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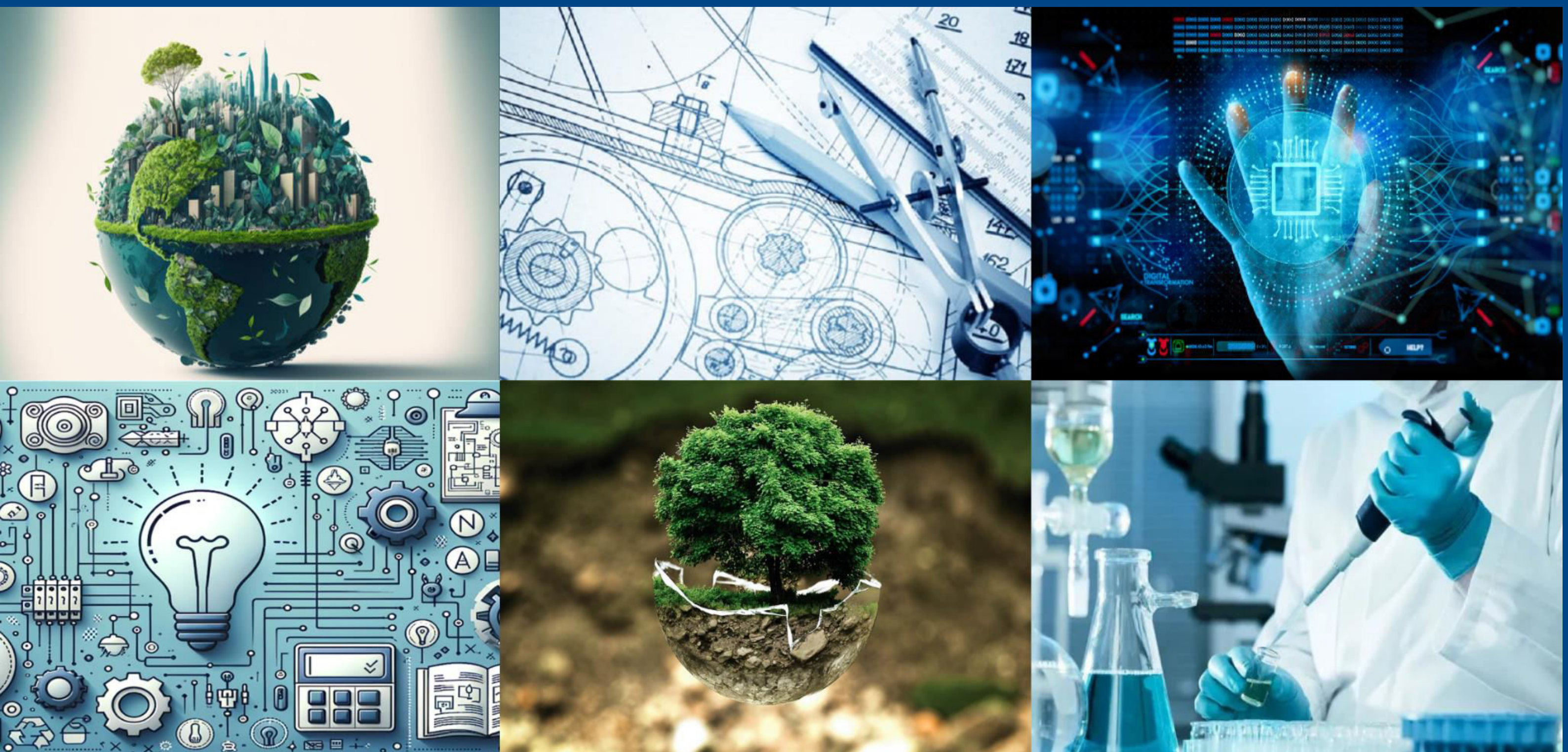

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Comparing India's Old and New Tax Regimes for Taxpayer Benefits and Economic Impact

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ABSTRACT: India's tax regime was significantly changed with the adoption of the New Tax Regime under the Finance Act, 2020. Taxpayers have an option to opt for either the Old Regime, which provides deductions and exemptions, or the New Regime, which provides reduced tax rates with limited deductions. This paper compares both regimes to evaluate their effect on tax burden, taxpayer choice, and economic efficiency. The study investigates major assumptions under the Old Regime, i.e., Section 80C and Section 80D, that encourage investment and savings. Based on secondary data obtained from government publications, a Paired T-test was applied to determine tax liability between income slabs of ₹5,00,000 to ₹30,00,000. Findings indicate that for income up to ₹7,00,000, both regimes have zero tax liability because of the Section 87A rebate. Aside from this, the New Regime typically entails lesser tax burden, especially among non-deduction claimants. Further, 72% of taxpayers chose the New Regime during AY 2024-25, which is an indication towards simplification. Though the New Regime enhances compliance, abolition of deductions might affect long-term savings and investment conduct, for which policy examination needs to be further considered.

KEYWORDS: : Tax Policy, Tax Regimes, Fiscal Impact, Tax Planning, Economic Growth, Tax Compliance, Tax Liability, Deductions.

I.INTRODUCTION

India's taxation structure ensures compliance, economic efficiency, and convenience. The most important change came with the Finance Act, 2020, and the introduction of the new tax regime, allowing taxpayers a choice between the old way and a lower-rate system without exemptions. The dual-tax environment enables taxpayers to choose the most appropriate alternative depending on their financial standing, investment habits, and long-term tax-saving plan.

The previous regime, as categorized under the Income Tax Act of 1961, is a regime of progressive tax with deductions under 80C (investments), 80D (medical insurance), and 24(b) (housing loan interest), promoting savings and investments. It is a multifaceted tax filing and planning process. The new regime simplifies tax computation by providing lesser tax rates at the cost of removing significant deductions. Although good for those not dependent on tax-saving instruments, the absence of exemptions can have an impact on overall savings and investments.

The best regime is chosen on the basis of income, deductions, and tax-saving behaviour. The old regime can be attractive to those with high deductions, while high-income and non-investors can choose the new regime for low rates. International tax policy directions in the USA, UK, and Singapore also suggest simplifying tax regimes with fewer exemptions. This paper analyses the performance of the two regimes using scenario-based analysis, tax statistics, and policy analysis to establish their effect on taxpayer behaviour, compliance, and economic viability.

II.LITERATURE REVIEW

Shevate and Pande (2023) analysed the acceptance of India’s New Tax Regime from the perspective of salaried individuals. This study highlighted, while the new tax regime simplifies tax laws and reduces reliance on tax professionals, taxpayers remain hesitant due to their strong savings culture. The research found that many individuals still struggle to choose between the new & old tax regimes, since the old regime incentivizes savings through a tax

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exemptions. The study suggests that introducing social security schemes could encourage a shift toward spending, thereby increasing disposable income and improving living standards.

Chen et al. (2019) studied China's 2009 VAT reform and its impact on firm investment behavior. The research found that lowering tax costs led to a 36% rise in investment, mainly through investment spikes. The study highlights that tax policies reducing firm inaction are more effective in stimulating investment.

Awasthi and Nagarajan (2020) analysed India's low property tax revenue compared to OECD countries, attributing it to undervaluation, incomplete registers, and weak administration. The study proposed reforms such as updating tax laws, improving valuation methods, and centralizing administration through a Municipal Revenue Board to enhance urban local bodies' revenue-raising capacity.

Neog and Gaur (2020) explored the relationship between tax structure and economic growth across 14 Indian states from 1991 to 2016. These findings indicate that, income and service taxes impact negative growth, while assets and capital transaction taxes gave a beneficial effect. The study suggests policymakers focus on property taxes and reduce income taxes to promote faster economic growth.

Bharad and Sharma (2023) examined the legal framework and taxpayer perceptions of the new and old tax regimes under the Income Tax Act, 1961, in Ahmedabad City. Based on a survey of 118 respondents, the study highlights how different tax regimes influence savings, investments, and taxpayer preferences. The findings emphasize the need for better taxpayer education and simplified regulations to enhance compliance and understanding of the tax system.

Matikka (2014) analyzes income tax responses, focusing on income-shifting among Finnish business owners, the distinction between real economic activity and income-shifting, and the elasticity of taxable income (0.27). The study also highlights how frictions affect taxpayer responsiveness to large incentives.

Kushwah, Nathani, and Vigg (2021) studied the tax compliance behaviour of corporate taxpayers in India, focusing on tax knowledge, tax penalties, and electronic filing. Based on a survey of 247 corporate taxpayers in Delhi and NCR, the study found that tax penalties and e-filing significantly influenced compliance, whereas tax knowledge did not impact significantly. The research highlights the role of enforcement measures and digital tax administration in improving compliance and increasing tax revenue.

Samantara (2021) critically analysed tax reforms in India, focusing on both direct and indirect taxes since 1991. The study examined key recommendations from the Tax Reforms Committee (1991) and subsequent Task Forces (2002, 2003), along with the introducing Goods and Services Tax (GST) in 2017. The paper noted an initial revenue loss post-reform but highlighted a long-term increase in income tax collections due to a broader tax base, improved administration, and anti-tax evasion measures. However, indirect tax collections, particularly GST, have seen shortfalls. The author suggests enhancing revenue from agricultural income tax, land revenue, and other indirect taxes.

Kushwah et al. (2021) examined the impact of tax knowledge, tax penalties, and e-filing on corporate tax compliance in India. Analysing survey data from 247 corporate taxpayers in Delhi and NCR, the study used multiple regression analysis to assess relationships. Findings revealed that tax penalties and e-filing significantly influenced compliance, whereas tax knowledge had no significant effect. The study suggests that improving tax administration strategies, particularly in enforcement and digital filing, could enhance compliance and boost revenues.

Muharremi et al. (2022) examined how demographic factors influence Albanian taxpayers' ethical beliefs on tax compliance. Surveying 387 taxpayers, they found gender, marital status, education, and residential area significantly impacted tax compliance ethics, while employment status showed some influence. Age had no substantial effect. The study provides insights for policymakers on tax behavior.

III.METHODOLOGY OF PROPOSED SURVEY

Research Design

The study adapts comparative and quantitative research to analyse tax liability differences between the Old and New Tax Regimes. A Paired T-test is conducted to statistically determine whether the difference in tax liability is significant across the two regimes.

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Data Collection

This research utilizes secondary data alone, sourced from:

- Reports of the Income Tax Department (Direct Tax Statistics, ITR filings).
- Press Information Bureau (PIB) Tax Compliance Releases.
- Union Budget & Economic Survey Reports for policy perspective.
- SEBI, AMFI, IRDAI Industry Reports on tax-saving investments.
- Research Articles & Papers (2020 and onwards) on tax planning.

Deductions Considered in the Study

Old tax Regime Deduction:

- Standard Deduction: Rs 50,000 (for salaried individuals and pensioners)
- Section 80C: Rs 1,50,000 (PPF, EPF, LIC, ELSS, NSC, tuition fees, etc.)
- Section 80D: Rs 25,000 (Health Insurance Premium)
- Section 87A Rebate: Tax liability reduced to zero for incomes up to Rs 5,00,000

New Regime Deductions:

- Standard Deduction: ₹75,000 (higher in some cases)
- Section 87A Rebate: Available for incomes up to ₹7,00,000

Variables & Hypothesis

Variables

- Independent Variable: Tax Regime (Old vs. New)
- Dependent Variable: Tax Liability (tax payable after deductions and rebates)

Hypothesis

Null Hypothesis (H_0): No significant difference in tax liability with Old and New Tax Regimes.
Alternative Hypothesis (H_1): Significant difference in tax liability on Old and New Tax Regimes.
This hypothesis will be tested using a paired T-test to assess whether the difference in tax liability is statistically significant.

IV. DATA ANALYSIS & INTERPRETATION

The comparative analysis tax liabilities under the Old and New Tax Regimes was conducted for various income levels, considering deductions of ₹1.75L under the Old Regime. Paired T-test is used to determine if the difference in tax liability is statistically significant.

The study evaluates tax liabilities in Old Regime and New Tax Regimes across various income levels, ranging from ₹5,00,000 to ₹30,00,000. The tax calculations incorporate standard deductions and exemptions available under each regime, allowing a direct comparison of which regime provides a lower tax liability.

1. Tax Comparison Across Income Levels

The table below summarizes the tax amounts payable under both regimes and the absolute difference in tax liability.

Gross Income (₹)	Old Regime Tax(₹)	New Regime Tax (₹)	Difference (₹)	Better Regime?
5,00,000	0	0	0	Any
6,00,000	0	0	0	Any
7,00,000	0	0	0	Any
7,50,000	18,200	0	18,200	New
8,00,000	28,600	23,400	5,200	New
9,00,000	49,400	33,800	15,600	New
10,00,000	70,200	44,200	26,000	New
13,00,000	1,40,400	88,400	52,000	New
15,00,000	2,02,800	1,30,200	72,800	New
15,50,000	2,18,400	1,40,400	78,000	New
17,00,000	2,65,200	1,84,600	80,600	New
20,00,000	3,58,800	2,78,200	80,600	New
30,00,000	6,70,800	5,90,200	80,600	New

Source: Clear Tax

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2. Observations and Trends

- For incomes up to ₹7,00,000, both regimes result in zero tax liability due to the Section 87A rebate, making them equally beneficial.
- From ₹7,50,000 onwards, New Tax Regime result in lower tax liability, making it preferable choice in all cases analysed.
- The tax savings under New Tax Regime increase income rises, peaking at ₹80,600 for incomes of ₹17,00,000 and above.

3. Insights on Deductions and Savings

- The Old Regime allows deductions like Section 80C, 80D etc., but for taxpayers with lesser deductions, the New Tax Regime's low tax rate provide more savings.
- The removal of deduction in the New Tax Regime reduces tax planning complexity while still leading to a lower tax burden in most cases.

This descriptive analysis highlights how the New Regime is generally more beneficial, particularly for taxpayers who do not maximize deductions under the Old Regime.

Hypothesis Testing (Paired T-Test Results)

Statistic	Value
Mean Tax Liability (Old)	₹1,55,600
Mean Tax Liability (New)	₹1,16,415.38
T-Statistic	4.0142
P Value (One-Tail)	0.00085
P Value (Two-Tail)	0.00172
Critical t-Value (One-Tail , $\alpha = 0.1$)	1.3562
Critical t-Value (Two-Tail , $\alpha = 0.1$)	1.7823

Interpretation (One-Tailed and Two-Tailed Tests)

- One-Tailed Test:

Since p-value (0.00085) < α (0.1), we do not accept the null hypothesis (H_0). This confirms that tax liability is significantly lower in one regime compared to the other.

- Two-Tailed Test:

Since p-value (0.00172) < α (0.1), we do not accept the null hypothesis (H_0). This confirms a significant difference in tax liabilities between the Old and New Regimes, meaning that tax burdens are not the same under both systems.

Key Insight from Hypothesis Testing

- The New Tax Regime has a low mean tax liability, making it beneficial for taxpayers without deductions.
- The Old Regime, despite its higher mean tax liability, offers significant tax savings for those utilizing deductions, reinforcing the role of tax-saving instruments.
- The rejection of H_0 (in both one-tailed and two-tailed tests) statistically confirms that the choice of tax regime impacts tax liability significantly.

V. CONCLUSION AND FUTURE WORK

1. Tax Liability Comparison

- For incomes below ₹10L, the New Regime is more beneficial due to higher standard deductions and rebates.
- For incomes above ₹10L, the Old Regime becomes favourable as deductions under Sections 80C & 80D provide significant tax relief.
- For incomes exceeding ₹15L, the Old Regime is more tax-efficient, reinforcing the importance of tax-saving instruments.

2. Statistical Significance of Tax Differences

- The paired T - test identifies statistically significant difference ($p < 0.1$), proving that tax liability varies across regimes.

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- The elimination of deductions in the New Tax Regime increases tax liability, making the Old Regime better for those with deductions.

3. Optimal Tax Regime Choice

- For taxpayers with minimal deductions, the New Regime is preferable due to its simplicity and lower tax rates.
- For taxpayers maximizing deductions (₹1.75L+), the Old Regime provides greater tax benefits, particularly for higher-income groups.

The study confirms that tax regime selection should be personalized based on an individual's deduction eligibility and income level.

- The New Regime benefits lower-income taxpayers with simplified tax filing and lower rates.
- The Old Regime remains advantageous for those utilizing tax-saving deductions, making it a better choice for high-income earners with multiple tax-saving investments.
- The T-test results statistically validate the importance of deductions in tax planning, proving their role in reducing tax burdens.

4. Trends in Taxpayer Compliance and Direct Tax Collections

- ITR filings increased by 104.91%, from 3.80 crore (FY 2013-14) to 7.78 Cr (FY 2022-23).
- Direct tax collections rose by 160.52%, from ₹6.38 lkh Cr (FY 2013-14) to ₹16.63 lakh Cr (FY 2022-23).
- For Assessment Year (AY) 2024-25, a record 7.28 Cr ITRs were filed, marking a 7.5% Hike from AY 2023-24.
- 5.27 crore taxpayers opted for the New Tax Regime, in comparison to 2.01 crore under the Old Tax Regime, indicating a 72% adoption rate for the new system.

These figures highlight a rising tax base and improved compliance, potentially due to policy reforms and digitalization efforts. The phasing out of deductions under the New Tax Regime has simplified tax filing but may reduce incentives for long-term investments and savings, which could impact economic growth.

This study gives a comparison of the Old Tax and New Tax Regimes in India on basis of tax payment, permissible expenses, and taxpayer preference. Based on the study, for income up to ₹7,00,000, both the regimes have the same tax burdens due to the Section 87A rebate. However, for higher income levels, the New Regime will result in lesser tax burdens and would thus be a preferable option for taxpayers who are not utilizing deductions to the maximum. Paired T-test values indicate towards a steep variation in the tax liabilities under the two regimes, i.e., they do not share comparable tax burdens. The New Regime facilitates easy compliance with taxes via reduction in rates with no deduction, whereas the Old Regime continues to suit taxpayers who take full use of maximum deductions, primarily Section 80C (Rs 1,50,000), Section 80D (Rs 25,000), and Standard Deduction (Rs 50,000).

The study also shows what taxpayers are choosing. In assessment year 2024-25, 72% of taxpayers chose the New Regime because it is easier and less taxable. But removal of benefits in the New Regime might discourage people from saving and investing in the long run. This is because most ways of saving tax, which were popular under the Old Regime, do not get the tax benefits anymore.

This study highlights that the choice between the two regimes should be made based on personal income levels, tax-saving capacity, and financial planning objectives. As much as the New Regime is easy and low in rates, the Old Regime provides significant tax relief to individuals who have a plan to employ deductions. Therefore, taxpayers should seriously evaluate their financial status before selecting the most beneficial regime.

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