

The Income-tax Act, 2025: a new vocabulary, and the documents still written in the old one

The Income-tax Act, 2025 changed the language of Indian income tax far more than its substance. What still quotes the old sections, from contracts to system codes, is where the cost appears.

September 9, 2026 · 11 min read

soniassociates.in/insight-income-tax-act-2025



AT A GLANCE

- The Income-tax Act, 2025 has applied since 1 April 2026. It was presented as a simplification: fewer sections, plainer drafting, and a single "tax year". Rates and the broad incidence of tax were largely carried over.
- That is what makes it risky. Because outcomes rarely change, nobody owns the transition, and the 1961 Act is written into contracts, ERP tax codes, vendor masters, declarations, and board-approved policies.
- Withholding is where the change shows up first. Badly mapped codes and documents that cite repealed sections turn into short deductions and notices, each one small and all of them tedious to clear.
- The remedy is an inventory rather than an opinion. Find every place the old Act is cited, map it to the new one, and sort each reference by whether it carries legal, financial, or purely presentational weight.

Tax law usually announces itself through outcomes. A rate moves, a deduction disappears, or a new levy arrives, and every finance team reads the amendment because every finance team is affected by it. The response is almost automatic: someone models the impact, someone updates the forecast, someone briefs the board.

The Income-tax Act, 2025 arrived differently. Its stated purpose was to rewrite a statute that six decades of amendment had made hard to read, while keeping most of the policy inside it. For most companies, the tax payable on a given set of facts is the same under the new Act as it would have been under the old one. So in many finance functions the transition was left to tax advisers and software vendors, and treated as important in principle but uneventful in practice.

We think that view is half right. The substance may be stable, but the vocabulary is not, and Indian companies have spent decades writing the vocabulary of the 1961 Act into the way they operate.

What actually changed

The new Act received assent in August 2025 and applies from 1 April 2026.¹ It replaces a statute that had grown to more than 800 sections in 47 chapters with one of 536 sections in 23 chapters. The familiar pairing of “previous year” and “assessment year” gives way to a single “tax year”. Many of the provisos and explanations through which the old Act gathered its complexity are replaced by tables and formulae, and withholding provisions that were scattered across separate sections now sit together in tabular form.

Two features of the transition deserve more attention than they get. First, proceedings for periods before the new Act took effect, including assessments, appeals, and returns for those years, continue under the 1961 Act. Finance teams will therefore work under two statutes, with two numbering systems, for years. Second, the rules and prescribed forms move to the new framework as well, so the change reaches every document that cites a form number as well as every document that cites a section.

EXHIBIT 1

The new Act changes the vocabulary of Indian income tax far more than its substance

Selected differences between the Income-tax Act, 1961 and the Income-tax Act, 2025, and what each means for a finance team

Feature	Income-tax Act, 1961	Income-tax Act, 2025	What it means for finance teams
Period	Income of the "previous year", assessed in the "assessment year"	A single "tax year"	Templates, ERP fields, board papers, and correspondence need relabelling
Architecture	More than 800 sections in 47 chapters, after six decades of amendment	536 sections in 23 chapters	Every section number cited in contracts, policies, and system codes needs a mapped equivalent
Drafting	Layers of provisos and explanations	Tables and formulae in place of many provisos	Positions that relied on the wording of a proviso should be read again against the new text
Withholding	A separate section for each kind of TDS	Withholding provisions brought together and set out in tables	Vendor masters, TDS codes, and certificate workflows need remapping
Policy	Not applicable	Presented as a simplification, largely keeping existing rates and incidence	Outcomes should usually be the same; the exposure lies in documents and systems

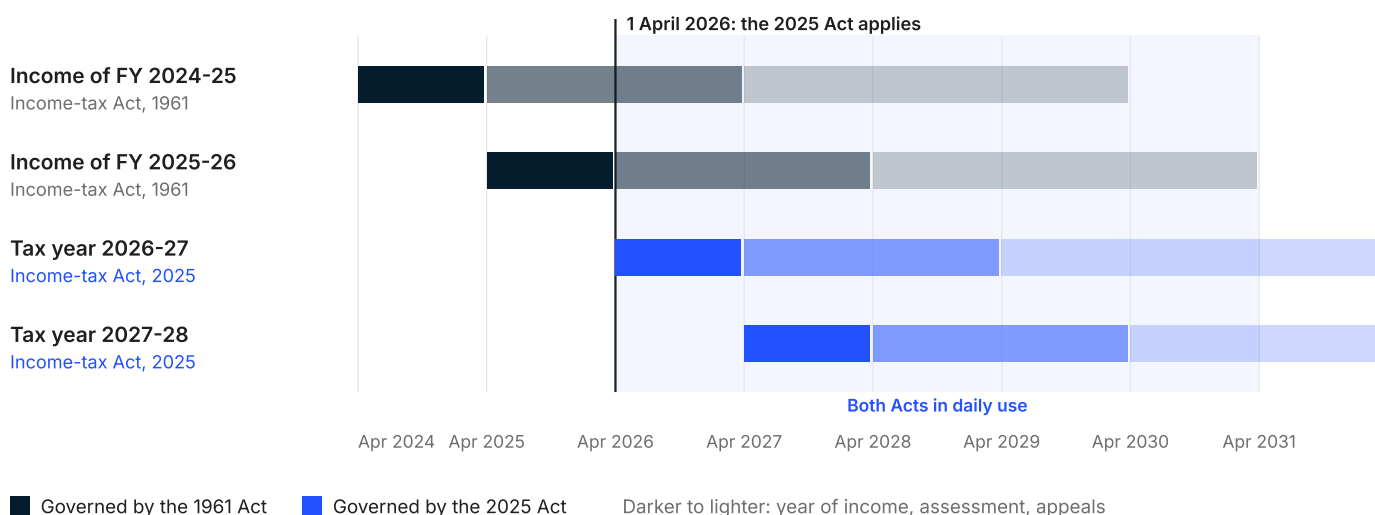
A summary for orientation, not a complete comparison. Proceedings for periods before 1 April 2026 continue under the 1961 Act.
Source: Income-tax Act, 2025; Income-tax Act, 1961; SA&A analysis

Soni Aditya & Associates

EXHIBIT 2

For several years, finance teams will work under two income-tax laws at the same time

Illustrative life of a year's tax affairs, from the year of income through assessment and appeal



Illustrative. Time limits differ by proceeding and can extend in particular cases. Proceedings for periods before 1 April 2026 continue under the Income-tax Act, 1961.

Source: Income-tax Act, 2025; Income-tax Act, 1961; SA&A analysis

Soni Aditya & Associates

Why a policy-neutral law still creates exposure

A company does not experience tax law as a statute. It experiences it through a set of working documents and systems, each of which cites the law it was built to comply with:

- **Contracts** that allocate tax risk, such as gross-up clauses, withholding mechanics, and indemnities that refer to sections by number.
- **Systems** that apply tax: withholding codes in the ERP and vendor master, payroll configuration, and the files generated for statutory returns.
- **Documents exchanged with third parties**, including lower or nil deduction certificates, declarations collected from payees, and confirmations requested by banks and counterparties.
- **Internal governance**: tax policies, delegation of authority matrices, and board and audit committee papers that describe how the company complies.
- **Advisers' templates**, among them tax audit workpapers, transfer pricing documentation, and opinions that will be refreshed on their next cycle whether or not anyone checks the references.

None of these has a single owner, and none of them visibly breaks on 1 April. A vendor master keeps the code it held on 31 March. A gross-up clause keeps pointing at a section that no longer exists. The transition is less a failure waiting to happen than a slow build-up of small inconsistencies, each harmless until somebody relies on it.

When a law changes its outcomes, everyone reads it. When it changes only its vocabulary, nobody owns the transition.

It is reasonable to expect that a reference to a repealed provision will usually be read as a reference to its re-enacted equivalent. The rules of statutory interpretation have long provided for this where one law refers to another,² and courts tend to read commercial contracts sensibly. But “usually” is not a control. An argument with a counterparty about whether a gross-up still applies, or with a tax officer about which provision a declaration was made under, is not where a company wants to test the principle.

The first withholding quarters are the real test

Withholding is where the new vocabulary becomes operational fastest. Every payment to a vendor, professional, landlord, or non-resident needs a rate, and the rate depends on a category that is now described and numbered differently. Quarterly statements and certificates follow the new structure. Where systems were remapped in a hurry, the errors are specific and predictable:

1. **Category drift.** A payment type mapped to the wrong line of the new consolidated withholding table attracts the wrong rate, or is reported under the wrong nature of payment.
2. **Certificates that no longer match.** Lower deduction certificates and payee declarations that cite old provisions are applied in systems now keyed to new ones, and the link between certificate and transaction is lost.
3. **Threshold logic.** Aggregation thresholds configured against old section codes stop accumulating correctly when codes are split or merged.

Finding these errors is not difficult. Compare withholding by category for the first quarters under the new Act with the same quarters a year earlier. Business volumes change gradually, so a category whose deductions jump or vanish between March and June is a mapping error until someone shows otherwise.

WHAT HAS NOT CHANGED**The transition does not reopen the past**

Returns, assessments, and appeals for periods before 1 April 2026 continue under the Income-tax Act, 1961, and positions taken in those years are tested against the old text.

Rates and the broad scheme of taxation were largely carried over, so a company whose facts are unchanged should generally expect the same tax outcome. Where that does not happen, the difference deserves its own analysis rather than an assumption that the new Act intended it.

Run the transition as an inventory

The instinct in many companies is to commission a memorandum on the new Act. A memorandum explains the law. It does not find the places where the company has written the old law into its operations. The work that closes the exposure looks more like an audit, and it follows a sequence:

- 1. Build a concordance for the provisions the company actually uses.** A mid-market company relies on a few dozen provisions, not 536. Map each one, with its rules and forms, to the new framework, and note any change in wording that could matter.
- 2. Search the documents and systems.** Run text searches across the contract repository for the old Act's name and the section numbers most often cited. Export withholding and payroll configuration. Collect policies and templates.
- 3. Sort every reference by consequence.** Legal references change rights or obligations, as a gross-up clause does. Financial references determine an amount, as a withholding code does. Presentational references only label something, like a report title.
- 4. Fix them by class.** Remap financial references before the next payment cycle. Deal with legal references through amendments or side letters where the ambiguity carries real value, and otherwise at renewal. Relabel presentational references the next time the document is revised.
- 5. Keep the evidence.** Retain the concordance and a log of every change. Auditors, and eventually tax officers, will ask how continuity of compliance was ensured, and a dated record answers the question.

The opportunity inside the rewrite

There is a better reason to take the transition seriously. It is a rare moment when every tax position a company holds has to be re-cited, and a position that has to be re-cited might as well be re-read.

Some positions rest on the exact wording of a proviso or an explanation that has now been redrafted as a table or a formula. Mostly the redrafting keeps the meaning. Sometimes it resolves an ambiguity in the company's favour, and occasionally it removes an ambiguity a position depended on. A company that reviews its significant positions against the new text finds out which is which on its own timetable, rather than an assessing officer's.

Finance teams that treat the new Act as a documentation project will finish it within a quarter or two and move on. The ones that treat it as a non-event will finish it too, but one notice, one counterparty query, and one audit observation at a time.

NOTES

1. Income-tax Act, 2025, which received Presidential assent in August 2025 and applies from 1 April 2026.
2. See, for example, section 8 of the General Clauses Act, 1897, on how references to repealed enactments are construed.

ABOUT THE AUTHOR

[Aditya Soni](#) is the founding partner of Soni Aditya & Associates and leads its corporate structuring and tax work. He is a chartered accountant and was previously in the Assurance practice of Ernst & Young in Pune.

This article reflects the author's understanding of the relevant laws and standards at the date of publication. It is general in nature and is not a substitute for advice on specific facts.

Soni Aditya & Associates, Chartered Accountants, Pune
aditya@soniassociates.in · +91 93400 75288 · [Read online](#)