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Comparative Analysis of the Old and New Tax Regimes: Implications for Individual Taxpayers

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ABSTRACT: The Indian income tax system has traditionally relied on a wide range of exemptions and deductions to encourage savings and investments among individual taxpayers. The introduction of the New Tax Regime represented an important change in this approach by offering lower tax rates in exchange for the removal of most exemptions and deductions, with the stated objective of simplifying tax compliance. The paper seeks to analyze the impact of the New Tax Regime on individual taxpayers by analyzing its structure, objectives, and practical implications. The study attempts to examine a comparative analysis of the Old and New Tax Regimes to evaluate their effect on tax liability, tax planning decisions, and savings behavior of different categories of individuals, including salaried employees and self-employed taxpayers. It further assesses whether the New Tax Regime has achieved its intended goals of simplicity, transparency, and ease of compliance. The paper also highlights the challenges and limitations of the regime, particularly its uneven impact on taxpayers who rely on deductions and long-term investment incentives. The study concludes with observations on the effectiveness of the New Tax Regime and offers suggestions for achieving a balanced approach between tax simplification and taxpayer welfare. The study adopts a doctrinal and analytical methodology using statutory analysis and hypothetical illustrations to assess the comparative impact of both tax regimes on individual taxpayers.

KEYWORDS: New Tax Regime, Individual Taxpayers, Tax Liability Comparison, Compliance Simplification, Tax Planning, Behavioral Impact

I. INTRODUCTION

The structure of income taxation significantly influences the financial behavior and compliance patterns of individual taxpayers (Arora & Kumar, 2021; Narayan, 2021). In the Indian context, the income tax system has traditionally followed a progressive rate structure supplemented by a wide range of exemptions and deductions designed to promote savings, investment, and broader social welfare objectives (Income-tax Act, 1961; Krishnaiah, 2020). However, over time, this framework has increasingly been perceived as complex, necessitating extensive tax planning and posing administrative challenges for both taxpayers and tax authorities (Pomerleau, 2014; World Bank, 2021).

In response to these challenges, the Government of India introduced the New Tax Regime for individual taxpayers through the Finance Act, 2020, which provides lower tax rates in exchange for the removal of most exemptions and deductions (Government of India, 2020; Deloitte India, 2023). This reform was primarily aimed at simplifying the tax structure, reducing compliance burdens, and offering taxpayers the flexibility to choose between a simplified system and the traditional deduction-based regime (CBDT, 2023; Ministry of Finance, 2023). The shift reflects a broader transformation in tax policy toward simplicity, transparency, and ease of compliance, moving away from incentive-driven taxation (NIPFP, 2022; EY India, 2023).

The impact of the New Tax Regime varies across different categories of taxpayers (Gupta & Sharma, 2022). It tends to benefit individuals who do not heavily depend on exemptions or tax-saving investments. Conversely, it may result in a higher tax liability for those who claim deductions related to housing loans, insurance, and long-term savings instruments (PwC India, 2023; KPMG India, 2022). Therefore, the overall effect of the regime depends on factors such as income composition, investment behavior, and individual financial planning strategies (RBI, 2022; Economic Survey of India, 2023).



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Within this context, the present study examines the impact of the New Tax Regime on individual taxpayers by analyzing its design, objectives, and practical outcomes. It provides a comparative evaluation of the Old and New Tax Regimes to assess differences in tax liability, tax planning behavior, and savings decisions. Additionally, the study seeks to determine whether the reform has achieved its intended objective of simplifying taxation without adversely affecting taxpayer welfare (Government of India, 2019; NIPFP, 2022).

Despite the significance of this reform, academic research exploring its differential impact across income groups and taxpayer categories remains limited (Gupta & Sharma, 2022). Existing literature is largely policy-oriented, with relatively less emphasis on practical tax liability comparisons and behavioral implications. This study aims to contribute to the literature by offering a comprehensive comparative and analytical assessment of the Old and New Tax Regimes and their implications for individual taxpayers.

II. LITERATURE REVIEW

R. Venkata Krishnaiah

R. Venkata Krishnaiah examines the structural shift introduced by the New Tax Regime and highlights its objective of simplifying the personal tax framework in India. The author argues that while lower tax rates enhance short-term disposable income, the removal of deductions significantly alters traditional tax planning strategies. The study emphasizes that taxpayers must reassess their investment decisions in the absence of tax incentives. It further notes that the regime promotes transparency but may not equally benefit all income groups. The paper concludes that the effectiveness of the reform depends on individual financial behavior.

S. Narayan

S. Narayan analyzes the behavioral implications of the New Tax Regime, particularly its influence on savings and investment patterns among salaried individuals. The study suggests that the withdrawal of tax-linked incentives could weaken long-term financial discipline, especially among middle-income households. It also observes that taxpayers may prioritize liquidity over structured savings under the new system. The author highlights the need for a balanced tax policy that supports both simplification and social security objectives. The article ultimately calls for selective incentives to maintain retirement and insurance coverage.

National Institute of Public Finance and Policy (NIPFP)

Research conducted by the National Institute of Public Finance and Policy evaluates the broader economic implications of the New Tax Regime. The findings indicate that higher disposable income may stimulate consumption and short-term economic growth. However, the study warns that reduced tax incentives for savings could lead to a decline in household financial savings over time. This shift may affect capital formation and long-term economic stability. The report stresses the importance of maintaining a balance between consumption-driven growth and savings-oriented policies.

Arora & Kumar (Tax Policy Analysis Perspective)

Arora and Kumar explore the comparative efficiency of the Old and New Tax Regimes by focusing on taxpayer choice and compliance costs. Their analysis shows that while the New Regime reduces documentation and complexity, it also shifts the responsibility of financial planning entirely onto taxpayers. The authors argue that the optional nature of the regime increases decision-making complexity rather than eliminating it. They conclude that the success of the reform depends largely on taxpayer awareness and financial literacy. The study recommends targeted awareness programs to help individuals make informed choices.

Central Board of Direct Taxes (CBDT) Reports

Official reports and circulars issued by the Central Board of Direct Taxes provide insights into the policy rationale behind the New Tax Regime. The documents emphasize simplification, improved voluntary compliance, and reduction in litigation as key objectives. They also highlight the intention to create a transparent and taxpayer-friendly system. However, the reports acknowledge that taxpayers with significant deductions may initially find the regime less beneficial. The policy perspective underscores that the reform is part of a gradual transition toward a simplified tax structure.



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III. METHODOLOGY

The research methodology adopted for the present study is primarily doctrinal and analytical in nature, as the subject involves an examination of legal provisions and their practical implications. The study is grounded in a detailed review of the statutory framework governing personal income taxation in India, particularly the provisions of the *Income-tax Act, 1961*, as amended from time to time, along with the changes introduced through successive Finance Acts relating to the New Tax Regime (Income-tax Act, 1961; Government of India, 2020). This legal analysis provides the foundation for understanding the structure, scope, and operational features of both the Old and New Tax Regimes.

In addition to statutory sources, the research draws extensively on secondary data, including tax journals, scholarly articles, professional commentaries, and reports published by academic and policy institutions. These sources offer interpretative insights and help contextualize the reform within broader discussions on tax policy, compliance behavior, and taxpayer decision-making (Arora & Kumar, 2021; Narayan, 2021; NIPFP, 2022). By integrating legal analysis with existing literature, the study seeks to present a balanced understanding of both the theoretical and practical dimensions of the New Tax Regime.

To evaluate the comparative impact of the two regimes, the study employs hypothetical illustrations that simulate different income levels and deduction profiles. This analytical approach enables a clearer assessment of tax liability outcomes and highlights how the choice of regime may vary depending on individual financial circumstances (Gupta & Sharma, 2022; PwC India, 2023). Such illustrations are particularly useful in demonstrating the practical implications of policy changes in a simplified and accessible manner.

The scope of the study is confined to individual taxpayers and focuses specifically on personal income taxation. It does not extend to corporate taxation or other categories of assesses. This delimitation ensures a focused analysis while allowing for a more detailed examination of the issues relevant to individual taxpayers under the New Tax Regime.

IV. DATA ANALYSIS

The impact of the New Tax Regime on individual taxpayers can be examined through a comparative evaluation of tax liability under both regimes across different income and deduction profiles. Since the study is doctrinal and analytical, hypothetical illustrations are used to demonstrate practical implications.

Comparison of Tax Liability under Old and New Tax Regimes

Illustration 1: Individual with Limited Deductions

Assumptions:

- Gross Income: ₹8,00,000
- Deductions under Old Regime: ₹50,000
- Standard deduction allowed under both regimes as applicable

Particulars	Old Tax Regime (₹)	New Tax Regime (₹)
Gross Total Income	8,00,000	8,00,000
Deductions	50,000	Nil
Taxable Income	7,50,000	8,00,000
Tax Liability (approx.)	65,000	36,400

Analysis

In cases where taxpayers do not significantly utilize deductions, the New Tax Regime results in lower tax liability due to concessional slab rates. This makes the regime particularly beneficial for young professionals and individuals with limited tax-saving investments.

Illustration 2: Salaried Individual with Housing Loan and Investments



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Assumptions:

- Gross Income: ₹10,00,000
- Deductions under Old Regime: ₹2,50,000
 - Section 80C investments
 - Housing loan interest
 - Insurance and other eligible deductions

Particulars	Old Tax Regime (₹)	New Tax Regime (₹)
Gross Total Income	10,00,000	10,00,000
Deductions	2,50,000	Nil
Taxable Income	7,50,000	10,00,000
Tax Liability (approx.)	65,000	78,000

Analysis

For taxpayers with substantial deductions, the Old Tax Regime remains more advantageous. The absence of deductions under the New Tax Regime increases taxable income and overall tax liability, making it less attractive for individuals engaged in structured financial planning.

Category-wise Impact Analysis

1. Salaried Employees

Salaried individuals with minimal deductions benefit from the New Tax Regime due to lower rates and simplified compliance. However, those with housing loans, provident fund contributions, and insurance investments generally achieve lower tax liability under the Old Regime.

2. Self-employed Individuals

Self-employed taxpayers often claim business-related expenses and deductions, making the Old Regime comparatively beneficial. Additionally, restrictions on switching regimes reduce flexibility under the New Regime.

3. Senior Citizens

Senior citizens relying on deduction-linked savings instruments and medical expense benefits may find the Old Regime more advantageous, as the New Regime provides limited targeted relief for this group.

Behavioral Impact Analysis

The comparative illustrations indicate a shift in taxpayer behavior under the New Tax Regime. Taxpayers opting for this regime are less inclined toward tax-driven savings and long-term investment instruments. While this increases disposable income and short-term consumption, it may reduce long-term financial discipline and retirement preparedness.

V. DISCUSSIONS

Permit limited core deductions such as provident fund, pension, and health insurance under the New Regime to maintain incentives for long-term savings.

Simplify switching rules between tax regimes, especially for individuals with business or professional income, to improve flexibility and decision-making.

Ensure stability in tax slabs to provide certainty and support effective financial planning for taxpayers.

Enhance taxpayer awareness through clear guidance tools and comparison calculators to help individuals choose the most suitable regime.

Protect long-term savings incentives through selective benefits or alternative policy mechanisms.



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Consider a hybrid tax framework in the future that balances simplified rates with targeted incentives for financial security.

VI. CONCLUSION

The New Tax Regime marks a meaningful step toward simplifying India's personal income tax system by reducing reliance on exemptions and offering a more transparent rate structure. The analysis presented in this study shows that while the regime provides clear advantages for individuals with fewer deductions, its overall impact varies depending on income levels and financial planning patterns. These findings highlight that tax reforms must be evaluated not only in terms of immediate fiscal outcomes but also in relation to their long-term influence on taxpayer behavior.

Looking ahead, the New Tax Regime has the potential to shape a more streamlined and technology-driven tax environment where compliance becomes easier and decision-making more straightforward for individuals. As taxpayers gradually adapt to the simplified structure, the regime may encourage greater voluntary compliance and reduce administrative complexities. At the same time, the insights generated by this study can help policymakers better understand how different income groups respond to changes in incentives, thereby guiding more responsive and inclusive policy design in the future.

The study also points to the importance of maintaining a balance between simplicity and financial security. Future refinements—such as allowing limited essential deductions or creating targeted savings incentives—could strengthen the regime's effectiveness while ensuring that long-term financial planning is not discouraged. Continuous policy evaluation, supported by empirical research and taxpayer feedback, will be crucial in ensuring that the tax system evolves in line with changing economic conditions and social needs.

In conclusion, the New Tax Regime provides a foundation for future reforms aimed at building a tax system that is simpler, more adaptable, and aligned with the evolving financial realities of taxpayers. By contributing to a deeper understanding of its practical implications, this study offers insights that can support more balanced policy decisions and help shape a tax framework that remains relevant, equitable, and sustainable in the years to come.

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