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Transforming India's Tax Landscape: Latest Reforms in Direct and Indirect Taxes

Dr. (CA) Nikhar Goyal*

Senior Assistant Professor, Department of Accounting and Taxation, IIS deemed to be University Jaipur.

*Corresponding Author: nikhar.goyal@yahoo.com

Abstract

Over the past one year, India has undertaken a significant series of tax reforms that have fundamentally reshaped both direct and indirect taxation systems. These reforms aim to make the tax framework more transparent, efficient, and conducive to economic growth, while simultaneously providing relief to individual taxpayers and businesses. The new legislation reduces complexity by consolidating and simplifying provisions, modernizing assessment procedures, introducing faceless digital compliance, and enhancing clarity in refund mechanisms. Complementing these are revisions to income tax slabs, expanded standard and special deductions, and rationalization of TDS/TCS thresholds, all of which are expected to improve taxpayer convenience and reduce litigation. In the realm of indirect taxation, the government has launched Goods and Services Tax 2.0 (GST 2.0), which streamlines tax rates, reduces exemptions, and simplifies compliance procedures, especially for small and medium enterprises. These reforms collectively are anticipated to increase taxpayer confidence, expand the formal tax base, and enhance disposable incomes—particularly for the middle class—thereby supporting consumption-led economic growth. At the same time, the reforms raise critical questions regarding fiscal sustainability, revenue impact, and effective implementation. This article provides a detailed examination of these reforms, analyses their expected economic and social implications, and discusses potential challenges and risks associated with the transition to the new tax framework.

Keywords: Tax Reforms in India, Income-Tax (No. 2) Bill, 2025, GST 2.0, Digital Tax Compliance, Fiscal Sustainability, Direct and Indirect Taxes, Consumption-Led Growth.

Introduction

India's taxation system has historically been complex, characterized by multiple overlapping laws, high compliance costs, and extensive litigation. While successive governments have attempted incremental reforms over the years, large-scale structural changes had remained limited. In the last one year (2024–2025), however, India has witnessed **one of the most comprehensive overhauls in decades**, impacting both direct and indirect taxation. These reforms are designed not only to simplify the tax regime but also to promote compliance, increase transparency, and stimulate economic growth.

On the **direct tax front**, the most transformative step has been the passage of the **Income-Tax (No. 2) Bill, 2025**, replacing the Income Tax Act, 1961. The new legislation reduces the number of sections from **819 to 536** and chapters from **47 to 23**, eliminating archaic and redundant provisions. The reforms emphasize **digital compliance, faceless assessments, and faster refunds**, which are expected to significantly reduce disputes between taxpayers and the tax authorities. For individual taxpayers, the Union Budget 2025–26 introduced a **nil tax threshold up to ₹12 lakh**, higher standard deductions, and revised exemptions for pensions and National Pension System (NPS) contributions. These changes aim to provide relief to the middle class, improve disposable income, and encourage savings and investments.

In the **indirect tax domain**, the government rolled out **GST 2.0** in September 2025. GST 2.0 simplifies the slab structure, reducing multiple rates to mainly **5% and 18%**, eliminates unnecessary exemptions, and enhances the **invoice management system**, allowing more precise tracking of input tax credits. Small businesses have also benefited from the exemption from annual GST return filing, easing compliance burdens and improving the ease of doing business.

The reforms are expected to have multiple impacts: increased **taxpayer confidence**, broader **formalization of the economy**, enhanced **government revenue compliance**, and a stronger impetus for **consumption-led economic growth**. At the same time, these reforms raise important questions regarding **fiscal sustainability, transition challenges, and equity**, particularly in terms of ensuring that the benefits reach all sections of society while maintaining government revenue targets.

This article delves deeper into the **key tax reforms introduced over the past year**, analyzing their economic and social implications, the expected benefits for different taxpayer segments, and the challenges that may emerge during the transition period.

Analysis

Direct Tax Reforms

The direct tax system underwent a structural overhaul with the **Income-Tax (No. 2) Bill, 2025**.

- **Simplification of Law:** The old Income Tax Act, 1961 was criticized for its complexity. By reducing the number of sections and removing outdated provisions, the new law makes compliance easier for taxpayers and reduces scope for interpretation-based disputes.
- **Revised Income Tax Slabs:** The Union Budget 2025–26 introduced a progressive structure with a **nil tax threshold up to ₹12 lakh**, providing significant relief to middle-class taxpayers. Higher earners face moderately increased rates, balancing equity with revenue collection.
- **Enhanced Deductions and Exemptions:** Standard deduction limits were raised, along with higher exemptions for pensioners and contributions under NPS. These provisions encourage savings and support social security.
- **Rationalization of TDS/TCS:** Numerous TDS and TCS provisions were rationalized to reduce compliance burden for both individuals and businesses. This minimizes cash flow disruptions and simplifies bookkeeping.
- **Digital Compliance and Faceless Assessments:** Building on earlier initiatives, the new reforms mandate pre-filled returns, real-time data integration, and AI-driven scrutiny notices. This enhances efficiency, transparency, and reduces scope for harassment.

Impact: Direct tax reforms are expected to increase **taxpayer confidence**, reduce litigation, and expand the tax base by encouraging voluntary compliance. However, the government faces challenges in maintaining revenue given the substantial increase in tax-free income thresholds.

Indirect Tax Reforms – GST 2.0

The launch of **GST 2.0** in 2025 marks a significant step toward simplifying India's indirect tax framework.

- **Streamlined Tax Slabs:** The previous multiple-rate structure has been replaced primarily with **5% and 18% slabs**, removing ambiguity and complexity. Essential goods continue to enjoy concessional rates, while luxury and sin goods attract higher cess.
- **Reduced Exemptions:** By pruning unnecessary exemptions, the government widened the tax base while ensuring a level playing field.
- **Ease of Compliance for Small Businesses:** Entities with lower turnover have been exempted from annual return filing, significantly reducing compliance costs and paperwork.
- **Strengthened IT Infrastructure:** A revamped GST Network (GSTN) ensures seamless invoice matching, faster processing of input tax credits, and reduced tax evasion.

- **Improved Refund Mechanisms:** Exporters and businesses facing input tax accumulation now benefit from automated refund systems, improving liquidity and competitiveness.

Impact: GST 2.0 is expected to boost **ease of doing business**, reduce cascading effects of taxation, and encourage formalization of the economy. However, the success of GST 2.0 depends on robust IT systems and consistent cooperation between the Centre and States.

Administrative and Procedural Reforms

Beyond structural changes, the government introduced **administrative improvements** that significantly affect day-to-day compliance.

- **Faceless and Paperless Regime:** All notices, appeals, and communications are now digital, ensuring transparency.
- **Real-Time Taxpayer Services:** Introduction of chatbots, helplines, and AI-based portals help taxpayers resolve issues quickly.
- **Dispute Resolution Mechanisms:** New mediation schemes aim to resolve disputes at early stages, reducing litigation backlog.
- **Data Integration:** Linking of GST data, income tax data, and banking transactions provides holistic monitoring, reducing evasion opportunities.

Impact: These reforms build trust between taxpayers and authorities, reduce harassment, and promote compliance through convenience rather than coercion.

Opportunities and Challenges

While the reforms hold immense promise, they also come with challenges.

- **Opportunities**
 - Increased disposable income stimulates **domestic consumption**.
 - Simplified compliance reduces costs for businesses, improving **ease of doing business** rankings.
 - Enhanced digital infrastructure encourages **greater formalization of the economy**.
 - Stronger compliance and broader tax base may lead to **sustainable long-term revenues**.
- **Challenges**
 - **Revenue Pressure:** Higher exemptions could result in short-term revenue loss, stressing fiscal balances.
 - **Implementation Hurdles:** Transition to new systems requires extensive taxpayer education and adaptation.

- **Digital Divide:** Smaller businesses and rural taxpayers may face difficulties in adapting to digital-only compliance.
- **Centre–State Coordination:** GST reforms need alignment between Union and State governments, which can be politically sensitive.

Conclusion

The tax reforms introduced in India over the past one year represent a **significant milestone** in modernizing the country's fiscal architecture. The enactment of the **Income-Tax (No. 2) Bill, 2025** and the introduction of **GST 2.0** collectively signify a decisive shift towards **simplification, transparency, and digital efficiency** in both direct and indirect taxation. These reforms have provided substantial relief to the middle class, enhanced ease of compliance for businesses, and reduced administrative burdens through faceless assessments and pre-filled returns.

By raising the **tax-free income threshold**, rationalizing deductions, and revising TDS/TCS rules, the reforms have increased disposable income, likely stimulating **consumption-led economic growth**. The simplification of GST rates and digitalization of indirect tax compliance further reduces operational costs for businesses and improves transparency in the taxation system.

At the same time, the reforms present certain **challenges**. Short-term revenue loss due to higher exemptions, the transitional complexity of moving from the old to the new systems, and the dependency on robust digital infrastructure are key concerns. Furthermore, ensuring that reforms are **equitable and inclusive** remains critical, as high-income taxpayers and specific sectors may perceive an uneven distribution of tax burden.

To maximize the benefits of these reforms, **policy recommendations** include:

- **Strengthening Digital Infrastructure:** Ensuring the GST and Income Tax platforms are robust, user-friendly, and capable of handling increased digital traffic.
- **Public Awareness Campaigns:** Educating taxpayers about new provisions, compliance procedures, and benefits to reduce errors and increase voluntary compliance.
- **Monitoring Fiscal Impact:** Regularly reviewing revenue trends to ensure fiscal sustainability while maintaining relief measures.
- **Streamlining Old vs. New Regimes:** Providing guidance and decision-making tools to help taxpayers choose the optimal tax regime.
- **Periodic Review and Feedback:** Soliciting feedback from taxpayers, businesses, and tax professionals to continuously improve the system.

In conclusion, if implemented effectively, these reforms could **catalyze a more efficient, transparent, and growth-oriented tax system** in India. They hold the

potential to increase compliance, enhance revenue collection over the long term, and create a favorable environment for both individual taxpayers and businesses. India's tax landscape is now positioned to become more **modern, equitable, and resilient**, reflecting a government commitment to fiscal discipline, economic growth, and taxpayer welfare.

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