

## India's fiscal transition: An analytical review of the Income Tax Act, 2025, and its global alignment

Dr. Prashant Singh <sup>1</sup>, Sejal Jaiswal <sup>2</sup>, and Ritesh Patel <sup>3</sup>

<sup>1</sup> Assistant Professor, Department of Commerce, University of Lucknow, Lucknow  
Email: [prashant983singh@gmail.com](mailto:prashant983singh@gmail.com), <https://orcid.org/0009-0009-6422-8294>

<sup>2</sup> Research Scholar, Department of Commerce, University of Lucknow, Lucknow  
Email: [rs2024comm\\_sejal@lkouniv.ac.in](mailto:rs2024comm_sejal@lkouniv.ac.in) / [sejaljaiswal202@gmail.com](mailto:sejaljaiswal202@gmail.com), <https://orcid.org/0009-0009-4259-5106>

<sup>3</sup> Research Scholar, Department of Commerce, University of Lucknow, Lucknow  
Email: [rs2024comm\\_riteshpatel@lkouniv.ac.in](mailto:rs2024comm_riteshpatel@lkouniv.ac.in) / [riteshav13@gmail.com](mailto:riteshav13@gmail.com)  
<https://orcid.org/0009-0001-8766-5704>

**Abstract---**India's Income-tax Act, 2025, came into effect from April 1, 2026, and represents the most comprehensive overhaul of the country's direct tax framework since independence. This paper systematically analyses India's new income tax statute against the direct taxation regimes of the United States Internal Revenue Code, 1986; the United Kingdom Income Tax Act, 2007; the Income Tax (Trading and Other Income) Act, 2005; and Australia's Income Tax Assessment Acts, 1936 and 1997. The study analyses India's taxation regime against those of these countries across dimensions, including legislative structure, tax year and residency framework, personal income tax slabs and rates, administration and e-governance, anti-avoidance mechanisms, dispute resolution systems, Tax-to-GDP ratios, and reform philosophies. Key findings reveal that, while developed nations have mature, stable, and institutionally embedded tax frameworks with high Tax-to-GDP ratios (averaging 34.1% across OECD members in 2024, compared with India's approximately 11.7%), India's 2025 Act strategically incorporates best-practice features from each comparator country. The UK's plain-language restatement experience, Australia's digital-first compliance architecture, and the USA's codified anti-avoidance framework all resonate in the design of India's 2025 Act. The study identifies lessons India can draw from these comparators for implementation and highlights areas such as tax base width, federal-state coordination, and privacy safeguards that require further reform.

**Keywords---**Income Tax Act, 2025, India, OECD, US, UK, Australia.

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## Introduction

From April 1, 2026, the Income Tax Act, 2025, came into force in India, replacing the decades-old Income Tax Act, 1961, to modernise India's direct tax framework by simplifying its provisions, integrating digital processes, and aligning it with global standards. The Act adopts a modern approach, using tables, formulas, and examples to clarify the provisions, enabling taxpayers to understand them and shift their behaviour from avoidance or confusion to voluntary compliance (*PIB, 2025*).

In July 2024, Finance Minister Nirmala Sitaraman put forth the government's intent to overhaul the Income-tax Act, 1961, to simplify the Act's language, reduce disputes, and replace outdated provisions with modernising ones to ensure alignment with top global taxation practices and domestic aspirations. For achieving this or for reviewing the act, the Central Board of Direct Taxes constitutes the departmental committee, which, through consultations and brainstorming sessions, actively engages with the industrial bodies, professional associations, and field officers of the tax department and also draws insights from international best practices, including tax reforms of the UK and Australia, to streamline the law structurally (*PIB, 2025*).

The study aims to systematically examine India's 2025 Act against the direct taxation framework of the United States of America, the United Kingdom and Australia. These three were selected because the United States of America has a distinct federal-versus-unitary, codified-versus-statute-based, citizenship-based-versus-residency-based direct tax structure, and the CBDT explicitly mentioned drawing on UK and Australian taxation reforms in India's 2025 Acts. The study outlined what India has accomplished under the 2025 Act and the remaining developmental gap.

The OECD's Revenue Statistics 2025 shows that the OECD average tax-to-GDP ratio reached 34.1% in 2024, while India's tax-to-GDP ratio, at approximately 11.7%, remains significantly below this benchmark (*OECD, 2025*), underscoring that legislative reform is necessary but not sufficient on its own for the nation's fiscal transformation. Understanding how developed economies achieved their fiscal depth through what legislative designs, administrative systems, and compliance cultures is essential for India's policy trajectory.

## Background

Income tax is a direct tax levied by the government to make money for the public welfare by lying the burden on individual shoulders or it is a system where individuals and entities contribute a portion of their yearly earnings to the federal authorities (in India by Central Board of Direct taxes) of the government, which, in turn, utilizes these funds for various public expenditures such as upgrading public infrastructure, public services, social welfare initiatives, etc. Income Tax is a tax levied on individuals' earnings; those who earn more than a specified limit are obliged to file an income tax return to maintain tax compliance (*Puttaswamy, 2018*).

The fiscal trajectory of any country is shaped by taxation, including income taxation, which incorporates principles of fairness, efficiency, equity, social justice, and economic growth. Revenue collected from income taxation is carefully allotted to the national military, healthcare, education and all other public services, which follow the nation's as well as its citizens' growth and development. However, the purpose of income tax is not only to make money, but its purpose goes beyond by transferring the burden from those who have less to those who have more wealth, promoting social equality. Through income tax, the government redistributes wealth and addresses income inequality by implementing progressive tax rates in which rates increase with the rise in the income of the individual, that requires individuals and corporations with higher income to pay a larger share of their income as a tax thus contributing to the nation's growth and development (*Swaasa & Harsha, 2024*).

In India, for addressing the financial crisis following the 1857 revolt, Sir James Wilson introduced the concept of Income Tax in 1860, which was amended several times thereafter to make it compatible with the economic condition of the country. After Independence, the Income Tax Act of 1961, along with the Income Tax Rule of 1962, came into existence replacing the earlier legislation and turned into the foundational legislation that governs the income taxation in India for years (Nikam, 2025). The Income Tax Act, 1961, was formed during the period of planned economic development and was built according to the socio-economic conditions of that era, but today it is not ideal in a globally liberalised, digitalised and integrated economy. Over six decades, the act governs the direct taxation of India, and in this time to address the contemporary issues of the time, it undergoes approximately 4000 amendments through annual finance acts or separate taxation law Amendment Bills, which makes it a complex legislative structure having too many parts, contradictory language, redundant clauses, and vagueness in the procedural formalities imposing high administrative costs on the government and tax payers, encouraging litigation over compliance (Karuna, 2025).

The Central Board of Direct Taxes (CBDT) established an Internal Departmental Committee that conducts a thorough review of the 1961 Act, drawing on international best practices, including tax reforms in the United Kingdom's Tax Law Rewrite Project and Australia's tax simplification measures to simplify or streamline tax legislation, reduce disputes and eliminate outdated provisions (PIB, 2025). The committee actively engaged with stakeholders, industry bodies, professional associations and field officers of the tax department through consultations and brainstorming sessions and directed by the three foundational principles: (i) textual and structural simplification for improved clarity and coherence; (ii) no major tax policy changes to ensure continuity; and (iii) no modifications to tax rates, preserving predictability for taxpayers (PIB, 2025).

It marks a new beginning to modernise the Direct Tax System of India. The Income Tax Act 2025 was enacted and became operational across India from April 1<sup>st</sup> 2026, with the aim of simplifying and streamlining tax legislation, making it more accessible, transparent, and less prone to litigation. The Act adopts simplified language and restructures the provisions logically to reduce confusion and improve voluntary tax compliance. The Act gives clear definitions and harmonised assessment timelines, aligning with global best practices, improving the Ease of Doing Business, fostering a trust-based tax environment, and minimising disputes (OECD, 2025).

### **Income Tax Act, 1961**

The Income Tax Act 1961, which came into effect on April 1st 1962, replaced the Income Tax Act 1922 as the governing direct tax statute in India. The Income Tax Act, 1961 governs the levy, computation, assessment, collection, and recovery of income tax in the country. The Act operates along with the Income Tax Rules, 1962, and the annually enacted Finance Acts, which update the rates and make amendments. (History of Direct Taxation, 2026).

The Act applies to all "persons" defined under section 2(31), including individuals, Hindu undivided families, firms, companies, associations, etc., but in practice provides the core framework for the personal income taxation of resident and non-resident individuals. Section 4 (Charge of income-tax) and section 5 (Scope of total income) specify that, for residents, global income is taxable, while for non-residents only income that accrues/arises in India or is received/deemed to be received in India is taxed; simplified explanations for taxpayers emphasise that residents are taxed on "global income" whereas non-residents are taxed only on Indian-source income (The Income Tax Act 1961, 2026).

Chapter IV of the act mentioned the computation structure of the Income tax, which is under five classical heads, mainly Income from Salaries, House Property, Profits and Gains from Business or Profession, Capital Gains, and Other Sources and sections 80C-80U of Chapter VI-A mention the deductions of to be deducted from the Gross Total Income (The Income Tax Act 1961, 2026).

Personal Income Tax Rates, Surcharges and cess are not dealt with in the Act; rather, all these are included in the annual Finance Acts that explain India has a progressive tax system with rates including 0%, 5%, 10%, 15%, 20%, 25%, 30% for the FY 2025-26.

The Income Tax Administration in India has digitalised rapidly during the last 10 years, integrating an e-filing platform that provides services like PAN administration, return filing, E-verification, E-Assessment and refund management. The Income Tax department utilises data analytics and artificial intelligence to monitor taxpayer behaviour, track online activity, identify high-value transactions, screen suspect PANs, and construct comprehensive taxpayer profiles to detect tax evasion ([Ahirwar & Shrivastava, 2025](#)).

In recent years, formalisation of the economy and thriving tax collections results in the rising tax-to-GDP ratio of the India that was once below many peer economies. For the year 2026-27, the Budgeted Estimates expects tax revenue collection at 11.2% of GDP reflecting strong buoyancy in both direct and indirect taxes ([Bhasin et al., 2026](#)).

### ***Internal Revenue Code (IRC), 1986***

The Internal Revenue Code (IRC), 1986 is the core federal law that governs the tax statute of the United States formed by the Tax Reform Act of 1986 organised as Title 26 of the United States Code. The IRC 1986 is the result of the heavy amendment in the 1954 code by the Tax Reform Act 1986 changing substantive provisions while retaining the same basic numbering and structural scheme in the Code. The tax statute of the United States is considered as one of the most complex tax statute of the world including approximately 9000 sections extending to subsections including income tax, excise taxes, payroll taxes, estate and gift taxes and procedures ([Hoppe et al., 2023](#)) (U.S. Code: Title 26 — INTERNAL REVENUE CODE) ([US Census Bureau, 2023](#)).

The defining feature of the US system is its federal-state dual layering, on the one side where the Internal Revenue Service (IRS), a bureau of the Department of the Treasury, administers and enforces the Internal Revenue Code (IRC) that governs the federal income tax on the other hand each state levies its own income tax independently, producing a multiplicity of tax obligations for citizens and businesses ([Tax Code, Regulations and Official Guidance | Internal Revenue Service, 2025](#)). The unique feature of the US tax system is its citizenship-based taxation rather than residency-based taxation, which implies that US citizens and permanent residents are taxed on their worldwide income regardless of where they live. Based on the information they provide, and withholding at source, some exclusions and foreign tax credits are available to the citizens. The standard deduction of USD 15,000 for singles and USD 30,000 for couples filing jointly applies for the year 2025 ([Kurt Van Dender et al., 2024](#)).

In US, the progressive federal income tax under subtitle A of section 1 with tax brackets including 10%, 12%, 22%, 24%, 32%, 35% and 37% is imposed on the taxable income of the individuals, estates and trusts as of 2025. The current income tax structure of the US is the result of the numerous amendments in the act of 1986 that reduce the number of tax brackets, decrease top rates and increase the tax base by limiting deductions and preferences ([Federal Income Tax Rates and Brackets | Internal Revenue Service, 2026](#)).

In April 2025, the IRS launched the Zero Paper Initiative to align with the global trend of “digital first” tax system that integrates refined data in the tax administration, utilise digital identity and digitalise the processing of tax returns, correspondence and information systems. Cybersecurity is the main concern of the initiative offers secure online account registration, additional direct file options and improved e-filing for small businesses ([Tengsdal, 2026; Internal Revenue Service, 2023](#)).

### ***Income Tax Acts (2007 / ITTOIA 2005)***

The Tax Law Rewrite Project (1996-2010) rewrites the UK's income tax framework that includes the Income Tax (Earnings and Pensions) Act 2003 (ITEPA 2003), the Income Tax (Trading and Other Income) Act 2005 (ITTOIA 2005), and the Income Tax Act 2007 (ITA 2007) (Ipsos MORI, 2011). The ITTOIA 2005 includes rules on trading income, property income, savings and investment income, and miscellaneous income (Income Tax (Trading and Other Income) Act 2005); the ITEPA 2003 includes employment, pension, and social security income (Income Tax (Earnings and Pensions) Act 2003) and most importantly, the Income Tax Act 2007 is the primary act of Parliament concerning Income tax paid by individual earners, restating minor changes and certain enactments relating to income tax (Income tax Act 2007). The Income Tax Act 2007 aims to streamline the structure of income-tax legislation. It is structured into 17 logical Parts and Chapters to improve accessibility and clarity, with Part 2 containing basic provisions on the annual nature of income tax, rates, and calculation of liability, and other parts dealing with reliefs, losses, charitable reliefs, and administrative matters (HMRC, 2007).

The UK's income tax year is one of the world's unusual tax years that runs from 6 April to 5 April. The UK's personal income tax is a progressive tax levied on total income from various sources (employment, trading, property, savings, dividends, etc.) with marginal rates of 20%, 40% on income above £50,271 to income up to £125,140 and 45% on income above £125,140 as of 2025-26 along with this personal allowance of £12,570 is also provided which is withdrawn on incomes above £100,000 and separate usually lower rates are also there for dividends (Government Digital Service, 2024). For the tax year, after allowing the personal allowance and various reliefs, the income tax is levied on the total taxable income of the individual, mainly through Pay As You Earn (PAYE), self-assessment and deduction at source (Heeden et al., 1998).

Her Majesty's Revenue and Customs (HMRC) implemented the "Making Tax Digital (MTD)" initiative to digitalise the taxation system of the UK (HMRC, 2007) that requires individuals to keep digital records of their income, utilise appropriate software to inform about their income and expenses quarterly and submit their final report of taxable income utilising the software before 31<sup>st</sup> January of the following tax year. The initiative transforms the record-keeping and reporting of the income tax from paper-based annual return filing to digitally filing the return, thus increasing the expenses on the digital systems substantially (Customs, 2025). These spending positions HMRC as a digital-first tax administration by the mid-2020s, with self-assessment and agent-facing systems increasingly integrated and data-driven (Ipsos MORI, 2011).

### ***Income Tax Assessment Acts (1936 & 1997)***

In Australia, income tax is calculated under the Income Tax Assessment Act 1936 (ITAA 1936), which contains older provisions still in force, along with provisions to simplify and modernise the assessment rules. The Tax Law Improvement Project rewrote the act into plain English, resulting in the Income Tax Assessment Act 1997 (Department of the Treasury, 2006). Both Acts of 1936 and 1997 work together on the new income tax matters; and are the main Commonwealth laws along with the Fringe Benefits Tax Assessment Act, 1986 governing the payment of income tax by individuals and corporations as per the University of Melbourne's taxation law handbook (Webadmin, 2012)(Library Guides: Australian Taxation Law: Legislation, 2026).

In Australia, the income tax year runs from 1 July to 30 June and is levied on the worldwide income of the residents and Australian-source income of the non-residents, with key concepts like assessable income, deductions, etc., covered under the 1997 Act and residual provisions under the 1936 Act (Australian Taxation Office, 2026). Australian Income Tax is a progressive tax structure with tax rates including 0% on income below AUD 18,200; 16 % on income ranging from AUD 18,201 to AUD

45,000; 30 % on income ranging from AUD 45,001 to AUD 135,000, 37 % on income ranging from AUD 135,001 to AUD 190,000 and 45% on income ranging above AUD 190,000 for residents as well as separate scales for non-residents and medicare levy of 2% on the taxable income for a dedicated health funding mechanism (Australian Taxation Office, 2026).

Tax administration of Australia is considered one of the most technologically advanced tax administrations (Beresford et al., 2025), with services such as pre-filled returns and electronic lodgement provided through the myGov platform by the Australian Taxation Office (ATO). The Single Touch Payroll (STP) system of the Australian Taxation Office (ATO) requires that employers report the payroll information to the ATO each pay cycle, enabling real-time monitoring of wage income. The ATO is expanding data-driven compliance and digital services, including automation and AI to move towards the global move of digital-first administration.

### Research Objectives

The Income-Tax Act, 2025, is a major step of the Government of India towards creating Viksit Bharat@2047 (Singh et al., 2026) with a focus on modernising India's tax framework by adopting best practices from other jurisdictions. The legislative process included consultations to align the Indian tax system with contemporary global standards. The Act aligns Indian regulations with the global digital economy, drawing on initiatives such as the Base Erosion and Profit Shifting (BEPS) framework, which was updated by 861 member jurisdictions, including India, at the start of 2025. The study aims to

- To examine what ideas or provisions the Income-Tax Act, 2025, has in common with the US, UK and Australia's direct tax frameworks
- To analyse the digital integration of the Income-Tax Act, 2025, that reflects international practices in tax administration.
- To assess whether these imported design features improve simplicity, certainty, and ease of compliance for Indian taxpayers across different segments.
- To identify any suggestions or lessons for India to adapt, to better align them with India's institutional capacity and socio-economic realities

### Research Methodology

The study is qualitative in nature, uses a descriptive-analytical research design for analysing the Income Tax Act, 2025 against the direct taxation regimes of the United States Internal Revenue Code, 1986; the United Kingdom Income Tax Act, 2007; the Income Tax (Trading and Other Income) Act, 2005; and Australia's Income Tax Assessment Acts, 1936 and 1997. The study is based on secondary data from Authoritative sources such as the Bare Acts, official guidance from tax administrations, budget documents, Economic Surveys and international reports (OECD, IMF, World Bank), which are purposively sampled, along with peer-reviewed articles and professional policy papers on tax reform, digital tax administration and digital-asset taxation.

A thematic content analysis approach is employed to identify key provisions adopted in India's Income-tax Act of 2025 from the direct taxation frameworks of the US, the UK, and Australia. The study analyses India's taxation regime against those of these countries across nine dimensions: legislative structure and complexity, tax year and residency framework, personal income tax slabs and rates, corporate tax architecture, digital administration and e-governance, anti-avoidance mechanisms, dispute resolution systems, tax-to-GDP ratios, and reform philosophies.

### Income Tax-Act, 2025

The Income Tax Bill, 2025, was passed by Parliament on 21st August, 2025, becoming the act that governs India's direct tax framework, replacing the decades-old Income Tax Act, 1961, along with the

Income Tax Rules, 2026 ([The Income-Tax \(No.2\) Bill, 2025, 2026](#)). The main aim of the act is to simplify the structure of the law, reduce errors, disputes, and compliance costs, and facilitate digital integration in the tax administration, shifting behaviour from avoidance or confusion to voluntary compliance and global alignment. The act consolidates 819 sections into 536 sections; 47 chapters into 23 chapters; 5.12 lakh words into 2.6 lakh words; and incorporates 14 new tables to explain provisions more clearly, making the act less ambiguous and easier for taxpayers to understand, thereby ensuring their voluntary compliance ([Income-tax Act, 2025, 2026; PIB, 2025](#)).

The legislation is S.I.M.P.L.E. (streamlined structure and law; integrated and concise; aims to minimise litigation; practical and transparent; learn and adapt; efficient tax reforms). The act utilises a modern approach, using tables, formulas, and examples to simplify the complex provisions of the old act and make them less ambiguous and more accessible to all taxpayers.

The act reflects M.A.N.A.V. (Moral and Ethical Systems, Accountable Governance, National Sovereignty, Accessible and Inclusive AI, and Valid and Legitimate Systems), a human-centric vision of Prime Minister Narendra Modi unveiled at the India AI Impact Summit 2026 ([M.A.N.A.V., 2026](#)). It integrates digitalisation into tax administration to support e-filing, digital record-keeping, faceless assessments, better information reporting, reduce evasion, and make compliance the natural choice for taxpayers.

Key Structural changes made in the Income-Tax Act, 2025 are:

- Removes complex language, cross-references and provisions with clearer definitions and consistent terminology
- Introduction of 'tax year' in place of 'previous year' and 'assessment year'
- Empowers the central government to frame schemes to improve efficiency, transparency and accountability in tax administration
- Consolidations of common or similar provisions into one section
- Reorganises deductions and consolidates them into simplified sections
- Supports fully digital integration through e-filing, faceless assessments, digital verification, Annual Information System Integration and automated refund processing
- Broadens the scope of Virtual Digital Assets
- Simplified penalty and refund rules
- Introduces a more robust and taxpayer-friendly framework for resolving disputes

The Act focuses on textual simplification, consolidation, structural reform, and administrative modernisation rather than on disruptive changes to policy, rates, or the base. These changes make the Act shorter, more logical, more digitally native, and easier to comply with than the 1961 Act, while retaining most of the substantive tax policy.

### **Comparative Analysis**

The Departmental Committee constituted for a comprehensive review of the existing act drew insights from the international best practices, including tax reforms of the UK and Australia. The following table compares the various provisions of the Income-tax Act, 2025, with the corresponding provisions in the direct tax frameworks of the US, UK, and Australia.

**Table 1.** Comparative Analysis of Income Tax, 2025; Internal Revenue Code, 1986; Income Tax Act 2007 (ITA, 2007), Income Tax (Earnings and Pensions) Act 2003 (ITEPA 2003), and the Income Tax (Trading and Other Income) Act 2005 (ITTOIA 2005) and Income Tax Assessment Act 1936 (ITAA 1936), and Income Tax Assessment Act 1997 (ITAA 1997)

FEATURE	INDIA	USA	UK	AUSTRALIA
<b>Primary statute</b>	Income-Tax Act (2025).	Internal Revenue Code, Title 26	Income Tax Act 2007 (ITA, 2007), Income Tax (Earnings and Pensions) Act 2003 (ITEPA 2003), and the Income Tax (Trading and Other Income) Act 2005 (ITTOIA 2005)	Income Tax Assessment Act 1936 (ITAA 1936), and Income Tax Assessment Act 1997 (ITAA 1997)
<b>Governing body</b>	Central Board of Direct Taxes (CBDT)	Internal Revenue Service (IRS)	Her Majesty's Revenue and Customs (HMRC)	Australian Taxation Office (ATO)
<b>Tax year</b>	Apr 1 – Mar 31	Jan 1 – Dec 31	Apr 6 – Apr 5	Jul 1 – Jun 30
<b>Tax-to-GDP ratio (2023)</b>	11.7%	27.7%	35.3%	29.5%
<b>Taxation basis</b>	Residency based	Citizenship + Residency-based	Residency based	Residency based
<b>Tax structure</b>	Progressive	Progressive	Progressive	
<b>E-filing mandate</b>	Yes	Voluntary for most, mandatory for large filers	Yes	Yes
<b>Faceless/remote assessment</b>	Yes (built into the 2025 Act)	Limited (correspondence audits)	Partial (compliance check letters)	Risk-based remote review
<b>AI/data analytics use</b>	Significant and growing (NUDGE, risk profiling)	Growing (IRS compliance analytics)	Advanced (HMRC's Connect system)	Advanced (ATO data matching)
<b>Access to digital assets / virtual spaces</b>	Yes (new provision, 2025 Act)	Yes (via court orders/subpoena)	Yes (HMRC has the power to seek digital records)	Yes (ATO has data-matching powers for crypto)
<b>General anti-avoidance rule (GAAR)</b>	Yes — Chapter X-A (preserved from 1961 Act)	Economic substance doctrine (judge-made)	GAAR was enacted in 2013	Part IVA ITAA 1936 (since 1981)
<b>Transfer pricing rules</b>	Yes — reinforced in the 2025 Act	IRC Section 482	TTOPA 2010, Part 4	Division 13 ITAA 1936
<b>Global minimum tax (pillar two)</b>	Implementing (QUTTS announced)	Under debate (not yet enacted as of 2025)	DMTT enacted from Jan 2025	QDMTT effective Jan 2024
<b>First-level appeal</b>	Commissioner	IRS Office of	HMRC internal	Objection to

FEATURE	INDIA	USA	UK	AUSTRALIA
	(Appeals) / Dispute Resolution Panel	Appeals	review	ATO
<b>Independent tribunal</b>	Income Tax Appellate Tribunal (ITAT)	US Tax Court	First-tier Tax Tribunal (FTT)	Administrative Appeals Tribunal (AAT)
<b>Advance ruling system</b>	Yes — Authority for Advance Rulings (AAR)	IRS Private Letter Rulings	HMRC non- statutory clearances	ATO private binding rulings
<b>Mandatory reasoning (2025 reform)</b>	Yes — DRP now mandated to provide reasons	Tax Court decisions provide reasons	FTT provides reasoned decisions	AAT provides reasoned decisions
<b>Alternative dispute resolution</b>	Vivad se Vishwas (scheme-based); Mediation being expanded	IRS Fast Track Settlement, Mediation	HMRC ADR program	ATO early dispute resolution

*Source:* Compiled by the Authors

It is evident from the above table that the Income-Tax Act, 2025, though drafted for India's conditions, shares several core ideas with the US, UK and Australia direct-tax frameworks, such as the single tax-year concept in place of "previous year/assessment year" that is instead of the US calendar year, the UK's one statutory tax year and Australia's Income/Financial year. The Act makes the simplified regime the default, with clear slabs and rationalised exemptions, which are the same as in the US, UK, and Australia, and reorganises and strengthens GAAR-style anti-avoidance provisions in line with these countries' general anti-avoidance/anti-abuse doctrines.

The Income-Tax Act, 2025, places strong emphasis on digital integration within the direct tax framework to reduce human intervention and corruption, in line with the IRS, HMRC, and ATO's digital strategies. The act assumes extensive use of e-filing, pre-filled returns based on TDS/TCS and other information returns, faceless processes and AI-based risk selection. It even grants tax authorities broader powers to access and analyse digital data, including VDA transactions, raising governance and privacy concerns similar to those in the US, UK, and Australia regarding data-heavy tax enforcement.

### Lessons for India

India took a significant step in simplifying the rules and procedures for Income tax filing by removing obsolete provisions and restructuring others, borrowing the right kind of structural ideas from the US/UK/Australia direct tax framework, such as:

- Redrafting the act into simple or plain language and a well-understood rule and provisions, as done in the UK's The Tax Law Rewrite Project (1996-2010)
- Digitalisation by using technology to reduce human interface to take care of the evasion and save time and money of the taxpayers, as in the UK and Australia's high levels of digitalisation with strong IT infrastructure and trained human resources.
- Limiting exemptions, special deductions and ad hoc incentives so that moderate rates on a broad base generate stable revenue and reduce distortions.
- Using GAAR and specific anti-avoidance rules to curb base erosion and profit shifting, but focus them on large, complex cases to avoid over-burdening small taxpayers.
- Building tribunal and alternative-dispute resolution mechanisms that resolve tax disputes quickly and consistently, improving perceptions of fairness and reducing litigation backlogs.

- Integrate digital-economy and virtual asset provisions into the core code as advanced systems are doing, instead of handling them only through scattered circulars.

### **The gap that remains**

Some structural gaps remain to be filled for achieving the Viksit Bharat@2047 aim:

- Despite having an adult population exceeding 900 million, only 90 million people are paying taxes, showing the large informal economy that persists in India. The legislation should create incentives for the formalisation of the economy.
- Real-time income monitoring as of Australia's Single Touch Payroll (STP) and the UK's Real Time Information (RTI) should be incorporated in the system despite the consolidation of TDS provisions.
- Like the UK's extensive pre-filing of returns from PAYE, pension and investment data, and Australia's similar capability through STP, India's Form 26 AS and Annual Information Statement (AIS) require significant improvement to reduce the compliance burden substantially for the majority of taxpayers.
- Implementing the OECD's 15% global minimum tax, the UK (from Jan 2025) and Australia (2024) have all enacted domestic top-up taxes. Still, India's implementation to achieve this requires substantial improvement to attract India as a jurisdiction for certain multinational structures.
- Digital integration requires substantial digital literacy and connectivity across regions, but despite having certain advancements, India lacks digital literacy among small, rural and marginalised taxpayers, which can be a disadvantage for them unless supported by assisted-compliance channels.

### **Discussion**

The analysis of the evolution of direct tax policy and frameworks across three jurisdictions reveals simplification of the laws, digital integration in tax administration, formalised anti-avoidance frameworks, and convergence toward OECD/BEPS standards. The Income Tax Act 2025 of India participates in these global trends, but from a lower developmental baseline in comparison to the countries compared, in terms of fiscal capacity and administrative infrastructure. The Comparison reveals that even with the superior legislative design, achieving fiscal results is difficult even for the developed economies. The Tax Law Rewrite Project alone is not responsible for the UK's 34% tax-to-GDP ratio, but along with that, six decades of high formal-sector employment, through employer reporting, institutional confidence, and social insurance incentives are also responsible for improving compliance. In the same way, Australia's 29.5% ratio is the result of both the almost complete formalisation of the employment market and the ATO's technological refinement.

The Income Tax Act 2025 is not the fiscal transformation itself, but a first legislative step towards it. The Act creates a statutory infrastructure to improve compliance by laying down provisions on TDS consolidation, faceless assessment, VDA recognition, and plain-language drafting. There's a long way to go for 20% Tax-to-GDP ratio, because that goal needs long-term changes in the behaviour of taxpayers with conducive administrative conditions. The United States of America, taken for comparison, is instructive here as the USA achieves a Tax-to-GDP ratio of about 27.07%. This Tax-to-GDP ratio is possible in the USA primarily because all formal-sector income is automatically reported by employers to the IRS. For India to accomplish its goal of a 20% Tax-to-GDP ratio, Single-Touch Payroll needs to become a medium-term policy priority.

The comparison further reveals a risk inherent in India's reform approach to the Income Tax Act 2025, which has eliminated 800+ sections and consolidated provisions. The regulatory ecosystem comprising Notifications, Circulars, and CBDT guidance will inevitably expand. This phenomenon of changes in the main law has been observed in the UK's Post-Tax Law Rewrites, showing that primary legislation

can be simplified. The responsible authorities must look for ‘Whole of System’ simplification, not merely of the Act, but in all subordinate further instruments. Australia’s experience with two parallel ITAAs serves as a cautionary chapter for India, warning against leaving transitional complexity unresolved.

## Conclusion

As India is lifting millions of Indians out of multidimensional poverty and making the Indian economy rank around 4th or 5th largest economies in the world, with an ambitious aim of becoming a developed nation by the end of 2047, the reforms in the Income Tax Act were long overdue. The journey of this growth creates an unprecedented base of new taxpayers and entrepreneurs who demand a modern direct tax structure that empowers economic participation and goals, rather than hindering them.

The study compares the Income Tax Act 2025 with the direct taxation frameworks of several developed nations, such as United States of America, United Kingdom, Germany, Australia, and Canada. The Study demonstrates that the recent reforms in the direct tax framework successfully incorporate several design features from developed-economy best practices, specifically the UK’s plain language restatement approach. The best practices adopted from Australia include a digital-first approach, a faceless assessment philosophy, and the GAAR framework. In the era of faceless assessment as a primary legislation-level commitment, the Income Tax Act 2025 arguably exceeds the statutory provisions. The experience of Australia with a partial legislative restatement carried out over decades is a cautionary parallel to India’s reform.

However, the comparative study also identifies significant developmental gaps. India’s Tax-to-GDP ratio is approximately 11.7% is roughly one-third of the OECD average of 34.1%. India’s formal tax base, that is, approximately 9 million tax filers, is disproportionately narrow compared with OECD countries. The Real-Time payroll reporting that is equivalent to Australia’s Single Touch Payroll or the UK’s Real Time Information has not been achieved yet. The implementation of the Global Minimum Tax by the OECD lags behind that of the UK and Australia, with a nascent pre-filled return capability relative to developed-economy standards.

The study helps in policy recommendations in which India must complement its landmark legislative reforms with a coordinated programme of administrative modernisation: STP-equivalent real-time payroll reporting, expanded pre-filing capabilities, comprehensive taxpayer education, and proactive training for income tax officers on the digital shift. The Income Tax Act 2025 is a stepping step, it is not sufficient on its own to close India’s fiscal gap with developed nations.

Future research should consider looking at the compliance rate improvements in the first two to three years post- implementation, the evolution of the regulatory ecosystem under the 2025 Act relative to the 1961 Act’s accumulated complexity, India’s trajectory toward Pillars Two implementation and its competitive implications and the comparative performance of India’s faceless assessment model against the ATO’s and HMRC’s risk-based compliance systems as measured by audit quality, taxpayer satisfaction and dispute volume.

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