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INDIA BRIEFING

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India's New Income-tax Act: A Compliance Guide for Companies

Understanding India's New Income Tax Framework Pg 04

Operationalizing Compliance Under the Income-tax Act, 2025 and Income-tax Rules, 2026 Pg 11

Impact of India's New Income-tax Act Across Business Entities Pg 17

FAQS: Adapting to India's New Direct Tax Regime Pg 21



Introduction



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India's direct tax landscape has entered a decisive phase in 2026. The Income-tax Act, 2025, together with the Income-tax Rules, 2026, marks a structural shift in how businesses approach tax compliance—moving from interpretation-heavy frameworks to execution-driven systems.

For companies operating in India or evaluating market entry, the new framework simplifies legislative structure around taxation, introduces a unified tax year, and embeds compliance within a digital, system-led environment.

The immediate implication is clear: tax compliance can no longer be managed as a periodic function. It must be integrated into day-to-day operations, supported by aligned systems, accurate documentation, and continuous monitoring.

For domestic companies, this means updating tax manuals, withholding frameworks, and governance processes. Foreign subsidiaries must revisit intercompany arrangements, transfer pricing documentation, and reporting structures. LLPs and OPCs should use this transition to establish stronger, scalable compliance systems from the outset.

This publication provides a structured view of the new tax framework, outlines practical compliance steps, and highlights the key areas where companies need to act now. For business inquiries, reach us at: India@dezshira.com

With kind regards,

Ankur Munjal



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Contents

Understanding India's New Income Tax Framework

Pg 04

Operationalizing Compliance Under the Income-tax Act, 2025 and Income-tax Rules, 2026

Pg 11

Impact of India's New Income-tax Act Across Business Entities

Pg 17

FAQs: Adapting to India's New Direct Tax Regime

Pg 21

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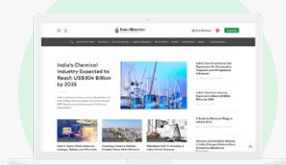
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Understanding India's New Income Tax Framework

India's Income-tax Act, 2025 marks a shift from complexity to clarity—offering businesses a more predictable, digital-first, and globally aligned tax environment.



Archana Rao
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The Income-tax Act, 2025, has come into force, replacing India's six-decade-old direct tax framework effective April 1, 2026. The Act is supported by the Income-tax Rules, 2026, notified on March 20, 2026, which set out the detailed implementation framework, compliance requirements, and operational procedures under the new regime.

Why the direct tax reform matters

The previous Income-tax Act, 1961 long formed the backbone of India's tax system. However, decades of amendments, layered provisions, and technical drafting gradually made the legislation complex and difficult to interpret.

This complexity increased compliance burdens for taxpayers and practitioners alike, often requiring detailed analysis of overlapping provisions and timelines.

The Income-tax Act, 2025 seeks to address these challenges by introducing a more streamlined, structured, and accessible framework.

Key objectives of the reform include:

- Simplifying legislative language and structure
- Supporting digital and technology-enabled compliance
- Reducing disputes through clearer provisions
- Updating definitions to reflect modern economic realities
- Aligning select provisions with international tax practices
- Providing clarity on emerging asset classes, including Virtual Digital Assets (VDAs)
- Consolidating related provisions into unified frameworks

Overall, the reform is designed to improve interpretability, administrative efficiency, and taxpayer experience.

Key structural features of India’s new income tax law

Introduction of the “Tax Year”

Under the earlier framework, taxpayers had to navigate between:

- 1. The previous year (when income was earned)
- 2. The assessment year (when such income was taxed)

This dual system often created confusion in compliance timelines and interpretation.

The Income-tax Act, 2025 eliminates this distinction, introducing a single reference period for taxation.

Definition and scope of the Tax Year

Section 3 defines the tax year as a 12-month period aligned with the financial year, beginning on April 1.

For newly established businesses or new income sources, it commences on the date of setup or when the income first arises, and ends on March 31 of the same financial year.

Section 4 further clarifies that income tax is levied on total income of the tax year, establishing it as the single reference point for:

- Income computation
- Application of tax rates
- Compliance obligations

The Income-tax Rules, 2026 reinforce this unified approach through aligned procedures and reporting formats.

Electronic payment of tax under Rule 333 (Income-tax Rules, 2026)

Rule 333 mandates compulsory electronic payment of tax-related liabilities for specified taxpayers. The following entities must make payments electronically:

- 1. Companies (all companies without exception); and
- 2. Non-corporate taxpayers to whom Section 63 of the Income-tax Act, 2025 applies (typically those subject to specified compliance or audit requirements).

The rule covers all major tax-related payments, including tax, interest, fees, and penalties.

Quick Comparison: Old vs New Income Tax Framework		
Aspect	Income-tax Act, 1961	Income-tax Act, 2025
Core concept	Previous Year + Assessment Year	Single tax year
Income reference period	Previous year	Tax year
Taxation timing	Assessment year (following year)	Same tax year
Compliance complexity	Higher (dual timelines)	Reduced (single timeline)
Alignment with financial reporting	Indirect	Direct alignment
Legislative clarity	Split across definitions	Unified and streamlined

Note: The financial year (April–March) continues as an accounting concept. However, for tax purposes, it is now referred to as the Tax Year.

The Income Tax Act, 2025: At a Glance

A streamlined look at the comprehensive new framework of the Income Tax Act, 2025, and how it maps to its predecessor.

A Massive New Legal Framework



Mapping Key Provisions (1961 vs 2025)

	1961 Act	2025 Act
 Definitions (General)	Sec. 2	Sec. 2
 Tax Year	Sec. 3	Sec. 3
 Charge of Income-Tax	Sec. 4	Sec. 4
 Residential Status	Sec. 6	Sec. 6

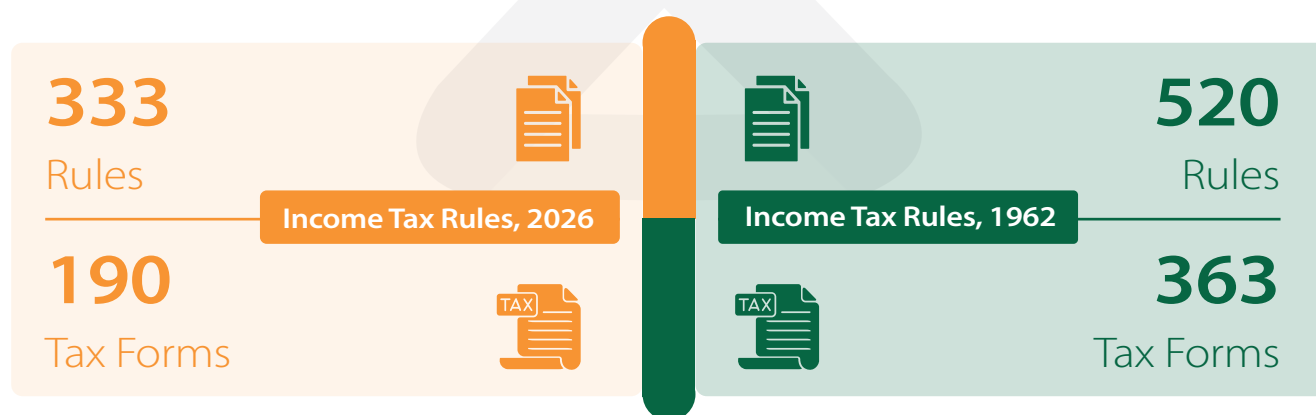
Mapping of Key Provisions: Income-tax Act 1961 vs Income-tax Act 2025

S.No.	Provision/Description	IT Act, 1961	IT Act, 2025
2	Definitions (general)	Sec. 2	Sec. 2
3	Specific definition carve-out	Sec. 2(15) proviso	Sec. 346
4	Previous year / Tax year	Sec. 3	Sec. 3
5	Charge of income-tax	Sec. 4	Sec. 4
6	Scope of total income	Sec. 5	Sec. 5
7	Apportionment (Portuguese Civil Code)	Sec. 5A	Sec. 10
8	Residential status	Sec. 6	Sec. 6
9	Income deemed to be received	Sec. 7	Sec. 7(1)
10	Dividend income	Sec. 8	Sec. 7(2)
11	Income deemed to accrue/arise in India	Sec. 9	Sec. 9
12	Business connection exclusions	Sec. 9A	Sec. 9(12)
13	Capital asset receipt (specified entities)	Sec. 9B	Sec. 8
14	Incomes not included in total income (general)	Sec. 10	Sec. 11

Selected Exempt Incomes – Shift to Schedule-Based Framework

Category	Description	IT Act, 1961	IT Act, 2025 (Schedules)
Agricultural income	Agricultural income	Sec. 10(1)	Sch. II (Table 1)
HUF receipts	Sum received by member from HUF	Sec. 10(2)	Sch. III (Table 1)
Firm profit share	Partner's share in firm income	Sec. 10(2A)	Sch. III (Table 2)
NRE interest	Interest on NRE accounts	Sec. 10(4)(ii)	Sch. IV (Table 1)
Foreign capital/securities income	Specified foreign investment income	Sec. 10(4D), 10(4H)	Sch. VI (Tables 1–8)
Derivatives/ODI income	Offshore derivatives & contracts	Sec. 10(4E)	Sch. VI (Table 5)
Royalty/lease income	Aircraft/ship lease income	Sec. 10(4F)	Sch. VI (Table 6)
Portfolio income (non-residents)	Managed portfolio income	Sec. 10(4G)	Sch. VI (Table 7)
Travel concession	Leave travel concession	Sec. 10(5)	Sch. III (Table 8)
Foreign service remuneration	Specified foreign remuneration exemptions	Sec. 10(6)	Sch. IV (Tables 2–4)

Income Tax Rules Comparison



Accepted modes of electronic payment

Electronic payment can be made through either internet banking of an authorized bank or via credit cards or debit cards.

Simplified legislative structure

The new Act reorganizes the tax framework into a more coherent and navigable structure.

A key reform is the shift toward schedule-based structuring, particularly for exemptions, improving clarity and accessibility.

Consolidation of withholding tax provisions

1. Unified tax collection framework

Section 390 categorizes tax collection into:

India's Digitally Oriented Tax Administration

India's tax system has evolved into a fully digital, faceless, and automated framework, minimizing physical interaction and enhancing transparency.

Digital infrastructure

The e-filing portal (launched in 2021) serves as a unified interface for:

- Filing returns
- Communication with authorities
- Compliance tracking

It enables real-time interaction and complete audit trails.

Transition to a faceless tax regime

The faceless system is built on the RAPID framework (Revenue, Accountability, Probity, Information, Digitization).

Institutional structure

Unit	Function
National Faceless Assessment Centre (NaFAC)	Central coordination
Assessment Unit (AU)	Income determination
Verification Unit (VU)	Evidence verification
Technical Unit (TU)	Specialist inputs
Review Unit (RU)	Quality assurance

This structure ensures functional segregation and multi-level review.

End-to-end digital tax lifecycle

The system enables:

- Return filing and refund tracking
- Notice management and rectifications
- PAN and Aadhaar services
- TDS/TCS compliance and reporting

Key platforms include:

Platform	Role
E-filing portal	Taxpayer interface
TRACES	TDS/TCS compliance
TIN	Transaction tracking

- Tax Deducted/Collected at Source (TDS/TCS)
- Advance tax
- Other prescribed payments

This reinforces real-time tax collection independent of final assessment.

2. Standardized credit mechanism

The law explicitly recognizes TDS/TCS as tax paid on behalf of the taxpayer.

The Central Board of Direct Taxes (CBDT) is empowered to prescribe rules for:

- Credit allocation
- Determination of the relevant tax year

This reduces ambiguity in cross-year and multi-party transactions.

3. Centralized processing of withholding statements

Section 399 introduces automated processing, including:

- Correction of arithmetical errors
- System-based computation of interest/fees
- Determination of refunds or payable amounts
- Issuance of intimations within one year

4. Integrated refund adjustment mechanism

Under the Income-tax Act, 2025, Section 438 empowers tax authorities to:

- Set off refunds against outstanding tax liabilities after prior intimation to the taxpayer
- Withhold refunds during pending assessment or reassessment proceedings, subject to recorded reasons and supervisory approval

This provision strengthens coordination between refund processing and tax recovery.

What has not changed in India’s direct tax regime

The reform under the Income-tax Act 2025 rollout is primarily structural—not a fundamental overhaul of tax policy.

Key Tax Areas and Status after Income-tax Act, 2025 Implementation		
Area	Status	Implication
Core tax principles	Unchanged	Continuity in interpretation
Heads of income	Unchanged	Same classification
Deductions & exemptions	Largely retained	Existing planning remains valid
International taxation	Unchanged	Treaty positions stable
Anti-avoidance rules	Continue	GAAR remains applicable
Compliance obligations	Continue	No major change
Dispute resolution	Unchanged	Same appellate structure
Loss set-off rules	Unchanged	Continuity maintained

Income Slab	Tax Rate
Up to INR 400,000	Nil
INR 400,001 – INR 800,000	5%
INR 800,001 – INR 1.2 million	10%
INR 1.2 million – INR 1.6 million	15%
INR 1.6 million – INR 2 million	20%
INR 2 million – INR 2.4 million	25%
Above INR 2.4 million	30%

Applicable tax slabs (Tax Year 2026)

The Income-tax Act, 2025, read with the Union Budget 2026, prescribes the following slab rates for FY 2026–27:

- Standard deduction: INR 75,000 (unchanged)
- Section 87A rebate: Nil tax liability for resident individuals with income up to INR 1.2 million

Conclusion

The Income-tax Act, 2025 and Income-tax Rules, 2026 represents a structural and administrative transformation rather than a shift in tax policy. For businesses, the focus should be on adapting to:

- A unified tax year
- Digitized compliance processes
- Streamlined legal interpretation

Early alignment with these changes will be critical for ensuring efficient compliance and minimizing risk. 🇮🇳



RELATED READING

Income Tax Assessment in India: Scrutiny Timelines & New Reassessment Rules

April 8, 2026 | India Briefing Article

India's tax assessment framework has moved to a fully digital, faceless system. Returns are largely processed automatically, with only risk-flagged cases selected for time-bound scrutiny. For businesses and NRIs, compliance now depends on data consistency, robust documentation, and readiness to respond under both the new and legacy regimes.

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Operationalizing Compliance Under the Income-tax Act, 2025 and Income-tax Rules, 2026

Maintaining accurate and transparent records of financial transactions and tax deductions is a critical compliance requirement for businesses operating in India. Any discrepancy in TDS may trigger scrutiny by the tax authorities and, in certain cases, could escalate into formal inquiries or legal proceedings.



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Businesses that proactively update their tax systems, internal policies, and compliance processes will be best positioned to navigate India's new tax framework efficiently.

With the enforcement of the Income-tax Act, 2025 alongside the Income-tax Rules, 2026, India's direct tax regime has transitioned into a more structured, codified, and execution-oriented framework. This dual-layer architecture clearly demarcates legislative intent from operational mechanics.

At a structural level, the Act governs substantive provisions, while the Rules prescribe procedural and computational mechanics.

How the Income-tax Rules, 2026 shape day-to-day compliance

A defining feature of the new regime is the shift toward Rules-driven compliance execution. Unlike earlier frameworks that allowed interpretative flexibility, the Income-tax Rules, 2026, introduce

prescriptive standards across core compliance functions.

Key dimensions include:

- Standardized forms and formats for reporting income and disclosures
- Prescribed methodologies for income computation and adjustments
- Defined documentation requirements to substantiate tax positions

The Rules are determinative in several high-impact areas:

- Valuation norms (e.g., fair value, arm's length principles, deemed values)
- Withholding tax procedures (rates, thresholds, timing of deduction)
- Disclosure thresholds and reporting obligations

This creates a compliance environment where deviation from prescribed Rules is not merely

interpretational – it can directly result in non-compliance.

Step 1: Interpreting the Act–Rules
interplay

Effective compliance begins with a structured understanding of how the Income-tax Act, 2025, and the Income-tax Rules, 2026, interact.

A critical exercise is mapping statutory provisions under the Act to corresponding operational Rules. Companies must identify where the Rules:

- Supplement or refine statutory provisions;
- Effectively determine practical interpretation

Particular attention should be given to:

- Dependencies on notifications, circulars, and clarifications issued by the CBDT.

- Situations where the Rules prescribe specific computational or procedural mandates not explicitly detailed in the Act

Organizations should institutionalize an Act–Rules reference matrix to ensure:

- Cross-functional clarity
- Consistent application across transactions
- Faster interpretation during assessments and audits

Step 2: Aligning tax positions with
prescribed methods

Under the new regime, tax positions must be defensible both in principle and in methodology. Companies must ensure that all computations strictly adhere to:

1. Rule-based valuation frameworks
2. Prescribed formulas and computational logic

Master Comparison: Income-tax Act, 2025 vs Income-tax Rules, 2026		
Dimension	Income-tax Act, 2025	Income-tax Rules, 2026
Legal nature	Primary legislation enacted by Parliament	Delegated legislation notified by the executive
Definitions	Provides statutory definitions (e.g., income, tax year)	Clarifies operational terminology and contextual definitions
Objective	Establishes the legal basis of taxation	Enables implementation, administration, and enforcement
Effective date	April 1, 2026	April 1, 2026 (aligned with the Act)
Structural design	Simplified and reorganized legislative code	Rationalized procedural framework aligned with the Act
Binding hierarchy	Prevails over the Rules in case of inconsistency	Subordinate to the Act; cannot override statutory provisions
Computation framework	Establishes principles for income computation	Prescribes formulas, valuation rules, and calculation methods
Withholding tax (TDS/TCS)	Defines scope and liability	Prescribes rates, thresholds, procedures, certificates, and reporting formats

This includes validating:

- Classification and treatment of income streams
- Eligibility and quantification of deductions and exemptions

Special attention should be given to transitional elements, such as:

- Carry-forward and set-off of losses
- Migration of tax credits into the new framework

Any deviation from prescribed methods may result in computational inaccuracies and increased exposure during scrutiny.

Step 3: Documentation and record-keeping

Under the Income-tax Rules, 2026, documentation constitutes determinative evidence of compliance.

Organizations must maintain:

- Rule-mandated records, including:
 - » Detailed supporting schedules
 - » Computation working papers
 - » Transaction-level documentation
- Consistency across:
 - » Books of accounts
 - » Tax returns
 - » Regulatory disclosures

The objective is to establish audit-ready documentation, capable of withstanding faceless assessments and data-driven scrutiny.

Failure in documentation is now a primary compliance risk even where tax positions are substantively correct.

Step 4: Managing withholding tax and reporting obligations

Withholding tax (TDS/TCS) remains one of the most sensitive and high-frequency compliance areas.

Organizations must:

- Align processes with:
 - » Updated rates, thresholds, and deduction triggers under the Rules
 - » Revised return filing formats and reporting structures
- Ensure:
 - » Timely deduction and deposit of taxes
 - » Accurate and periodic reporting
- Conduct regular:
 - » Reconciliations between TDS returns and financial records
 - » Vendor and counterparty validations

In an increasingly system-driven environment, mismatches are algorithmically flagged requiring a high degree of precision.

Step 5: Penalties, defaults, and enforcement framework

The enforcement architecture reflects close integration between statutory provisions and procedural triggers:

- Penalty provisions are defined under the Income-tax Act, 2025
- Default triggers and procedural lapses are governed by the Income-tax Rules, 2026

High-risk areas include:

- Incorrect reporting due to non-adherence to prescribed Rules

- Inadequate or inconsistent documentation

Organizations must also prepare for:

- Digital assessments with minimal human interface
- Automated scrutiny selection based on data inconsistencies

Non-compliance is increasingly identified through data analytics and cross-system validation, significantly reducing tolerance for errors.

Step 6: Ongoing compliance monitoring and governance

Sustained compliance requires a structured governance framework.

Core elements include:

- Internal controls such as:
 - » Periodic tax health checks
 - » Rule-based compliance audits
- Governance mechanisms, including:
 - » Clear ownership of tax risk
 - » Escalation protocols for deviations

Companies must also continuously track:

- Amendments to the Income-tax Rules, 2026 (which are expected to be iterative)
- Regulatory updates and administrative guidance issued by the tax authorities

FY 2026–27 compliance checklist

A structured compliance calendar enhances execution discipline:

Monthly

- Withholding tax (TDS/TCS) compliance
- System validation and exception review

Quarterly

- Advance tax computation using Rule-based methodologies
- Internal reconciliations (books vs tax positions)

Annual

- Return filing readiness and validation
- Comprehensive documentation review and closure
- Pre-assessment risk review

Income-tax Rules, 2026 – Key Forms Overview

Form no.	Purpose / description	Category
1	Monthly statement by stock exchanges on client code modifications	Reporting / compliance
2	Application for notification of zero-coupon bonds	Financial instruments
3	Certificate of an accountant for zero-coupon bonds	Certification
4	Income attributable to assets located in India (non-residents)	International tax
5	Statement of preliminary expenses	Business compliance
6	Audit report for preliminary expenses / mineral prospecting	Audit
7–10	Scientific research approvals, receipts, and reporting	Incentives / approvals

Income-tax Rules, 2026 – Key Forms Overview

Form no.	Purpose / description	Category
17	Approval / notification for companies or research institutions	Institutional compliance
18	Notification for affordable housing projects	Sector-specific
19	Notification for semiconductor manufacturing units	Sector-specific
20–23	Agricultural & skill development project approvals	Development schemes
35	Deduction report for offshore banking / IFSC units	International finance
36–37	Certificates for royalty income (authors / patentees)	Income certification
38	Certificate of foreign inward remittance	Foreign income
39–40	Relief on salary / retirement benefits	Individual tax
41–43	Tax residency, TRC and DTAA-related documentation	International tax
44	Foreign tax credit statement	Cross-border tax
45–47	Dispute settlement, arm's length pricing (ALP) option, accountant certificate	New additions
62–64	Transfer pricing reporting and reference mechanisms (including TPO-related forms)	Transfer pricing (TP)_
65	Royalty taxation option (patents)	Intellectual property (IP)
66–67	MAT / AMT computation reports	Corporate tax
68	Statement of exempt income	Reporting
75–79	Income distribution by funds / trusts	Investment vehicles
80–81	Tonnage tax scheme application & audit	Shipping industry
82–87	Search, seizure, and authorization forms	Enforcement
88–91	Information request and response forms	Administrative
92	Statement by fund/broker for non-residents	Reporting
93–96	PAN application (Indian / foreign entities)	Registration
97–98	Declaration without PAN and reporting thereof	PAN compliance
99	Appeals to CIT (appeals)	Litigation
100	Audit report under specified provisions	Audit

Standard Income Tax Return (ITR) Forms

Form	Category	Applicable to	Key characteristics
ITR-1 (SAHAJ)	Simplified return	Resident individuals (subject to eligibility conditions)	Covers salary, one house property, and other sources; not applicable where income includes capital gains, business/professional income, or certain foreign income/assets
ITR-2	Individual / HUF (no business income)	Individuals and HUFs without business/professional income	Includes capital gains, multiple properties, and foreign income/assets; excludes business/professional income
ITR-3	Business / profession income	Individuals and HUFs with business/professional income	Applicable to proprietors, professionals, and partners in firms
ITR-4 (SUGAM)	Presumptive taxation	Individuals, HUFs, and firms (excluding LLPs)	Simplified reporting under presumptive taxation scheme, subject to prescribed conditions and thresholds
ITR-5	Non-individual entities	Firms, LLPs, AOPs, BOIs, etc.	Not applicable to companies or entities required to file ITR-7
ITR-6	Companies	Companies (except those claiming exemption under Section 11)	Mandatory for most companies
ITR-7	Trusts / exempt entities	Entities filing under specified exemption provisions	Covers charitable/religious trusts, political parties, research institutions, etc.
ITR-U	Updated return	Eligible taxpayers	Enables filing of updated return within prescribed time limits, subject to conditions

Note: ITR forms are prescribed separately under return filing provisions and are not part of the numbered Forms 1–190 series.

Conclusion: From legal compliance to operational discipline

The evolving framework marks a clear shift from legal compliance to operational execution. Success will depend on system alignment, strong documentation, and continuous governance.

This transition requires businesses to embed tax compliance into core operations rather than treating it as a periodic exercise. 🇮🇳



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Impact of India's New Income-tax Act Across Business Entities

Domestic companies, foreign subsidiaries, LLPs, and OPCs must prepare for structural changes in tax compliance, documentation, and reporting systems under the new framework.



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The implementation of India's Income-tax Act, 2025 marks a significant shift in how businesses manage compliance, reporting, and internal governance. While the overarching objective is simplification and digitization, the practical implications vary depending on the type of business entity.

This chapter examines the compliance impact across four major business categories:

- Domestic companies

- Foreign subsidiaries
- Limited Liability Partnerships (LLPs)
- One Person Companies (OPCs)

At-a-glance: Governing laws and tax alignment

To navigate the transition effectively, businesses must clearly understand how entity-specific laws interact with the Income-tax Act, 2025.

Entity Type	Primary Governing Law	Tax Framework Linkage
Domestic Companies	Companies Act, 2013	Income-tax Act, 2025
Foreign Subsidiaries	Companies Act, 2013 + FEMA regulations	Income-tax Act, 2025 + TP Rules
LLPs	LLP Act, 2008	Income-tax Act, 2025 (separate from Companies Act)
OPCs	Companies Act, 2013	Income-tax Act, 2025

While the legal structure of entities remains governed by their respective statutes, tax treatment is unified under the Income-tax Act, 2025, requiring alignment across accounting, documentation, and reporting systems.

Domestic companies

Domestic corporations are expected to undergo the most extensive transition due to the scale and complexity of their operations.

Key compliance priorities

Domestic companies must update:

1. Internal tax manuals

All tax SOPs referencing provisions of the Income-tax Act, 1961 must be revised to reflect the new manual and policies under the Income-tax Act, 2025 and Income-tax Rules, 2026.

2. Vendor payment frameworks (TDS alignment)

Withholding tax (TDS) mappings must align with revised provisions and updated rates introduced under recent budget changes.

3. Corporate governance documentation

Board policies, tax risk frameworks, and audit documentation must be updated to reflect new statutory references.

4. Tax rate and slab adjustments

Companies must incorporate changes introduced through the Union Budget 2025–26, including revised tax slabs and TDS provisions where applicable. Failure to update internal references from the Income-tax

Act, 1961 to the Income-tax Act, 2025 may lead to inconsistencies during audits and regulatory scrutiny.

Foreign subsidiaries in India

Foreign subsidiaries face an additional layer of complexity due to cross-border reporting obligations and global governance frameworks.

Key areas requiring attention

Intercompany agreements

Contracts must be reviewed to ensure references to provisions of the Income-tax Act, 1961 are updated to align with the Income-tax Act, 2025.

Transfer pricing documentation

Policies must align with updated legal definitions and documentation standards under the Income-tax Act, 2025.

Global tax reporting templates

Headquarters-level templates referencing the Income-tax Act, 1961 may become outdated and require revision.

Withholding tax procedures

Cross-border payments, such as royalties, technical fees, and service fees, must reflect updated legal references under the Income-tax Act, 2025, alongside applicable tax treaty provisions.

Accounting standards (AS) alignment

Accounting treatment (including AS/Ind AS references) must be aligned with provisions under the Income-tax Act, 2025, as applicable under

notified clauses. The transition will require close coordination between India finance teams and global tax departments to ensure consistency across jurisdictions.

LLPs

LLPs operate under a distinct legal framework and require careful positioning during the transition.

Legal positioning clarification

LLPs are governed by the Limited Liability Partnership Act, 2008 and are not regulated under the Companies Act, 2013.

However, their tax treatment continues under the Income-tax Act, 2025, requiring alignment with its provisions.

LLP preparation priorities

LLPs should focus on:

- Updating tax filing procedures under the Income-tax Act, 2025
- Revising compliance calendars
- Aligning accounting references with the new Act



AUDIO INSIGHT

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India taxes OIDAR services based on the location of the recipient, meaning offshore providers can trigger GST liability simply by serving Indian users.

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- Ensuring external advisors adopt the updated framework

Simplification of language under the Income-tax Act, 2025 does not equate to reduced compliance obligations.

OPCs (One Person Companies)

For smaller businesses and founders operating OPCs, the reform presents an opportunity to establish stronger compliance practices early.

Key opportunities for OPCs

OPCs can leverage the transition to:

- Standardize bookkeeping processes
- Improve tax documentation
- Align digital filing workflows with the Income-tax Act, 2025
- Adopt automated compliance tools

Digital tax administration

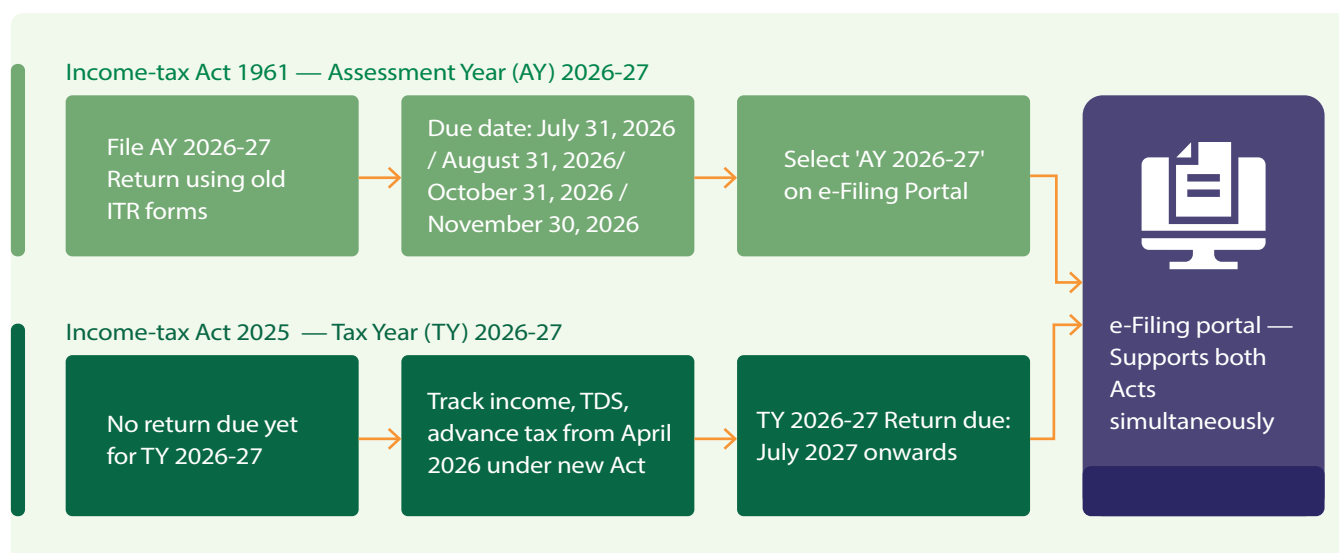
As the Income-tax Act, 2025 emphasizes digital administration, early adoption of technology will be critical.

What businesses should prioritize

- Cloud-based accounting systems
- Automated tax compliance tools
- Integrated e-filing platforms
- Real-time reporting dashboards

Businesses that invest early in digitized tax infrastructure aligned with the Income-tax Act, 2025 will benefit from improved accuracy, reduced compliance risk, and faster reporting cycles.

Managing Dual Compliance after April 1, 2026 — Taxpayer Action



Conclusion

The Income-tax Act, 2025 represents a structural shift in India's tax landscape, with implications extending beyond compliance into governance, systems, and strategy.

While the reform aims to simplify and modernize tax administration, businesses must:

- Transition from the Income-tax Act, 1961 framework to the Income-tax Act, 2025
- Update internal documentation and governance structures
- Align entity-specific laws with tax provisions
- Invest in digital compliance systems
- Ensure coordination across domestic and global teams

Businesses that act early will be better positioned to manage risk and unlock efficiency. 🇮🇳



AUDIO INSIGHT

Transitioning from Form 10F to Form 41: DTAA Compliance Under India's New Income-tax Act, 2025

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The Income-tax Act, 2025 emphasizes automation and digital reporting. Dezan Shira & Associates help businesses implement cloud accounting, automate tax workflows, and integrate ERP systems with India's evolving compliance requirements.

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**Q+A**

Adapting to India's New Direct Tax Regime

At Dezan Shira & Associates, we provide the resources and solutions businesses need to function well ahead of the pace — adapting to local tax compliance expectations while maintaining global standards.



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This FAQ chapter addresses key practical questions for companies adapting to India's new direct tax regime, focusing on transition mechanics, compliance, and execution priorities.

Businesses can leverage Dezan Shira & Associates' tax advisory services to ensure regulatory compliance and optimize digital tax systems, enabling a smooth and efficient transition.

Q1. Does the new law change tax rates or introduce new taxes?

Ans: No. The Income-tax Act, 2025 is a structural reform, not a tax policy overhaul. It simplifies language and layout, reduces interpretational complexity and retains existing tax rates and core principles.

Q2. Do companies need to change accounting or financial year?

Ans: No. The term "Tax Year" is the same as financial year (FY). No changes required to accounting systems or reporting cycles.

Q3. What replaces "Assessment Year"?

Ans: The concept of Assessment Year is removed and replaced by "Tax Year." Income is taxed for the same financial year, simplifying compliance

Q4. What happens to ongoing assessments, appeals, or litigation?

Ans: All ongoing assessments, appeals, and litigation relating to periods before 1 April 2026 will continue under the Income-tax Act, 1961. There is no shift to the new Act mid-proceeding, and existing cases will be completed under the old law without disruption.

Q5. Are existing approvals, exemptions, and registrations still valid?

Ans: Yes, if not inconsistent with the new law.

Example: Tax exemptions, registrations, or certifications continue seamlessly.

Q6. How long will both Acts operate simultaneously?

Ans: Both regimes run in parallel:

- Old Act (1961): governs pre-April 2026 income
- New Act (2025): governs income from April 2026 onward

This dual system will persist until all legacy matters are resolved.

Q7. Does the method of paying taxes change?

Ans: No. TDS/TCS, advance tax and self-assessment tax will all continue without any changes.

Q8. Do TDS rates or thresholds change?

Ans: No major changes.

- Only structural consolidation into fewer sections
- Rates and thresholds largely retained

Q9. How should businesses handle payments during FY 2026–27?

Ans: Carefully distinguish:

- FY 2025–26 → select AY 2026–27 (old law)
- FY 2026–27 → select Tax Year 2026–27 (new law)

Incorrect selection may affect tax credit mapping

Q10. Do companies need to file two returns in FY 2026–27?

Ans: No. Companies do not file two returns at the same time.

- In FY 2026–27, applicant will file only one return — for AY 2026–27 (FY 2025–26 income) under the old Act.
- The return for “Tax Year” 2026–27 (FY 2026–27 income) will be filed next year (2027) under the new Act.

One return per year continues; only the terminology changes.

Q11. Are ITR deadlines changing?

Ans: No. the ITR deadlines will remain the same.

1. Companies / audit cases → October 31
2. Transfer pricing cases → November 30
3. Others → July 31 / August 31

Q12. Can losses under the old Act be carried forward?

Ans: Yes. Business losses, capital losses continue; no reset of carry-forward period.

Q13. Is timely filing still required to carry forward losses?

Ans: Yes. The requirement to file the return of loss within the due date prescribed in Section 263(1) (corresponding to Section 139(1) of the old Act) continues to be a prerequisite for carry-forward of losses under the new Act as well. This condition applies to losses under the heads “Profits and gains of business or profession”, activity of owning and maintaining race horses and “Capital gains”.

The new Act retains this condition under Section 121.

Q14. What happens to unutilized MAT / AMT credits?

Ans: Unutilized MAT credits remain fully preserved under the new Income-tax Act, 2025. It can be carried forward for a total of 15 years from the year they first became available.

Q15. Do transition rules differ for foreign companies?

Ans: No major deviation. However, there are key considerations such as:

- Tax residency continues to be assessed per applicable provisions
- TDS on cross-border payments follows transition cut-off (April 1, 2026)
- Transfer pricing and audit timelines remain unchanged

Q16. Will international tax positions or treaties change?

Ans: No immediate change. Tax treaties (DTAA) will continue as before. Structural changes under the new tax law do not alter treaty obligations.

Q17. Are old tax dues still enforceable?

Ans: Yes. All past liabilities remain payable. Recovery can be enforced under new Act machinery.

Q18. What about pending refunds?

Ans: Pending refunds remain fully protected, however, they must be claimed within prescribed timelines.

Q19. What practical steps should businesses take?

Ans: Immediate actions for companies would be to update ERP/tax engines for new section mapping, train finance teams on Tax Year concept and maintain dual compliance tracking (old + new). Strategic actions may include:

- Review tax positions carried forward
- Validate MAT/AMT credits
- Align internal tax calendars

Q 20. When is physical interaction required in faceless assessment?

Ans: As of 2026, the faceless regime is the statutory default, but physical interaction is preserved as a "safety valve" for specific high-stakes or high-complexity scenarios. This includes scenarios where digital verification is insufficient—such as examination of original records, recording statements, field inquiries, or investigation-driven cases (for example., search, fraud, or complex assessments). These are limited exceptions as specified by the CBDT. 🇮🇳



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