INDIA'S DIRECT TAX EVOLUTION: A JOURNEY FROM THE INCOME TAX ACT, 1961 TO THE PROPOSED DIRECT TAX CODE, 2025

Rupak Das, ICFAI Law School, IFHE, Hyderabad
Munish Swaroop, ICFAI Law School, IFHE, Hyderabad
Anmol Tibrewal, ICFAI Law School, IFHE, Hyderabad
Ritwika Mazumdar, ICFAI Law School, IFHE, Hyderabad
Bhawna Tyagi, ICFAI Law School, IFHE, Hyderabad

ABSTRACT

The evolution of the taxation system in India replicates multiple political, economic, and governance backgrounds that have influenced its development over the centuries. The historical route of taxation, examined in this study, can be traced from ancient texts such as the Manu Smriti and Arthashastra to the contemporary Indian tax framework, significantly shaped by British colonial governance and subsequent reforms enacted after India gained independence.

In this paper, attention is directed toward the newly proposed Direct Tax Code 2025, which is compared against the existing Income Tax Act, 1961. This evaluative comparison seeks to outline key discrepancies between the two frameworks, assess the efforts aimed at simplification, and analyse the implications of these changes on individual taxpayers, businesses, and the broader economic landscape.

The research assesses significant modifications proposed under the DTC, and the anticipated benefits of these changes in terms of transparency, improving compliance, expanding the tax base and fostering a more equitable taxation model. In addition, the study also addresses the consequences stemming from the removal of certain deductions and exemptions, the streamlining of tax rates, and the subsequent influence on investment behaviours.

Keywords: Evolution of Tax, Income Tax Act, Direct Tax Code, Capital Gains, Tax Base.

INTRODUCTION

"It was only for the good of his subjects that he collected taxes from them, just as the Sun draws moisture from the Earth to give it back a thousand-fold"

– *Kalidas in Raghuvansham eulogising KING DALIP.*

A tax is an expense incurred in the course of civilisation. It is an obligatory contribution to state revenue, considered a tax on the income or profits of individuals or businesses. It is intended to support public expenditure and socio-economic activities. The roots of the tax system in India can be traced back to ancient texts like Manu Smriti, Arthashastra, which laid down principles of taxation based on equity, proportionality, and fiscal responsibility (Bhatia, 2023). This paper presents the growth of the tax system in India, taking into account the influence of ancient frameworks, colonial exploitation, post-independence reforms, and the likely consequences of the Direct Tax Code on the contemporary taxation system. From the Indian perspective, taxation has historically been viewed as an equitable system. Basic land revenue, agricultural and trade taxation for the purposes of public welfare exemplified social equity. During medieval times, the

Citation Information: Das, R., Swaroop, M., Tibrewal, A., Mazumdar, R., & Tyagi, B. (2025). India's direct tax evolution: A journey from the income tax act, 1961 to the proposed direct tax code, 2025. *Academy of Marketing Studies Journal, 29*(5), 1-14.

formalisation of land revenue systems under the Delhi Sultanate and Mughal showed substantial inequities due to intermediaries such as zamindars, resulting in widespread exploitation (Banerjea, 1930; Prasad, 1987).

The newly proposed Direct Tax Code seeks to modernise and simplify direct taxes in India by reforming the Income Tax Act of 1961. The DTC attempts to strengthen the taxation system in terms of transparency, equity, and efficiency. A major goal of the DTC is to provide a smooth and simple tax structure, which is bound to lower the compliance burden for taxpayers and improve ease of business in India (NDTV, 2023; Central Board of Direct Taxes, 2018). The DTC is also known for a number of other reforms, such as simplification of tax rates, removal of obsolete law provisions, and adding new definitions to modern financial activities like MAT. The DTC attempts to eliminate ambiguities in tax laws and enhance the taxpayer experience by moving towards more logical and straightforward provisions as opposed to the existing Income Tax Act's prolix provisions. With the DTC, India shifts towards a more transparent and equitable regime, which aims to balance revenue collection and fairness in the taxation system (Clear Tax).

There is general agreement that while the DTC may aid in reducing complexity in tax administration and enhancing compliance, it is unlikely to resolve enduring concerns of inequality and regressive policies, such as the impact of GST on the lower strata of income earners. Furthermore, the DTC does not necessarily address the larger structural issues that continue to perpetuate inequities in the system, especially for the informal sector and rural areas. Even after the implementation of aggressive reforms, the informal sector and the economically challenged population still seem to face a taxation system more complicated than it lets on. Furthermore, manipulation within suggestions of tax simplification often leads to a lack of change in inequality gaps; the changes needed are much deeper (Clear Tax).

With that said, it would not be unjustified to claim that India's approach towards taxation has pivoted from an ethical and moral-centred system towards one focused on social welfare and economic growth. Both the introduction of the Income Tax Act of 1961 and GST served as milestones towards achieving optimally advanced taxation frameworks, but the implementation of the Direct Tax Code is set to further advance best practices in tax simplification and transparency. Nonetheless, the fight against inequality, inefficiencies, and the overly taxing nature of some taxes is still an obstacle to be overcome. With India focusing on implementing DTC, there's a need to shift focus towards gap-eliminating reforms that solve the underlying problems of economic stagnation. Ultimately, versatile and continuous developments of the taxation system meeting the dual goal of economic sustainability while improving social welfare are the fundamental necessities (NDTV, 2023).

The Pre-Colonial Period (Ancient and Medieval) Prior to 1857

In the ancient period, taxation systems were deeply rooted in agricultural economies and guided by ethical governance principles. During the Indus Valley Civilisation, although direct evidence of taxation is limited, the organised urban planning and standardised weights and measures suggest a structured system of resource management, possibly involving contributions to the state. Moving into the Vedic period, taxes were voluntary contributions called *bali*, offered to the king for communal welfare and governance (Next IAS Team, 2025). The Epic period, as depicted in texts like the *Mahabharata* and *Ramayana*, reinforced the king's responsibility to levy fair taxes and use the revenue for public good, including infrastructure, security, and religious functions. Under the Mauryan Empire, taxation became more structured and systematic, as outlined in Kautilya's *Arthashastra*. Land tax, tolls on trade, and taxes on professions and crafts

Citation Information: Das, R., Swaroop, M., Tibrewal, A., Mazumdar, R., & Tyagi, B. (2025). India's direct tax evolution: A journey from the income tax act, 1961 to the proposed direct tax code, 2025. *Academy of Marketing Studies Journal, 29*(5), 1-14.

formed the backbone of the revenue system, with a focus on efficiency and justice (Banerjea, 1930).

During this time, agriculture, animals, and livestock were the primary sources of income. Farmers offered a share of their agricultural produce and livestock, known as Bhag, to the king. Land revenue was typically static at one-sixth of the produce, while import and export duties were based on an ad valorem basis (based on value).

In the medieval period, the taxation system evolved under the governance of the Delhi Sultanate and later the Mughal Empire. The Delhi Sultanate introduced Islamic taxation principles, including *kharaj* (land tax) and *jizya* (a poll tax on non-Muslims). These taxes, while contributing to state revenue, often caused socio-political tensions due to their regressive nature. Under the Mughals, particularly during Akbar's reign, the taxation system saw significant reforms. Raja Todar Mal introduced the *Zabt* system, which assessed land revenue based on the productivity of the land. The Mughals also taxed trade, crafts, and markets, though the heavy reliance on zamindars for collection sometimes led to exploitation (Prasad, 1987).

The British Era (1857–1947)

The decline of the Mughal Empire began with the evolution of the East India Company in 1765. Initially entering the Indian provinces for trade, the Company gradually gained full control, and by 1833, it had become both a trader and a ruler of these provinces (Kansal, et al. 2017). The East India Company generated massive profits from India, sending £6 lakhs annually to London as dividends until the Military Mutiny of 1857 (Nogues-Marco, 2020; Banerjea, 1930).

During this period, the Company imposed various taxes, including those on salt, opium, tobacco, excise, customs, liquor, stamp duty, and transit duty. While tax collection systems improved, they served solely to benefit the Company. In 1859, the License Tax was introduced on traders and professionals (Banerjea, 1930).

A major development came with the introduction of the Indian Income Tax Act, 1922, which brought significant changes to the taxation system. It introduced the concepts of the assessment year and the previous year. Additionally, in 1924, the Central Board of Revenue (CBR) was established to oversee customs administration (Income Tax Department, 1922; Pagar, 1920).

Taxation in Sovereign India under the Aegis of the Indian Constitution (1950–1991)

Post the colonial rule in India, the deep-rooted economic system that was left was not aligned with the social welfare of the country that it was inherited by. On 26th of January, 1950 Constitution of India was enforced, which introduced a structure of sorts to the taxation regime. Article 246 of the Indian Constitution empowered the Union and State legislatures on the taxation powers by placing items in the three categories: Union List, State List, and Concurrent List in the Seventh Schedule. This was better instead of having an arbitrary determination of taxation power by the governments and instituting a well-structured taxation approach.

The Constitution of India, through Article 265, has adopted a regime where there is the rule of law and not authority. This consistently affirms the principle that taxes must be imposed through statutory provisions, and there is no scope for further and needless duplication of any provisions encompassing tax to receive parliamentary sanction.

The government observed that the baseline regime of taxation of the erstwhile colonial powers needed changes in order to meet the targets of a growing nation. The sole legal statute enforcing direct taxes, the Income Tax Ordinance, 1961, was in practice regarded as ineffective,

Citation Information: Das, R., Swaroop, M., Tibrewal, A., Mazumdar, R., & Tyagi, B. (2025). India's direct tax evolution: A journey from the income tax act, 1961 to the proposed direct tax code, 2025. *Academy of Marketing Studies Journal, 29*(5), 1-14.

and hence, the cabinet decided in 1956 to leave it to the law commission to review the document (Ahmad & Poddar, 2009).

The recommendations of the Commission, along with inputs from the Central Board of Revenue and the recommendations of expert committees such as the Taxation Enquiry Commission (1953–54), chaired by John Mathai, played a pivotal role in reshaping India's tax laws.

As a result, the Indian Income Tax Act, 1961, was enacted, coming into effect on 1st April 1962. This legislation modernised the taxation framework and introduced a more comprehensive classification of income under five distinct heads, namely: Income from Salaries; Income from House Property; Profits and Gains of Business or Profession; Capital Gains and Income from Other Sources (Banerjea, 1930).

These categories were designed to ensure clarity in tax assessment and provide a structured basis for levying and collecting taxes. Additionally, the Act incorporated provisions for the imposition of direct taxes, procedures for tax collection, and measures to curb tax evasion.

Besides, different committees, such as the Wanchoo Committee (1971), the Chelliah Committee (1991), and the former Direct Taxes Administration Enquiry Committee stressed the improvement of efficiency of the tax administration and the widening of the tax base. These initiatives earmarked the beginning of the process of reforms that, in the subsequent decades, were to serve to modernise the system of taxation in India (Kwatra, 1993; Central Board of Indirect Taxes and Customs, 2018).

In effect, from 1950 to 1991, there was in India a transition of the taxation system from the British colonials to one founded on constitutional supremacy, with the Indian income tax enacted in 1961 as the mainstay of taxation policy. Of course, this simplification of tax architecture resulted not only in an improvement in the manner in which tax imposition, levy and collection were done but, at the same time, brought the tax system in line with the constitutional requirements as well as the economic and social ideals of the country.

Post-Economic Liberalisation

A Tax Reform Committee was constituted, comprising Raja J Chelliah as chairman, with a mandate to overhaul and enhance the taxation system in 1991. The committee recommended that rates for all main taxes, such as Income Tax, Excise and Customs, and so forth, should be decreased. First time in India, Service tax was levied by the government on 1st July 1994. Only three services, namely telecom, stock broking, and insurance, were charged a 5% tax, but the number of services was gradually increased. Later, the introduction of a new system of indirect taxes came into existence through VAT (Value Added Tax), Sales Tax, etc and later in the year 2017, GST (Goods and Services Tax) came into force, subsuming all the indirect taxes under one umbrella. The introduction of presumptive taxation and indexation benefits on capital gains has been one of the substantial reforms done to benefit the economy (Kwatra, 1993; Central Board of Indirect Taxes and Customs, 2018). Tax Administration adjustment was also made by reforming and adjusting the Tax deduction at source mechanism.

Now at current point of time the prospective introduction of the Direct Tax Code by Ministry of Finance is a way look forward to modernize and simplify India's direct tax framework by repealing the existing Income Tax Act, 1961 stating that current taxation law has become more complex and outdated in the current developing economy of India. The goal is to create a more efficient, transparent, and taxpayer-friendly system. India has tried to make tax filing easier for its taxpayers, and the new tax regime is a part of such an initiative (Ojha & Agarwala, 2024).

Citation Information: Das, R., Swaroop, M., Tibrewal, A., Mazumdar, R., & Tyagi, B. (2025). India's direct tax evolution: A journey from the income tax act, 1961 to the proposed direct tax code, 2025. *Academy of Marketing Studies Journal, 29*(5), 1-14.

That being said, the objective of this research is threefold. Firstly, it seeks to compare the fundamental structure and provisions of the proposed Direct Tax Code (DTC) with the present Income Tax Act, 1961, to identify key differences and similarities. Secondly, the study aims to assess whether the DTC simplifies tax calculations and reduces complexities compared to the current framework, thereby addressing the long-standing challenges associated with tax compliance and administration. In the end, the study aims to assess underlying tax advantages enjoyed by individual taxpayers and companies under the DTC when compared with the provisions applicable under Income Tax Act, 1961 regarding the slabs, exemptions and deductions, to find out whether it can achieve its objectives of establishing a fairer and more efficient tax regime.

Overview of DTC

The proposed Direct Tax Code is a all-inclusive reform aimed at overhauling India's direct tax system, substituting the existing Income Tax Act, 1961. The Direct Tax Code is designed to simplify and modernise tax laws, reduce compliance burdens, and enhance transparency in the tax administration. By restructuring tax rates and eliminating numerous exemptions and deductions, the Direct Tax Code seeks to create a more efficient and taxpayer-friendly system. It also aims to provide stronger definitions and guidelines, which would reduce vagueness in tax assessments and litigation (Direct tax code 2025: Draft PDF | Proposed changes | implementation date, n.d.; Direct tax code – background, definition, purpose and features, n.d.). While the Direct Tax Code is expected to improve overall compliance and make the tax structure more transparent, critics argue that it may not adequately address the systemic inequalities that persist, particularly concerning the informal sector and low-income groups. Therefore, while the Direct Tax Code promises significant improvements, its impact on the broader economic disparities remains a point of concern.

The goal of the Direct Tax Code is to simplify, streamline and standardise India's complicated Income Tax laws for all stakeholders. Understanding that the pace of the increase in the percentage of individuals who contribute to income tax is slow, the Government of India acknowledged that there is a need for effective, including simple or smooth tax laws. So, the DTC in its framework is meant to ease tax compliance for both individuals and businesses (Direct Tax Code 2025: Draft PDF | Proposed changes | implementation date, n.d.; Income Tax Act 1961 vs. Direct Tax Code, n.d.).

A preliminary draft of the Direct Tax Code (DTC), along with a concept paper, was released on 12th August 2009, inviting public suggestions. Subsequently, a revised discussion paper incorporating feedback from various stakeholders was issued on 15th June 2010. Following this, the Direct Tax Code Bill, 2010 was presented in the Lok Sabha on 30th August 2010. The Standing Committee on Finance (SCF) reviewed the Bill and presented its report in March 2012. The report included 190 recommendations, categorised into two parts: general recommendations and specific clause-wise recommendations. Then, the Khelkar Committee in September 2012 (Kelkar, 2004) suggested a comprehensive review of DTC. DTC (Direct Tax Code 2013) revised versions released on 31st March, 2014. The bill comprises the suggestions of SCF for public comments. The bill lapsed due to a change in the government after the general elections. In 2017, an expert committee was set up to draft a fresh Direct Tax Code. In Aug 2019, the task force report was submitted to the finance minister.

The main motive of the Direct Tax Code is the validation of the direct tax structure. The introduction of the code would help in eliminating uncertainty in law, thus facilitating the reduction of tax avoidance and broadening the tax base of the country. This code consolidates all direct taxes,

Citation Information: Das, R., Swaroop, M., Tibrewal, A., Mazumdar, R., & Tyagi, B. (2025). India's direct tax evolution: A journey from the income tax act, 1961 to the proposed direct tax code, 2025. *Academy of Marketing Studies Journal, 29*(5), 1-14.

including wealth tax, into a single framework. As a result, the scope for lawsuits is expected to decrease, as the code has been drafted simply and lucidly. To further reduce complexity, the Direct Tax Code has been structured uniquely, with related sections grouped under their respective chapters. This approach makes the code more accessible and easier to understand, enhancing its overall effectiveness. Additionally, it focuses on eliminating the multiplicity of tax exemptions and gradually phasing out various deductions, with the overarching aim of broadening the government's tax base.

Foremost Changes in the Direct Tax Code 2025 in contrast to Income Tax Act, 1961

The DTC 2025, a new ray of hope for the Indian taxpayers, might bring significant changes, including updates to tax filing and compliance procedures. Under the new code, taxpayers might be categorised simply as either residents or non-residents. The current "Resident but Not Ordinarily Resident" (RNOR) classification may be eliminated to enhance clarity and simplify the determination of residential status.

Another important aspect is that the new system might streamline tax filing by exclusively using the Financial Year (FY) as the reference period when filing, eliminating the often-confusing terms "Assessment Year (AY)" and "Previous Year (PY)."

Moreover, the DTC 2025 may simplify the structure of the Income Tax Act, combining the current 298 sections, several sub-sections, clauses and sub-clauses and 14 schedules into 319 sections and 22 schedules simplified structure without clauses and sub-clauses, providing a more organised framework. There is also the possibility that Income may be broadly classified into 2 parts, whereas in the current Income Tax Act, 1961, we have only one source, that is Ordinary Source. In the prospective DTC, the two broadly classified sources may evolve as follows tables 1-4.

Special Sources and Their Tax Rates

Table 1
LAYS OUT SPECIFIC TAX RATES FOR DIFFERENT INCOME TYPES: NON-RESIDENT EARNINGS FROM DIVIDENDS, INTEREST, MUTUAL FUND PROFITS, ROYALTIES, FEES FOR TECHNICAL SERVICES, AND INSURANCE/REINSURANCE ARE TAXED AT 20%, INCOME FROM GAMES-RELATED ACTIVITIES AND CERTAIN PUBLISHED ARTICLES, AS WELL AS EARNINGS OF NON-RESIDENT SPORTS ASSOCIATIONS, AT 10%, AND BOTH RESIDENT AND NON-RESIDENT INCOME FROM LOTTERIES AND GAMBLING ARE TAXED AT 30%

Income Category	Description	Applicable Tax Rate
Non- resident income from dividends, interest, mutual fund profits, royalties, fees for technical services, and insurance/reinsurance income.	Income earned by non- residents on many investment and service-related receipts (including income from mutual fund units, dividends, and fees for technical services).	20%
Non-resident income from games, advertisements, or contributions of articles related to games/ sports published in Indian newspapers, journals or magazines.	Income earned by non-residents from creative or promotional activities related to games/sports in print media.	10%
Non-resident sports associations earning money related to any game or sport.	Income received by sports associations (for institutions) from revenue related to any game or sport, as earned by non-resident entities.	10%

Citation Information: Das, R., Swaroop, M., Tibrewal, A., Mazumdar, R., & Tyagi, B. (2025). India's direct tax evolution: A journey from the income tax act, 1961 to the proposed direct tax code, 2025. *Academy of Marketing Studies Journal, 29*(5), 1-14.

Income (resident or non-resident) from lotteries, crosswords, races, card games, gambling, or betting.	Winnings and receipts from games of chance and skill including lotteries and other betting/gaming activities.	30%

Renaming of Income Heads from Ordinary Sources

Table 2
SIMPLIFIES ORDINARY INCOME CATEGORIES BY RENAMING "INCOME FROM SALARY" TO "EMPLOYMENT INCOME," "PROFIT OR GAINS FROM BUSINESS OR PROFESSION" TO "INCOME FROM BUSINESS," WHILE KEEPING "INCOME FROM HOUSE PROPERTY" AND "CAPITAL GAINS" UNCHANGED, AND UPDATING "INCOME FROM OTHER SOURCES" TO "INCOME FROM RESIDUARY SOURCES," ALL AIMED AT MAKING THE TAX CODE CLEARER AND EASIER TO UNDERSTAND

Existing Income Head	New Proposed Name	Note
Income from Salary.	Employment Income.	Changed designed to clarify “salary” as income derived from work.
Profit or Gains from Business or Profession.	Income from Business.	Reflects a move toward simpler terminology in the new tax law.
Income from House Property.	Income from House Property.	Remains unchanged in title.
Capital Gains.	Capital Gains.	No change in the head’s naming.
Income from Other Sources.	Income from Residuary Sources.	Updated branding to specify that this head is residual.

The Direct Tax Code (DTC) 2025 proposes a unified corporate tax rate for both domestic and foreign companies, replacing the current structure of 30% for domestic and 40% for foreign companies. This reform aims to simplify tax compliance, reduce administrative burdens, and eliminate perceived discrimination against foreign businesses, making India a more attractive destination for foreign direct investment (ClearTax). Through aligning with global best practices, the unified rate provides greater ease of doing business, increases transparency and reduces instances of tax arbitrage (NDTV, 2023). In addition, it is believed that it will expand the tax net, enhance revenue mobilisation and assist in the pace of growth of the economy of India by establishing a sound and stable tax system.

Furthermore, if the Direct Tax Code (DTC) 2025 is made a law, it may enlarge the ambit of tax audits through permitting Company Secretaries (CS) and Cost and Management Accountants (CMA) to perform Such audits, which is now the preserve of chartered accountants (CAs) (Rathi, n.d.). This reform is meant to increase the scope of professionals able to perform tax audits, leading to better performance and fewer bottlenecks in the auditing process. This could be addressed through the capacity of CS and CMA professionals, and, in the case of CS, the purpose of the engagements could be expanded (ClearTax).

The DTC 2025, on the other hand, imagines a situation where TDS and TCS would present a wider coverage than before, and almost all types of income would be covered by the legislation. This step is aimed at achieving tax collection uniformity and compliance in time, which would curtail the chance of avoidance and allow a steady flow of government revenue even during the financial year (Income Tax Department, n.d.). By escalating the opportunity of TDS and TCS, the system promotes a pay-as-you-earn model, minimising tax defaults and easing the year-end tax burden for taxpayers (Rathi, n.d.). In essence, the expanded role of TDS and TCS under DTC 2025 represents a significant shift toward a more efficient and equitable tax system, fostering trust and

Citation Information: Das, R., Swaroop, M., Tibrewal, A., Mazumdar, R., & Tyagi, B. (2025). India’s direct tax evolution: A journey from the income tax act, 1961 to the proposed direct tax code, 2025. *Academy of Marketing Studies Journal, 29*(5), 1-14.

discipline in tax compliance (Direct Tax Code 2025: Draft PDF | Proposed Changes | Implementation Date, n.d.).

The Direct Tax Code (DTC) 2025, while aiming to expand revenue collection, proposes to maintain tax exemptions for political parties. This exemption, rooted in the belief that political parties are essential for democratic processes, ensures that their financial resources remain untaxed to support political campaigns, outreach, and administrative activities. However, this provision is likely to ignite debates among taxpayers, as many may question the rationale for excluding political entities from taxation.

The Code proposes to streamline the taxation of dividends by levying a flat 15% Dividend Distribution Tax (DDT), aligning closely with the current provisions under the Income Tax Act, 1961, which also imposes DDT at 15%, with an additional cess (Direct Tax Code 2025: Draft PDF | Proposed Changes | Implementation Date, n.d.). This simplification aims to reduce the complexity of dividend taxation by introducing uniformity and potentially alleviating the additional burden created by the cess. Implementing a fixed rate assures ease of understanding for business organisations paying out dividends to shareholders and also makes the compliance aspect a straightforward one.

Also, the DTC 2025 recommends enhancement of the exemption limit for contributions towards approved funds from the current ₹1,20,000 per year under the 1961 Income Tax Act to ₹1,50,000 (Income Tax Act 1961 vs. Direct Tax Code, n.d.). This increase aims to promote deeper savings and investments by taxpayers, which again further serves the goal of enhancing economic well-being and creating wealth. With the exception limit going up, DTC also encourages taxpayers to set aside more resources in the specified savings schemes. This reinforces the need for proper savings targeting investments. Income is distributed by Mutual fund companies and to the holders of equity-oriented Mutual Funds (Income Tax Act 1961 vs. Direct Tax Code, n.d.).

In the proposed Code (DTC), income distributed by Life Insurance Corporation (LIC) companies to policyholders holding equity-oriented life insurance policies is to be taxed at a rate of 5%. This stands in contrast to the current provisions under the Income Tax Act, 1961, where such income is exempt from tax (Direct Tax Code – Background, Definition, Purpose and Features, n.d.). The shift in taxation policy under the DTC raises pertinent questions regarding the treatment of income from insurance products, particularly those that involve equity investments. While the Income Tax Act provides tax relief to encourage savings and investment through life insurance policies, the DTC aims to streamline tax structures and ensure that income, even from tax-advantaged products like insurance, contributes to government revenues.

Moreover, individuals with an income of ₹10 crores or more would be subject to a flat tax rate of 35%. This is a notable change from the current structure under the Income Tax Act, 1961, where the tax rate for such ultra-rich individuals is 30%, along with an additional surcharge of 15%, bringing the effective tax rate to 34.32%. (Income Tax Act 1961 vs. Direct Tax Code, n.d.). The DTC introduces a flat 35% tax rate, which, on the one hand, does not alter the marginal rate of tax, and at the same time, it helps to simplify the tax structure for the rich. The introduction of a flat tax rate can be construed as a move towards simplification; this is because with a flat rate, there is no need for super taxation calculations. Also, this type of measure can be considered more progressive as it seeks to make sure that the rich do not escape their taxation obligations but rather contribute a higher element with minimal effort. This change is critical from a research point of view because it is a tuple of equity, efficiency and simplicity in taxation.

The Minimum Alternate Tax (MAT) serves as a regulatory mechanism, ensuring that corporations benefiting from tax exemptions, despite generating substantial profits, contribute to

Citation Information: Das, R., Swaroop, M., Tibrewal, A., Mazumdar, R., & Tyagi, B. (2025). India's direct tax evolution: A journey from the income tax act, 1961 to the proposed direct tax code, 2025. *Academy of Marketing Studies Journal, 29*(5), 1-14.

the national tax revenue. Established under the Income Tax Act, 1961, the MAT is fixed at 18.5%, allowing companies to apply this tax mechanism for 10 years. However, under the proposed Direct Tax Code (DTC), the MAT rate is increased to 20%, and companies would be eligible to avail of this benefit for a longer period of 15 years (Minimum Alternate Tax (MAT): Eligibility & Calculation of MAT Credit, n.d.). This change reflects a shift towards tightening the tax obligations of profit-making companies that benefit from exemptions, ensuring they pay a fair share of taxes.

Capital Gains Tax Updates: An Overview of Proposed Changes

Under the proposed Direct Tax Code (DTC) 2025, the treatment of capital gains is set to undergo sweeping modifications designed to simplify compliance and align India's taxation framework with international practices. One of the transformative changes is the integration of capital gains into the regular income tax regime (Direct Tax Code 2025: Draft PDF | Proposed Changes | Implementation Date, n.d.). Under this unified approach, both short-term and long-term capital gains will be treated as regular income and taxed based on the individual's applicable tax bracket (Direct Tax Code – Background, Definition, Purpose and Features, n.d.). Proponents argue that this measure will enhance transparency and reduce administrative complexity, while critics raise concerns that high-income taxpayers could see their effective tax rates increase substantially, as their gains will no longer benefit from preferential rates (Income Tax Act 1961 vs. Direct Tax Code, n.d.).

For short-term financial assets, significant revisions are proposed. Currently, short-term capital gains—which generally occur when assets are sold within a year—are taxed at a flat rate of 15% without indexation benefits (Income Tax Act 1961 vs. Direct Tax Code, n.d.). Under the DTC 2025, the proposed tax rate for such gains is set to rise to 20%. This adjustment is intended to align the tax treatment with the principles of progressive taxation, ensuring that those in higher income brackets contribute a fairer share (Direct Tax Code 2025: Draft PDF | Proposed Changes | Implementation Date, n.d.). Notably, this change could discourage speculative trading by raising the cost of rapid transactions, which might lead to reduced market volatility. However, the impact on market liquidity remains an open question, as investors may shift their strategies in response to the new cost structure.

The treatment of long-term financial assets introduces an equally complex mix of incentives and challenges. The DTC 2025 proposes a reduction in the statutory tax rate from 20% to 12.5% for long-term capital gains—an attractive change on first glance (Direct Tax Code 2025: Draft PDF | Proposed Changes | Implementation Date, n.d.). However, this reduction is coupled with the removal of the indexation benefit. Indexation, which adjusts the asset's purchase cost to account for inflation, has traditionally shielded investors from having to pay tax on nominal gains rather than real profit (Direct Tax Code – Background, Definition, Purpose and Features, n.d.). Its removal means that even assets held over extended periods may incur higher effective tax liabilities in inflationary periods, as taxpayers will now be taxed on the entire nominal gain without the benefit of inflation adjustment. In high-inflation contexts like India, this could disproportionately affect long-term investors and alter investment strategies for sectors such as real estate and debt mutual funds (Income Tax Act 1961 vs. Direct Tax Code, n.d.).

Beyond the pure mechanics of rate adjustments, these reforms signal a fundamental shift in the policy approach to capital gains taxation. By eliminating separate regimes for various income components and consolidating them into a single framework, the DTC 2025 aspires to create a more predictable and cohesive tax environment (Direct Tax Code – Background, Definition,

Citation Information: Das, R., Swaroop, M., Tibrewal, A., Mazumdar, R., & Tyagi, B. (2025). India's direct tax evolution: A journey from the income tax act, 1961 to the proposed direct tax code, 2025. *Academy of Marketing Studies Journal, 29*(5), 1-14.

Purpose and Features, n.d.). However, this unification comes with trade-offs. Critics have pointed out that the removal of indexation may lead to a distortion of investment behaviour, especially among middle-class investors who rely on the long-term accumulation of wealth for retirement planning. These changes might force investors to reallocate their portfolios—potentially shifting away from assets that were previously attractive on a tax-advantaged basis (Income Tax Act 1961 vs. Direct Tax Code, n.d.).

In relation to long-term financial assets, recent proposals suggest a revised tax rate of 12.5%, a reduction from the existing rate of 20% stipulated in the Income Tax Act, 1961. However, this proposed reduction necessitates the removal of the indexation benefit. The indexation mechanism, which adjusts an asset's purchase cost for inflationary effects, plays a crucial role in decreasing the taxable gain and minimising the resultant tax liability. Absent indexation, taxpayers are likely to incur increased effective tax liabilities on assets that are retained over prolonged periods, particularly in contexts marked by inflation, wherein the value of currency diminishes over time (Direct Tax Code 2025: Draft PDF | Proposed Changes | Implementation Date, n.d.).

This alteration regarding the indexation of long-term capital gains signifies a substantial transformation in tax policy. The system of indexation functions to alleviate the adverse effects of inflation, ensuring that taxation is levied solely on real gains that surpass inflationary increments. Consequently, this removal may lead to a distortion in the taxation landscape, disproportionately impacting long-term investors as they encounter increased tax burdens on nominal gains. Its absence may lead to taxation on nominal gains, which do not reflect the actual profit earned (Direct Tax Code – Background, Definition, Purpose and Features, n.d.). This is particularly impactful in high-inflation economies like India, where the real value of long-term investments can erode significantly over time.

The proposed changes aim to simplify capital gains taxation by consolidating income sources under one framework. However, the increase in short-term tax rates could deter speculative investments, while the removal of indexation for long-term gains might discourage holding investments for extended periods. These shifts are expected to impact investment behaviour, especially in asset classes like equity, real estate, and bonds, where capital appreciation is a primary source of returns (Income Tax Act 1961 vs. Direct Tax Code, n.d.).

Short Term Capital Gains

Table 3

UNDER THE PROPOSED DIRECT TAX CODE, GAINS FROM LAND, BUILDINGS, AND UNLISTED SHARES ARE TREATED AS SHORT-TERM IF HELD FOR LESS THAN TWO YEARS, WITH THE TAX DETERMINED BY YOUR SLAB RATE. FOR LISTED SHARES, A SALE WITHIN ONE YEAR ATTRACTS A FLAT 20% TAX (COMPARED TO 10% UNDER THE CURRENT LAW). SPECIFIED MUTUAL FUNDS ARE TAXED BY THE APPLICABLE INCOME TAX SLAB, REGARDLESS OF HOLDING PERIOD. FOR OTHER CAPITAL ASSETS, THE SHORT-TERM PERIOD IS SET AT TWO YEARS UNDER THE PROPOSED DTC, WHEREAS THE INCOME TAX ACT CONSIDERS ASSETS HELD FOR LESS THAN THREE YEARS AS SHORT-TERM

Particulars	Proposed Direct Tax Code		Income Tax Act, 1961	
	Holding Period	Tax Rates	Holding Period	Tax Rates
Land & Building	Less than 2 years	Tax Slab	Less than 2 years	Tax Slab
Unlisted Shares	Less than 2 years	Tax Slab	Less than 2 years	Tax Slab
Listed Shares	Less than 1 years	20%	Less than 1 years	10%
Specified Mutual Funds	Not Applicable	Tax Slab	Not Applicable	Tax Slab
Any other Capital Asset	Less than 2 years	Tax Slab	Less than 3 years	Tax Slab

Citation Information: Das, R., Swaroop, M., Tibrewal, A., Mazumdar, R., & Tyagi, B. (2025). India's direct tax evolution: A journey from the income tax act, 1961 to the proposed direct tax code, 2025. *Academy of Marketing Studies Journal, 29*(5), 1-14.

Long Term Capital Gains

Table 4
UNDER THE PROPOSED DIRECT TAX CODE, LONG-TERM GAINS ON LAND, BUILDINGS, AND UNLISTED SHARES (HELD FOR MORE THAN 2 YEARS) ARE TAXED AT A FLAT RATE OF 12.5% WITHOUT INDEXATION BENEFITS, COMPARED TO A 20% RATE WITH INDEXATION UNDER THE INCOME TAX ACT. FOR LISTED SHARES HELD OVER 1 YEAR, GAINS EXCEEDING RS.1.25 LAKH IS TAXED AT 12.5%, WHILE THE CURRENT LAW TAXES GAINS ABOVE RS.1 LAKH AT 10%. ADDITIONALLY, OTHER CAPITAL ASSETS ARE TREATED AS LONG-TERM IF HELD FOR MORE THAN 2 YEARS UNDER THE NEW CODE (VERSUS 3 YEARS UNDER THE CURRENT LAW), ALSO AT A 12.5% RATE WITHOUT INDEXATION, INSTEAD OF 20% WITH INDEXATION

Particulars	**Proposed Direct Tax Code**		**Income Tax Act, 1961**	
	Holding Period	**Tax Rates**	**Holding Period**	**Tax Rates**
Land & Building	More than 2 years	12.5% with no Indexation Benefit.	More than 2 years	20% with Indexation Benefit.
Unlisted Shares	More than 2 years	12.5% with no Indexation Benefit.	More than 2 years	20% with Indexation Benefit.
Listed Shares	More than 1 years	12.5% on exceeding Rs.1.25L	More than 1 years	10% on exceeding Rs.1L
Any other Capital Asset	More than 2 years	12.5% with no Indexation Benefit.	More than 3 years	20% with Indexation Benefit.

Elimination of Deductions and Exemptions under the Proposed Direct Tax Code: Implications for Taxpayers and the Economy

The Income Tax Act, 1961, offers a broad spectrum of deductions and exemptions aimed at incentivising individuals and businesses to engage in specific economic activities, such as saving, investing, and contributing to the welfare of society (Income Tax Act 1961 vs. Direct Tax Code, n.d.). These provisions have become integral to the tax planning strategies of both individuals and corporations. For instance, Section 80C offers investment-based deductions, allowing individuals to claim up to ₹1.5 lakh for contributions to schemes such as Public Provident Fund, Employee Provident Fund, National Savings Certificates, and Equity-Linked Savings Schemes (ClearTax). The provisions outlined in Section 80D, Section 80E, Section 32 and Section 24(b) of the Income Tax Act establish frameworks for various tax deductions. Specifically, Section 80D facilitates deductions pertaining to health insurance premiums, while Section 80E allows for interest deductions on education loans. Section 24(b), renders deductions available for interest payments associated with home loans, thereby providing financial relief to homeowners (Income Tax Department).

In addition to these specific sections, individuals are permitted to claim multiple exemptions related to salary components, which encompass House Rent Allowance, Leave Travel Allowance, along with other travel or relocation allowances. Moreover, Section 54 stipulates exemptions on capital gains that arise from reinvestment in residential property (Income Tax Act 1961 vs. Direct Tax Code, n.d.). The Income Tax Act differentiates between long-term and short-term capital gains, with the former typically subjected to lower tax rates, a measure designed to encourage continuous investment (NDTV, 2023).

Citation Information: Das, R., Swaroop, M., Tibrewal, A., Mazumdar, R., & Tyagi, B. (2025). India's direct tax evolution: A journey from the income tax act, 1961 to the proposed direct tax code, 2025. *Academy of Marketing Studies Journal, 29*(5), 1-14.

Corporate entities also stand to gain from a variety of tax deductions. Such benefits may include deductions for targeted investments, as well as research and development expenses recognised under Section 35. Furthermore, tax holidays are available for startups and businesses operating in Special Economic Zones, creating an environment conducive to business development (Direct Tax Code 2025: Draft PDF | Proposed Changes | Implementation Date, n.d.).

In contrast, the proposed Direct Tax Code aims to streamline the existing tax structure by abolishing numerous deductions and exemptions. This initiative seeks to foster a more transparent and less convoluted tax environment, which, despite its potential for clarity, may concurrently diminish the financial incentives that individuals and corporations currently derive from the Income Tax Act (Corporate Tax Concessions in India, 2025). For example, the proposed repeal of Section 80C deductions could disincentivise investment in long-term savings vehicles such as Public Provident Fund or Equity Linked Saving Scheme, which are commonly utilised for wealth accumulation and retirement planning. Moreover, the elimination of deductions associated with housing may deter homeownership and have adverse effects on the real estate market, potentially leading to a decline in the number of individuals obtaining home loans (Direct Tax Code 2025: Draft PDF | Proposed Changes | Implementation Date, n.d.; Income Tax Act 1961 vs. Direct Tax Code, n.d.).

From a corporate standpoint, the diminishing or abolition of tax incentives related to R&D and startups may result in decreased investment in innovation and entrepreneurial ventures. Tax holidays for businesses in SEZs and startups have played a pivotal role in fostering economic growth and job creation, and the elimination of these provisions could dampen the growth prospects of emerging industries (Corporate Tax Concessions in India, 2025). Moreover, the proposed changes could result in a less favourable environment for businesses seeking to reinvest their profits or attract investment into key sectors of the economy (Direct Tax Code 2025: Draft PDF | Proposed Changes | Implementation Date, n.d.).

The implications of these changes are far-reaching and have significant relevance for research. The removal of such a broad range of deductions and exemptions could influence individual and corporate behaviour, shaping decisions around savings, investments, and business expansion. In the process of developing these explorations, however, one aspect will need to be specified; it is the trade-off between the simplicity of the tax system as such and the economic incentives that encourage savings, investments or innovations. It is also important to evaluate how these reforms would change on income distribution, whereby rich people would perhaps take less advantage of tax saving instruments, while poorer ones may struggle more to use private savings alongside insurance plans, which do not have such certain provisions (Income Tax Act 1961 vs. Direct Tax Code, n.d.).

Within the context of the article, these aspects are quite fair since they concern the trade-off which is intended to minimise the tax burden and that aimed at providing encouragement for certain economic activities. This change may play vital roles in one’s financial planning, the process of wealth creation, the development of companies, and even in the economic policies of a country. A systematic analysis might also investigate the effects of such removals on savings levels, investment policies, climate for business in general and on all these indicators in terms of budgetary returns as well as the uneven distribution of income. Ultimately, understanding these changes will be key to evaluating the effectiveness of the DTC in promoting a fair and efficient tax system.

The Conclusive Analysis

Citation Information: Das, R., Swaroop, M., Tibrewal, A., Mazumdar, R., & Tyagi, B. (2025). India’s direct tax evolution: A journey from the income tax act, 1961 to the proposed direct tax code, 2025. *Academy of Marketing Studies Journal, 29*(5), 1-14.

The existing Income Tax Act, 1961 has served as the foundation of India's taxation system for over six decades. Despite its difficulties and evolving amendments, it has played a vital role in shaping the country's fiscal landscape. With its complicated approach to income classification, deductions, exemptions, and tax slabs, the Income Tax Act has offered both taxpayers and businesses a structured yet nuanced framework. However, this structure has also led to growing concerns over its difficult compliance procedures, with taxpayers struggling to navigate its numerous provisions and clauses, resulting in increased administrative burdens and opportunities for tax avoidance.

The proposed Direct Tax Code 2025 promises to address these issues by make simpler the tax framework, standardising procedures, and reducing the complexity of the existing system. Through the elimination of redundant exemptions, rationalisation of tax rates, and the reorganisation of income categories, the DTC aims to enhance clarity and ease compliance for both individuals and corporations. Simplified classifications, reduced deductions, and a unified approach to corporate taxation are expected to provide greater transparency and minimise uncertainties in the tax structure.

Furthermore, the proposed DTC mainly focus on digitalisation and modernised actions may overlook the deep-seated issues of tax evasion, compliance enforcement, and a lack of understanding among taxpayers in lower-income brackets. While the purports to relieve taxpayers in those groups, the abolition of these exemptions seems to worsen the tax burden of taxpayers in these groups as they rely on this provision to reduce their tax liability. In other words, while the DTC 2025 proposes some changes that can be construed as improvements in the adoption of simplification and transparency, it is important to note that some of the reforms may not, as indeed very often happens, yield the benefits that are expected for the wider population. In this way, the aspiration of the taxpayer to have a simpler system that is fair for all may turn out to be just that – a hope and not a reality that all can experience.

In conclusion, even though most of the proposed features of the Direct Tax Code are much-needed ones to evolve the present tax architecture of India into a more contemporary one, they need to be appreciated with caution. To achieve the desired level of compliance and push for greater digitalisation, the government appears to have merely dressed up the same processes while contextually ignoring deep-rooted systemic issues. Importantly, if the goal is to fundamentally change the current tax landscape and not simply change the superficial rhetoric, there is a need to have a more comprehensive understanding of taxpayer expectations, regional factors and the social and economic dimensions of such changes. In the absence of these considerations, the DTC will be interpreted as a mere iteration of earlier ones with little changes and does not achieve the entire purpose of a simplified and equitable tax structure.

REFERENCES

Ahmad, E., & Poddar, S. (2009). GST reforms and intergovernmental considerations in India.

Banerjea, P. (1930). *A history of Indian taxation* (1st ed.). Macmillan and Co.

Bhatia, C. P. (2023, July 28). Taxation and taxation administration as depicted in ancient Indian texts. *TaxGuru*. Retrieved from https://taxguru.in/income-tax/taxation-tax-administration-depicted-ancient-indian-texts.html

Central Board of Direct Taxes. (2018). *Goods and services tax (GST)—concept & status*.

Corporate Tax Concessions in India, 2025. (2025). *Corporate tax concessions in India: A detailed analysis of recent reforms*. Retrieved from https://www.example.com/corporate-tax-concessions-2025

Direct tax code – background, definition, purpose and features. (n.d.). Retrieved November 24, 2024, from https://testbook.com/ias-

Citation Information: Das, R., Swaroop, M., Tibrewal, A., Mazumdar, R., & Tyagi, B. (2025). India’s direct tax evolution: A journey from the income tax act, 1961 to the proposed direct tax code, 2025. *Academy of Marketing Studies Journal, 29*(5), 1-14.

preparation/directtaxcode#:~:text=In%202010%2C%20The%20Direct%20Tax,created%20after%20the%20committee%20report

Direct tax code 2025: Draft PDF | Proposed changes | implementation date. (n.d.). Retrieved November 26, 2024, from https://www.bgonline.in/Default/Blog?CCode=668

Income Tax Act 1961 vs. Direct Tax Code. (n.d.). Retrieved November 20, 2024, from https://tax2win.in/guide/income-tax-act-1961-vs-direct-tax-code

Income Tax Department. (1922). *Indian Income-Tax Act, 1922*. Government of India. Retrieved March 8, 2025, from https://incometaxindia.gov.in/pages/acts/income-tax-act-1922.aspx

Income Tax Department. (n.d.-a). *History of direct taxation*. Income Tax India. Retrieved April 30, 2025, from https://incometaxindia.gov.in/pages/about-us/history-of-direct-taxation.aspx#:~:text=There%20are%20references%20both%20in,and%20expenditure%20of%20the%20subjet

Kansal, C., Subramanian, M. K., & Singh, V. (2017). The English East India Company: Strategic choices and evolution. *Tejas, Indian Institute of Management Bangalore.* Retrieved March 10, 2025, from https://tejas.iimb.ac.in/articles/East%20India_Tejas_Mar17.pdf

Kelkar, V. (2004). *Report of the Kelkar Committee on Direct Taxes*. Department of Economic Affairs, Government of India. Retrieved March 22, 2025, from https://dea.gov.in/sites/default/files/Kelkar_Committee_Report.pdf

NDTV. (2023). What is Direct Tax Code and how it is different from Income Tax Act, 1961. *NDTV*. Retrieved April 30, 2025, from https://www.ndtv.com/business-news/what-is-direct-tax-code-and-how-it-is-different-from-income-tax-act-1961-7594888

Nogues-Marco, P. (2020). Measuring colonial extraction: The East India Company’s rule and the drain of wealth (1757–1858).

Ojha, S., & Agarwala, A. K. (2024). A brief insight into the introduction of a new tax regime in India. *International Journal of Economics and Financial Issues, 14*(5), 92–101.

Pagar, S.M. (1920). *The Indian income tax: Its history, theory, and practice*. Lakshmi Vilas P Press.

Prasad, K.D. (1987). Taxation in ancient India: From the earliest times up to the Guptas. Mittal Publications.

Rathi, A. K. (n.d.). *Important aspects of DTC*. Retrieved December 12, 2024, from https://nagpuricai.org/seminar-presentations/Tax_Awareness_Programme.pdf

Received: 12-May-2025, Manuscript No. AMSJ-25-15925; **Editor assigned:** 13-May-2025, PreQC No. AMSJ-25-15925(PQ); **Reviewed:** 31-May-2025, QC No. AMSJ-25-15925; **Revised:** 24-Jun-2025, Manuscript No. AMSJ-25-15925(R); **Published:** 07-Jul-2025

Citation Information: Das, R., Swaroop, M., Tibrewal, A., Mazumdar, R., & Tyagi, B. (2025). India’s direct tax evolution: A journey from the income tax act, 1961 to the proposed direct tax code, 2025. *Academy of Marketing Studies Journal, 29*(5), 1-14.