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Comparative study of Income Tax Regimes and Salaried Taxpayers in India

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Abstract
Government of India (GOI) has announced a new tax regime in the Budget 2020 with the aim to provide an alternative method of computing income tax for individual taxpayers by eliminating deductions and exemptions available under the old tax regime. To make the new tax regime attractive among taxpayers, GOI is changing the income tax slabs and providing additional relief by allowing certain deductions under new tax regime in every budget. While New Tax Regime has a lower tax slabs, Old Tax Regime contains lots of deductions and exemptions available under the different heads. This paper aims to provide comparison between both tax regimes which will help individual taxpayers to choose the right tax regime. Also this paper has highlighted the tax awareness among the taxpayers and further provide suggestions to policymakers to make the new tax regime more attractive and beneficial.
Key Words: Income Tax Act 1961, Central Board of Direct Taxes (CBDT), New Tax Regime, Old Tax Regime, Budget 2020, Budget 2024 and Budget 2025

1. Introduction

Taxes are the main source of income of any Government – Center or State. Taxes in India are divided into two categories – Direct Taxes and Indirect Taxes. Income Tax is one of the foremost pillar of revenue of GOI which comes under Direct Tax. Income tax is governed by "The Income Tax Act 1961" and levied and collected by "Central Board of Direct Taxes" (CBDT).

It is said that Indian Income Tax Act, 1961 is very complex and also there is vast scope for tax evasion. Hence, from time to time several amendments have been made to make it an easy and simple taxation structure and also to ensure that there should not be any chance of tax evasion. One of the major tax reforms in last five years is the introduction of New Tax Regime.

1.1 Old Tax Regime

The old tax regime refers to the system of income tax calculation and slabs that existed before the introduction of the new tax regime. Under old tax regime, more than 50 allowances, exemptions and deductions are available to taxpayers. House Rent Allowance (HRA), Interest on Housing Loan, Leave Travel Allowance (LTA) are major tax deductions available to taxpayers. Apart from above, deductions under section 80C to 80U are also available to taxpayers under Chapter VI-A. All these tax exemptions and deductions plays significant role to reduce the tax burden on taxpayers and leads to lower tax payment.

One of the major headache of this regime is taxpayers have to maintain documentation with their proofs of payment/investments and they have to produce the same before income tax authorities in case of assessment proceedings. Also, taxpayers might face liquidity crunch as they have to invest their money with lock in limits as prescribed under section 80C to avail the benefits. Old tax regime can only be chosen as an option if ITR is filed before the due date i.e. 31st July.

1.2 New Tax Regime

In Budget 2020, Finance Minister Smt. Nirmala Sitaraman announced an alternative tax regime for taxpayers which is called "New Tax Regime". The new tax regime has more tax slabs than old tax system but taxpayers have to forego the tax exemptions as available in old tax regime. Due to said limitation, very few taxpayers opted this new regime and subsequently government has to made several key changes in the new tax regime to attract the taxpayers. In Budget 2023, government made key changes in the new tax regime and raised tax rebate limit upto 7 lakhs from previous rebate limit of INR 5 lakhs without increasing the same under old tax regime. Also standard deduction of INR 50,000/- was introduced under new tax regime making the same at par with available under old tax regime. The Finance Act 2023 has amended the provisions of Section 115BAC w.e.f AY 2024-25 to make new tax regime the default tax regime for the assessees being Individual, HUF, AOP (not being cooperative societies), BOI or Artificial Juridical Person. However, the eligible taxpayers have the option to opt out of new tax regime and choose to be taxed under old tax regime. Further, in Union Budget 2024, standard deductions under new tax regime has been increased to INR 75,000/- and tax slabs have also been changed to make new tax regime even more attractive.

The Union Budget 2025 introduced significant changes to the **new tax regime** (Section 115BAC) for FY 2025-26, making it more attractive for middle-class taxpayers by increasing tax free income limit to 12 lakhs per year from 7 lakhs per year and a new more granular tax slab structure has been introduced.

New tax regime is the default tax regime. However, taxpayers can opt for the old regime.

2. Literature Review

A tax is a way to raise money for the day-to-day operations of the government which provide security, social amenities, infrastructure, and other related services which are just some of the government's activities for the country's inhabitants.

K.B.Sarkar commends the system of taxation in ancient India in his book "Public Finance in Ancient India", (1978 Edition) as follows: - "Most of the taxes of Ancient India were highly productive. The admixture of direct taxes with indirect Taxes secured elasticity in the tax system, although more emphasis was laid on direct tax. The tax-structure was a broad based one and covered most people within its fold. The taxes were varied and the large variety of taxes reflected the life of a large and composit population".

Dr. Girish Ahuja and Dr. Ravi Gupta in his book "Concise Commentary on Income Tax" have explained how new tax regime is beneficial for individuals as it simplifies the tax structure by reducing no of deductions and exemptions.

CA Dr. Trupti Gamaji Deore in his paper "*Tax feforms till date & selection of Tax Regime by Individual for Assessment Year 2021-22*" discussed the introduction of new tax regime in India with the tax rate options and exemptions available for individual under both tax regime.

Mr. Soumik Dutta in his paper "*Old Tax Regime v/s New Tax Regime: A tricky choice for salaried individual taxpayers*" concluded that considering the individual's intention to have more liquid money & unable to cope up with complex tax computation in old Tax Regime, new Tax Regime can be a better choice.

Dr. L Jalaja in his paper "*Comparative analysis of the effects of the Old and New Tax Regimes on individuals and businesses in relation to sustainable development goals*" suggested that the new tax system need to include some deductions, which will ultimately Encourage people to save money and make investments that would eventually give the taxpayer and his or her family financial security.

Dr. Meghali Bora in his paper "*A comparison between Old and New Tax Regime of Income Tax Act, 1961 for salaried individuals*" provides a comprehensive comparison between the old and new tax regimes and suggested individuals to consider their financial situations and objectives to determine which regime aligns best with their needs.

Dr. S. Mary Pearly Sumathi in his paper "*Comparative Study on New and Old Tax Regimes*" concluded that those who are not interested in savings or nearing retirement, for them the new regime would be more beneficial.

The study aims to examine the benefits available under new tax regime and the deductions that have to forego by individual salaried taxpayers. This study defines advantages and disadvantages of Old & New Tax Regime. This study also aims to find out the tax awareness and expectations of salaried taxpayers from policymakers. This study is done using primary as well as secondary data. Conclusions are based on the questionnaire filled by individuals.

3. Objectives of the Study

The primary objectives of the study are –

a) To compare the old and new tax regime and identify the beneficial tax regime for salaried taxpayers
b) To study the tax awareness amongst individuals for old tax regime and new tax regime
c) To identify the expectation of salaried taxpayers from policymakers

4. Methodology

The study is descriptive in nature and researchers have collected both Primary and Secondary data. The primary data is collected from individuals from different age groups and professions through questionnaire. The secondary data is collected mainly from Central Board of Direct Taxation and Income Tax e-filling portal. Also, data has been adopted from various Articles, Journals, Magazines and Newspapers.

5. Significance of the study

This research aimed to study the comparison and benefits between both tax regimes, tax compliances, tax awareness and ease of tax complexity. Individual taxpayers will benefit from this study and have better understanding of both tax regimes. Taxpayers can choose the one tax regime over other according to their priorities. Policymakers will also be suggested to make further changes in the Income Tax Act to make the new tax regime more attractive and beneficial for both government and taxpayers.

6. Comparison of both tax regime – Individual Salaried Taxpayers

Allowances/ Deductions/ Exemptions	Old Tax Regime	New Tax Regime
House Rent Allowance (HRA) Us/ 10(13A)	Allowed, lower of below - 1. HRA received 2. 50% of Basic+DA (metro cities Delhi, Kolkata, Mumbai & Chennai) OR 40% of Basic+DA (non-metro) 3. Rent paid – 10% of Basic+DA	Not allowed
Leave Travel Allowance u/s 10(5)	Allowed with certain conditions and limits	Not allowed
Food allowances u/s 10(14)	Max 26,400/- two meals in a day and working 22 days in a month (INR 50 per meal)	Not allowed
Standard Deduction	Allowed INR 50,000/-	Allowed INR 75,000/- Budget 2024 (July'24)
Interest on Home Loan u/s24b on Self occupied or vacant property or let out property	Allowed upto INR 2 lakhs loss under House Property Head (loss over INR 2 lakhs can be carry forward as per rule)	Not allowed
Deduction u/s 80C (EPF, LIC, ELSS, PPF, FD, Tuition fee etc.)	Allowed upto INR 1,50,000/-	Not allowed
80CCD(1) Employee's contribution in NPS	Allowed 10% of Salary (Basic + DA)	Not allowed
80CCD(2) Employer's contribution in NPS	Allowed 10% of Salary (Basic + DA)	Allowed 14% of Salary (Basic +DA) Budget'24 (earlier 10%)
Voluntary contribution to NPS u/s 80CCD (IB)	Allowed upto 50,000/-	Not allowed
Rebate u/s 87A	INR 12,500/- i.e. income upto 5 lakhs are tax free	INR 60,000/- i.e. income upto 12 lakhs are tax free

6.1 Income Tax rates for individuals applicable for FY 2025-2026 (AY 2026-2027) under both tax regime

Slab	Old Tax Regime	New Tax Regime
Upto 2,50,000*	NIL	NIL
2,50,001 – 4,00,000	5%	NIL
4,00,001 – 5,00,000	5%	5%
5,00,001 – 8,00,000	20%	5%

8,00,001 – 10,00,000	20%	10%
10,00,001 – 12,00,000	30%	10%
12,00,001 – 16,00,000	30%	15%
16,00,001 – 20,00,000	30%	20%
20,00,001 – 24,00,001	30%	25%
Above 24,00,000	30%	30%

*Under old tax regime - for individuals below 60 years. For senior citizens (age between 60 to 80), basic exemption limits is INR 3,00,000/- and for super senior citizens (age 80 years and above), basic exemption limit is INR 5,00,000/-. Total income upto 5 lakhs is tax free after rebate of INR 12,500/- for income above 2.5/3 lakhs to 5 lakhs.
*Under new tax regime –Total income upto 12 lakhs is tax free after rebate of INR 60,000/- for income upto 12 lakhs.

6.2 Surcharge for individuals applicable for FY 2025-2026 (AY 2026-2027) under both tax regime

Slab	Old Tax Regime	New Tax Regime
Less than 50 lakhs	NIL	NIL
Above 50 lakhs to 1 cr	10%	10%
Above 1 cr to 2 cr	15%	15%
Above 2 cr to 5 cr	25%	25%
Above 5 cr	37%	25%

7. Tax awareness amongst individuals for both old & new tax regime-

A questionnaire was prepared as primary source of data to identify tax awareness amongst the individuals. 100 replies are collected from this questionnaire with randomly chosen participants of any gender, age group and professions. Data analysis & interpretation –

Table 7.1.1: Gender wise distribution of respondents

S.No.	Gender	No's	%
1	Male	69	79%
2	Female	31	31%
		100	

Interpretation: Out of total 100 respondents, 79% belongs to male respondents and 31% belongs to female respondents.

Table 7.1.2: Age wise distribution of respondents

S.No.	Age Group	No's	Cumulative Frequency	%
1	Less than 18 years	1	1	1%
2	18 years to 40 years	68	69	68%
3	41 years to 59 years	28	97	28%
4	60 years to 79 years	3	100	3%
5	80 years and above	0	87	0%

Interpretation: Survey shows 1% of respondents categorized as Non-Adult, 96% Adult, 3% Senior Citizens and 0% Super Senior Citizens.

Table 7.1.3: Occupation wise distribution of respondents

S.No.	Occupation	No's	Cumulative Frequency	%
1	Government Job	9	9	9%
2	Private Job	73	82	73%
3	Businessman	10	92	10%
4	Professionals	7	99	7%
5	Pensioner/Retired	1	100	1%

Interpretation: Survey shows 17% of respondents belong to business/profession sector but 83% of majority are salaried/pensioner taxpayers.

Table 7.1.4: Qualification wise distribution of respondents

S.No.	Qualification	No's	Cumulative Frequency	%
1	Upto 12th	3	3	3%
2	Graduate	34	37	34%
3	Post Graduate	27	64	27%
4	Professional Qualification	36	100	36%

Interpretation: Table shows that majority respondents are educated and qualified.

Table 7.1.5: Do you file ITR?

S.No.	File ITR	No's	Cumulative Frequency	%
1	Yes	99	99	99%
2	No	1	100	1%

Interpretation: According to survey, majority are taxpayers and file their respective ITR.

Table 7.1.6: Yearly Income wise distribution of respondents

S.No.	Yearly Income FY 2023-24	No's	Cumulative Frequency	%
1	Upto 5,00,000	12	12	12%
2	5,00,001 – 7,00,000	13	25	13%
3	7,00,001 – 9,00,000	10	35	10%
4	9,00,001 – 12,00,000	12	47	12%
5	12,00,001 – 15,00,000	3	50	3%
6	15,00,001 – 25,00,000	31	81	31%
7	25,00,001 – 50,00,000	13	94	13%
8	Above 50,00,000	6	100	6%

Interpretation: As data shows, 12% of respondents have income less than 5 lakhs and belong to exempt category under both regimes. 35% of respondents who have income between 5 lakhs to 12 lakhs may come under exempt category if they have filed ITR under new regime. 6% of respondents who have income above 50 lakhs will pay surcharge too.

Table 7.1.7: Do you pay Income Tax?

S.No.	Taxpayers	No's	Cumulative Frequency	%
1	Yes	88	88	88%
2	No	12	100	12%

Interpretation: Around 88% of respondents pay income tax and rest are non-taxpayers.

Table 7.1.8: Aware about both regimes?

S.No.	Regime Awareness	No's	Cumulative Frequency	%
1	Fully Aware	58	58	58%
2	Partially Aware	31	89	31%
3	Neutral	6	95	6%
4	Not Aware	5	100	5%

Interpretation: Majority respondents are fully aware about both the regime.

Table 7.1.9: Who files your ITR?

S.No.	ITR filling	No's	Cumulative Frequency	%
1	Self	40	40	40%
2	CA/Lawyer/TRP	60	100	100%

Interpretation: As survey results show, majority of taxpayers file their return through professionals like CA/Lawyers/TRP.

Table 7.1.10: Which regime have you selected for FY 2025-2026?

S.No.	Regime for FY 2025	No's	Cumulative Frequency	%
1	Old Tax Regime	34	34	34%
2	New Tax Regime	53	87	53%
3	Will decide later	13	100	13%

Interpretation: Majority respondents are in favor of new tax regime and 13% have not chosen between the regimes yet and they will decide at the time of filing their ITR.

Table 7.1.11: Satisfied with new regime?

S.No.	New Regime	No's	Cumulative Frequency	%
1	Satisfied	35	35	35%
2	Not Satisfied	41	76	41%
3	Can't say	24	100	24%

Interpretation: Respondents are almost divided when they choose tax regime and seem they are dependent on their professionals.

Table 7.1.12: Which change should be made in New Tax Regime?

S.No.	New Regime	No's	Cumulative Frequency	%
1	Allow HRA deduction	15	15	15%
2	Allow Interest on HL	43	58	43%
3	Allow 80C deductions	29	87	29%
4	Any Other	13	100	13%

Interpretation: As the results show, majority respondents want savings with tax deduction in new tax regime too and others are interested in other tax deductions under new regime.

Table 7.1.13: Do you think new regime will help reduce tax complexity & tax evasion?

S.No.	New Regime	No's	Cumulative Frequency	%
1	Strongly Agree	12	12	12%
2	Agree	36	48	36%
3	Neutral	34	82	34%
4	Disagree	16	98	16%

5	Strongly Disagree	2	100	2%

Interpretation: According to the respondent's results, majority respondents either agreed or are neutral on the question of reducing tax complexity and tax evasion under new tax regime.

8. Comparison of Tax liability between old and new tax regime

The tax slabs and rates are different in old and new tax regimes. Various deductions and exemptions are allowed in old tax regime. The new regime offers lower rates of taxes but permits limited deductions and exemptions. It depends upon individual choice to go with old tax regime or new tax regime based on their financial planning, goals and preferences. Government has tried to simplify the tax compliances by offering lower tax rates under new tax regime, still old tax regime might be beneficial for taxpayers based on their investment plans and actual expenses.

8.1 Comparison through examples for individual taxpayers

To compare the tax liability of individual taxpayers under both tax regimes, we have taken following examples for better understanding. Individuals can examine the same carefully and take the best suitable decision, according to their income structure while choosing the tax regime.

Table 8.1.1 Individual (age less than 60 years) having income INR 12.75 lakhs

Particulars	**Jaideep**			
	Old	**Old**	**Old**	**New**
Salary Income	12,50,000	12,50,000	12,50,000	12,50,000
Other Income	25,000	25,000	25,000	25,000
Total Income	**12,75,000**	**12,75,000**	**12,75,000**	**12,75,000**
Std deduction	50,000	50,000	50,000	75,000
Other deductions	2,50,000	3,50,000	4,50,000	-
Taxable Income	**9,75,000**	**8,75,000**	**7,75,000**	**12,00,000**
Tax Payable	1,11,800	91,000	70,200	-

Interpretation: New tax regime is beneficial if income is upto 12.75 lakhs

Table 8.1.2 Individual (age less than 60 years) having income above INR 15 lakhs

Particulars	**Shilpa**			
	Old	**Old**	**Old**	**New**
Salary Income	15,50,000	15,50,000	15,50,000	15,50,000
Other Income	25,000	25,000	25,000	25,000
Total Income	**15,75,000**	**15,75,000**	**15,75,000**	**15,75,000**
Std deduction	50,000	50,000	50,000	75,000
Other deductions	3,50,000	4,50,000	5,62,500	-
Taxable Income	**11,75,000**	**10,75,000**	**9,62,500**	**15,00,000**
Tax Payable	1,71,600	1,40,400	1,09,200	1,09,200

Interpretation: If other available deductions exceed 5.63 lakhs then old regime is beneficial otherwise new regime is beneficial.

Table 8.1.3 Individual (age less than 60 years) having income above INR 20 lakhs

Particulars	Demyra			
	Old	**Old**	**Old**	**New**
Salary Income	20,50,000	20,50,000	20,50,000	20,50,000
Other Income	25,000	25,000	25,000	25,000
Total Income	**20,75,000**	**20,75,000**	**20,75,000**	**20,75,000**
Std deduction	50,000	50,000	50,000	75,000
Other deductions	3,50,000	4,50,000	7,35,000	-
Taxable Income	**16,75,000**	**15,75,000**	**12,90,000**	**20,00,000**
Tax Payable	3,27,600	2,96,400	2,07,480	2,08,000

Interpretation: If other available deductions exceed 7.35 lakhs then old regime is beneficial otherwise new regime is beneficial.

Table 8.1.4 Individual (age less than 60 years) having income above INR 25 lakhs

Particulars	Reyaan			
	Old	**Old**	**Old**	**New**
Salary Income	25,00,000	25,00,000	25,00,000	25,00,000
Other Income	50,000	50,000	50,000	50,000
Total Income	**25,50,000**	**25,50,000**	**25,50,000**	**25,50,000**
Std deduction	50,000	50,000	50,000	75,000
Other deductions	3,50,000	4,50,000	8,00,000	-
Taxable Income	**21,50,000**	**20,50,000**	**17,00,000**	**24,75,000**
Tax Payable	4,75,800	4,44,600	3,35,400	3,35,400

Interpretation: If other available deductions are above 8 lakhs then old regime is beneficial otherwise new regime is beneficial.

**Other deductions include deduction available for House Rent Allowance, LTA, Home Loan Interest, Chapter VI-A (80C to 80U) etc.*

So, New Tax Regime is beneficial for salaried individuals if –

1. If total taxable income is upto 12.75 lakhs – New Tax Regime, as no need to gather documentary proof (zero documentation), ease of filling of ITR on their own and low risk of tax queries
2. If total taxable income is above 15 lakhs and available deductions are less than 5,62,500/- – New Tax Regime
3. If total taxable income is above 20 lakhs and available deductions are less than 7,35,000/- – New Tax Regime
4. If total taxable income is above 25 lakhs and available deductions are less than 8,00,000/- – New Tax Regime

8.2 Chart wise comparison for individual taxpayers

Gross Total Income	Old Regime Standard Deduction - 50,000/- Rebate upto 5 Lac - no tax		New Regime Standard Deduction - 75,000/- Other deductions - NIL Rebate upto 12 Lac - no tax	Difference	Which regime is better ?
	Other Deductions	Tax	Tax		
12,75,000.00	1,50,000.00	1,40,400.00	-	1,40,400.00	New
15,75,000.00	5,00,000.00	1,24,800.00	1,09,200.00	15,600.00	New
15,75,000.00	5,62,500.00	1,09,200.00	1,09,200.00	-	New
15,75,000.00	5,75,000.00	1,06,600.00	1,09,200.00	-2,600.00	Old
20,75,000.00	5,75,000.00	2,57,400.00	2,08,000.00	49,400.00	New
20,75,000.00	7,35,000.00	2,07,480.00	2,08,000.00	-520.00	Old
25,50,000.00	5,75,000.00	4,05,600.00	3,35,400.00	70,200.00	New
25,50,000.00	8,10,000.00	3,32,280.00	3,35,400.00	-3,120.00	Old
30,00,000.00	8,10,000.00	4,62,680.00	2,44,400.00	-13,120.00	Old

Interpretation: Individuals must run and check both computations every year to see which regime is better.

8.3 Maximum deductions can be claimed by an Individual

An effort has been made to show the comparison of maximum available deductions under both tax regimes to an individual taxpayer with age less than 60 years assuming he/she is availing both HRA and Interest on home loan benefit and have invested in the small saving schemes, medical and life insurance schemes to safeguard family interest and future.

Maximum deductions can be claimed by an Individual Salaried Taxpayer (till the age of 60 year)				
Deduction	**Details**	**Section**	**Old Tax Regime**	**New Tax Regime**
Standard Deduction		23(1)	50,000.00	75,000.00
HRA*	House Rent Allowance for rented property	10(13A)	4,50,000.00	-
LTA**	Leave Travel Allowance to travel any place in India	10(5)	50,000.00	-
Home Loan Interest	Interest on Self occupied & Let Out Property	24(b)	2,00,000.00	-
80C, 80CCC & 80CCD (1)	LIC, PPF, Tution Fees, MF, Home Loan Principal, Employees' contribution to NPS etc.	Chapter VI-A	1,50,000.00	-
80CCD (2)	Employer's contribution to NPS 10% of Basic+DA in Old 14% of Basic+DA in New	Chapter VI-A	1,50,000.00	2,10,000.00
80CCD(1B)	Voluntary Contribution to NPS	Chapter VI-A	50,000.00	-
80D***	Deduction on Medical Insurance Premium	Chapter VI-A	80,000.00	-
80TTA	Interest on Savings Accounts	Chapter VI-A	10,000.00	-
80G****	Donation to charitable purposes	Chapter VI-A	25,000.00	-
Maximum deductions can be claimed by an Individual salaried taxpayers			**12,15,000.00**	**2,85,000.00**
*Assumed Basic+DA is INR 15 Lac, HRA is 40% of Basic+DA and actual rent paid is 50,000 pm				
**Assumed LTA received & spent is INR 50,000/- on domestic travel, within block & fulfilling all other conditions				
***Self & Family below 60 years + Parents above 60 years + Medical checkup				
****Assuming donation paid INR 50,000/- qualifies under the category of 50% deduction subject to 10% of adjusted GTI				

**Above comparison has been prepared & shown by researcher purely on assumption basis. Few or all deductions may or may not be available to individual salaried taxpayer based on their salary structure.*

9. Impact on Tax Collections

Direct tax collections reported strong growth past years, partly attributed to reduced corporate tax rates and various tax incentive schemes but still adoption of new tax regime by individual remains moderate as may still prefer the old tax regime due to more tax deductions & exemptions.

From FY 2025-26, the income tax slab has been changed, and tax rebates have been extended to 12 lakhs from 7 lakhs existing (i.e. average income of INR 1 lakhs per month other than special rate income), this may further reduce overall direct tax collections from lower income individuals. In Budget 2025, government expect revenue foregone of about INR 1 lakhs crore due to such relaxation.

10. Conclusion & Recommendations

While introducing new tax regime, GOI tried to cover those individuals who don't want to involve themselves in the tax complexity for availing deductions & exemptions. Also, they want to avoid the exhaustive documentation and simplify the filing of income tax return. New tax regime enables individuals to have liquidity on their hand and is less time consuming. With fewer deductions under new tax regime having very less scope of fake documentation and litigation, it allows individuals to have more savings according to risk return preference rather than tax arbitrage.

Both old tax regime and new tax regime have their own set of advantages and disadvantages. The option to choose between two regimes may vary from person to person. It is advisable to do a comparative evaluation and analysis under both regimes and then choose as per requirement. For middle income groups with limited deductions, the new tax regime may result in lower tax liability however taxpayers can broadly estimate and compare tax liability under the new and the old tax regime using Income and Tax Calculator on the Income Tax Portal.

Government is making changes in the new tax regime in every budget since its introduction in Budget FY 2020 with the aim to make the new regime more popular amongst the individual taxpayers. During her latest speech in Union Budget 2024, Finance Minister Smt. Nirmala Sitaraman informs that 2/3rd majority of the individuals have already shifted to the new tax regime.

To make the new tax regime more attractive and beneficial, researcher suggest the following changes in the new tax regime –

1. Interest on Home loan and/or House Rent Allowance (HRA) - Living cost which individual salaried taxpayer is paying in the form of either rent or interest, should be allowed as a deduction from the head of salary under new tax regime.
2. Deduction under section 80C for investments - The reason behind introducing section 80C was to increase the small savings of the individuals. This section offers wide range of investment options to avail the tax benefits. But the main objective for saving and investing is to achieve life goals and to secure family's future and not just taking advantage of tax benefits. Household savings of individual taxpayers may also reduce as they stop investing in saving schemes due to the lack of availability of exemptions under new tax regime. Insurance sector may suffer as insurance companies now have to spend more under marketing expenditure to attract investment from individuals. There is also a chance that the real estate sector may be hit as taxpayers may not invest in real estate as high tax deductions are no longer available under new tax regime. By choosing new tax regime, investors may shift completely to stock market instead of investing in small saving schemes. Also, there is a need to increase the exemption limit from INR 1.5 lakhs under as the same has not been reviewed since decades.
3. Discontinue old tax regime by allowing 15 Lakhs tax free income – Policymaker should make the INR 15 Lakhs slab tax free under new tax regime. This change will attract maximum taxpayers and old tax regime can be discontinued for those who have opted for the new tax regime. At present, taxpayers can choose between tax regimes every year.

Apart from above, there is also a need to improve financial literacy among the individual which includes tax filing process so that individual can file their ITR on their own instead of depending on CA's, TRP & Lawyers. This will further help taxpayers to understand the importance of savings, and they can evaluate their tax liability accordingly. Income Tax department should launch more webinars/seminars or training workshops to make taxpayers aware about the new tax system and the understanding of differences between the two tax regimes.

11. References –

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