)	2% - Plant & Machinery 10% - Others
194-IA	Payment on transfer of certain immovable property other than agricultural land	50,00,000		1%
194-IB	Payment of rent by individual or HUF not liable to tax audit	50,000 per month		5% (before 1st October 2024) 2% (from 1st October 2024)

Present Section	Heads	Threshold Limit		Rate of TDS (%)
194-IC	Payment of monetary consideration under Joint Development Agreements	Nil		10%
194J	Fees for professional or technical services	Earlier: Rs. 30,000/-	Now: Rs. 50,000/-  (Amended FA 2025)	2% - Call centre, Fees for technical services, royalty for sale distribution or exhibition of cinematographic films 2% - sum paid or payable towards fees for technical services 10% - Others
194K	Payment of any income in respect of: a) Units of a Mutual Fund as per Section 10(23D) b) The Units from the administrator c) Units from specified company	Earlier: Rs. 5,000/-	Now: Rs. 10,000/-  (Amended FA 2025)	10%
194LA	Payment of Compensation on acquisitions of certain immovable property	2,50,000/-	5,00,000/-	10%
194M	Payment of commission (not being insurance commission), brokerage, contractual fee, professional fee to a resident person by an Individual or a HUF who are not liable to deduct	50,00,000		5% (before 1st October 2024) 2% (from 1st October 2024)

Present Section	Heads	Threshold Limit	Rate of TDS (%)
	TDS under section 194C, 194H, or 194J		
194O	E-Commerce operator for sale of goods or provision of service facilitated by it through its digital or electronic facility or platform	5,00,000 and furnishing of PAN by receiving Individual/HUF  Non- Availability of PAN	1% (before 1st October 2024) 0.1% (from 1st October 2024)  5%
194Q	TDS by those person (i.e. buyer) whose total sales or gross receipts or turnover from the business carried on by him exceed Rs. 10 Crores during the financial year immediately preceding the financial year in which the purchase of goods is carried out on Purchase of goods (applicable w.e.f01.07.2021)	50,00,000 and furnishing of PAN by receiving Individual/HUF  Non- Availability of PAN	0.10%  5%
194N	Cash withdrawals from the bank	1,00,00,000*	2%
194R	TDS on benefit or perquisite of a business or Profession	20,000	10%
194S	TDS on transfer of Virtual Digital Asset	50,000 - In case the payer is an individual or HUF having turnover from business of less than Rs 1 crore or turnover from profession is less than Rs. 50 lakhs or individual or HUF	1%

Present Section	Heads	Threshold Limit	Rate of TDS (%)
		having no income from business or profession. 10,000 – In other cases	

\*If the person, has not filed return of income (ITR) for three previous years immediately preceding the previous year in which cash is withdrawn and the due date for filing ITR under section 139(1) has expired.

The deduction of tax under this situation shall be:

@2% when the cash withdrawal in a year is more than Rs.20 lakhs but does not exceed Rs.1 crore (TDS is to be made on the amount exceeding Rs. 20 lakhs)

@5% when the cash withdrawal in a year exceeds Rs.1 crore (TDS to be made on the amount exceeding Rs.1 crore).

Increasing the threshold limit for co-operatives to withdraw cash without TDS under section 194N

Presently Section 194N requires banking companies and post offices paying in cash an amount exceeding Rs 1 Crore to deduct tax @ 2%.

Section 194N has been amended to increase the threshold limit for deduction of tax on cash withdrawals from 1 crore to 3 crores for co-operatives at the rate of 2%

### **Removal of higher TDS/TCS for non-filers of return of income**

Section 206AB: Section 206AB of the Act, requires deduction of tax at higher rate when the deductee specified therein is a non-filer of income-tax return.

Representations were received from various stakeholders that it is difficult for the deductor/collector, at the time of deduction/collection, to verify whether returns have been filed by the deductee/collectee, resulting in application of higher rates of deduction/collection, blocking of capital and increased compliance burden. Accordingly, to address this issue and reduce compliance burden for the deductor/collector, **it is proposed to omit section 206AB of the Act and section 206CCA of the Act.**

**Decriminalization of Delayed TCS Payment:**

Present Section	Heads	Threshold Limit	Rate of TDS (%)
It is now provided that the prosecution shall not be instituted against a person covered if the payment of the tax collected at source has been made to the credit of the Central Government at any time on or before the time prescribed for filing the quarterly statement in respect of such payment.			

Tax Collected at Source		
Heads	Threshold Limit	Rate of TCS (%)
Sale of Scrap	-	1%
Sales of Jewellery	> 5,00,000 in cash	1%
Sale of Cars	> 10,00,000	1%
Sale of any goods/services	> 2,00,000 in cash	1%, 2.5%, 5%
Heads	Threshold Limit	Rate of TCS (%)
Amount or aggregate of the amounts being remitted by a buyer under LRS.	Upto 10,00,000	Nil
	>10,00,000	20%
Sale of overseas tour package or foreign remittance	Upto 10,00,000	5%
	>10,00,000	20%
Amount or aggregate of the amounts in excess of seven lakh rupees remitted by the buyer under LRS in a financial year, if the amount being remitted is a loan obtained from any financial institution as defined in Section 80E, for the purpose of pursuing any education-tax Act	Nil	Nil
Remittance under LRS other than for the purposes of education or medical treatment	Upto 10,00,000	Nil%
	>10,00,000	5%

Sale of goods for a value on which buyer has not deducted TDS	>50,00,000	0.1%Buyer's PAN available  1%Buyer's PAN not available
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**Removal of higher TDS/TCS for non-filers of return of income**

Section 206CCA: Section 206CCA of the Act, requires for collection of tax at higher rate when the collectee specified therein is a non-filer of income-tax return. This is subject to other conditions specified in the two sections.

Representations were received from various stakeholders that it is difficult for the deductor/collector, at the time of deduction/collection, to verify whether returns have been filed by the deductee/collectee, resulting in application of higher rates of deduction/collection, blocking of capital and increased compliance burden

Accordingly, to address this issue and reduce compliance burden for the deductor/collector, it is proposed to omit section 206AB of the Act and section 206CCA of the Act.

Section 206C(1): To address the applicability of TCS on traders of forest produce, only such other forest produce (not being timber or tendu leaves) which is obtained under forest lease will be covered under TCS.

The amended rate for collection of TCS are as under:-

1. Timber or any other forest produce (not being Tendu leaves) obtained under a forest lease 2%
2. Timber obtained by any mode other than under a forest lease 2%

**Reduction in compliance burden by omission of TCS on sale of specified goods:**

Section 206C(1H): Sub-section (1H) of section 206C of the Act, requires any person being a seller who receives consideration for sale of any goods of the value or aggregate of value exceeding Rs 50 lakhs in any previous year, to collect tax from the buyer at the rate of 0.1% of the sale consideration exceeding Rs 50 lakhs, subject to certain conditions.

To facilitate ease of doing business and reduce compliance burden on the taxpayers, it is proposed that provisions of sub-section (1H) of section 206C of the Act will not be applicable from the 1st day of April, 2025.

## 15. Determination of Tax in special cases

### Tax on distributed profits on Indian Companies

#### Dividends:

Dividends declared out of profits by domestic companies were taxed in hands of companies in form of Dividend Distribution Tax (DDT) until 31.3.2020. Such dividends paid by domestic companies were exempt in the hands of recipients in India unless the gross receipts exceed Rs. 10,00,000.<sup>1</sup>

Now, dividends declared by the domestic companies will not be liable to DDT and hence it will be taxed in the hands of the shareholders/recipients with effect from 1.4.2020.

#### Application of above Tax Rates Structure

#### Example 1:

The simplified example below shows the tax burden on a public company that is 40% foreign-owned. This example assumes taxable income of Rs. 10 Mln and remittance to the foreign partner of 40% of after-tax earnings as dividends:

<b>Corporate taxation</b>	<b>*F.Y.: 2019-20</b>	<b>*F.Y.: 2020-21</b>	<b>**F.Y.: 2020-21</b>
	<b>Amount (Rs.)</b>	<b>Amount (Rs.)</b>	<b>Amount (Rs.)</b>
Taxable income - A	1,00,00,000	1,00,00,000	1,00,00,000
Income Tax rate - B	26%	26%	25.17%
<b>Income Tax (AxB)</b>	26,00,000	26,00,000	25,17,000
Distributable profits	74,00,000	74,00,000	74,83,000
Dividends remitted abroad (40%) - C	29,60,000	29,60,000	29,93,200
Tax on distributed dividend - D	20.56%	Nil	Nil
<b>Dividend tax (Cx D)</b>	6,08,576	0	0
Total taxes payable	32,08,576	<b>Note 1a</b>	<b>Note 1b</b>
Total tax burden as a % of taxable income for the company & investor	32.0857%	<b>Note 1a</b>	<b>Note 1b</b>

<sup>1</sup>10 Lakh = 1 Million



MAT is not considered in above example.

\* We assume that the company did not have turnover exceeding Rs. 400 crores in FY 2017-18 while computing taxes for FY 2019-20.

\*\*Optional rate of tax 22% + 10% surcharge + 4% Higher education cess if tax rate opted under section 115BAA.

**Note 1**

	Investor's tax#	Total tax payable	Total tax burden
<b>1a.</b>	12,31,360	38,31,360	38.31%
<b>1b.</b>	12,45,171	37,62,171	37.62%

# On an assumption that the foreign investor is a foreign company investing in India and the only income it receives is dividend from India, the tax burden on the foreign company will be on the dividend of Rs. 29,60,000 & Rs. 29,93,200 respectively at the rate of 41.6% (40%tax+4%cess)

**Example 2:**

The simplified example below shows the tax burden on a public company that is 40% foreign-owned. This example assumes taxable income of Rs. 9 Cr/90 Mln and remittance to the foreign partner of 40% of after-tax earnings as dividends:

<b>Corporate taxation</b>	<b>*F.Y.: 2019-20</b>	<b>*F.Y.: 2020-21</b>	<b>**F.Y.: 202021</b>
	<b>Amount (Rs.)</b>	<b>Amount (Rs.)</b>	<b>Amount (Rs.)</b>
Taxable income – A	9,00,00,000	9,00,00,000	9,00,00,000
Income Tax rate – B	27.82%	27.82%	25.17%
Income Tax (AxB)	2,50,38,000	2,50,38,000	2,26,53,000
Distributable profits	6,49,62,000	6,49,62,000	6,73,47,000
Dividends remitted abroad (40%) – C	2,59,84,800	2,59,84,800	2,69,38,800
Tax on distributed dividend – D	20.56%	Nil	Nil
Dividend tax (CxD)	53,42,475	0	0
Total taxes payable	3,03,80,475	<b>Note 1a</b>	<b>Note 1b</b>
Total tax burden as a % of taxable income for the company& investor	33.756%	<b>Note 1a</b>	<b>Note 1b</b>

MAT is not considered in above example.

\* We assume that the company did not have turnover exceeding Rs. 400 crores in FY 2017-18 while computing taxes for FY 2019-20.

\*\* Optional rate of tax 22% + 10% surcharge + 4% Higher education cess if tax rate opted under section 115BAA.

**Note 1**

	Investor's tax#	Total tax payable	Total tax burden
<b>1a.</b>	11,025,870	36,063,870	40.07%
<b>1b.</b>	11,430,672	34,083,672	37.87%

# On an assumption that the foreign investor is a foreign company investing in India and the only income it receives is dividend from India, the tax burden on the foreign company will be on the dividend of Rs. 2,59,84,800 & Rs. 2,69,38,800 respectively at the rate of 42.432% (40% tax+2%surcharge+4%cess).

**Example 3:**

One more example is shown for tax effect on a non-SME company which is 40% foreign-owned and having taxable income of Rs 20 crore/ Rs. 200 mln.

<b>Corporate taxation</b>	<b>*F.Y.: 2019-20</b>	<b>*F.Y.: 2020-21</b>	<b>**F.Y.: 2020-21</b>
	<b>Amount (Rs.)</b>	<b>Amount (Rs.)</b>	<b>Amount (Rs.)</b>
Taxable income - A	200,000,000	200,000,000	200,000,000
Income Tax rate - B	29.12%	29.12%	25.17%
Income Tax (AxB)	58,240,000	58,240,000	50,340,000
Distributable profits	141,760,000	141,760,000	149,660,000
Dividends remitted abroad (40%) - C	56,704,000	56,704,000	59,864,000
Tax on distributed dividend - D	20.56%	Nil	Nil
Dividend tax (CxD)	11,658,342	0	0
Total taxes payable	69,898,342	<b>Note 1a</b>	<b>Note 1b</b>
Total tax burden as a % of taxable income for the company& investor	34.9492%	<b>Note 1a</b>	<b>Note 1b</b>

MAT is not considered in above example.

\*Optional rate of tax 22% + 10% surcharge + 4% Higher education cess if tax rate opted under section 115BAA.

\*\* We assume that the company did not have turnover exceeding Rs. 400 crores in FY 2017-18 while computing taxes for FY 2019-20.

**Note 1**

	Investor's Tax#	Total tax payable	Total tax burden
<b>1a</b>	2,47,68,307	8,30,08,307	41.50%
<b>1b</b>	2,61,48,595	7,64,88,595	38.244%

# On an assumption that the foreign investor is a foreign company investing in India and the only income it receives is dividend from India, the tax burden on the foreign company will be on the dividend of Rs. 59,864,000 at the rate of 43.68% (40% tax+5%surcharge+4%cess).

Income	Tax %	Surcharge (>1 cr) %	Cess %	Total %
Under Section 115-O (only for foreign companies)	17.647	12	3	20.3576
Buy-back of unlisted shares by domestic companies u/s 115QA	20	12	3	23.072

**Buy Back of Shares**

Buy-back means purchase by a company of its own shares. As per section 115QA of the Act, income distributed on account of buy back of unlisted shares by a company, is subject to the levy of additional Income tax @ 20%. Distributed income means the consideration paid by the company on buy-back of shares as reduced by the amount, which was received by the company for issue of such shares. The tax on the distributed income by the company shall be treated as the final payment of tax in respect of the said income and no further credit there for shall be claimed by the company or by any other person in respect of the amount of tax so paid. No deduction under any other provision of this Act shall be allowed to the company or a shareholder in respect of the income which has been charged to tax or the tax thereon.

This tax was also applicable from 5.7.2019 on buy back of shares by listed companies. The amount received by the shareholders shall be exempt while computing their taxes.

## 16. Deductions from Business Income / Adjustments to Business Income

In computing taxable income, various deductions are taken into account. No expenditure is allowable in respect of income which does not form part of total income. No deduction is allowed in case of expenditure incurred on income that is not taxable or for payments incurred for purposes which are an offence or prohibited by law. Broadly -

- Deductions are specific to each head of Income [Specific deductions]
- **There are general deductions from total taxable income popularly known as deductions from Section 80C to 80U [General deductions]**

### **Deduction under section 80CCD for contributions made to NPS Vatsalya:**

NPS Vatsalya Scheme, introduced on September 18, 2024, allows parents and guardians to open a National Pension System (NPS) account for minors, ensuring long-term financial security. The guardian manages the account until the minor turns 18, at which point it transitions to their name as an NPS-Tier 1 account or another pension scheme.

**Contributions to the minor's account qualify for tax deductions up to ₹50,000 per year under Section 80CCD(1B), but withdrawals by the minor are taxable if deductions were previously claimed.**

In the event of the minor's demise, the received amount is tax-exempt. The scheme also permits partial withdrawals for essential needs like education, medical treatment, or severe disability (75% or more), such withdrawals (up to 25% of contributions made) will not be added to the parent/guardian's taxable income.

These amendments come into effect from April 1, 2026, for the Assessment Year 2026-27 onwards. By introducing this scheme, the government aims to promote early financial planning for children, providing a structured savings mechanism with tax incentives while ensuring flexibility for critical expenses.

- Deductions are either fixed amount, proportion / percentage of a certain value whether incurred or not [Example: Depreciation on assets]
- Some items of expenses that were actually incurred can be disallowed for calculating tax by adding them back to income.
- Deduction in respect of inter corporate dividend u/s 80M

### **Deduction versus Exemption**

Deduction	Exemption
Income from which deductions are allowed are initially included in the calculation of Gross Total Income and are then allowed to be deducted.	Incomes that are exempt will not be included while computing total income

## 17. Calculation of Tax

After income from all heads is compiled and deductions have been given effect to, tax liability is to be computed as per the tax rates applicable with available rebate and relief on it.

## 18. Minimum Alternate Tax and Alternate Minimum Tax

Every company while computing its total income should verify whether the tax on book profits as computed in accordance with the provisions of Section 115JB if more than tax on total income as per normal provisions of the Act than final tax payable by companies would as per the special provisions of the Act at the rate of 15% (18.5% up to AY 2019-20) plus surcharge (if the amount of book profit exceeds Rs. 1 crore) and cess at the rate 4%. Computation of book profit is as per the adjustments specified under section 115JB of the Act.

For companies opting for the new regime under section 115BAA or 115BAB the provisions of section 115JB relating to MAT are not applicable.

While Minimum Alternate tax is applicable only to companies, Alternate Minimum Tax (AMT) is applicable to every person other than companies or co-operative societies on adjusted total income at the rate of 18.5% including surcharge (if adjusted total income exceeds Rs. 1 crore) and cess at the rate of 4%. Tax payable as per AMT is compared with regular income tax and higher of the two is the final tax payable by the assessee. Such alternate minimum tax is not applicable to a co-operative society which chooses to pay tax at a new concessional rate from AY 21-22.

AMT is applicable in case the normal income of a non-corporate assessee is lower than adjusted total income as computed under section 115JC of the Income Tax Act, 1961.

## 19. Advance Tax

If the amount of tax payable including surcharge and cess during the financial year is Rs. 10,000 or more than taxes are to be paid in advance by such assessee on estimated income for the whole financial year. (Not applicable to Senior Citizen not deriving Income from Business or Profession).

## Advance Tax installments and interest on deferment of advance tax – Section 211 and 234C

Due date of Instalment	Current provision (other than companies)	New provisions (All assesses)	Assessee opting Section 44AD or 44 ADA
	Cumulative Advance tax		
15 <sup>th</sup> June	NIL	15%	NIL
15 <sup>th</sup> September	30%	45%	NIL
15 <sup>th</sup> December	60%	75%	NIL
15 <sup>th</sup> March	100%	100%	100%
Due date of Instalment		Advance Tax paid as below than no interest u/s 234C	
15 <sup>th</sup> June		not less than 12%	
15 <sup>th</sup> September		not less than 36%	

If an assessee fails to pay quarterly advance tax as mentioned above then simple interest is charged at the rate of one per cent on the amount of the shortfall from the due date till the payment of tax. In case advance tax has not been paid till end of financial year to the extent of 90% of tax liability, interest at the rate of one percent is charged from the first day of the next financial year until tax is paid.

## 20. Obligations of Tax Payers

- Mandatory Maintenance of Books of Accounts
- Requirement to file Return & payment of taxes

### **Maintenance of accounts by certain persons carrying on business or profession and their audit [Section 44AA and 44AB]**

If income from business or profession exceeds two lakh fifty thousand OR total sales, turnover or gross receipts as the case may be exceeds twenty five lakh rupees in any one of the three years immediately preceding the previous year then such persons shall keep and maintain such books of account and other documents as may enable the Assessing Officer to compute the total income. Any person carrying on profession is required to get the accounts audited if gross professional receipts exceed Rs. 75 lakhs.

For business the limit to get accounts audited is Rs. 1 Cr. This is not applicable to a taxpayer who declared his business income on presumptive taxation and the gross receipts are less than Rs 3 crores.

For FY 20-21 (AY 21-22) and onwards; for business the limit to get accounts audited is Rs. 10 Cr in case the taxpayer meets the following both the conditions:

- i. Cash receipts are not more than 5% of the total receipts in that FY
- ii. Cash payments are not more than 5% of total payments in that FY

### Requirement to file Return

Beneficial owner or beneficiary of foreign assets will be mandatorily required to file return, even if there is no taxable income.

**Section 285A** casts a reporting obligation on the Indian concern whose shares are substantially held directly or indirectly by a company or entity registered or incorporated outside India. Penalty will be levied if Indian entity fails to furnish the same at 2% of the value of the transaction or Rs. 5,000 in any other case.

## 21. Due dates of Filing Return

Sr. No.	Assessee	Due Date
1	Every assessee, who is required to furnish a report u/s 92E (Transfer Pricing)	30 <sup>th</sup> November of the AY
2	Every Company (where 92E report is not applicable)	31 <sup>st</sup> October of the AY
3	Every person whose books of accounts are required to be audited under any law	
4	Every person who is a "working partner" of a firm, where firm's books of accounts are required to be audited under any law	
5	For every other person other than above	31 <sup>st</sup> July of the AY

From AY 2022-23 updated return can be filed u/s 139(8A) within 2 years from the end of AY with certain conditions and additional tax, interest and late fee. For AY 2025-26, the updated return can be filed by 31.03.2028.

## 22. Types of Income Tax Returns

ITR Forms	Description
ITR 1	For resident Individuals having Income from Salaries, one house property, other sources (Interest etc.) and having total income up-to Rs.50 lakh
ITR 2	For Individuals and HUFs not carrying out business or profession under any proprietorship
ITR 3	For individuals and HUFs having income from a proprietary business or profession
ITR 4 SUGAM	For Presumptive Income from Business and Profession
ITR 5	For persons other than, (i) individual, (ii) HUF, (iii) company and (iv) person filing Form ITR-7
ITR 6	For Companies other than companies claiming exemption under section 11
ITR 7	For persons including companies required to furnish return under sections 139(4A) or 139(4B) or 139(4C) or 139(4D) or 139(4E) or 139(4F)
ITR U	ITR-U or Updated Income Tax Return is the form that allows you to rectify errors or omissions and update your previous ITR. It can be filed within two years from the end of the relevant assessment year. The government introduced the concept of updated returns in the Budget 2022.

### Extending the time-limit to file the updated return:

The Finance Act (FA) 2025 has amended the rules for filing updated income tax returns to encourage voluntary compliance by extending the time limit from 24 months to 48 months. Previously, taxpayers could file an updated return within 24 months by paying additional tax – 25% extra if filed within 12 months and 50% extra if filed between 12 to 24 months.

**Under the new amendment, taxpayers now have up to 48 months to file an updated return, with increasing additional tax rates based on the delay. The details are as follows:**

### Updated Time Limits and Additional Tax Payable

Time Period for Filing Updated Return	Additional Tax Payable (on total tax + interest)
Up to 12 months from the end of the relevant assessment year	25%
12 to 24 months from the end of the relevant assessment year	50%



Time Period for Filing Updated Return	Additional Tax Payable (on total tax + interest)
24 to 36 months from the end of the relevant assessment year	60%
36 to 48 months from the end of the relevant assessment year	70%

- If a show-cause notice under Section 148A is issued after 36 months, the taxpayer cannot file an updated return.
- However, if the tax department later decides that no notice under Section 148 is required, the taxpayer can still file the updated return within the 48-month period.
- These amendments will be effective from April 1, 2025, allowing taxpayers an extended opportunity to rectify their tax filings while ensuring better compliance.

### 23. Presumptive Taxation Scheme

Section 44AD	Section 44ADA
<p>In case of an eligible assessee (individual, Hindu undivided family or a partnership firm, who is a resident, but not a limited liability partnership firm ) engaged in an eligible business (any business except the business of plying, hiring or leasing goods carriages whose total turnover or gross receipts in the previous year does not exceed an amount of two crore rupees), a sum equal to 8% for cash and 6% for non-cash of the total turnover or gross receipts of the assessee in the previous year on account of such business shall be deemed to be the profits and gains of such business chargeable to tax and no other deduction will be allowed. Provisions shall not apply to -</p>	<p>In case of an assessee, being a resident in India, who is engaged in a profession as per section 44AA(1) (and whose total gross receipts do not exceed fifty lakh rupees in a previous year, a sum equal to fifty per cent of the total gross receipts of the assessee in the previous year on account of such profession shall be deemed to be the profits and gains of such profession chargeable to tax and no other deduction shall be allowed.</p> <p><b>Following provisos shall be inserted after sub-section (1) of section 44ADA by the Finance Act, 2023, w.e.f. AY 2024-25:</b></p> <p><b>Provided that in case of an assessee where the amount or aggregate of the amounts received during the previous year, in cash, does not exceed five per cent of the total gross receipts of such previous year, this sub-section shall have effect as if for the words "fifty lakh rupees", the words "seventy-five lakh rupees" had been substituted:</b></p>

<ul style="list-style-type: none"> <li>➤ a person carrying on profession as per section 44AA (1)</li> <li>➤ a person earning income in the nature of commission or brokerage</li> <li>➤ a person carrying on any agency business</li> </ul>	<p>Professions specified under section 44AA (1) as per Rule 6F are:</p> <ul style="list-style-type: none"> <li>➤ Legal</li> <li>➤ Medical</li> <li>➤ Engineering</li> <li>➤ Architectural</li> <li>➤ Accountancy</li> <li>➤ Technical Consultancy</li> <li>➤ Interior Decoration</li> <li>➤ Film artist</li> <li>➤ Authorised Representative</li> </ul>
<p>An assessee who claims that his profits and gains lower than the profits and gains specified above and whose total income exceeds the maximum amount which is not chargeable to tax, shall be required to keep and maintain such books of account and other documents, get them audited and furnish an audit report audit as required under section 44AB.</p>	

## 24. Tax Incentives for start-ups - Section 80IAC

New section is inserted to provide a deduction of 100% of the profits and gains derived by an eligible start - up from a business involving innovation, development, deployment or commercialization of new products, processes or services driven by technology or intellectual property. Deduction is available for any three consecutive assessment years out of 5 years starting from the year of its incorporation.

### **Extension of timeline for tax benefits to start-ups:**

The Finance Act (FA) 2025 has amended Section 80-IAC to extend the tax benefit for start-ups by five more years. Previously, only start-ups incorporated before April 1, 2025, were eligible for the 100% profit deduction for three years. With this amendment, the benefit is now available to start-ups incorporated before April 1, 2030.

This change will take effect from April 1, 2025, ensuring continued tax incentives for new start-ups.

### **Tax Incentive for employment generation - Section 80JJAA**

Deduction under Section 80JJAA is proposed to be allowed to all assesses who are required to get their accounts audited. The deduction will be 30% of emoluments paid to employees on provided

emolument per employee per month is less than or equal to Rs.25,000. However, no deduction is available where Government is paying for EPF of such employees. Also, where an employee is employed during the previous year for a period of less than two hundred and forty days or one hundred and fifty days, as the case may be, but is employed for a period of two hundred and forty days or one hundred and fifty days, as the case may be, in the immediately succeeding year, he shall be deemed to have been employed in the succeeding year and the provisions of this section shall apply.

## 25. Set off and carry forward of losses

Section	Nature of loss to be carried forward	Income against which brought forward loss can be set off in subsequent years	Maximum permissible period [from the end of the relevant AY] for carry forward of losses
71B	Unabsorbed loss from house property	Income from House Property	8 AY
72	Unabsorbed business loss (non- speculative) *	Profit and gains from business or profession (non- speculative)	8 AY
73	Loss from speculation business	Income from speculation business	4AY
73A	Loss from specified business under section 35AD	Profit from specified business under section 35AD	Indefinite period
74	Long-term capital loss	Long-term capital gains	8 AY
74	Short-term capital loss	Short/Long-term capital gains	8 AY
74A	Loss from the activity of owning and maintaining race horses	Income from the activity of owning and maintaining race horses.	4AY

Note: A taxpayer who opts for taxation under the new regime being an Individual or HUF will not be allowed to set off or carry forward losses.

Any domestic corporate assessee opting for taxation at 22% or 15% income tax as the case may be will only be allowed to carry forward and set off losses to the extent they are allowed as mentioned in the guiding sections.

\*Unabsorbed depreciation can be carried forward for an indefinite period and can be set off against any other income (other than salary). This loss can be set off against any other income after first setting it off against business income. The unabsorbed depreciation can be carried forward even if the business related to such depreciation has been dis-continued.

### **Rationalization of Provisions related to Carry Forward of Losses in Amalgamation:**

Section 72A and 72AA provide provisions relating to carry forward and set-off of accumulated loss and unabsorbed depreciation allowance in cases of amalgamation or business reorganization.

To provide clarity and parity to Section, Finance Act 2025 proposed to amend section 72A and section 72AA 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 8 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 ever greening 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 8 assessment years from the immediately succeeding assessment year for which such loss was first computed for original predecessor entity.

## **26. Transfer pricing**

India introduced a transfer-pricing regime in 2002. The regime is influenced by OECD norms, although the penalties are much more stringent. It defines terms such as “international transaction”, “associated enterprise” and “arm’s-length price”. The transfer-pricing law requires the assessee to maintain certain information and documents and obtain a certificate (in a prescribed format) from a chartered accountant furnishing the details of international transactions with associated enterprises.

### **Domestic Transfer Pricing**

The Government has extended the provisions of Transfer Pricing to specified domestic transaction. Any allowance or expenditure or interest or allocation of any cost or expense or any income in relation to any specified domestic transaction shall be computed having regard to the Arm’s length price. It also provides for covering mutual cost allocation or contribution agreements or arrangements between “associated enterprises’. If aggregate of transactions entered into by the

assessee in the previous year exceeds a sum of twenty crore rupees then the same needs to be reported in Form 3CEB issued by a Chartered Accountant.

### **Rationalisation of transfer pricing provisions for carrying out multi-year arm's length price Determination**

Transfer pricing provisions, as outlined in Sections 92 to 92F of the Income Tax Act, ensure that income from international and specified domestic transactions is computed based on the arm's length price (ALP). Section 92C provides the method for determining ALP, while Section 92CA lays down the procedure for referring cases to the Transfer Pricing Officer (TPO). Under the current process, the Assessing Officer (AO), with prior approval from the Principal Commissioner or Commissioner, may refer a transaction to the TPO. The TPO then determines the ALP and communicates it to both the AO and the assessee. The AO, in turn, adjusts the total income based on the ALP determined by the TPO.

A key issue with the current process is the repetitive assessment of similar transactions over multiple years, leading to increased compliance burdens for taxpayers and administrative workload for tax authorities. To address this, the proposed amendments introduce a block assessment system for transfer pricing, effective from April 1, 2026. Under this system, once the ALP is determined for a particular year, it will also apply to similar transactions for the two consecutive years that follow. The assessee will have the option to opt for this block assessment in a prescribed manner, and the TPO will have one month to validate the option. If approved, the same ALP will be applied for the next two years, eliminating the need for fresh ALP computation and ensuring consistency in assessments.

The AO must recompute the assessee's total income for the next two years based on the ALP determined by the TPO and any relevant directions under Section 144C. This recomputation must be completed within three months of the assessment's completion or the issuance of an order/intimation. These amendments take effect from April 1, 2026, applying to the assessment year 2026-27 onwards.

## **27. Limited Liability Partnerships [LLP]**

A limited liability partnership (LLP) is a partnership in which some or all partners have limited liabilities. LLP's are taxed in the same form as Partnership Firms and no tax is levied on conversion of Partnership Firms into LLP. Share of profit earned by partners is tax free.

## 28. Assessments and Appeals

Type of Assessment	Section	Main features
Summary	143(1)	Preliminary check - For arithmetical errors and incorrect claims
Scrutiny	143(3)	Detailed check - Correctness and genuineness of return
Best Judgement / ex-parte	144	If the tax payer doesn't file a return or doesn't comply with the Notice for inquiry
Income Escaping Assessment	147	If the AO has reason to BELIEVE that income has escaped assessment
Assessment or Re-assessment of search cases	153A	If a search is conducted or a requisition is made in respect of any person
Assessment or Re-assessment of another person	153C	During search, if books of other person are seized or requisitioned

### Time limit for completion of assessment, reassessment and re-computation - Section 153

Particulars	AY 2018-19	AY 2019-20	AY 2020-21	AY 2018-19	AY 2022-23 onwards
Order of assessment shall be made under section 143	18 months	12 months	18 months	9 months	12 months
	from the end of the assessment year in which the income was first assessable				
Order of assessment shall be made under section 144	18 months	12 months	12 months	12 months	12 months
	from the end of the assessment year in which the income was first assessable				
Order of assessment, reassessment or re-computation	Within 9 months from the end of the financial year in which the notice under section 148 was served (if notice is served before 01-04-2019).				
	Within 12 months from the end of the financial year in which notice under section 148 is served (if notice is served on or after 01-04-2019).				

## Notes:

- If reference is made to TPO, the period available for assessment shall be extended by 12 months.
- If updated return has been furnished under section 139(8A), the order of assessment shall be passed within 9 months from the end of financial year in which such return was furnished.

Type of Appeal	Section	Main features	Time limit (in days) From the date of receipt of a copy of order sought to be appealed against
CIT (Appeals)	246A	Can be filed only by assessee and not by department in Form 35	30
ITAT	252	Can be filed by both assessee and department in Form 36	60
High Court	260A	Only if it involves a 'Substantial Question of Law'	120
Supreme Court	261	If high court has certified it to be a fit case.	90

## 29. Search and Survey proceedings

Search - Section 132	Survey - Section 133A
A search can be authorized only if an authorized officer, in consequence of information has reason to believe that any person to whom summons has been issued has failed to produce books of accounts or documents or is in possession of any money, bullion, jewellery or any other valuable article or thing which has not been disclosed for the purposes of IT Act.	An Income Tax Authority can enter any place after sunrise but before sunset, where business or profession is carried out by the assessee and can check or verify or require any person to furnish the information demanded.

### Simplified Explanation of Finance Act -2025 Amendments to Section 132 (Search & Seizure)

- **More Time for Retaining Seized Documents**
  - Currently, tax officers need approval within 30 days from the date of an assessment order to retain seized books and documents.
  - This can be confusing when handling multiple cases in a group search because assessment orders are often completed at different times.

- New Rule: Now, the time limit for approval is one month from the end of the quarter in which the assessment order was passed. This simplifies the process and reduces unnecessary tracking of multiple deadlines.
- **Clarification on Search Authorization**
  - The law currently refers to "last of the authorization" (singular), but in some cases, multiple authorizations are issued.
  - New Rule: The wording is updated to "last of the authorizations" (plural) to ensure clarity.
- **Correcting References in Section 132B**
  - The definition of "execution of a search or requisition" was updated in Finance Act 2024, but some sections still reference the old law.
  - New Rule: The references in Section 132B will now correctly point to Section 158B instead of the outdated Section 158BE.
- These amendments will be effective from April 1, 2025, making tax search and seizure processes more streamlined and legally consistent.

### **Amendments proposed in provisions of Block assessment for search and requisition**

The Finance Act (FA) 2025 introduces several important changes to the block assessment process for cases involving search and requisition under Chapter XIV-B of the Income Tax Act. These amendments aim to improve clarity, consistency, and efficiency in handling undisclosed income detected during tax investigations.

#### **Key Amendments Explained:**

- **Virtual Digital Assets (VDAs) Included as Undisclosed Income**
  - The definition of undisclosed income now includes Virtual Digital Assets (VDAs) such as cryptocurrency and digital tokens.
  - This means that if any unreported VDAs are found during a search (Section 132) or requisition (Section 132A), they will be taxed under block assessment rules.
- **Clarification on Pending Cases and Revival of Proceedings**
  - Previously, any assessment, reassessment, or recomputation that was pending at the time of a search would automatically be cancelled (abated) and replaced by the block assessment.
  - The amendment adds clarity by ensuring that if a block assessment is later annulled (cancelled by an appeal or legal order), the original assessment, reassessment, or recomputation will be revived.
- **Changes in Calculation of Block Period Income**
  - The term "total income disclosed" is now replaced with "undisclosed income", making it clear that only previously unreported income is subject to block assessment.
  - If an individual has already filed an income tax return (ITR) before the search date under Section 139, 142(1), or 148, that declared income will be included in the block assessment, for which credit would be given while charging the tax for the said period.



- For previous financial years where the tax return due date has not yet expired, income recorded in regular books of accounts will be taxed under normal assessment, not block assessment.
- **International & Domestic Transactions Now Taxed Under Normal Provisions**
  - Any income from international or specified domestic transactions (such as transactions between group companies) will not be included in block assessment.
  - Instead, such transactions will be assessed under normal tax provisions, as it is difficult to determine the fair market value (arm's length price) for part-period transactions found during searches.
- **Extended Time Limit for Completing Block Assessments**
  - Previously, tax officers had 12 months from the end of the month when the last search was conducted to complete the block assessment.
  - The amendment extends this deadline to 12 months from the end of the quarter in which the last search was conducted.
  - This change ensures that if multiple searches happen within a group of companies or individuals, the assessments have a common deadline, making the process more coordinated and efficient.

These amendments will come into effect from February 1, 2025, ensuring better enforcement of tax laws and improved handling of undisclosed income in search cases.

### **Non-applicability of Section 271AAB of the Act**

Currently, Section 271AAB imposes a penalty for undisclosed income found during tax searches conducted after December 15, 2016.

However, with the introduction of the Block Assessment system (under Chapter XIV-B) for searches conducted on or after September 1, 2024, there was some confusion about whether Section 271AAB penalties would still apply.

To remove any doubts, the law is being amended to clearly state that Section 271AAB will not apply to searches conducted on or after September 1, 2024.

### **30. Fees, Interest, Penalty and Prosecution**

<b>Fees for late filing of Income Tax Return</b>	<b>Date of filing</b>
Rs. 5,000	Before 31 <sup>st</sup> December of relevant AY
Rs. 10,000	After 31 <sup>st</sup> December of relevant AY
Rs. 1,000	Total Income < Rs. 500,000

## Interest

For default in filing return Section 234A	For default in payment of Advance Tax		For Excessive refund paid Section 234D	For demand raised Section 220(2)
	Section 234B	Section 234C		
Simple interest at the rate of 1% for every month or part of a month immediately following the due date of filing the return of income.	Simple interest at the rate of 1% for every month or part of a month from the 1st day of April next following such financial year for non-payment of 90% of advance tax.	Simple interest at the rate of 1% per month for a period of three months on the amount of the shortfall of advance tax due in that quarter.	Simple interest of 1.5% on the whole or the excess amount so refunded, for every month or part of a month from the date of grant of refund to the date of the regular assessment.	Interest on non-payment of Demand raised in Notice of Demand u/s 156 then a simple interest at 1% for every month or part of a month from 31st day onwards till the demand is paid.

## Penalty

Section	Nature of default	Penalty leviable
270A(1)	Under-reporting and misreporting of income	Under reported income - 50% Misreported income - 200% [of amount of tax payable on under-reported income]
271A	Failure to keep, maintain, or retain books of account, documents, etc., as required under section 44AA	Rs. 25,000
271B	Failure to get accounts audited or furnish a report of audit as required under section 44AB	0.5% of total sales, turnover or gross receipts, etc., or Rs. 1,50,000, which-ever is less
271F	Failure to furnish return as required by section 139(1) or by its provisos before the end of the relevant assessment year	Rs. 5,000

271AAD	False entry in books	A sum equal to the aggregate amount of such false or omitted entry.
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Section	Nature of default	Punishment (rigorous imprisonment)	Fine
276B	TDS Defaults [failure to pay tax to Central Government]	3 months to 7 years	No limit

### Amendment Finance Act 2025

#### **Time Limit to Impose Penalties:**

- The existing provisions provide for the bar of limitation for imposing penalties and are having multiple timelines for imposition of penalties in various cases such as appeal before the ITAT or JCIT(Appeal) or Commissioner (Appeal). This makes it difficult to keep track of multiple time barring dates for effective and efficient tax administration.
- It is now clarified that order imposing a penalty shall not be passed after the expiry of six months from the end of the quarter in which the connected proceedings are completed, or the order of appeal is received by the jurisdictional Principal Commissioner or Commissioner, or the order of revision is passed, or the notice for imposition of penalty is issued, as the case maybe.
- Consequential amendments are proposed to Section 246A to update reference of the amended section 275.

#### **Rationalization of Penalties Levied:**

- **Empowering AO to levy penalty in certain cases**
  - As per the current provisions, penalty under sections enumerated below could be levied by the JCIT, even though the assessment in such cases were being made by the AO.
  - Henceforth sections 271C, 271CA, 271D, 271DA, 271DB and 271E empower the AO to levy the penalty in place of JCIT, subject to the provisions of Section 274(2). The proposed amendment provides that the AO shall take the prior approval of JCIT for the passing of penalty order, where penalty amount exceeds the limit as specified in Section 274(2).

- **Extension of Processing Period for Immunity Application for Penalty and Prosecution**
  - The processing period shall be three months from the end of the month in which application for immunity u/s 270AA is received by the AO instead of one month from the end of the month.

### **31. Measures to curb cash payments and for promoting digital economy**

1. No person shall receive an amount of two lakh rupees or more – [Section 269ST]
  - a) in aggregate from a person in a day; or
  - b) in respect of a single transaction; or
  - c) in respect of transactions relating to one event or occasion from a person, otherwise than by an account payee cheque or an account payee bank draft or use of electronic clearing system through a bank account

Exceptions: Government/any banking company, post office savings bank or co-operative bank
2. Cash expense exceeding Rs. 10,000 with respect to payments made to a person in a day to be disallowed. [Section 40A (3)]
3. Donation exceeding Rs. 2,000 otherwise than by an account payee cheque or draft or electronic clearing system is prohibited. [Section 13A]

### **32. Measures To Promote Investment and Employment**

- **Extension of Sunset Dates (Effective April 1, 2025):**
  - The sunset dates for commencement of operations of IFSC units for several tax concessions, or relocation of funds to IFSC, in clause (d) of sub-section (2) of section 80LA, clause (4D), clause (4F), clause (4H) of section 10 and clause (viia) of section 47, is proposed to be extended to 31st day of March, 2030.
  - This extension allows more time for businesses and financial services to set up or relocate to IFSC, ensuring that the tax concessions are available for a longer period.
- **Exemption on Life Insurance Policies from IFSC Insurance Offices (Effective April 1, 2025):**

- Currently, life insurance policies issued by IFSC insurance offices are subject to certain limits on premiums. Policies above Rs. 2.5 lakh for unit-linked insurance plans and Rs. 5 lakhs for regular life insurance policies do not qualify for exemptions under clause (10D) of section 10.
- The proposed change will provide a full exemption from tax on proceeds of life insurance policies issued by IFSC insurance intermediaries, without any limits on the premium amount.
- This makes IFSC-based insurance policies more attractive to non-residents by offering the same tax exemptions available in other global jurisdictions, without restricting the size of the premium.
- **Capital Gains and Dividend Exemption for Ship Leasing Units (Effective April 1, 2025):**
  - The tax exemptions for capital gains and dividends currently apply to aircraft leasing units within IFSC, allowing for tax exemptions on capital gains from the sale of shares in such companies and dividends paid between these units.
  - The proposal extends these exemptions to units engaged in ship leasing, creating parity between the two sectors.
  - Non-residents or IFSC units engaged in ship leasing can now enjoy the same tax exemptions as those in aircraft leasing. This could make ship leasing in IFSC more attractive to international investors.
- **Rationalization of Dividend Definition for Treasury Centres (Effective April 1, 2025):**
  - In the current law, any advance or loan made by a company to its shareholder or related entities may be treated as a "deemed dividend," which can trigger taxation. This is a concern for corporate treasury centres based in IFSC, especially when group entities borrow money from each other.
  - The proposal clarifies that loans or advances between two group entities, where one is a "finance company" or "finance unit" in IFSC, will not be treated as dividends, even if they are made to related parties.
  - This prevents unintended tax consequences for treasury centres, which often need to move funds between group entities for operations. It aligns IFSC treasury centres with global norms, promoting investment and business activity in the region.
- **Simplified Regime for Fund Managers in IFSC (Effective April 1, 2025):**
  - Under section 9A, the condition for eligible investment funds managed by an eligible fund manager is that the participation of Indian residents should not exceed

- 5% of the fund's corpus. This rule can be challenging for IFSC-based fund managers, especially those managing funds for foreign investors.
- The amendment seeks to simplify the conditions for IFSC-based fund managers, including relaxing the 5% Indian participation limit. Additionally, the deadline for compliance with conditions is extended to March 31, 2030.
  - This amendment will provide IFSC-based fund managers with more flexibility, making it easier for them to manage funds situated in other jurisdictions. It brings IFSC on par with global financial hubs and makes it a more attractive destination for fund management activities.
- **Amendment of Section 10 related to Exempt income of Non-Residents (Effective April 1, 2026):**
    - Section 10(4E) of the Income Tax Act currently exempts income from non-deliverable forward contracts or offshore derivative instruments entered into with offshore banking units of an IFSC for non-residents.
    - The proposal expands this exemption to include transactions entered into with Foreign Portfolio Investors (FPIs) that are IFSC units, thus broadening the scope of tax exemptions for non-residents.
    - This amendment further incentivizes foreign investors to engage in offshore derivative transactions with IFSC units by ensuring that the income generated from such transactions is exempt from Indian taxes, making IFSC a more attractive platform for international financial services.
  - **Inclusion of Retail Schemes and ETFs in Relocation Regime of funds of IFSCA (Effective April 1, 2026):**
    - The relocation regime under Section 47(viiad) allows a tax-neutral transfer of assets when a fund is relocated from outside India to a fund within IFSC. However, this tax-neutral transfer regime currently does not apply to retail schemes or Exchange Traded Funds (ETFs) located in the IFSC.
    - The proposal amends the regime to include retail schemes and ETFs within the definition of "resultant fund" for relocation purposes, making the transfer of such funds to IFSC also tax-neutral.
    - This change makes it easier for retail schemes and ETFs to relocate to IFSC, incentivizing more funds and investors to establish operations in IFSC without incurring tax liabilities on the transfer of assets. This would help diversify the types of financial products and services offered in IFSC.

- **Extension of Investment Deadline for SWFs and PFs:**
  - Sovereign Wealth Funds (SWFs) and Pension Funds (PFs) are specified persons under clause (23FE) of section 10 of the Income Tax Act, which provides them with tax exemptions on income from dividends, interest, long-term capital gains, and certain other incomes from investments made in India. This provision was initially introduced to encourage SWFs and PFs to invest in India's infrastructure sector.
  - However, the original deadline for such investments was set for March 31, 2025. In response to suggestions from industry stakeholders, the deadline is now extended to March 31, 2030. This extension will give global investors more time to make substantial investments in India's long-term infrastructure projects.
  - Additionally, the amendments address the issue of long-term capital gains from unlisted debt securities, which have been reclassified as short-term capital gains under the recent amendments. The proposed changes ensure that SWFs and PFs continue to benefit from exemptions on long-term capital gains from such investments, even if they are treated as short-term capital gains for tax purposes.
  
- **Presumptive Taxation for Non-Residents in Electronics Manufacturing:**
  - India is positioning itself as a global hub for electronics system design and manufacturing, particularly in the semiconductor and display manufacturing sectors. To facilitate this, non-resident entities are expected to provide technology and services to set up and support electronics manufacturing facilities in India. To incentivize such foreign contributions, a new presumptive taxation regime is proposed under section 44BBD.
  - This regime would deem 25% of the total amount received by non-resident service providers as profits and gains from their business. This effectively results in an effective tax rate of less than 10% on gross receipts for these non-resident companies. The scheme aims to attract foreign expertise and technology, particularly for industries like electronics manufacturing, and will apply from April 1, 2026, for the assessment year 2026-27 onwards.
  
- **Extension of Tonnage Tax Scheme to Inland Vessels:**
  - The tonnage tax scheme was introduced in 2004 to encourage investment in India's shipping industry. Under this scheme, qualifying shipping companies could opt for a tax regime based on the tonnage of their ships, rather than the normal corporate

tax regime. This scheme has been effective in promoting shipping in India, and now there are calls to extend its benefits to inland vessels.

- Inland vessels, which are used for transporting goods via rivers and other inland waterways, are currently not covered under the tonnage tax regime. To promote the inland water transportation sector, which is capital-intensive and requires significant investment, the proposed amendment extends the tonnage tax benefits to inland vessels registered under the Inland Vessels Act, 2021.
- This change is aimed at encouraging more investment in the inland water transport sector, improving infrastructure, and boosting the efficiency of goods transportation in India. The amendment will take effect from April 1, 2026.

### 33. Grievance Redressal and Right to Information

When tax payers are aggrieved by the officers of the Department, to attend to such grievances Grievance Cells at different level has been set up.

The basic object of the Right to Information Act is to empower the citizens, promote transparency and accountability in the working of the Government and contain corruption. Information can be obtained by filing the prescribed Form no. 8 and following the prescribed procedure.

#### Order on Withdrawal of Outstanding Tax Demand

Finance Budget FA 2024 proposed to withdraw old disputed outstanding demands as on 31<sup>st</sup> January 2024 under Income Tax and erstwhile Wealth Tax and Gift Tax.

In order to bring this proposal into effect, the CBDT recently issued an Order to provide guidelines and procedures that would be followed for withdrawing these small outstanding tax demands.

Assessment Year/s (A.Y) to which the entries of outstanding tax demands as on 31st January, 2024 pertains	Amount to be remitted and extinguished
Up to A.Y 2010-11	Each demand entry up to INR 25,000/-
A.Y 2011-12 to 2015-16	Each demand entry up to INR 10,000/-

*Note: The remission and extinguishment of the outstanding tax demand shall be subject to maximum ceiling of INR 1,00,000/- for specific taxpayers/assessee.*



## 34. Advance Ruling

A Non-Resident assessee can make an application to Authority for Advance Ruling (AAR) seeking clarifications about the tax liability and other connected aspects arising out of any past or future transactions undertaken or proposed to be undertaken in India.

## 35. Faceless assessments / Penalty

- Income tax department launched the e assessment proceedings where the submission of the documents to the Income tax authorities is required to be made online using email or the Income tax website in vide E Assessment Scheme 2019.
- In September 2019, the Income Tax department has introduced faceless assessment where the notices will be sent to the taxpayers from nationalized central office & the details of the jurisdictional officer will not be available.
- With the advent of the Faceless Assessment Scheme, 2019 and in order to ensure that the reforms initiated by the Department to eliminate human interface from the system reaches the next level, it was imperative to launch a Faceless Penalty Scheme on the lines of Faceless Assessment Scheme, 2019.
- In exercise of the powers conferred by sub-section (2A) of section 274 of the Income-tax Act, 1961, the Central Government has notified the Faceless Penalty Scheme 2021, vide its gazetted Notification No. S.O. 117 (E), dated 12.1.2021.
- CBDT has set up a **National Faceless Penalty Centre** to facilitate the conduct of faceless penalty proceedings in a centralised manner and vest it with the jurisdiction to impose penalty in accordance with the provisions of the Scheme.

## 36. Faceless Appeals

- In order to take the reforms initiated by the Department to the next level and to eliminate human interface, Finance Minister proposed to amend the Income Tax Act so as to enable Faceless appeals on the lines of Faceless assessment.
- CBDT has notified the scheme - 'Faceless Appeal Scheme, 2020' ('the Scheme') under section 250(6B) of the Act vide Notification No. 76/2020 dated 25 September 2020.
- The scheme, in a nutshell, provides that everything from allocation of appeal, communication of notice/ questionnaire, verification/ enquiry of details, admission of additional ground, admission of additional evidence, final communication of the appellate order, review of order and rectification of order, shall be online, dispensing with the need for any physical interface between the appellant and the Department.

## 37. Faceless ITAT

- In order to ensure that the reforms initiated by the Department to reduce human interface from the system reaches the next level, it is imperative that a faceless scheme be launched for ITAT proceedings on the same line as faceless appeal scheme. This will not only reduce cost of compliance for taxpayers, increase transparency in disposal of appeals but will also help in achieving even work distribution in different benches resulting in best utilisation of resources.
- Therefore, it is proposed to insert new sub-sections in section 255 of the Act so as to provide that the Central Government may notify a scheme for the purposes of disposal of appeal by the ITAT so as to impart greater efficiency, transparency and accountability by-
  - (a) eliminating the interface between the ITAT and parties to the appeal in the course of proceedings to the extent technologically feasible;
  - (b) optimising utilisation of the resources through economies of scale and functional specialisation;

## 38. International Taxation

### **Country by Country (CbC) Reporting as per Base erosion and profit shifting (BEPS) Action Plan**

The Organization for economic Co - operation and Development (OECD) report on Action 13 of Base Erosion and Profit Shifting (BEPS) provides for revised standards for transfer pricing documentation and a template for country-by-country reporting of income, earnings, taxes paid and certain measure of economic activity.

### **Equalization Levy - Chapter VIII of the Finance Act (Amended FA 2025)**

Chapter VIII of the Finance Act 2016 introduced the Equalisation Levy with respect to online advertisement services rendered to a specified person by a non-resident. The Finance Act 2020 expanded the scope of equalisation levy to the e-commerce supply of goods or services to a specified person by an e-commerce operator. However, the Finance (No. 2) Act 2024 removed the equalisation levy on e-commerce supplies of goods or services with effect from 01-08-2024.

The Finance Bill (Lok Sabha) amended Chapter-VIII of the Finance Act 2016 and the Income-tax Act ('ITA') to withdraw the equalisation levy from 01-04-2025 entirely. The following amendments have been made:

- Amendments have been made to Sections 163 and 165 of the Finance Act 2016 to provide that the no equalisation levy shall apply to any consideration in respect of online advertisement services received or receivable by a non-resident on or after 01-04-2025.

- **A sunset date has been inserted in Section 10(50) of ITA to provide that this provision shall not apply from the assessment year 2026-27**

### **Advance Pricing Agreement (APA) & Roll Back Provisions in APA**

The Board, with the approval of the Central Government, may enter into an advance pricing agreement with any person, determining the arm's length price or specifying the manner in which arm's length price is to be determined, in relation to an international transaction to be entered into by that person. The agreement shall be valid for such period not exceeding five consecutive previous years. The advance pricing agreement entered into shall be binding –

- (a) on the person in whose case, and in respect of the transaction in relation to which, the agreement has been entered into; and
- (b) on the Principal Commissioner or Commissioner, and the income-tax authorities subordinate to him, in respect of the said person and the said transaction.

The agreement shall not be binding if there is a change in law or facts having bearing on the agreement so entered. The Board may, with the approval of the Central Government, by an order, declare an agreement to be void ab initio, if it finds that the agreement has been obtained by fraud or misrepresentation of facts. The agreement may, subject to such conditions, procedure and manner as may be prescribed, provide for determining the arm's length price or specify the manner in which arm's length price shall be determined in relation to the international transaction entered into by the person during any period not exceeding four previous years preceding the first of the previous years, and the arm's length price of such international transaction shall be determined in accordance with the said agreement.

### **Safe Harbour**

A "safe harbour" is defined in the ITL as circumstances in which the Tax Authority shall accept the transfer price, income deemed to accrue or arise as per section 9(1)(i) as declared by the taxpayer. The safe harbour provisions would be available only if the taxpayer satisfies the eligibility conditions provided in the rules and in respect of such international transactions which are eligible for safe harbour as provided in the rules. It also covers the transactions which are business incomes deemed to accrue and arise in India w.e.f 1.4.2020.

Sr. No.	Eligible International Transactional	Circumstances / Ceilings from AY 2013-14 to AY 2017-18	Circumstances / Ceilings from AY 2017-18
1	Provision of software development services and provision of information technology enabled services	<p>The operating profit margin declared in relation to operating expense incurred is -</p> <p>(i) not less than 20 %, where the aggregate value of such transactions entered into during the previous year does not exceed a sum of 500 crore or</p> <p>(ii) not less than 22 %, where the aggregate value of such transactions entered into during the previous year exceeds a sum of 500 crore.</p>	<p>The operating profit margin declared in relation to operating expense incurred is-</p> <p>(i) Where the aggregate value of such transactions <math>\leq</math> RS. 100 crore-not less than 17 %</p> <p>(ii) Where the aggregate value of such transactions <math>&gt;</math>RS. 100 crore but <math>&lt;</math> 200 crore-not less than 18 %</p>
2	Provision of knowledge process outsourcing services	<p>The operating profit margin declared by the eligible assessee from the eligible international transaction in relation to operating expense is not less than 25 %.</p>	<p>The value of international transaction <math>\leq</math> RS. 200 crore and the operating profit margin to operating expense is-</p> <p>(i) Not less than 24 per cent, if the employee cost to operating expense is at least 60 per cent</p> <p>(ii) Not less than 21 per cent, if the employee cost to operating expense is greater than 40 per cent or more but less than 60 per cent</p> <p>(iii) Not less than 18 per cent, if the employee cost to operating</p>

Sr. No.	Eligible International Transactional	Circumstances / Ceilings from AY 2013-14 to AY 2017-18	Circumstances / Ceilings from AY 2017-18
			expense does not exceed 40 per cent
3	Advancing of intra-group loans where the amount of loan does not exceed 50 crore.	The Interest rate declared in relation to the eligible international transaction is not less than the base rate of State Bank of India as on 30 <sup>th</sup> June of the relevant previous year plus 150 basis points.	The threshold of RS. 50 crore has been removed. Different safe 61 harbor rates have been prescribed for <ul style="list-style-type: none"> <li>• Loan denominated in Indian Rupees (RS.)</li> <li>• Loan denominated in foreign currency</li> </ul>
		The Interest rate declared in relation to the eligible international transaction is not less than the base rate of State Bank of India as on 30 <sup>th</sup> June of the relevant previous year plus 300 basis points.	
4	Providing corporate guarantee	The commission or fee declared in relation to the eligible international transaction is at the rate not less than 2 per cent per annum on the amount guaranteed.	The commission or fee declared in relation to the eligible international transaction is at the rate not less than one per cent annum on the amount guaranteed.
5		The commission or fee declared in relation to the eligible international transaction is at the rate not less than 1.75 per cent. Per annum on the amount guaranteed.	
6	Provision of contract research and development services wholly or partly	The operating profit margin declared by the eligible assessee from the eligible international transaction in	The operating profit margin to operating expense not less than 24 per cent, where the value of

Sr. No.	Eligible International Transactional	Circumstances / Ceilings from AY 2013-14 to AY 2017-18	Circumstances / Ceilings from AY 2017-18
	relating to software development	relation to operating expense incurred is not less than 30 per cent.	the international transaction is Rs. 200 crores.
7	Provision of contract research and development services wholly or partly relating to generic pharmaceutical drugs	The operating profit margin declared by the eligible assessee from the eligible international transaction in relation to operating expense incurred is not less than 29 per cent.	The operating profit margin to operating expense not less than 24 per cent, where the value of the international transaction is Rs. 200 crores.
8	Manufacture and export of core auto components	The operating profit margin declared by the eligible assessee from the eligible international transaction in relation to operating expense is not less than 12 per cent.	No change
9	Manufacture and export of non-core auto components	The operating profit margin declared by the eligible assessee from the eligible international transaction in relation to operating expense is not less than 8.5 per cent.	No change
10	Manufacture and export of non-core auto components	The operating profit margin declared by the eligible assessee from the eligible international transaction in relation to operating expense is not less than 8.5 per cent.	No change
11	Receipt of low value-adding intra group services		Aggregate value of such transactions (including a mark-up not exceeding 5 per cent), does not exceed RS. 10 crore Method of cost pooling, exclusion of shareholder costs

Sr. No.	Eligible International Transactional	Circumstances / Ceilings from AY 2013-14 to AY 2017-18	Circumstances / Ceilings from AY 2017-18
			and duplicate costs from cost pool and the reasonableness of the allocation keys used for allocation of costs to be certified by an accountant

### Taxation of Foreign Banks

In case of Interest payable by branch/ permanent establishment of the foreign bank in India to its head office or any other foreign branch/ PE or any other part of such foreign bank situated outside India shall be chargeable to tax in India in addition to any income attributable to the PE in India. The Indian branch of the foreign bank to be obligated to deduct tax at source on any interest payable to either the head office or any other branch or PE, etc. of the non-resident outside India.

### Foreign income and tax treaties

India has comprehensive double-taxation avoidance agreements in force with many countries. Agreements limited to aircraft profits and shipping profits also exist.

Most of India's agreements grant relief from double taxation by the credit method or by a combination of the credit and exemption methods.

Withholding tax rates*				
Country	Dividend	Interest	Royalty	Fee for Technical Services
Australia	15%	15%	10%/15%	10%/15%
			[Note 2]	[Note 2]
Brazil	15%	15% [Note1]	a) 25% for use of trademark;	No separate provision
			b) 15% for others	
China	10%	10% [Note1]	10%	10%

Cyprus	10%	10% [Note1]	10%	10%
France	10%	10% [Note1]	10%	10%
Germany	10%	10% [Note1]	10%	10%
Japan	10%	10% [Note1]	10%	10%
Kenya	10%	10%	10%	10%
New Zealand	15%	10% [Note1]	10%	10%
Russian Federation	10%	10% [Note1]	10%	10%
Switzerland	10%	10%	10%	10%
Saudi Arabia	5%	10% [Note1]	10%	No separate provision
Sri Lanka	7.50%	10% [Note1]	10%	10%
Singapore	10%/15% [Note 5]	10%/15% [Note 6]	10%	10%
United Arab Emirates	10%	a) 5% if loan is granted by a bank/similar financial institute; b) 12.5%, in other cases	10%	No separate provision
United Kingdom	15%/10%	a) 10%, if interest is paid to a bank;	10%/15%[Note 2]	10%/15%[Note 2]



	(Note 4)	b) 15%, in other cases		
		[Note1]		
United States	a) 15%, if at least 10% of the voting stock of the company paying the dividend is held by the recipient company;	a) 10% if loan is granted by a bank/similar institute including insurance company;	10%/15%[Note 2]	10%/15%[Note 2]
	b) 25% in other cases	b) 15% for others		

1. Dividend/interest earned by the Government and certain specified institutions, inter-alia, Reserve Bank of India is exempt from taxation in the country of source (subject to certain condition).

2. Royalties and fees for technical services would be taxable in the country of source at the rates prescribed for different categories of royalties and fees for technical services. These rates shall be subject to various conditions and nature of services/royalty for which payment is made. For detailed conditions refer to relevant Double Taxation Avoidance Agreements.

3. Royalties and fees for technical services would be taxable in the country of source at the following rates:

a. 10 per cent in case of royalties relating to the payments for the use of, or the right to use, industrial, commercial or scientific equipment;

b. 20 per cent in case of fees for technical services and other royalties.

4. (a) 15 per cent of the gross amount of the dividends where those dividends are paid out of income (including gains) derived directly or indirectly from immovable property within the meaning of Article 6 by an investment vehicle which distributes most of this income annually and whose income from such immovable property is exempted from tax;

(b) 10 per cent of the gross amount of the dividends, in all other cases

5. (a) 10 per cent of the gross amount of the dividends if the beneficial owner is a company which owns at least 25 per cent of the shares of the company paying the dividends

(b) 15 per cent of the gross amount of the dividends in all other cases.

6. (a) 10 per cent of the gross amount of the interest if such interest is paid on a loan granted by a bank carrying on a *bona fide* banking business or by a similar financial institution (including an insurance company)
- (b) 15 per cent of the gross amount of the interest in all other cases.

### General Anti-avoidance Rule (GAAR)

Tax planning leading to abuse or misuse of law, government targets these planning by amending Income Tax Act from time to time [Section 40A (2), 80-IA (8), 92 to 92F, 2(22)(e), 43(1)]

With the introduction of GAAR provision in Income Tax Act, it empowers the tax department to declare an arrangement entered into by the person to be an 'Impermissible Avoidance Agreement' (IAA) resulting into denial of tax benefit either under the tax Act or DTAA. It will also consider any step in or a part of arrangement to be considered as IAA.

GAAR provisions are into effect from AY 2018-19 and subsequent years.

### Multilateral Instruments (MLI) and CTA (Covered Tax Agreements)

The Base Erosion and Profit Shift ("BEPS") programme, initiated by OECD, had recommended a host of action plans, which could be implemented by making changes to the international tax treaties mentioned above. However, there are more than 3000 bilateral tax treaties entered into by contracting countries and it would have taken years to amend them. To solve this problem, over 100 jurisdictions negotiated and concluded a multi-lateral instrument ("MLI") in November 2016.

Countries that agreed to change their tax treaties were required to sign and notify the OECD Secretariat. India was amongst the first few signatories to the MLI in 2017 and ratified (gave consent) it on 25.6.2019. Thus, its network of bilateral tax treaties would be impacted by the provisions of the MLI where its treaty partner is also a signatory. It will be, therefore, necessary now to read the applicable tax treaty with MLI, based on the treaty partner's position and reservations on the provisions of the MLI.

The potential impacts of MLI on some of the key jurisdictions through which investments into India are made are as under: -

Sr. No	Tax Treaty	Covered under MLI	Ratification	Entry into effect [1]
1	India-Netherlands	Yes	29.3.2019	1.4.2020

2	India-Singapore	Yes	21.12.2018	1.4.2020
3	India-Cyprus	Yes	23.1.2020	1.11.2020
4	India-Luxembourg	Yes	9.4.2019	1.4.2020

[1] *For tax deduction at source in India, the MLI shall be effective with respect to respective tax treaty, from the beginning of financial year immediately after 3 months from latest of the deposit of instrument of ratification by India or its Treaty partner.*

### **Controlled foreign companies**

India currently does not have anti-haven (CFC) rules. Presently Arm's Length Price (ALP) for an International Transaction between Associated Enterprises has to be computed by applying the Most Appropriate Method. If by applying the Most Appropriate Method, more than one ALPs are determined, an arithmetical mean of the ALPs is considered as the ALP. If the actual price at which the Associated Enterprises have carried out their transactions varies by up to 5% of the arithmetical mean of the ALPs, then the actual price is considered as the ALP. In other words, in such cases, no adjustment is required to be carried out to the income.

## **39. Indirect Taxes**

### **Custom duty**

Customs duty is levied by the central government on imports and exports as prescribed in the Customs Tariff Act.

### **Goods and Service Tax**

GST is the largest tax reform ever, because it is really an economic integration in a federal democracy like India. While the state laws taxing goods (VAT) don't talk to the central laws on production (excise) and services (service tax), we can now expect that the UNION will work like one – a union in both letter and spirit. Finally, India will have ONE TAX CODE for goods and services. The salient features are:

1. GST is a destination-based tax
2. GST Council

All the major decisions are to be taken by the Council (GSTC). GSTC is made up of States and centre both. They have had and will have an overreaching power to take major decisions.

3. Rates of GST

5%	Essential Supplies
12%	Standard rate for goods and services
18%	Standard rate for goods and services
28%	Expected for goods which was taxed at more than 30%

4. The GST is applicable w.e.f 1.7.2017
5. GST operates at two levels – Taxation powers lie with both the States and the centre to tax goods and services. Intra-state goods and services are taxed under State GST and Central GST. There is tax on interstate supply of goods and services.
6. The GSTN (GST Network) primarily provides IT infrastructure and services to the Central and State Governments, tax payers and other stakeholders for implementation of the Goods and Services Tax (GST).
7. Both centre and State have GST legislations and also frame place of supply provisions. This have to be coherent and uniform. GST Rules are notified by Central Board of Indirect Taxes and Customs (CBEC).
8. Benefits – removal of multiplicity of taxes and their cascading effect including input tax credits available between goods and services, single registration and one IT network for compliances, most other small laws at state level are subsumed within GST (such as entry taxes), wider tax base and incentive to comply, and so on.
9. Area based exemptions which were available under Excise is done away with. This would should have affected industries such as FMCG, pharmaceuticals and automobiles, unless benefits are introduced to these industries in other forms.
10. The Customs duty will not be covered under the ambit of GST. Imports will be subjected to GST.

Under the Goods and Services Tax, each manufacturer/service provider needs to pay a GST, which is the difference of his 'output tax' and 'input tax'. Hence, it can be said, GST is a comprehensive value added tax levied on goods and services. In a GST regime, goods and services are not differentiated as they move through the supply chain.

**Other taxes**

- **Securities Transaction tax**

Securities transaction tax is imposed on the purchase/sale of shares in a company where the transaction takes place on a recognised stock exchange in India. Rates of the tax are revised with effect from 1<sup>st</sup> June, 2016, which are as follows:

Sr. No.	Nature of taxable securities transaction	Payable by	New rate from 01.10.2024
1	Sale of an option in securities	Seller	0.1%
2	Sale of an option in securities, where option is exercised	Purchaser	0.125%
3	Sale of a futures in securities	Seller	0.02%
4	Purchase of an equity share in a company, where such contract is settled by the actual delivery or transfer of such share or unit.	Purchaser	0.1%
5	Sale of a equity share in a company, where such contract is settled by the actual delivery or transfer of such share or unit	Seller	0.1%
6	Sale of an equity share in a company or a unit of an equity-oriented fund, where such contract is settled otherwise than by the actual delivery or transfer of such share or unit.	Seller	0.025%
7	Sale of a unit of an equity-oriented fund, where such contract is settled by the actual delivery or transfer of such share or unit	Seller	0.001%

The securities transaction tax paid is allowed as an expense in case of securities transactions taxed as business profits.

- **Stamp duty**

Financial instruments and transactions in India attract stamp duties that are levied under the Indian Stamp Act and the stamp acts of the various states; the rates vary significantly from state to state. The transfer of specified securities to and from a depository is not liable for stamp duty.

- **Real estate duty**

Owners of real estate are liable to various taxes imposed by the State and municipal authorities. These taxes vary from state to state.

- **Profession tax**

Profession tax is a local tax levied on salaried employees and persons carrying on a profession or trade. The rates of profession tax vary from state to state.

- **Motor Vehicle tax**

India's states levy moderate taxes on motor vehicles and freight traffic; the municipalities charge taxes on services and levy professional fees.

- **Commodities Transaction Tax**

Commodities Transaction Tax on the transactions executed on the Exchange shall be charged at the rate mentioned below:

Sr. No.	Taxable commodities transaction	Rate	Payable by	Payable on
1	Sale of futures in commodities (except exempted agricultural commodities)	0.01%	Seller	Trade value

#### 40. Table of abbreviations

ROR	Resident & ordinarily resident
RBNOR	Resident but not ordinarily resident
NR	Non resident
LLP	Limited Liability Partnership
HUF	Hindu undivided Family
AOP	Association of Persons
BOI	Body of Individuals
TDS	Tax Deducted at Source
POEM	Place of Effective Management
CbyC	Country by Country
TP	Transfer Pricing
R&D	Research & Development
GST	Goods & Service Tax