

FIN-O-SCOPE

31st August 2025



Image Source:

Presidential Assent Granted to Revised Income-Tax Act, 2025: Effective April 1, 2026

Background & Legislative Journey

In response to complexities and inconsistencies in the six-decade-old Income-Tax Act, 1961, the Indian government introduced a revised version—the Income-Tax (No. 2) Bill, 2025—to simplify language, streamline provisions, and consolidate changes post the Parliamentary Select Committee review. The original bill was tabled earlier in 2025 but later withdrawn to incorporate extensive committee recommendations, feedback, and drafting corrections.

The revised Bill received expedited parliamentary approval—cleared by the Lok Sabha on August 11 and by the Rajya Sabha on August 12, 2025.

Top Trends

- RBI August bulletin underscores India's economic resilience, buoyed by rural demand and easing inflation.
- U.S.–India trade tensions flagged as a key downside risk by the RBI.
- July's retail inflation hit an eight-year low of 1.55%, aiding monetary policy stance.
- GST reforms and tax cuts aimed at cushioning impact of U.S. tariffs.

Top Trends

- India's GDP forecast for FY2025–26 adjusted to ~5.8%; FY2026–27 to ~5.4%.
- Reform measures could boost consumption by approximately ₹5.3 lakh crore (1.6% of GDP).
- Fitch affirmed India's BBB sovereign rating with a stable outlook.
- Q1 (April–June 2025) growth dipped to around 6.7%, below the prior quarter.
- Nominal GDP growth projected to moderate to 8–9% in FY26.
- Government planning tax cuts and sector support to counter tariff impact.
- RBI maintains full-year growth estimate near 6.5% despite tariff headwinds.
- India still among fastest-growing major economies, supported by strong monsoon and government spending.
- Jefferies projects nominal GDP growth in FY26 at 8.5–9%, lowest in two decades outside COVID period.

Presidential Assent & Implementation Timeline

On August 21, 2025, the bill was granted Presidential assent, thereby transforming into the Income-Tax Act, 2025. The new legislation will officially replace the Income-Tax Act, 1961, and come into force on April 1, 2026, subject to notifications in the Official Gazette.

Simultaneously, the Taxation Laws (Amendment) Bill, 2025, which introduces targeted amendments to the existing Act, has also received Presidential assent and will take effect from April 1, 2025, or earlier.

Implications for Stakeholders

While the Revised Act largely preserves existing tax policy outcomes, stakeholders—especially businesses and tax practitioners—should prepare for its streamlined structure, clearer drafting, and enhanced digital compliance mechanisms. Early engagement is advised to minimize transition-related risks before the new tax framework becomes effective.

CBDT notifies new Income-Tax (22nd Amendment) Rules, 2025

Notification No. 133/2025 | Dated: 18th August 2025

Rule 3C – Salary Income Limit

For valuation of perquisites under Sec. 17(2)(iii)(c), exemption applies only if Salary Income $\leq$ ₹4,00,000.

Rule 3D – Gross Total Income Limit

For perquisites covered under the Proviso to Sec. 17(2)(vi), exemption is available only if Gross Total Income $\leq$ ₹8,00,00

Official document:

[Annexure-I](#)

Supreme Court on JAO vs FAO Controversy | Invalid 148 Notices

Case: Prakash Pandurang Patil vs ITO, Ward 5, Panvel | **Forum:** Bombay High Court (12 Aug 2024), affirmed by Supreme Court (18 Aug 2025). | **Assessment Year:** AY 2018–19
Dispute: Notice u/s 148 issued by JAO instead of Faceless Assessing Officer (FAO) under Sec. 151A & CBDT Notification | **dated 29 March 2022.**

Background of the Case

The assessee, Prakash Pandurang Patil, was issued a notice under Section 148 of the Income-tax Act, 1961 for AY 2018–19, along with an order under Section 148A(d), both dated 5 April 2022. These were issued by the Jurisdictional Assessing Officer (JAO), despite the fact that by virtue of Section 151A and CBDT's notification dated 29 March 2022, such notices were required to be issued only through the Faceless Assessing Officer (FAO) mechanism. The assessee challenged the validity of the notice before the Bombay High Court, contending that the JAO had no jurisdiction once the faceless regime had been notified.

High Court Ruling:

The Bombay High Court held that reassessment notices under Section 148 issued after the notification of the Faceless Assessment Scheme (29 March 2022) must mandatorily be issued by the Faceless Assessing Officer (FAO) and not by the Jurisdictional Assessing Officer (JAO). The Court rejected the Revenue's argument of concurrent jurisdiction, observing that once jurisdiction is specifically vested in the FAO, the JAO cannot exercise parallel powers. Any notice or order issued by a JAO contrary to the scheme was therefore declared invalid and bad in law. The Court relied on its earlier decisions in Hexaware Technologies Ltd. and Siemens Financial Services Pvt. Ltd., reiterating that procedural safeguards under Section 151A are mandatory and non-compliance vitiates the entire proceeding.

Supreme Court's View

The Revenue carried the matter to the Supreme Court; however, the Court dismissed the Special Leave Petition on 18 August 2025. The dismissal was on two counts—first, due to a gross delay of 248 days in filing, and second, because the Court found no reason to interfere on merits with the High Court's decision. As a result, the Bombay High Court's ruling stands affirmed, reinforcing the principle that reassessment notices issued by JAOs after the faceless regime came into effect are unsustainable in law.

Top Trends

- Sectoral exports—like textiles and chemicals—at risk due to higher U.S. tariffs.
- India's aim to become second-largest economy by 2038 reaffirmed by EY.
- Projected GDP: \$20.7 trillion by 2030; \$34.2 trillion by 2038.
- Digital-first banking transforming India's financial access experience.
- Embedded finance, blockchain, DeFi, BNPL, and green fintech gaining traction.
- Open banking, via Account Aggregator framework, expanding opportunities.
- BNPL user base expected to reach 30 million (online), 22 million (offline) by 2026.
- Growing wealth-tech focus—targeting HENRY and HNW individuals.
- Future bank branches morphing into experience-driven social hubs.
- Sustainable investment and AI-driven efficiency prioritized across financial firms.

Top Trends

- Passive investing continues to shape Indian capital markets.
- Fintech ecosystem fueled by innovation, neobanking, and insurance-tech.
- 26 fintech unicorns in India valued at \$90 billion.
- Fintech hubs emerging in Vizag, Bhubaneswar, Mumbai, Kolkata, and more.
- India Fintech Foundation established as industry's SRO.
- Fintech startups increasingly focus on microinsurance, chatbots, and IoT-linked insurtech products.
- M&A and PE active across pharma, tech, renewables, financial services, and retail sectors.
- Acquisition financing buoyed by stable inflation and softening interest rates.
- Banks confident in growing capital markets amid supportive regulation.

Madras HC: CIT Cannot Revise Assessment Under Sec. 263 for Mere Inadequate Inquiry

Case Title: M/s Arul Industries v. The Asst. Commissioner of Income Tax | Case Number: TCA No.340 of 2016 | Counsel for Petitioner/Assessee: I. Dinesh | Counsel for Respondent/Department: J. Narayanaswamy

Background of the Case

M/s Arul Industries, a partnership firm engaged in the manufacture and sale of kitchen utensils, filed its return of income for AY 2007–08 declaring NIL income. Subsequently, a search under Section 132 of the Income-tax Act, 1961 was conducted in the premises of another assessee on 14.10.2009, and simultaneously, a survey under Section 133A was also conducted at the premises of the appellant. Based on this, assessment proceedings were initiated under Section 153C read with Section 143(3) of the Act.

During assessment, the Assessing Officer examined the issue of depreciation on an old building purchased by the assessee in 1996 from the Tamil Nadu State Industrial Development Corporation. Even though depreciation had not been claimed in earlier years, the Assessing Officer deemed that depreciation must be allowed for the period during which the building was used for business purposes. Accordingly, depreciation was recomputed and allowed. Further, the Assessing Officer also taxed the profit on sale of the old building under the head "Capital Gains."

The Commissioner of Income Tax, however, invoked his revisional jurisdiction under Section 263 of the Act, contending that the assessment order was erroneous and prejudicial to the interests of the Revenue. The CIT's view was that the difference between the cost of construction claimed by the assessee and the Department's valuation had not been considered and that the capital gains on sale of the old building were not properly dealt with. The Income Tax Appellate Tribunal (ITAT) upheld the Commissioner's action, leading the assessee to file an appeal before the Madras High Court.

Ruling of the Madras High Court

The Division Bench comprising Chief Justice Manindra Mohan Shrivastava and Justice Sunder Mohan examined the scope of Section 263 of the Act. It observed that an order can be termed as “erroneous” only if it is not in accordance with law. Merely because an order does not contain elaborate reasoning, it cannot be branded as erroneous. The Court emphasized the distinction between “lack of inquiry” and “inadequate inquiry.” While lack of inquiry may justify revision under Section 263, inadequate inquiry cannot be a ground for substitution of the Commissioner’s view in place of the Assessing Officer’s.

On facts, the Bench held that the Assessing Officer had indeed examined the issue of depreciation and the usage of the building for business purposes during assessment. Thus, it could not be said that the assessment order was passed without inquiry or material. At most, it could be a case of inadequate inquiry, which does not empower the Commissioner to invoke Section 263.

Referring to precedents including CIT v. Sunbeam Auto Ltd. (Delhi HC) and CIT v. Gabriel India Ltd. (Bombay HC), the Court reiterated that the power under Section 263 is not unfettered and cannot be used to initiate fishing or roving inquiries into matters already examined. There must be some prima facie material to show that lawful tax has escaped assessment due to an error of law or incorrect interpretation.

Accordingly, the Court answered the substantial question of law in favour of the assessee, holding that the Commissioner had exceeded his jurisdiction. The appeal was allowed, and the order passed under Section 263 was set aside.

Top Trends

- Volume of digital payments—especially UPI—continues to expand rapidly.
- Over 602 banks active on UPI, with billions of digital transactions monthly.
- Stablecoins pegged to the rupee under discussion, indicating digital finance evolution.
- NaBFID plans to raise \$1 billion from international markets in FY26.
- GST rate cuts considered more growth-boosting than direct tax cuts.
- Over 56 crore Jan Dhan accounts opened in 11 years, reflecting deepened financial inclusion.
- Personal income tax collections now exceed corporate tax collections—first time ever.
- Electoral bond system declared unconstitutional—impacting political finance transparency.
- NDB appoints former MPC member as VP & Chief Risk Officer—strengthening institutional connections.

Top Trends

- Jefferies warns of a significant slowdown in nominal GDP due to trade headwinds.
- RBI suggests monitoring a daily Financial Conditions Index for real-time insights.
- Smart rural banking (e.g., RUGR) expanding financial inclusion.
- Neo-banking and embedded solutions targeting underserved populations.
- MSMEs encouraged to prioritize capability-building alongside financial support.
- Sector-specific digital tools offered by banks to MSMEs for better management.
- Green steel incentives under consideration, pending green hydrogen pricing viability.
- Credit guarantees proposed for SMEs and exporters impacted by tariffs.
- Large ships to be allowed as collateral—boosting maritime finance options.

ITAT Delhi: DRP Cannot Assess New Source of Income Not Considered by AO – Jurisdiction Limited to Issues in Draft Assessment

M/s Kohinoor Foods Ltd. v. DCIT, Central Circle-28, New Delhi | [ITA Nos. 1900/Del/2015 & 1549/Del/2016, AYs 2010-11 & 2011-12 | ITAT Delhi 'H' Bench, order dated 22.08.2025]

Background of the Case

M/s Kohinoor Foods Ltd., engaged in the business of processing and trading rice, pulses, and food products, filed its return of income for AY 2010-11 and AY 2011-12. The assessee had international transactions with its associated enterprises (AEs) abroad, which were referred to the Transfer Pricing Officer (TPO). Based on the TPO's findings, the Assessing Officer (AO) passed draft assessment orders proposing various additions and disallowances, including notional interest on loans to AEs, loss on forex derivatives, discrepancy in closing stock, and corporate guarantee commission.

During the proceedings, the Dispute Resolution Panel (DRP) also directed an additional disallowance of late fee paid to the Marketing Committee, Sonipat, treating it as penalty under Explanation 1 to Section 37(1). Notably, this issue was never part of the draft assessment order. The assessee challenged this on the ground that the DRP had exceeded its jurisdiction by introducing a new source of income which was not subject matter of assessment proceedings before the AO. The assessee placed reliance on the Full Bench ruling of the Delhi High Court in CIT v. Sardari Lal [251 ITR 864 (Del)(FB)], which held that neither appellate authorities nor the DRP can assess a "new source of income" not considered by the AO; such issues can only be taken up through Section 147 or Section 263.

Ruling of the ITAT Delhi

The Tribunal observed that the AO had not discussed the late fee issue in the draft order, nor was it part of the assessment proceedings. Hence, the DRP could not have roped in a fresh addition for the first time. Relying on the Full Bench judgment in Sardari Lal (supra), the Tribunal held that the DRP has no power to assess a new source of income beyond the matters considered by the AO. The scope of the DRP's jurisdiction under Section 144C(8) is confined to confirming, reducing, or enhancing variations proposed in the draft order. If the AO commits an error by not examining a particular issue, the appropriate remedies are through reassessment (Section 147) or revision (Section 263), not through DRP directions.

On transfer pricing issues, the ITAT followed its earlier rulings in the assessee's own cases and held that adjustments on loans to AEs should be benchmarked at LIBOR rates and not by applying domestic interest rates. It also deleted additions for notional interest on receivables, holding that the amendment to Section 92B (covering receivables) was prospective and not applicable to the years under appeal. Similarly, the Tribunal applied the consistent view of allowing forex derivative losses as business losses (and not speculative), and restricted corporate guarantee commission adjustment to 1%.

Accordingly, the Tribunal ruled that the DRP had acted beyond jurisdiction in bringing a new source of income into assessment and granted relief to the assessee on multiple issues. The appeals for AYs 2010-11 and 2011-12 were allowed in favour of the assessee.

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Top Trends

- Agriculture sector growing –projected to hit \$600 billion by 2030, with rising agrifoodtech investment.
- Federated learning and blockchain seen as promising tools to secure financial services.
- Climate-informed agricultural price volatility modeling gains importance through MSP analysis.
- Budget 2025 introduced zero tax up to ₹12 lakh and simplified TDS/TCS norms.
- Filing timelines for income tax returns extended to four years.
- Export incentives extended to electronics, EV parts, shipbuilding, and leather goods.
- ₹20,000 crore allocated for research, fellowships, and innovation infrastructure.
- Enhanced Kisan Credit Card limits and pulses mission launched for agriculture self-sufficiency.
- Second gene bank set up to preserve crop biodiversity.