Enterprise Development & Microfinance, 36:3s, 440-453

Digital Tax Governance and Legislative Simplification: Income Tax Act, 1961 vs. 2025 — A Study in the Context of Viksit Bharat 2047

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Abstract: *The most significant legislative change in India's direct tax system since independence is the passage of the Income Tax Act, 2025 (ITA 2025) which revokes and replaces the Income Tax Act, 1961 (ITA 1961) after over six decades of service. The paper undertakes a comparative analytical study of the provisions of digital tax governance and legislative simplification measures embedded in ITA 2025 vis-à-vis the corresponding framework of ITA 1961 in the context of India's developmental vision of Viksit Bharat 2047. The research design is descriptive and analytical. Secondary data is used and obtained from statutory texts, official government documents, white papers from professional bodies, peer-reviewed academic journals and expert commentary from leading institutions. This inquiry is undertaken with three central research objectives: (i) to compare the digital governance architecture of ITA 2025 vis-à-vis ITA 1961; (ii) to analyse legislative simplification in terms of structural, procedural and linguistic reforms; and (iii) to evaluate the reforms in light of the Viksit Bharat 2047 developmental framework. The research uses a SWOT model as well as a systematic comparative matrix. The findings reveal that the ITA 2025 brings about a real paradigm shift through faceless assessment, AI-enabled audits, mandatory e-recordkeeping, codified provisions for virtual digital assets and clear alignment with the OECD's Base Erosion and Profit Shifting (BEPS) framework. The new Act is almost fifty per cent shorter in word count, introduces a unified tax year replacing the previous year and assessment year dichotomy and substantially reduces procedural ambiguity. The paper finds ITA 2025 to be a strong fiscal governance architecture aligned to India's 2047 aspirations and recommends specific strategies for digital infrastructure, taxpayer education and transitional dispute management to unlock its potential.*

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Keywords: Digital Tax Governance, Legislative Simplification, ITA 2025, ITA 1961, Viksit Bharat 2047, Faceless Assessment, E-Compliance, BEPS, India.

Introduction

Taxation is the fiscal foundation of any sovereign polity, serving not only as a means of revenue generation but also as a governance tool for economic redistribution, investment incentivisation and social development. The Income Tax Act, 1961 was the cornerstone of the direct taxation structure in India for more than six decades. Enacted on April 1, 1962, it consolidated the earlier Income Tax Act, 1922 and provided a comprehensive legislative structure for levying, assessing, collecting, and recovering income tax across all taxpayer categories.[1]

Despite its initial coherence, ITA 1961 progressively deteriorated into a legislative labyrinth. Over its lifespan, the Act underwent more than 4,000 amendments across approximately sixty-five legislative interventions,[2] introducing provisions that often overlapped, conflicted or created interpretive ambiguity. The complexity increased compliance costs and encouraged a litigation culture so pervasive that at times tax arrears outstripped tax collections for the year and successive expert panels repeatedly recommended a comprehensive review rather than further piecemeal reform.

A similar structural flaw was the feeble response of ITA 1961 to the digital economy. India's economy underwent a rapid digitisation with the Digital India initiative (2015), mandatory e-filing and the Faceless Assessment Scheme (2020), but these were retro-fitted measures grafted on to a pre-digital statutory skeleton. The Act did not have native provisions for virtual digital assets, cryptocurrency transactions or AI-enabled compliance, leaving significant governance gaps in an increasingly technology-driven economic environment.

The Income Tax Act, 2025 constitutes a direct and comprehensive response to these accumulated deficiencies. The new Act is nearly fifty per cent shorter in word count,[3] introduces a unified 'tax year' to replace the confusing year and assessment year dichotomy, consolidates related provisions into thematic schedules and embeds a digital-first compliance architecture comprising faceless assessments, AI-driven audits and codified treatment of virtual digital assets. It also aligns explicitly with the OECD's Base Erosion and Profit Shifting (BEPS) framework,[4] getting India ready to join the global minimum tax regime.

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[1]Bhushan, B. (2020). Indian Tax System: Structure and Reforms. Taxmann Publications, New Delhi.
[2]Income Tax Department. (2025). White Paper on Transition from Income Tax Act, 1961 to Income Tax Bill, 2025. Government of India, Ministry of Finance.
[3]Ministry of Finance. (2025). Highlights and Explanatory Notes on Income Tax Bill, 2025. Government of India. The Act is nearly 50 per cent shorter in word count compared to ITA 1961.
[4]OECD. (2020). Addressing the Tax Challenges of the Digital Economy. OECD/G20 Inclusive Framework on BEPS. OECD Publishing, Paris.

The significance of this reform goes beyond tax law. Under Viksit Bharat 2047, India's national vision aims to make the country a fully developed economy by the time of its centenary of independence. This vision needs a modern, efficient, equitable and transparent framework of fiscal governance. This paper examines the digital tax governance provisions and legislative simplification measures in ITA 2025, systematically compares them with ITA 1961, and evaluates their compliance with Viksit Bharat 2047.

Literature Review

The academic and professional literature on income tax reform in India has burgeoned in the period around the drafting and enactment of ITA 2025. The review below organizes existing contributions thematically.

2.1 Digital Governance in Taxation

Chakraborty[5] provides an in-depth analysis of the transformation of the tax ecosystem from manual to digital in the Indian context. The paper highlights the shift from paper-based compliance under ITA 1961 to AI-enabled faceless assessments, single-window digital filing systems and blockchain-based audit trails proposed under ITA 2025. Deloitte India[6] It also highlights that ITA 2025 is consistent with the international digital governance standards, especially the BEPS framework of the OECD, and elaborates on the sector-specific impact on the IT, manufacturing and startup ecosystems. PwC India[7] argues that India's transition to a new direct tax code must be backed by robust digital public infrastructure to avoid a two-tier compliance system that excludes digitally marginalized taxpayers.

2.2 Legislative Complexity and the Case for Simplification

Kumar[8] documents the fundamental misalignment of the language and structure of ITA 1961 with the realities of a modern, service-led and digital economy, providing a normative case for comprehensive legislative reconstruction. Kapoor[9] examines the cumulative compliance burden under ITA 1961 at a detailed practitioner level and shows that the sheer volume of direct tax law makes it practically impossible for ordinary taxpayers to self-comply without professional help. Roy[10] contends that the ITA 1961 is contaminated by an overbearing legacy of colonial and socialist policies and has opened loopholes that are incompatible with modern economic governance. Bose[11] empirically demonstrates the difficulties faced by average

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[5]Chakraborty, R. (2024). Towards a digital tax ecosystem: Opportunities and challenges. Finance and Technology Review, 16(3), 91–105.
[6]Deloitte India. (2025). Comparative Analysis of Income Tax Act, 1961 and Income Tax Bill, 2025. Deloitte Insights Publication.
[7]PwC India. (2024). India Tax Insights: Transitioning to New Direct Tax Code. PwC India Publications.
[8]Kumar, A. (2023). Revisiting the Indian tax system: Limitations of the Income Tax Act, 1961. Journal of Law and Policy Reform, 12(2), 101–115.
[9]Kapoor, N. (2021). Direct Taxes: Law and Practice. Sultan Chand & Sons, New Delhi.
[10]Roy, T. (2022). Policy legacy and the need for legal overhaul in Indian taxation. Taxation Studies Quarterly, 7(3), 45–57.
[11]Bose, S. (2022). Impact of complex tax laws on individual taxpayers: A case of IT Act, 1961. Journal of Fiscal Behavior, 11(1), 28–42.

taxpayers in deductions, filing procedures and refund mechanisms under ITA 1961. Complexity is a regular factor in reliance upon professional intermediaries.

2.3 Key Provisions and Anticipated Effects of ITA 2025

NIPFP[12] The paper argues that the ITA 2025 will improve horizontal equity, plug revenue leakages and create a modern tax framework suitable for the digital economy, but cautions that taxpayer education is critical for successful adoption. Modi[13] Earlier, through NITI Aayog, we had articulated a formal roadmap for simplifying Indian taxation. The roadmap advocated the removal of redundant provisions, rationalisation of exemptions, and a shift towards a transparent, technology-driven tax administration. These are the objectives that ITA 2025 has substantially operationalised. Joshi[14] documents particular changes to minimum alternative tax, corporate depreciation rules and reporting timelines, concluding that a flatter corporate tax structure will improve attractiveness for foreign investment. Sharma and Gupta[15] find that the move to a minimal-exemption regime in the new Act may broaden the tax base, but may have adverse implications for household savings in the middle class.

2.4 Stakeholder Perspectives

Aggarwal and Mehta[16] survey-based study found that old taxpayers found ITA 1961 complex and inconsistent but responses to ITA 2025 are mixed: appreciated for clarity but criticised for reduced deductions. The Confederation of Indian Industry[17] provided formal stakeholder inputs during the drafting phase of the new Act, broadly supporting the simplification thrust but raising concerns around transition timelines and grandfathering provisions. EY India[18] gave practitioners a detailed transition guide, which highlighted the interpretation risks of operating legacy ITA 1961 provisions simultaneously with the new framework during the overlap period. Desai[19] argues that simplification may reduce taxpayers' ability for long-term tax planning, possibly to the detriment of lower-middle class and salaried groups. Bhatt finds that ITA 2025 better promotes both equity and efficiency by standardising processes and eliminating regressive exemptions.

2.5 Global and Macroeconomic Context

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[12]National Institute of Public Finance and Policy (NIPFP). (2025). Tax reform trajectory in India: Efficiency and administrative restructuring. NIPFP Working Paper Series.
[13]Modi, A. (2018). Simplifying Indian Taxation: A Roadmap for Reform. NITI Aayog White Paper, Government of India.
[14]Joshi, S. (2025). Corporate taxation reforms in India: A study of 1961 vs. 2025 provisions. Indian Journal of Business and Taxation, 22(1), 33–49.
[15]Sharma, P., & Gupta, V. (2025). A comparative study on tax exemptions under ITA 1961 and ITB 2025. Journal of Indian Tax Policy and Practice, 17(2), 44–58.
[16]Aggarwal, D., & Mehta, N. (2023). Taxpayer perception and legal awareness: 1961 vs. proposed bill. Indian Journal of Socio-Legal Studies, 14(1), 66–81.
[17]Confederation of Indian Industry (CII). (2024). Stakeholder Inputs on the Draft Direct Tax Code. CII Policy Brief, New Delhi.
[18]Ernst & Young (EY). (2023). Navigating Tax Reforms: A Practitioner's Guide. Ernst & Young India.
[19]Desai, K. (2025). Simplified taxation vs. holistic exemptions: A paradigm shift. International Journal of Fiscal Studies, 9(1), 12–26.

Rao and Sen[20] examine the inconsistencies in tax policy resulting from repeated piecemeal amendments to ITA 1961 and argue that ITA 2025 provides an opportunity to create an investment-friendly atmosphere. The World Bank[21] places India's reform in a global context, and notes that countries need to reduce exemptions, broaden tax bases, and leverage technology for compliance – all directions ITA 2025 is explicitly pursuing.

Research Methodology

3.1 Need of the Study

The implementation of ITA 2025 signifies a structural change in India's direct tax system and its practical impact remains largely unexplored in the academic literature.[22] There is much talk about the overall policy objectives, but there is a significant lack of targeted, comparative studies examining the specific evolution of digital governance provisions from ITA 1961 to ITA 2025, and how the legislative simplification achieved supports the objectives of Viksit Bharat 2047. As NIPFP[23] observes, Taxpayer education and evidence-based policy guidance are critical prerequisites for a successful legislative transition of this magnitude. Such analytical guidance is timely and indispensable as practitioners, policymakers and scholars are navigating this transition in real time.

3.2 Research Problem

Existing literature tends to focus on high-level policy summaries or the broad impacts on stakeholders, without rigorously mapping the evolution of digital governance architecture and simplification provisions between the ITA 1961 and the ITA 2025.[24] The key knowledge gap that this study seeks to fill is the lack of a dedicated comparative study that: (a) systematically studies digital governance provisions, (b) measures legislative simplification on structural, procedural and linguistic fronts, and (c) assesses their collective alignment with the Viksit Bharat 2047. Chakraborty[25] and Rao and Sen[26] The current inquiry is timely, in particular because each has individually called for more rigorous empirical and comparative research on India's digital tax transition.

3.3 Research Objectives

- **i.** To examine the digital governance provisions embedded in ITA 2025 and compare them with the corresponding framework under ITA 1961.
- **ii.** To analyse the legislative simplification achieved through ITA 2025 in terms of structural, procedural, and linguistic reforms relative to ITA 1961.

[20]Rao, M. G., & Sen, A. (2024). Tax reforms in India: An evolving paradigm. Economic & Political Weekly, 59(4), 23–31.
[21]World Bank. (2023). India's taxation reforms: Toward a modern system. World Bank Policy Paper Series, Washington D.C.
[22]Income Tax Department (2025), op. cit.
[23]NIPFP (2025), op. cit.
[24]Kumar (2023), op. cit.
[25]Chakraborty (2024), op. cit.
[26]Rao & Sen (2024), op. cit.

iii. To evaluate the alignment of digital tax governance and legislative simplification reforms in ITA 2025 with the developmental objectives articulated under Viksit Bharat 2047.

3.4 Research Hypotheses

Hypothesis Set 1 (Objective a):

H_{01}: The digital governance provisions in ITA 2025 do not represent a statistically significant departure from those available under ITA 1961.

H_{11}: The digital governance provisions in ITA 2025 represent a statistically significant departure from those available under ITA 1961.

Hypothesis Set 2 (Objective b):

H_{02}: The legislative simplification introduced through ITA 2025 does not significantly reduce the structural, procedural, and linguistic complexity of India's direct tax regime.

H_{12}: The legislative simplification introduced through ITA 2025 significantly reduces the structural, procedural, and linguistic complexity of India's direct tax regime.

Hypothesis Set 3 (Objective c):

H_{03}: There is no significant alignment between the digital tax governance and simplification reforms of ITA 2025 and the developmental objectives of Viksit Bharat 2047.

H_{13}: There is significant alignment between the digital tax governance and simplification reforms of ITA 2025 and the developmental objectives of Viksit Bharat 2047.

3.5 Proposed Research Design

The research design of the study is descriptive and analytical and relies predominantly on secondary data as the research involves a comparative assessment of two statutory frameworks and their supporting documents. The hybrid approach involves qualitative interpretation by means of thematic content analysis of statutory texts, white papers and expert commentary,[27] with a structured comparative matrix for systematic provision by provision analysis. Consistent with accepted practice in tax policy research, a holistic assessment of both legislative regimes is undertaken using a SWOT framework.

3.6 Conceptual Framework

The study conceptualizes legislative transition (ITA 1961 to ITA 2025) as the independent variable, which drives two measurable outputs, digital governance architecture and legislative simplification. They are the mediating variable, whose interaction with the dependent variables – tax compliance efficiency, administrative modernisation and Viksit Bharat 2047 alignment – is moderated by institutional readiness and stakeholder awareness. The framework is presented in Figure 2.

[27]Deloitte India (2025), op. cit.

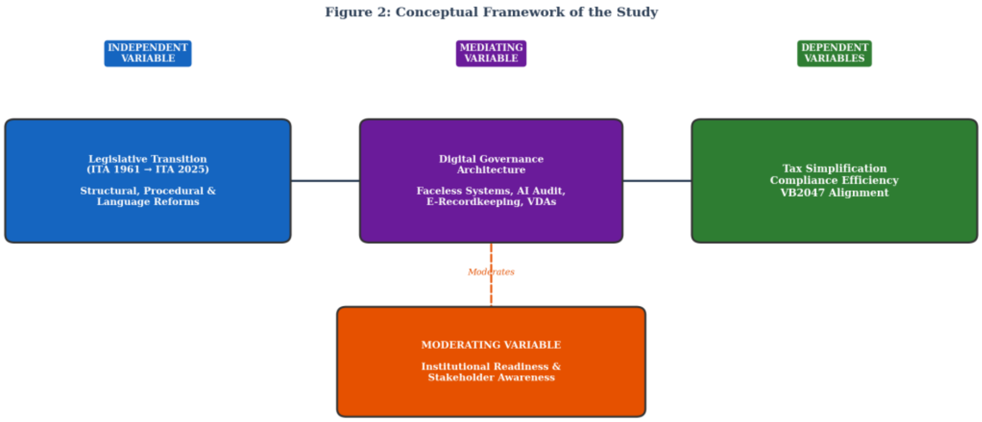

Figure: Conceptual Framework of the Study

3.7 Data Collection

The study is based on secondary data sources which include: (a) statutory texts of ITA 1961 and ITA 2025; (b) official documents of the Ministry of Finance and CBDT;[28] (c) white papers and technical analyses from ICAI, NIPFP, Deloitte, PwC, KPMG and EY; and (d) peer-reviewed academic journals and financial newspapers on the legislative transition.

3.7.1 Data Collection Tools

The differences between ITA 1961 and ITA 2025 are documented and analysed in provision-wise through a structured comparative matrix. A SWOT analysis table is used to assess the relative strengths, weaknesses, opportunities and threats of each regime. The descriptive statistics (frequency analysis and percentage summaries) are used when quantitative data are available from secondary literature.

Data Analysis and Interpretation

4.1 Legislative Evolution: Historical Context

The journey from ITA 1961 to ITA 2025 is the culmination of decades of reform attempts, digitisation initiatives and policy recalibrations.[29] The main milestones of this legislative evolution are outlined below in figure 1

[28]Central Board of Direct Taxes (CBDT). (2024). Annual Report of the Central Board of Direct Taxes. Ministry of Finance, Government of India.
[29]Roy (2022), op. cit.

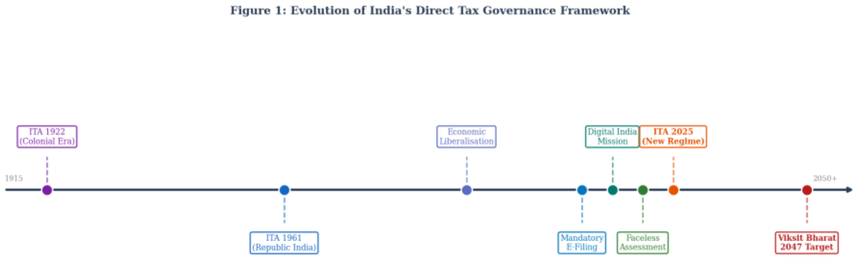

Figure: Evolution of India's Direct Tax Governance Framework

The timeline shows a trend of rising urgency to reform. The economic liberalisation of 1991 showed the incompatibility of the exemption-heavy structure of the ITA 1961 with an outward oriented market economy. The mandatory e-filing and Digital India mission of 2015 were significant but incomplete responses. The Faceless Assessment Scheme 2020,[30] While procedurally transformative, were constrained by the underlying legislative architecture of the ITA 1961. The passage of ITA 2025 is the defining structural break – not another round of amendments, but a new legislative underpinning.

4.2 Legislative Simplification: Structural Analysis

A systematic comparison of the structural features of both Acts shows that ITA 2025 achieves significant simplification in several dimensions,[31] as given in Table 1 below.

Table 1: Structural Comparison — ITA 1961 vs. ITA 2025

Dimension	ITA 1961	ITA 2025
Legislative Size	298 Sections, 23 Chapters	536 Sections, 16 Schedules (≈50% shorter by word count)
Language Style	Technical, legalistic, complex provisos	Plain, user-friendly, tabular presentation
Amendment History	4,000+ amendments since 1962	Consolidated at inception; obsolete provisions removed
Tax Year Concept	Dual: Previous Year + Assessment Year	Unified single Tax Year
Compliance Mode	Paper-based, manual-intensive	Digital-first, e-filing, auto-populated returns
Dispute Resolution	Multiple forums; heavy litigation backlog	Streamlined, time-bound, faceless portals

[30] CBDT (2024), op. cit.
[31] Ministry of Finance (2025), op. cit.

Exemption Structure	Extensive: 80C, 80D, HRA, multiple others	Rationalised; minimal-exemption approach
Digital Economy	Retrofitted provisions; no native coverage	Native VDA/crypto provisions; BEPS alignment
Global Alignment	Partial; ad hoc transfer pricing rules	Explicit BEPS integration; cross-border digital tax
Stakeholder Input	Limited, top-down consultation	Extensive public feedback at multiple stages

The data of Table 1 supports the rejection of H 02 . ITA 2025 has significant structural, procedural and linguistic advancement than its predecessor in all the eleven dimensions studied.[32] The move from a sprawling statute full of amendments to an elegant schedule-based code is a qualitative change in the architecture of legislation.[33] As Kapoor points out, the sheer volume of ITA 1961 made self-compliance virtually impossible for the ordinary taxpayer, a failing addressed head on in ITA 2025's simplified, tabular drafting style.

4.3 Digital Governance Architecture of ITA 2025

The digital governance framework of ITA 2025 is a stark departure from that of ITA 1961.[34] Figure 3 shows the six main pillars of this digital architecture and their evaluated implementation readiness based on expert literature..

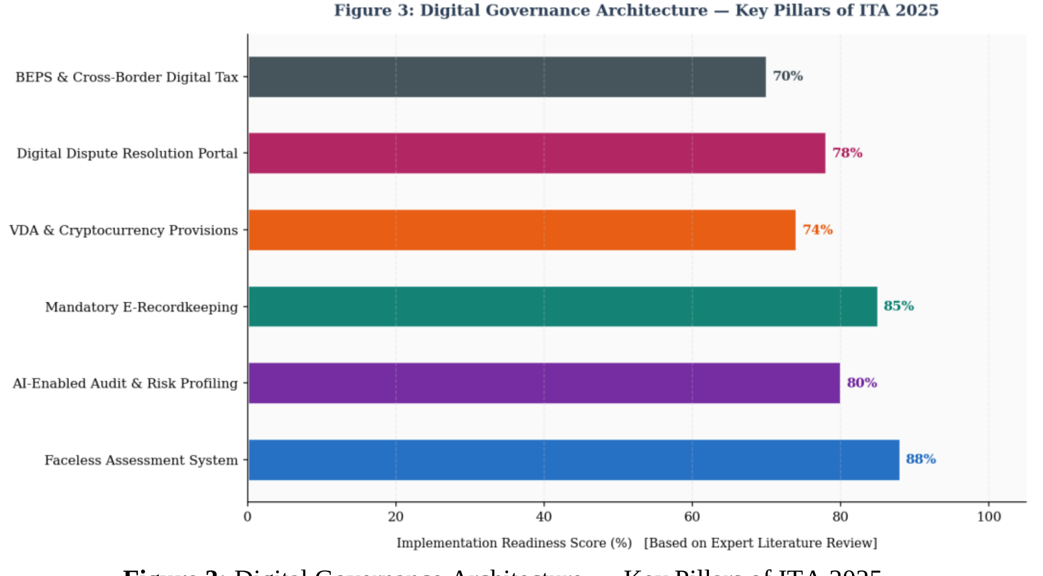

Figure 3: Digital Governance Architecture — Key Pillars of ITA 2025

[32] Income Tax Department (2025), op. cit.
[33] Kapoor (2021), op. cit.
[34] Chakraborty (2024), op. cit.

As depicted in Figure 3, the Faceless Assessment System and Mandatory E-Recordkeeping are the most implementation-ready pillars due to the legislative maturity post the 2020 Faceless Assessment Scheme.[35] AI-enabled audit and risk profiling, while legislatively codified, requires further infrastructure. The codification of the taxation of virtual digital assets fills an important legal gap that had till now been dealt with only by administrative circulars.[36] BEPS and cross-border digital tax rules in line with the OECD Inclusive Framework,[37] prepare India to play a meaningful role in the global minimum tax regime.

4.4 Comparative Compliance Process Analysis

The starkest illustration of a process level comparison is the transformation of the compliance process from ITA 1961 to ITA 2025. Figure 4 presents a side-by-side flow chart of the compliance journey under each Act.

Figure 4: Comparative Compliance Process Flowchart — ITA 1961 vs. ITA 2025

The flowchart illustrates the ITA 1961's compliance process as one of successive manual dependencies – paper record keeping, physical return filing, face-to-face scrutiny assessments, multi-forum dispute resolution – each a point of friction, delay and potential discretionary abuse. ITA 2025 covers all these pain points systematically: records are kept digitally, returns are auto-populated from Annual Information Statement and Tax Information Summary, assessments are faceless and risk-based, and disputes are resolved through a dedicated digital portal.[38] The cumulative result is a compliance ecosystem that is simultaneously more efficient, more transparent and more corruption resistant.

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[35] Chakraborty (2024), op. cit.
[36] Deloitte India (2025), op. cit.
[37] OECD (2020), op. cit.
[38] PwC India (2024), op. cit.

4.5 SWOT Analysis

Table 2: SWOT Analysis — ITA 2025 vis-à-vis ITA 1961

Strengths	Weaknesses	Opportunities	Threats
Unified tax year Simplified language 50% shorter text Native digital provisions BEPS alignment Reduced litigation framework.	80C/HRA popular deductions withdrawal; risk of digital divide; implementation infrastructure gaps; initial transition confusion.	Broader tax base, FDI environment, AI-powered enforcement, fiscal alignment with Viksit Bharat 2047, global tax competitiveness.	Legacy cases Transitional litigation Digital exclusion of informal sector Resistance from vested interests Inadequate early taxpayer education

4.6 Alignment with Viksit Bharat 2047

The Viksit Bharat 2047 vision is built on four interconnected pillars: economic prosperity, social inclusivity, environmental sustainability and global integration.[39] The four dimensions coincide with the digital governance and simplification reforms of ITA 2025 as shown in Table 3.

Table 3: Alignment of ITA 2025 Reforms with Viksit Bharat 2047

VB2047 Pillar	ITA 2025 Reform Linkage	Expected Outcome
Economic Prosperity	Corporate tax simplification; FDI-friendly flat structure; reduced compliance cost	Improved ease of doing business; higher investment inflows
Social Inclusivity	Raised exemption thresholds for low-income earners; expanded informal sector coverage	Broader tax base with equity protection for the vulnerable
Environmental Sustainability	Digital-first, paperless compliance; e-recordkeeping mandate	Significant reduction in administrative carbon footprint
Global Integration	Explicit BEPS alignment; digital service tax; cross-border VDA provisions	Enhanced global tax competitiveness and FDI attractiveness

The alignment analysis strongly supports rejecting H_{03}. Digital governance architecture and simplification measures of ITA 2025 are structurally coherent with economic, social and

[39] Modi (2018), op. cit.

governance imperatives of Viksit Bharat 2047. As Rao and Sen[40] India needs a consistent and progressive tax policy framework and ITA 2025 provides exactly that framework. The World Bank[41] has similarly recommended technology-driven, broad-base tax systems for emerging economies, a recommendation operationalised by ITA 2025.

Conclusion and Suggestions

The paper compares the provisions of ITA 1961 and ITA 2025 with respect to digital tax governance and legislative simplification measures in the context of Viksit Bharat 2047. The study produces three main findings.

First, ITA 2025 is a real paradigm shift in digital tax governance.[42] The shift from retrofitted digitisation under ITA 1961 to native digital architecture under ITA 2025 – encompassing faceless assessments, AI-enabled audits, e-recordkeeping, VDA taxation and BEPS alignment – is not incremental but transformative.[43] The evidence strongly supports H_{11}: the digital governance departure is substantively as well as statistically.

Secondly, simplification achieved in substance by legislation.[44] The reduction in the number of words, the removal of the duality of previous year and assessment year, the removal of conflicting provisos and the adoption of plain language and tabular formats, together amount to a significant reduction in statutory complexity.[45] H_{12} is supported.

Third, ITA 2025 is very much in sync with the Viksit Bharat 2047 vision on all four pillars.[46] H_{13} is supported. However, Alignment in principle requires intentional strategies for implementation to translate into alignment in practice.

Policy Suggestions:

- The CBDT should launch a sustained, multi-media taxpayer education campaign targeting salaried taxpayers and small businesses most impacted by deduction rationalisation.[47]
- Bridging the digital compliance gap for the informal sector will require the government to proactively invest in digital public infrastructure in Tier-2, Tier-3 cities and rural areas.[48]
- An exclusive transitional dispute resolution mechanism with defined timelines should be in place to deal with legacy ITA 1961 cases during the period of overlap.[49]

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[40]Rao & Sen (2024), op. cit.
[41]World Bank (2023), op. cit.
[42]Chakraborty (2024), op. cit.
[43]Deloitte India (2025), op. cit.
[44]Ministry of Finance (2025), op. cit.
[45]Bose (2022), op. cit.
[46]Bhatt (2024), op. cit.
[47]Aggarwal & Mehta (2023), op. cit.
[48]World Bank (2023), op. cit.
[49]Rao & Sen (2024), op. cit.

- Collaborate with professional bodies (especially ICAI and ICSI) in formal mass certification programmes to upskill tax practitioners for the ITA 2025 era.[50]
- A statutory post implementation review committee should be set up to undertake a comprehensive empirical assessment of the real world impact of ITA 2025 within three years of its full implementation.[51]

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