

Codification of Direct Tax Law in India: Promise and Perils of The Income Tax Code, 2025

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Abstract—The codification of Direct Tax Law in India through the Income Tax Bill, 2025 represents a significant reform initiative aimed at simplifying, consolidating and modernizing the complex Income Tax framework. Over the decades, the Income Tax Act, 1961 has undergone significant amendments, leading to ambiguities in interpretation, procedural inefficiencies and increased litigation. The Income Tax Code, 2025 aims to address these challenges by adopting a principles-based drafting approach, reducing exemptions, streamlining tax rates, and aligning domestic tax laws with international best practices and digital governance standards. The promise of the Code is to increase legal certainty, improve tax compliance, promote transparency and promote an investor-friendly tax environment consistent with India's economic growth objectives. However, the reform also carries significant risks. The complexity of the transition, the risk of excessive delegation of legislative authority, the possible erosion of judicial precedents, and concerns about administrative discretion can compromise the intended objectives if not managed carefully. Furthermore, the balance between simplification and fairness, particularly for small taxpayers and vulnerable sectors, remains a major concern. This study critically examines the promises and dangers of codification of Direct Tax Law through the Income Tax Code, 2025 and assesses its impact on tax administration, taxpayers' rights and fiscal federalism in India.

Index Terms—Income Tax Code, Direct Tax, Tax Reform, Simplification and Compliance, Fiscal Federalism.

I. INTRODUCTION

The crucial milestone in the country's long-standing efforts to reform and rationalize its fiscal framework. The current Income Tax Act, 1961, while sound in structure, has been amended frequently over more than sixty years, leading to complexity, inconsistencies in interpretation, overlapping provisions, and growing

tax controversies. The promise of the Income Tax Code 2025 lies primarily in its objective to consolidate and codify direct tax laws into a simplified, coherent and principles-based legislative framework. By restructuring the provisions into plain language, reducing the use of exemptions and deductions and streamlining procedural requirements, the Code aims to increase legal certainty, voluntary compliance and administrative efficiency.

A codified framework also aims to align India's Direct Tax system with global best practices, particularly in the context of digital taxation, Base Erosion and Profit Shifting (BEPS) and cross-border transactions, thereby strengthening India's credibility as an investment destination. The Code's focus on technology-driven administration, anonymous assessments and data-driven compliance reflects the evolving nature of tax administration in a digital economy. Furthermore, codification promises to reduce operational-level discretion, limit arbitrary interpretations, and promote uniform application of tax laws, thereby protecting taxpayers' rights and increasing trust between taxpayers and tax authorities. Beyond these promises, the Income Tax Code, 2025 harbors several dangers that require critical examination. One of the biggest concerns is the transition challenge associated with replacing a well-established legal framework based on decades of judicial interpretation. Codification can dilute or undermine established legal precedents and create temporary uncertainty for taxpayers, professionals and administrators. Although simplification is a stated objective, excessive reliance on delegated legislation in the form of rules, notices and circulars can lead to further complexity and undermine the clarity of the

legislation. Another important concern is finding a balance between simplification and fairness.¹

The Streamlining exemptions and incentives, while beneficial for broadening the tax base, may have a disproportionate impact on certain sectors, small taxpayers and vulnerable groups if adequate safeguards are not provided. Although adopting a principles-based code is flexible, it can also increase the scope for interpretation if the principles are too general or ambiguous, which could lead to inconsistent application. The success of codification depends to a large extent on institutional preparedness and administrative capacity. Without adequate training of tax officials, effective complaint management mechanisms and a robust digital infrastructure, the objectives of the Code may remain ambitious rather than transformative.²

The constitutional dimension must also be taken into account, especially with regard to budgetary federalism and legislative competence. Any centralized codification effort must carefully respect the federal balance and avoid encroaching on state fiscal autonomy or established revenue-sharing arrangements. Furthermore, the promise of fewer lawsuits may not materialize in the near term, as the new provisions are likely to be tested in court, leading to an initial increase in litigation. In essence, the Income Tax Code, 2025 represents both an opportunity and a challenge in the Indian direct tax landscape. While it has the potential to bring clarity, efficiency and global alignment, its dangers lie in implementation risks, transition uncertainties and the delicate balance between simplification, fairness and taxpayer protection.³

Definition And Scope

The Codification of Direct Tax Law in India refers to the systematic consolidation, rationalization and reformulation of direct tax laws primarily income tax into a single, comprehensive and coherent legal framework. In the Indian context, this process is

enshrined in the Income Tax Bill, 2025, which aims to replace the Income Tax Act, 1961. Codification goes beyond mere amendment or simplification; It aims to restructure the substantive and procedural provisions of tax law through clear, principled language to eliminate ambiguities resulting from decades of incremental legislative changes. The concept of codification is based on the objectives of legal certainty, accessibility, uniform interpretation and administrative efficiency, while ensuring compliance with constitutional principles, economic policy objectives and international tax standards.⁴

The scope of the Income Tax Code, 2025 is broad and transformative, covering key provisions relating to income tax collection, income classification, calculation of taxable income, tax rates, exemptions, deductions and incentives. It also extends to procedural aspects such as assessment, reassessment, appeals, sanctions, dispute resolution and enforcement mechanisms. A key aspect of the Code's scope is the rationalization of exemptions and deductions with the aim of broadening the tax base and reducing distortions in economic decision-making.

The Code aims to incorporate modern concepts of tax administration, including digital compliance, anonymous assessments, data-driven enforcement and time-bound dispute resolution, reflecting the evolving nature of governance in a digital economy. The subject also includes an examination of the "promises" of codification, such as: Simplification of laws, reduction of litigation, improvement of voluntary compliance, transparency of tax administration and alignment with international best practices, including OECD standards on Base Erosion and Profit Shifting.⁵

At the same time, critical attention is being paid to the "dangers" associated with codification, including transitional uncertainties, possible dilution of established precedents, increased reliance on delegated legislation, and the risk that administrative discretion will undermine taxpayer protections. The scope further extends to constitutional and

¹ Government of India, Report of the Task Force on Direct Taxes (Income Tax Code) (Ministry of Finance 2009).

² Government of India, Revised Discussion Paper on the Direct Taxes Code (Ministry of Finance 2010).

³ S Girish, 'Simplification of Direct Tax Laws in India: Need for Codification' (2018) 60 Journal of the Indian Law Institute 245.

⁴ Law Commission of India, Reform of Tax Administration (Report No 215, 2008).

⁵ R Vaidyanathan, Tax Reform in India: Policy, Administration and Compliance (Oxford University Press 2017).

institutional considerations, particularly issues of legislative competence, fiscal federalism, and protection of taxpayer rights. Thus, the definition and scope of this topic collectively provide a comprehensive framework for analysing the legal, administrative, and policy implications of the Income Tax Code, 2025 in reshaping India's Direct Tax regime.⁶

Vodafone International Holdings BV vs Union of India⁷ is a landmark judgment which exposed the interpretative ambiguity of the Income Tax Act, 1961, particularly in relation to indirect transfers and cross-border taxation. The Supreme Court emphasised legal certainty and predictability in Tax Law, underscoring the need for clear legislative drafting. The case directly supports the promise of codification to reduce uncertainty but also highlights the peril of retrospective amendments that undermine taxpayer confidence.

In Union of India vs Azadi Bachao Andolan⁸, the Court upheld the validity of Tax Treaties and Circulars recognising the importance of certainty and consistency in tax administration. This case illustrates the balance between statutory law and delegated legislation, a critical issue for the Income Tax Code, 2025 which seeks simplification without excessive administrative discretion.

In CIT vs Calcutta Knitweaves⁹, the Supreme Court clarified procedural safeguards under sections dealing with reassessment and search proceedings. The judgment highlights how procedural ambiguity leads to litigation, reinforcing the necessity of codified and clearly structured procedural provisions under a new tax code.

CIT vs B.C. Srinivasa Setty¹⁰ established that charging provisions must be clear and workable for taxation to be valid. It underscores a fundamental principle of tax law that codification must ensure conceptual clarity in charging sections to avoid arbitrary taxation.

In Keshav Mills Co Ltd vs CIT¹¹, the Court stressed strict interpretation of tax statutes, holding that equity

has no place in taxation. This principle remains relevant to codification, as simplification must not compromise legislative precision.

II. EVOLUTION OF DIRECT TAXATION IN INDIA: FROM THE INCOME TAX ACT, 1961 TO THE INCOME TAX CODE, 2025

The evolution of Direct Taxes in India reflects the country's changing economic priorities, administrative capacity and constitutional obligations and has culminated in the current proposed Income Tax Code, 2025. The foundations of India's modern direct tax system were laid with the enactment of the Income Tax Act, 1961 which replaced the Income Tax Act, 1922. The Income Tax Act, 1961 was designed to be a comprehensive and self-contained Act providing a uniform framework for the levy, assessment, collection and administration of income tax throughout the country. In its early years, the law aimed to balance revenue mobilization with social justice goals by incorporating progressive tax rates, industry-specific incentives, and exemptions aimed at promoting savings, industrial growth, and equitable distribution of wealth.¹²

The judiciary played an important role in interpreting the law and contributed to the development of a stable tax jurisprudence that provided guidance to taxpayers and administrators. However, over time, the Income Tax Act, 1961 has become increasingly complex due to continuous changes introduced by subsequent finance laws. These changes were often the result of short-term budgetary targets, policy changes, anti-tax avoidance measures and responses to judicial decisions. While these changes were necessary to adapt the law to evolving economic realities, their cumulative effect has produced a fragmented and complicated legal framework. Provisions were often inserted, substituted, or omitted, leading to overlapping sections, caveats, explanations, and

⁶ Organisation for Economic Co-operation and Development (OECD), Addressing Base Erosion and Profit Shifting (OECD Publishing 2013).

⁷ Vodafone International Holdings BV vs Union of India [2012] 6 SCC 613 (SC).

⁸ Union of India vs Azadi Bachao Andolan [2004] 10 SCC 1 (SC).

⁹ CIT vs Calcutta Knitweaves [2014] 6 SCC 444 (SC).

¹⁰ CIT vs B C Srinivasa Setty [1981] 2 SCC 460 (SC).

¹¹ Keshav Mills Co Ltd vs CIT [1965] 2 SCR 908 (SC).

¹² Government of India, Revised Discussion Paper on the Direct Taxes Code (Ministry of Finance 2010).

exceptions that complicated compliance and interpretation.¹³

The proliferation of exemptions, deductions and special regimes has further contributed to distortions in the tax base and increased opportunities for tax planning and avoidance. This change-induced complexity significantly intensified tax disputes, as ambiguities in statutory language and administrative discretion often required judicial intervention to resolve. The liberalization of the Indian economy in the 1990s and its subsequent integration with global markets revealed further limitations of the 1961 Act. Cross-border transactions, transfer pricing, challenges of the digital economy, base erosion and profit shifting have necessitated frequent updates to the legislation, including the introduction of transfer pricing provisions, general anti-avoidance rules (GAARs) and fiscal equalization mechanisms.¹⁴

While these measures aimed to protect the tax base, they also highlighted the inadequacy of a heavily amendment-based approach to tax reform. The use of circulars, notices and delegated legislation to clarify legal provisions has further blurred the line between legislative intent and administrative practice, raising concerns about certainty, transparency and taxpayers' rights. In this context, the rationale for replacing the Income Tax Act, 1961 with a codified Income Tax Act has assumed importance. The proposal for a new code is based on the need to move from isolated changes to a principled, coherent and simplified legal framework.¹⁵

In *Commissioner of Inland Revenue vs Challenge Corporation Ltd*¹⁶, the Privy Council upheld the use of general anti-avoidance provisions to invalidate tax avoidance schemes. This case is relevant to India's GAAR framework and illustrates the balance codified tax laws must strike between certainty and revenue protection.

*Chevron Australia Holdings Pty Ltd vs Commissioner of Taxation*¹⁷ is a landmark transfer pricing case which emphasised economic substance and arm's length principles. It highlights the necessity for codified and internationally aligned transfer pricing rules in a modern direct tax code.

In *Canada Trustco Mortgage Co vs Canada*¹⁸, the Supreme Court of Canada clarified the application of GAAR, holding that statutory interpretation must be purposive and consistent with legislative intent. The case is crucial for understanding how codified tax laws can incorporate anti-avoidance principles without excessive discretion.

Although decided in the EU competition law context, *Apple Inc vs Commissioner of Taxation (EU State Aid Cases, General Court, 2020)*¹⁹ case raises important questions on tax certainty, advance rulings, and state discretion. It is relevant to codification debates concerning transparency and consistency in tax administration.

The influence of OECD Commentary on judicial interpretation is particularly evident in the jurisprudence of the Court of Justice of the European Union (CJEU), which has played a pivotal role in shaping the relationship between domestic tax rules and fundamental economic freedoms. Jurisprudence Cases such as *Cadbury Schweppes plc vs Commissioners of Inland Revenue (Case C-196/04)* emphasis the balance between anti-avoidance rules and freedom of establishment. These judgments influence how codified tax laws must respect economic freedoms while preventing abuse. The Income Tax Code, 2025 aims to reorganize the law into logically structured chapters, use clear and unambiguous language, and reduce excessive reliance on exemptions and incentives. By broadening the tax base and reducing tax rates, the Code aims to promote neutrality, efficiency and voluntary compliance. The emphasis on digital administration, anonymous

¹³ Law Commission of India, Reform of Tax Administration (Report No 215, 2008).

¹⁴ S Girish, 'Evolution and Complexity of India's Direct Tax Laws' (2018) 60 Journal of the Indian Law Institute 275.

¹⁵ R Vaidyanathan, Tax Reform in India: Policy, Administration and Compliance (Oxford University Press 2017).

¹⁶ *Commissioner of Inland Revenue vs Challenge Corporation Ltd* [1986] 2 NZLR 513 (PC).

¹⁷ *Chevron Australia Holdings Pty Ltd vs Commissioner of Taxation* [2017] FCAFC 62 (FCAFC).

¹⁸ *Canada Trustco Mortgage Co vs Canada* [2005] 2 SCR 601 (SCC).

¹⁹ *Apple Sales International and Apple Operations Europe vs European Commission (Cases T-778/16 and T-892/16)* EU:T:2020:338 (GC).

assessments and time-bound dispute resolution reflects efforts to modernize tax administration and adapt to technological advancements.

III. SALIENT FEATURES AND STRUCTURAL FRAMEWORK OF THE INCOME TAX CODE, 2025

This represents a paradigm shift in India's approach to direct tax legislation, moving from a change-oriented law to a principled and systematically codified framework. One of the key features of the Code is its emphasis on principles-based language to replace the dense, technical and exception-laden language of the Income Tax Act, 1961. By articulating key tax principles such as equality, neutrality, certainty and efficiency the Code seeks to reduce interpretive ambiguity and provide a consistent legislative architecture that can adapt to evolving economic realities without frequent legislative changes.²⁰

This approach aims to ensure that tax rules are guided by legislative intent rather than mechanical compliance, thereby promoting consistent interpretation by tax authorities and courts. Structurally reorganizing the provisions into logically sequential chapters that separately address fees, calculation, administration and dispute resolution improves accessibility and predictability for taxpayers. Another crucial feature of the Income Tax Code, 2025 is the rationalization of exemptions, deductions and incentives that have fragmented India's direct tax system in the past. Over time, the accumulation of sectoral exemptions under the Income Tax Act, 1961 distorted the tax base, encouraged aggressive tax planning, and created inequities among taxpayers.

The Code proposes to significantly limit these exemptions and replace them with lower tax rates and a broader base to promote horizontal and vertical equity. Streamlining also aims to simplify compliance, reduce administrative discretion, and minimize litigation arising from conflicting interpretations of the exemption provisions. Although targeted incentives

on priority sectors aligned with national development goals can still be maintained, the overall goal is to create a neutral tax system that does not unduly influence economic decision-making. Broadening the tax base is a key structural objective of the Income Tax Code, 2025. By bringing more revenue streams into the tax net and reducing preferential treatment, the Code seeks to increase revenue momentum without increasing nominal tax rates.²¹

This feature is of particular importance to address challenges arising from the informal economy, emerging digital business models and cross-border transactions. The Code aligns domestic tax provisions with international standards on transfer pricing, anti-avoidance and information sharing, strengthening India's ability to combat tax evasion and base erosion. The integration of the general anti-avoidance rules into a codified framework reflects the attempt to reconcile the protection of revenues with legal certainty. Equally transformative is the Code's focus on digital governance and technology compliance. Building on existing reforms such as anonymous assessments, e-filing and data analytics, The Income Tax Code, 2025 institutionalizes digital governance as a central pillar of tax administration. Automated processes, risk-based testing and real-time information sharing aim to reduce human interface, increase transparency and increase efficiency.²²

The Code also provides for time-limited assessments and dispute resolution mechanisms that increase taxpayer confidence and reduce compliance costs. However, the success of this digital framework depends on robust infrastructure, data security and adequate capacity building within the tax administration. Overall, the salient features and structural framework of the Income Tax Code, 2025 reflect an ambitious attempt to modernize India's direct tax regime. Combining principle-based formulations, rationalization of exemptions, broadening of the tax base and digital administration, the Code aims to create a simplified, fair and future-proof tax system. However, its effectiveness will ultimately depend on careful implementation,

²⁰ R Vaidyanathan, *Tax Reform in India: Policy, Administration and Compliance* (Oxford University Press 2017).

²¹ Girish Ahuja and Ravi Gupta, *Direct Taxes Law and Practice* (latest edn, Wolters Kluwer India).

²² Arbind Modi and M Govinda Rao, *Fiscal Federalism in India* (Cambridge University Press 2014).

institutional preparation and continued stakeholder involvement.²³

IV. PROMISE OF CODIFICATION: SIMPLIFICATION, CERTAINTY & TAXPAYER- CENTRIC GOVERNANCE

Stakeholder involvement as an essential prerequisite for achieving simplification, certainty and taxpayer-oriented governance. Codification, by its nature, is intended to replace a fragmented, change-based tax statute with a coherent, principled framework that increases clarity and predictability. However, the success of such an ambitious reform depends not only on the drafting of the legislation, but also on the will of the institutions responsible for implementing and interpreting the new Code. Effective institutional preparation includes comprehensive capacity building of tax authorities, including training on principles-based interpretation, digital processes and taxpayer engagement. Without adequate preparation, even a well-drafted Code risks inconsistent application, undermining the promise of legal certainty and simplification. One of the central promises of codification is to reduce tax disputes that have long plagued India's direct tax system. A simplified legal structure coupled with clearly formulated principles can significantly minimize disputes over interpretation.

The consistent administrative practices and early dispute resolution mechanisms are a prerequisite for reducing litigation. Institutions must therefore be equipped with standardized operating procedures, robust internal review systems and time-bound appointment processes. Ongoing stakeholder engagement particularly through consultations with tax professionals, industry associations and civil society plays a crucial role in identifying ambiguities at an early stage and ensuring that the Code reflects practical reality.²⁴

The engagement promotes shared responsibilities for reform and reduces conflictual relationships between taxpayers and tax authorities. Compliance

effectiveness is another important benefit that codification promises, especially when supported by institutional preparedness and stakeholder participation. The Income Tax Code, 2025 builds on existing digital reforms such as e-filing, faceless assessments and data-driven auditing to streamline compliance and reduce costs. For these measures to lead to real efficiency, tax administration institutions must have a solid technological infrastructure, cybersecurity measures and interoperable databases. Feedback-driven implementation ensures that compliance mechanisms are user-friendly, inclusive and responsive to the capabilities of small taxpayers and businesses.²⁵

Transparency and Taxpayer-Centered Governance constitute the normative basis of the proposed Code. Codification aims to increase transparency by clearly defining rights, obligations and procedures, thereby limiting discretion. Institutional commitment to transparency must extend beyond legal text and apply to everyday administrative behavior, including reasoned orders, accessible grievance mechanisms, and accountable decision-making. Stakeholder engagement strengthens transparency by enabling ongoing dialogue, building trust and monitoring management practices. This participatory approach is in line with the constitutional principles of fairness and non-arbitrariness, thus strengthening taxpayers' trust in the system.

From a global perspective, codification promises alignment with international best practices in tax management, especially in areas such as transfer pricing, anti-avoidance and digital taxation. Institutional preparedness is critical to consistently implement these globally aligned standards, while stakeholder engagement ensures that national concerns are appropriately balanced with international obligations. A transparent, stable and consultative tax regime increases Indian investor confidence by

²³ Ajay Kumar, 'Faceless Assessment, Digital Governance and Taxpayer Rights in India' (2021) 14 NUJS Law Review 389.

²⁴ Organisation for Economic Co-operation and Development (OECD), Tax Administration 3.0: The

Digital Transformation of Tax Administration (OECD Publishing 2020).

²⁵ OECD, Addressing Base Erosion and Profit Shifting (OECD Publishing 2013).

reducing regulatory uncertainty and signaling long-term political stability.²⁶

Investors are more likely to respond positively to a tax system that is predictable, efficiently managed and responsive to stakeholder feedback. In conclusion, the promise of codification under the Income Tax Code, 2025 is inextricably linked to institutional preparedness and sustained stakeholder engagement. Simplification, security and taxpayer-centred governance cannot be achieved through legal reform alone; They require efficient institutions, participatory processes and continuous dialogue. If these elements work together, codification has the potential to transform India's direct tax system into a transparent, efficient and globally competitive framework.²⁷

V. LIMITATIONS AND CHALLENGES OF THE INCOME TAX CODE, 2025

The potential loss of established judicial precedent, reliance on delegated legislation, fairness issues and administrative discretion. Although the Code promises a simplified, principles-based and digitally enabled tax framework, its introduction represents a significant structural change from the Income Tax Act, 1961, which has evolved over six decades and is subject to extensive judicial interpretation. One of the main challenges lies in the transitional complexity involved in moving from the 1961 Act to a codified framework. Taxpayers, intermediaries and administrators must adapt to new definitions, calculation methods, assessment procedures and compliance standards. Such a postponement could result in temporary uncertainty, particularly in ongoing assessments, litigation & appeals, and could give rise to litigation, despite the Code's objective of simplification.

The potential loss of judicial precedents is another critical concern. Over the years, courts have interpreted the Income Tax Act, 1961 in numerous judgments that provide clarity on substantive and procedural provisions. A new codified statute risks rendering certain precedents inapplicable, which may unsettle taxpayers and practitioners accustomed to

settled interpretations. This disruption may increase reliance on litigation as courts are called upon to establish interpretative principles for the new Code. Furthermore, the extensive use of delegated legislation under the Income Tax Code, 2025, such as rules, notifications, and circulars, though intended to provide flexibility and rapid responsiveness, poses risks of opacity and inconsistency. Excessive dependence on executive instruments may dilute legislative clarity, create room for arbitrary interpretation, and complicate compliance for ordinary taxpayers.²⁸

The Equity concerns are also significant in the context of codification. Rationalisation of exemptions, deductions, and incentives, while designed to broaden the tax base, may disproportionately affect small taxpayers, specific industries, or socially vulnerable groups. The challenge lies in striking a balance between revenue efficiency and distributive justice, ensuring that codification does not unintentionally exacerbate economic inequalities. Policymakers must therefore carefully calibrate rates, relief measures, and transitional provisions to maintain fairness while achieving simplification and neutrality. Administrative discretion, although limited in principled contexts, remains a potential source of concern. The move to digital compliance, anonymous assessments and data-driven enforcement aims to reduce arbitrary decision-making.

The incomplete institutional preparation or inadequate capacity may inadvertently allow officials to exercise their discretion inconsistently. Ensuring that officials are trained, that systems are robust and that accountability mechanisms are in place is critical to preventing abuses of discretion, protecting taxpayers' rights and maintaining confidence in the new regime. Finally, the challenges of implementing the Income Tax Code, 2025 are intertwined with broader institutional and technological capabilities. Without comprehensive training programs, stakeholder consultations and public awareness campaigns, the

²⁶ Ajay Kumar, 'Faceless Assessment, Digital Governance and Taxpayer Rights in India' (2021) 14 NUJS Law Review 389.

²⁷ Vijay Kelkar, 'Tax Reform, Transparency and Growth in India' (2018) 53 Economic and Political Weekly 35.

²⁸ Government of India, Union Budget 2024–25 (Ministry of Finance 2024).

goals of simplification, certainty and efficiency may remain ambitious.²⁹

The success of the Code will depend not only on the clarity of the legislation, but also on effective change management, careful monitoring of the effects of the transition and a responsive feedback mechanism to address unforeseen issues. In conclusion, while the Income Tax Code, 2025 promises to modernize India's direct tax regime, its limitations and challenges ranging from transitional breaks, loss of legal guidance, and reliance on delegated legislation for considerations of fairness and administrative discretion highlight the need for a prudent, well-planned and inclusive implementation strategy to realize the expected benefits.³⁰

VI. JUDICIAL RESPONSES, POLICY IMPLICATIONS & THE WAY FORWARD

The Income Tax law has significant implications for tax administration, compliance culture, and budgetary management in India. The objectives of rationalizing exemptions, simplifying procedures, and broadening the tax base are aimed at enhancing administrative efficiency, reducing litigation, and promoting voluntary tax compliance. At the same time, the implementation of such reforms requires careful handling of transitional issues to ensure that ongoing assessments, pending litigation, and legitimate taxpayer expectations are addressed without compromising legal certainty or fairness.

Indian courts have consistently emphasized that tax legislation must conform to the constitutional standards of fairness, justice, and non-arbitrariness embodied in Articles 14 and 19 of the Constitution. The Supreme Court has reiterated that even in the pursuit of fiscal and budgetary objectives, legislative reforms must respect the principles of natural justice and procedural fairness, ensuring that taxpayers' rights are not unduly compromised. In interpreting complex

tax statutes, the judiciary has often adopted a purposive approach, seeking to prevent tax evasion while simultaneously safeguarding genuine taxpayer interests. This judicial approach plays a crucial role in shaping the contours of future codification efforts³¹.

From a policy perspective, codification of income tax law promises greater simplicity, transparency, and coherence in tax administration. While such codification has the potential to streamline regulations, reduce disputes, and align India's tax framework with global best practices, it also raises concerns regarding excessive delegation of powers, increased administrative discretion, and ambiguity during the transition phase. These challenges necessitate a cautious, consultative, and progressive implementation strategy, supported by clear statutory language, effective safeguards against arbitrary exercise of power, and robust dispute resolution mechanisms³².

Legal precedents must be consciously incorporated into the codified framework to ensure continuity, legitimacy, and stability in tax jurisprudence. Where complete preservation of earlier case law is not feasible, the new legislation should provide guiding principles to assist courts and administrators in interpreting the restructured provisions. Clear transitional provisions are essential to bridge the old and new regimes, thereby minimizing uncertainty and ensuring a smooth shift for both taxpayers and tax authorities.

Stakeholder perspectives, including those of taxpayers, industry bodies, legal professionals, and tax administrators, underscore the importance of transparency, predictability, and institutional capacity. Continuous consultation and participatory policy-making can help identify practical challenges, refine statutory provisions, and build confidence in the new tax framework. In particular, digitalisation initiatives such as faceless assessments, real-time data analytics, and integrated electronic filing systems require not

²⁹ Government of India, Revised Discussion Paper on the Direct Taxes Code (Ministry of Finance 2010).

³⁰ Suranjali Tandon, 'Simplifying India's Direct Tax System: Challenges and Opportunities' (2019) 54 Economic and Political Weekly 47.

³¹ S Girish, 'Principle-Based Tax Legislation and the Case for Codification in India' (2018) 60 Journal of the

Indian Law Institute 245.

³² Vijay Kelkar, 'Tax Reform, Transparency and Growth in India' (2018) 53 Economic and Political Weekly 35.

only technical preparedness but also taxpayer education, effective grievance redressal mechanisms, and safeguards against misuse.

The success of the Income Tax Code, 2025, will further depend on continuous monitoring of implementation outcomes, regular legislative reviews, and sustained capacity-building programs for tax officials to ensure uniform application of the law and minimize discretionary excesses. Adoption of global best practices in transparency, anti-circumvention measures, digital governance, and dispute resolution can strengthen the credibility of the tax system and enhance international alignment³³.

Policy reforms must also remain sensitive to equity considerations, ensuring that vulnerable groups, low-income taxpayers, and small businesses are not disproportionately burdened, while simultaneously encouraging productive economic behavior and investment. Public awareness initiatives and taxpayer education programs can further improve compliance by enabling individuals and businesses to better to understand their rights and obligations under the new law.

In conclusion, judicial responses, policy reforms, and stakeholder perspectives collectively illuminate both the promises and challenges of the Income Tax Code, 2025. Judicial precedents emphasise constitutional compliance, clarity, and certainty; policy initiatives aim for modernisation, efficiency, and voluntary compliance; and stakeholder engagement ensures practicality and responsiveness³⁴. Harmonizing legislative intent, judicial interpretation, and administrative capacity through sustained consultation, monitoring, and adaptive reform is essential for creating a simplified, transparent, and future-ready direct tax system in India.

SUGGESTIONS AND RECOMMENDATIONS

1. Incorporation of Judicial Precedents - The Income Tax Code, 2025 should expressly reflect settled legal interpretations to ensure continuity, reduce ambiguity and minimize avoidable litigation.

³³ Vijay Kelkar, 'Tax Reform, Transparency and Growth in India' (2018) 53 Economic and Political Weekly 35.

³⁴ Organisation for Economic Co-operation and Development (OECD), Tax Administration 3.0: The

2. Safeguarding Constitutional Guarantees - Clear Statutory limits should be placed on the government's discretion to comply with Articles 14 and 19, especially in the areas of reassessment, sanctions and enforcement powers.
3. Clear and Simple Setup - The Code should contain clear language and principles-based provisions to enhance taxpayer understanding and legal certainty.
4. Phased Implementation - A gradual transition from the Income Tax Act 1961 with comprehensive savings and transition clauses is necessary to protect vested rights and pending cases.
5. Consultation with Stakeholders - Continuous consultation with taxpayers, professionals, industry associations and academics should be institutionalized during implementation and evaluation.
6. Capacity Building of Tax Authorities - Regular training and technological upskilling of tax officials are essential for a uniform and fair application of the Code. Capacity building should focus on legal updates, digital tools, ethical standards, and taxpayer-centric administration.
7. Strengthening Dispute Resolution Mechanisms - Alternative dispute resolution mechanisms, anonymous adjudication and early dispute resolution forums should be expanded to reduce the burden of litigation.
8. Periodic Review Mechanism - A statutory review committee should be established to assess the functioning of the Code and recommend changes in a timely manner.

VII. CONCLUSION

The codification initiative reflects a deliberate effort to balance efficiency, fairness, and simplicity, while addressing long-standing challenges of the Income Tax Act, 1961, including complex provisions, overlapping exemptions, ambiguities subject to litigation, and administrative discretion. By

Digital Transformation of Tax Administration (OECD Publishing 2020).

streamlining exemptions, broadening the tax base and simplifying procedural requirements, the Code aims to increase voluntary compliance, reduce disputes and increase taxpayer confidence, while aligning national legislation with global best practices in transparency, anti-avoidance and digital governance.

The Income Tax Code, 2025 promises significant benefits, but it is not without its limitations and challenges. Transitional issues, potential loss of precedent, use of delegated legislation and equity concerns require careful implementation. Effective institutional capacity, a robust digital infrastructure and clear transitional arrangements are essential to eliminate uncertainties and ensure consistent application of the law. Furthermore, sustained stakeholder involvement and feedback mechanisms will be key to refining procedures, safeguarding taxpayers' rights and addressing unintended consequences during the early stages of implementation.

The Stakeholder engagement ensures that the Code remains practical, fair and responsive to the needs of taxpayers and the economy. To succeed, it is therefore necessary to harmonize legislative intent, judicial interpretation and administrative capacity through sustained engagement, rigorous monitoring, adaptive reforms and participatory consultations. By ensuring an integrated and consultative approach, the Income Tax Code, 2025 has the potential to create a simplified, transparent, equitable and sustainable direct tax system in India, capable of promoting economic growth while protecting taxpayers' rights and constitutional principles. Through this comprehensive integration of legal, policy and stakeholder considerations, the Code represents not only a legal reform but also a transformative step towards a strong, accountable and technologically efficient tax system in the country.

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