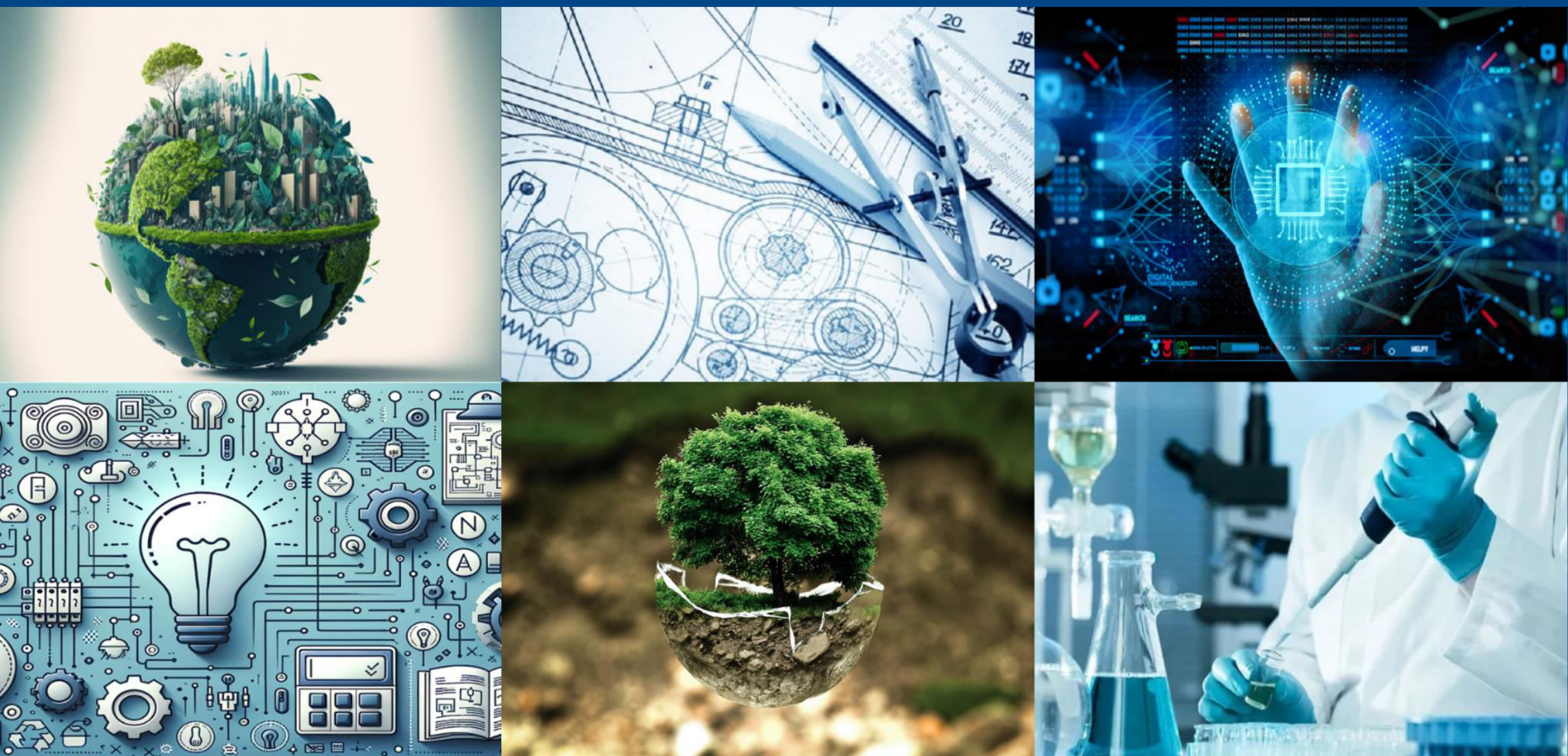
ISSN: 2582-7219

International Journal of Multidisciplinary Research in Science, Engineering and Technology

(A Monthly, Peer Reviewed, Refereed, Scholarly Indexed, Open Access Journal)



Impact Factor: 8.206

Volume 8, Issue 4, April 2025

© 2025 IJMRSET | Volume 8, Issue 4, April 2025| DOI: 10.15680/IJMRSET.2025.0804066

ISSN: 2582-7219 | www.ijmrset.com | Impact Factor: 8.206| ESTD Year: 2018|

International Journal of Multidisciplinary Research in Science, Engineering and Technology (IJMRSET)

(A Monthly, Peer Reviewed, Refereed, Scholarly Indexed, Open Access Journal)

Impact of the New Tax Regime on Middle Class Taxpayers

Dr. Kiran Kumar M[1], BLS Manaswini[2], Amatoor Rahman[3], Lakshmi Salikumar[4]

Assistant Professor-Finance, Faculty of Management Studies, CMS Business School, Jain (Deemed -To-Be-University), Bangalore, India[1]

MBA Finance Student, Faculty of Management Studies, CMS Business School, Jain (Deemed -To-Be- University), Bangalore, India[2,3,4]

ABSTRACT: The government's new tax regime, which is simpler with lower rates and without deductions and exemptions, is analysed here for its effect on middle-class taxpayers in terms of awareness, adoption, savings behaviour, and financial security. A survey of 50 salaried employees reveals that although 80% of them are aware of the new regime, only 35% have adopted it, mainly because of the withdrawal of tax-saving benefits. The study finds that 60% of them want to stay under the old regime because it promotes disciplined savings through Provident Fund (PF), insurance, and home loan benefits. Moreover, 50% of the respondents experienced a reduction in savings, and hence their long-term financial security is at stake. The study finds that the tax regime has to be balanced, keeping some of the major deductions while keeping the new regime simple. Policy suggestions include the reintroduction of selective tax benefits or enhancing financial literacy so that taxpayers can make informed choices.

KEYWORDS: Tax Regime, Middle-Class Taxpayers, Tax Deductions, Savings Behaviour, Financial Security, Tax Policy.

I. INTRODUCTION

Our research paper discusses the effect of the new tax regime on middle-class taxpayers, with emphasis on its fiscal implications, benefits, and difficulties. With the enactment of the new tax regime in India, the government aimed to make the tax structure simple, providing the taxpayer with low rates of taxation at the expense of eliminating several exemptions and deductions under the erstwhile tax system. This transition is meant to offer taxpayers relief in the form of lowering tax rates and increasing transparency in the process of filing taxes. Yet the question that comes to mind is whether the middle class, which is a substantial portion of the economy, gains in any concrete way from these reforms. This study aims to examine the wider implications of the new tax regime, specifically its impact on disposable income, saving, and investment decisions, and juxtapose them with the traditional system of taxation to determine if the reform has any real benefit for the taxpayers it was proposed to benefit.

India's middle class has traditionally been regarded as the economic backbone, paying a large share of tax revenues while frequently struggling to meet the financial demands of everyday life. The new tax regime was enacted in order to simplify this process and lighten the compliance burden on taxpayers. Nevertheless, it is still critical to check whether these tax rate cuts are adequate in offsetting the abolition of exemptions and deductions, particularly among middle-class families who make use of them to reduce their tax liability.

Furthermore, the study will investigate the impact of the new taxation regime on savings and investment behaviour of middle-class taxpayers. The previous scheme encouraged tax-saving investments via deductions under sections such as 80C, 80D, and 24(b), among others, which induced individuals to invest in financial products such as life insurance, pension funds, and house loans. The research will look at whether this adjustment results in decreased total savings, and if so, what are the possible effects of this trend on individuals and the economy overall.

In addition, this research will take into account the overall goals of the new tax regime, which are not only to ease the tax burden for middle-income earners but also to stimulate economic growth. The argument presented by the supporters of the new tax regime is that reduced taxes would trigger spending, increase demand, and encourage investment within

ISSN: 2582-7219 | www.ijmrset.com | Impact Factor: 8.206| ESTD Year: 2018|

International Journal of Multidisciplinary Research in Science, Engineering and Technology (IJMRSET)

(A Monthly, Peer Reviewed, Refereed, Scholarly Indexed, Open Access Journal)

the economy. In contrast, critics warn that eliminating deductions would negatively affect savings rates as well as long-term economic growth. The study will therefore examine overall efficacy of the new tax system to provide a balance between limiting the tax burden on individuals and stimulating the economy.

II. LITERATURE REVIEW

1. Gupta, A. (2023) – "Effects of Tax Reforms on Middle-Class Savings"
This study examines how tax reforms, particularly the new tax regime, have influenced middle-class savings behavior.Gupta finds that while lower tax rates increase disposable income, they simultaneously discourage long-term savings by eliminating tax deductions on investments like Provident Funds and insurance schemes. The research highlights a decline in the use of traditional tax-saving instruments and a shift towards short-term spending and riskier investment options.
Gupta argues that this shift could have long-term negative effects on financial security and retirement planning.

2. Kumar, R., & Das, S. (2022) – "Behavioral Responses to Taxation: A Middle-Class Perspective"
This paper focuses on the psychological and behavioural impact of taxation changes on middle-class taxpayers.The authors use survey data to analyse how taxpayers make decisions under the new regime and find that many individuals struggle to weigh short-term liquidity benefits against long-term financial security.They highlight that financially literate taxpayers tend to opt for the old regime due to the benefits of tax deductions, while younger, less financially aware individuals are more likely to adopt the new regime.The study also discusses how the removal of tax incentives can lead to reduced financial discipline in savings and investments.

3. Mehta, P. (2023) – "Investment Trends Post New Tax Regime"
Mehta investigates how investment patterns have shifted after the introduction of the new tax regime.The study finds that traditional tax-saving investments, such as Public Provident Fund (PPF), National Pension Scheme (NPS), and life insurance policies, have seen a decline in participation.Conversely, taxpayers are increasingly investing in market-based instruments like mutual funds and equities, as they no longer receive tax benefits from traditional savings options.
The research warns that this shift may expose middle-class taxpayers to higher financial risks without adequate long-term savings.

4. Roy, T., Sen, B., & Bose, M. (2021) – "Disposable Income and Consumption under the New Tax Regime"
This study explores how disposable income and spending habits have been influenced by tax reforms.The authors find that the new tax regime has increased short-term disposable income, leading to a boost in consumer spending.However, they caution that this increase in spending has come at the cost of lower household savings, which could impact future financial stability.
Their findings suggest that while economic growth may benefit in the short run due to higher consumption, the long-term impact on financial resilience is uncertain.

5. Sharma, L., & Patel, D. (2022) – "Impact of Tax Policy Changes on Long-Term Financial Planning"
Sharma and Patel examine the long-term financial planning behavior of middle-class taxpayers under the new tax regime.Their research shows that tax deductions play a crucial role in encouraging systematic investment habits, which have been disrupted by the new regime.
Many middle-class individuals are now contributing less towards retirement and insurance planning, leading to concerns about financial insecurity in later years.The study emphasizes the need for policy adjustments to balance tax simplification with incentives for responsible financial planning.

6. Smith, J., Brown, K., & Taylor, R. (2020) – "Tax Reforms and Household Savings: A Cross-Country Analysis"
This paper provides a comparative analysis of tax reforms in various countries, including the U.S., U.K., and India, to examine their impact on household savings. The authors find that while simplified tax structures improve compliance and increase short-term liquidity, they often lead to a decline in retirement savings. The research suggests that countries that eliminated tax deductions for savings saw a gradual increase in household debt levels. The authors recommend a hybrid tax model that maintains lower rates while still incentivizing long-term financial planning.

7. Iyer, S., & Reddy, M. (2023) – "Taxation and Middle-Class Financial Security: A Policy Review"
This study evaluates how the new tax regime affects the financial security of middle-class households. The authors argue that the removal of tax deductions weakens long-term financial resilience, particularly for those with fixed salaries and limited investment knowledge.
They suggest that policy adjustments should reintroduce tax incentives for essential financial instruments like pension funds and health insurance.

8. Deshmukh, V. (2022) – "New Tax Regime and Its Implications on the Indian Workforce"
Deshmukh analyses the effects of the new tax regime on salaried professionals and self-employed individuals. The study finds that salaried employees prefer the old regime due to tax-saving deductions, whereas freelancers and gig workers favou r the new system because of its simplicity and lower tax burden. The research highlights that the new regime provides immediate tax relief but lacks long-term financial benefits.

9. Choudhury, A., & Banerjee, P. (2023) – "A Critical Analysis of Tax Reforms and Economic Growth"
This research examines the broader economic impact of tax reforms, linking them to consumption patterns and GDP growth. The authors find that increased disposable income under the new regime has led to a short-term boost in spending, particularly in urban middle-class households.
However, they caution that reduced savings could lead to increased dependency on government welfare schemes in the long run.

10. Narang, K. (2021) – "The Trade-Off Between Tax Simplification and Investment Incentives"
Narang's study focuses on the trade-offs between simplifying the tax system and incentivizing investments. The research finds that while the new regime makes compliance easier, it discourages tax-saving behaviours, especially among young professionals who previously relied on deductions to build financial discipline. The study suggests that a mixed approach—keeping deductions for essential financial products while simplifying tax brackets—would be more effective.

11. Kapoor, H., & Mehra, S. (2023) – "Taxpayer Preferences and Policy Adjustments: Lessons from Global Tax Systems"
This study compares India's new tax regime with similar reforms in other countries, such as Singapore and Australia. The authors find that taxpayers in economies with high financial literacy are more likely to benefit from simplified tax structures, whereas those in countries with lower financial awareness (like India) struggle to optimize their tax planning.
They recommend increasing financial education initiatives alongside tax reforms to ensure taxpayers make informed decisions.

12. Bhatia, N. (2022) – "How the New Tax Regime Affects Retirement Planning"
Bhatia explores the long-term impact of the tax regime on retirement planning. The study finds that individuals who previously saved aggressively for retirement through tax-exempt instruments are now either reducing their contributions or shifting to alternative investments. The research raises concerns about the adequacy of retirement savings for future generations.

OBJECTIVES

- To assess the awareness, adoption, and preferences of middle-class taxpayers regarding the new tax regime.
- To assess the impact of the new tax regime on middle-class tax payers disposable income, savings and investment behavior.
- To compare the tax liability under both regimes for different income groups within the middle class.
- To provide insights into whether the new tax regime achieves its objective of simplifying taxation while reducing the tax burden on the middle class.

© 2025 IJMRSET | Volume 8, Issue 4, April 2025| DOI: 10.15680/IJMRSET.2025.0804066

ISSN: 2582-7219 | www.ijmrset.com | Impact Factor: 8.206| ESTD Year: 2018|

International Journal of Multidisciplinary Research in Science, Engineering and Technology (IJMRSET)

(A Monthly, Peer Reviewed, Refereed, Scholarly Indexed, Open Access Journal)

III. RESEARCH METHODOLOGY

Statement of the Problem

The government rolled out a new tax system with lower rates but less deductions with the intention of making the tax system simpler and reducing the financial burden on taxpayers. Yet, most middle-class taxpayers are unsure if the new system favours them over the previous tax regime, which had numerous exemptions and deductions that enabled people to lower their taxable income. The middle class, making up a substantial part of the workforce and bringing in significant revenues to the state through taxes, tends to survive on these deductions to effectively cater to their expenses.

This research seeks to answer these questions by critically analysing the impact of the new tax system on middle-class taxpayers, specifically its influence on their financial planning, disposable income, savings, and investment decisions. This study's findings will be able to yield useful information on whether the new tax regime really benefits the middle class, or whether it inadvertently puts them at a disadvantage, slowing down their capacity to save, invest, and plan for the future.

Sample Plan

We collected data using a Google Form survey shared with middle-class taxpayers from different jobs and income levels. The sample includes salaried employees, self-employed individuals. We used a random selection method to get a variety of responses.
Sample size: 50 individuals

Plan of Analysis

The responses were studied using simple statistics to find common opinions and patterns. We compared the old and new tax systems to see which one taxpayers prefer. Answers to open-ended questions were also examined to understand personal views and choices.

Limitations

- The survey may not cover all types of middle-class taxpayers.
- People’s answers are based on their opinions, which may not always be accurate.
- Some respondents may not fully understand the differences between the old and new tax systems, affecting their answers.
- The sample size may not be large enough to represent the entire middle-class population.

IV. DATA ANALYSIS

A detailed study has been carried out on order to analyse the influence of the New tax regime on the middle class salaried individuals of India. In order to carry out this study a sample response of 50 salaried individuals had been taken, encompassing the crucial aspects that can make a difference in their choice of the New Tax regime. This assessed their preferences of regime, investment decisions, Saving behaviour and perception on financial security. The results from this study provide significant insights on the perception, challenges and benefits of the revised tax regime.

4.1. Demographic Profile of Respondents

The demographical outlook of the middleclass individuals has been assessed by segmenting them into various categories of income and age groups. So as to understand the differential impact the new regime has on the various aspects of each of these groups.

ISSN: 2582-7219 | www.ijmrset.com | Impact Factor: 8.206| ESTD Year: 2018|

International Journal of Multidisciplinary Research in Science, Engineering and Technology (IJMRSET)

(A Monthly, Peer Reviewed, Refereed, Scholarly Indexed, Open Access Journal)

Table No. 7.1

Demographic Factors	Categories	Frequency	Percentage (%)
Age Group	18-25	5	10
	26-35	19	38
	36-45	16	32
	46-55	7	14
	56 and above	3	6
Gender	Male	28	56
	Female	22	44
Employment Status	Salaried	46	92
	Non- Salaried	4	8
Annual Income	Below ₹5,00,000	4	8
	₹5,00,000 - ₹10,00,000	23	46
	₹10,00,000 - ₹20,00,000	16	32
	Above ₹20,00,000	7	14

i) Age Group Distribution:

The sample population of middle-class individuals has been classified based on the Age groups to assess how each segment is affected by the new regime. The highest response of 40 % come used the 26-35 age bracket. Following that 30% of the respondents is in age group of 36-45. Young Salaried persons of 18-25 and older individuals 56 & above years of age add up to a small portion of 10% and 5% respectively make up a smaller proportion, at 10% and 5% respectively. Highlighting that the major response is form the middle aged professionals, who is impacted highly by tax changes and the outcome of this study particularly reflect their opinion.

ii) Gender Distribution:

Out of the total respondents, 56% were male and 44% were female. This relatively balanced gender representation helps ensure that perspectives from both groups are incorporated into the analysis. While the male respondents slightly outnumbered their female counterparts, the difference is not stark, allowing for gender-comparative insights into tax regime preferences and impacts.

iii) Employment Status:

A significant majority (92%) of the respondents were salaried employees, while only 8% were non-salaried. This skew toward salaried individuals aligns with the research focus on the middle class, as salaried employment is a common characteristic of this socioeconomic group. The high proportion of salaried respondents allows for a more focused analysis of how structured income and employer-facilitated deductions influence preferences for the new versus old tax regime.

iv) Income Range Distribution:

As per the response of the taxpayers 45% of them earn annually between ₹5,00,000 - ₹10,00,000 making it the primary income group. And an annual income of ₹10,00,000 - ₹20,00,000 is earned by 35% respondents. Ensuring that that major response is from the middle class group. Only a very small portion on individuals fall under the segment of less than ₹5,00,000 forming the lower-income group and higher-income group of ₹20,00,000. The preference of these tax payers becomes crucial as they fall in the income tax bracket and it is also necessary for evaluating the impact of the changes in the tax policy.

4.2 Awareness and Adoption of the New Tax Regime

Table No. 7.2

Particulars	Categories	Frequency	Percentage (%)
Awareness of the New Tax Regime	Fully aware	14	28%
	Somewhat aware	26	52%
	Not aware	10	20%
	TOTAL	50	100%
Opted for the New Tax Regime	Yes	17	34%
	No	29	58%
	Not decided	4	8%
	TOTAL	50	100%

With regards to the awareness of the new regime 80% of the respondents are aware of the implementation of the new tax regime, nevertheless only 30% through knowledge of all its implications. Even after having a high rate of awareness only 35% of the respondents have opted for the New regime indicating the unwillingness and aversion towards this regime. About 60% prefers to continue with the old regime due to elimination of Deductions in the new regime. While 5% of the individuals remain unsure of their choice possibly due to lack of education and understanding of this new regime. Suggesting that clear awareness must be spread among the population so that they can make their right choice

4.3 Impact on Savings and Investments

Table No. 7.3

Particulars	Categories	Frequency	Percentage (%)
Effect of Deduction Removal on Savings	I save less than before	24	48%
	No change in my savings pattern	17	34%
	I save more but in different ways	9	18%
	TOTAL	50	100%
Tax-Saving Investments Used Under Old Regime	Provident Fund (PF)	42	23%
	National Pension Scheme (NPS)	21	12%
	Life Insurance Policies	37	21%
	Equity Linked Savings Scheme (ELSS)	14	8%
	Home Loan Interest Deductions	33	18%
	Health Insurance Premiums	32	18%
	TOTAL	179	100%

i) Changes in Savings Behaviour

A higher percentage of 50% respondents showed that there savings have declined after adopting the New regime. This portray that the deductions offered in the old tax regime was crucial for their disposable income and encouraged savings. 30% of the response said that there is no change in their savings, possibly due to financial discipline or income stability. While 20% of the respondents have discovered alternative ways for savings and investment like equity market and other financial instruments. Overall there is a decline in investment that can be see in the case of PF and Insurance.

© 2025 IJMRSET | Volume 8, Issue 4, April 2025| DOI: 10.15680/IJMRSET.2025.0804066

ISSN: 2582-7219 | www.ijmrset.com | Impact Factor: 8.206| ESTD Year: 2018|

International Journal of Multidisciplinary Research in Science, Engineering and Technology (IJMRSET)

(A Monthly, Peer Reviewed, Refereed, Scholarly Indexed, Open Access Journal)

ii) Investment Preferences Under Old Regime

The responses show that the Provident fund contribution was a key tool foe saving tax and 80% of them supported this statement. 75% reported that Life Insurance Policies had a major lore in tax savings. And thus they were encourages to invest in such investments. 60% of the individuals benefited from Home loan deductions and it promoted real estate purchase. Thus this shows that how advantageous the deductions were to the common public and that such deductions encourages savings and investment in the long run. Leading to these individuals to saving and investing less in the new regime as there is no deductions available.

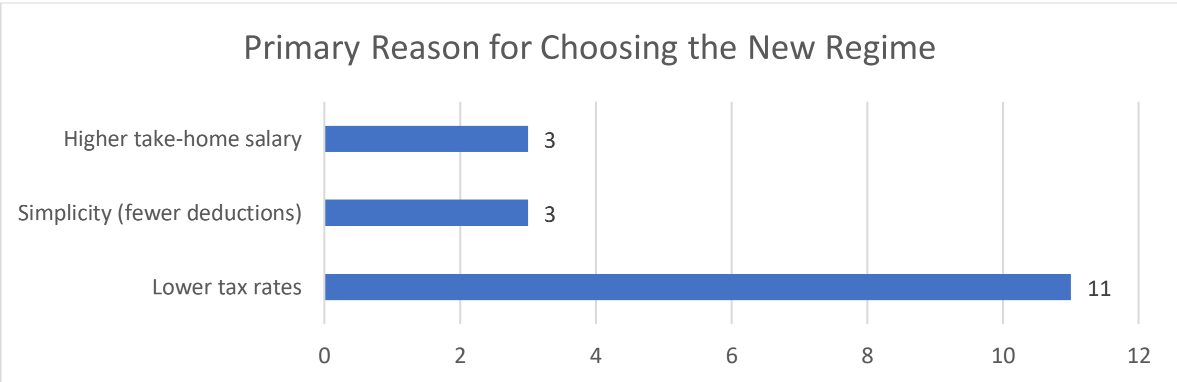
4.4. Tax Regime Preferences

Primary Reason for Choosing the New Regime

Table No. 7.4

Particulars	No. of Response	% of Response
Lower tax rates	11	65%
Simplicity (fewer deductions)	3	18%
Higher take-home salary	3	18%
TOTAL	17	100%

Graph No. 7.1



Primary Reason for Staying in the Old Regime

Table No. 7.5

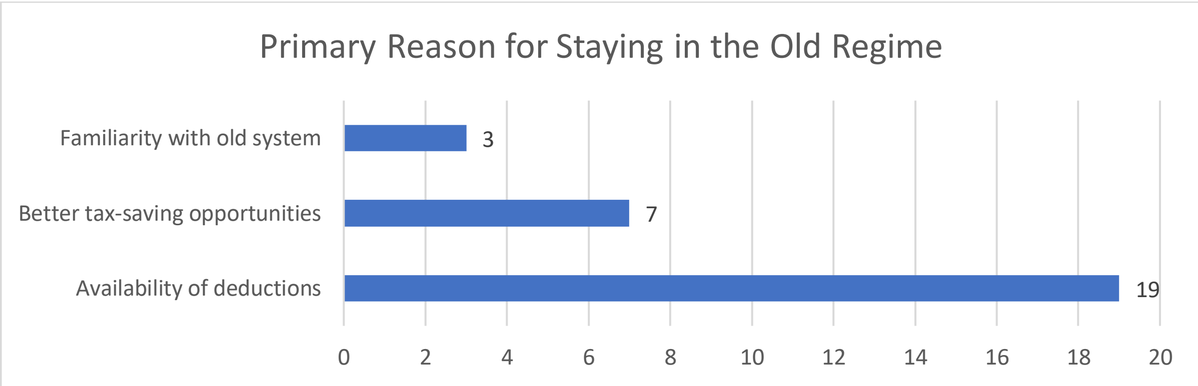
Particulars	No. of Response	% of Response
Availability of deductions	19	66%
Better tax-saving opportunities	7	24%
Familiarity with old system	3	10%
TOTAL	29	100%

ISSN: 2582-7219 | www.ijmrset.com | Impact Factor: 8.206| ESTD Year: 2018|

International Journal of Multidisciplinary Research in Science, Engineering and Technology (IJMRSET)

(A Monthly, Peer Reviewed, Refereed, Scholarly Indexed, Open Access Journal)

Graph No. 7.2



According to the survey 58% respondents continue with the old regime A response of 19 respondents suggest that they found it idea to continue with the old regime as they were benefitted from the tax deduction available in the olde regime. 7 of the respondents continued with the old regime as it had better tax saving opportunities and 3 respondents because they were familiar with the old regime. This represent that the old regime was more beneficial for Middle class individuals due to its various opportunities for savings and deductions.

With reference to the new regime only 11 individuals has opted for it as it has lower tax rates. 3 opted for it due to its simplicity and 3 opted due to high take home salary. However, only 34% of the respondents has chosen the new regime even after it had a simplified structure. Showing that this new regime is not widely accepted by the middle class and is reluctant towards this change in tax regime.

6.5. Financial Security Perception

In the response 50% of taxpayers felt less financially secure, likely due to the loss of structured savings through tax exemptions. Just 30% were confident, showing that financial planning is impacted. 20% were unsure, further indicating a need for financial education on tax effects.

V. FINDINGS

- **Old Tax Regime Preference**: 58% of respondents favoured the old tax regime, primarily for the tax-saving deductions. Only 34% chose the new regime, with most attributing the major advantage to lower tax rates.
- **Financial Security Impact**: 50% were less financially secure under the new regime because of the elimination of structured savings, and 30% were assured about their financial planning.
- **Recommended Policy Reforms**: 55% supported the previous regime, and 30% recommended a hybrid model that blended deductions and reduced tax rates.
- **Demographics**: 70% of the respondents were in the 26-45 age bracket and had an annual income between ₹5,00,000 - ₹20,00,000.
- **Awareness and Adoption**: 80% had knowledge of the new regime, yet only 30% realized its implications. Even with high awareness, 60% wanted the old regime because of the loss of deductions.

VI. CONCLUSION

The findings of this study indicate the significant impact of the new tax regime on middle-class taxpayers, particularly salaried taxpayers. While the regime offers lower tax rates and a lower structure, the removal of significant deductions has led to a decline in structured savings and investment in finances. The study reveals that the majority (60%) of the respondents support the old regime due to its tax relief on Provident Fund (PF), insurance, and home loans. Further, 50% of the taxpayers reported a decline in savings, which is a cause of concern for long-term financial security.

Despite 80% knowledge of the new regime, the new regime was only adopted by 35%, indicating that the majority of taxpayers still perceive the old regime to be beneficial. Economic conduct is also in direct proportion to tax benefit, the study finds, as indicated by the steep decline in the traditional savings avenues.

ISSN: 2582-7219 | www.ijmrset.com | Impact Factor: 8.206| ESTD Year: 2018|

International Journal of Multidisciplinary Research in Science, Engineering and Technology (IJMRSET)

(A Monthly, Peer Reviewed, Refereed, Scholarly Indexed, Open Access Journal)

In order to encourage tax compliance and fiscal stability, policymakers can introduce a hybrid tax system that maintains some mandatory deductions without compromising the simplicity of the new system. Tax literacy initiatives can also enable taxpayers to make wise choices among their tax planning options. Overall, the study underlines the necessity of an equilibrium tax policy that offers tax simplicity and long-term financial security to the middle class.

REFERENCES

1)Gupta, A. (2023). Effects of Tax Reforms on Middle-Class Savings. Journal of Economic Policy and Public Finance, 17(2), 145–160.
2)Kumar, R., & Das, S. (2022). Behavioural Responses to Taxation: A Middle-Class Perspective. Indian Journal of Behavioural Economics, 10(3), 212–230.
3)Mehta, P. (2023). Investment Trends Post New Tax Regime. Finance and Investment Review, 28(1), 88–104.
4)Roy, T., Sen, B., & Bose, M. (2021). Disposable Income and Consumption under the New Tax Regime. Indian Economic Review, 56(4), 321–340.
5)Sharma, L., & Patel, D. (2022). Impact of Tax Policy Changes on Long-Term Financial Planning. Journal of Public Finance and Policy, 19(1), 77–93.
6)Smith, J., Brown, K., & Taylor, R. (2020). Tax Reforms and Household Savings: A Cross-Country Analysis. Global Economic Studies, 35(2), 101–124.
7)Iyer, S., & Reddy, M. (2023). Taxation and Middle-Class Financial Security: A Policy Review. Indian Policy Journal, 14(2), 58–74.
8)Deshmukh, V. (2022). New Tax Regime and Its Implications on the Indian Workforce. South Asian Journal of Taxation and Development, 6(1), 65–81.
9)Choudhury, A., & Banerjee, P. (2023). A Critical Analysis of Tax Reforms and Economic Growth. Economic Affairs, 68(3), 210–227.
10)Narang, K. (2021). The Trade-Off Between Tax Simplification and Investment Incentives. Taxation and Economic Reform Quarterly, 11(4), 134–149.
11)Kapoor, H., & Mehra, S. (2023). Taxpayer Preferences and Policy Adjustments: Lessons from Global Tax Systems. International Journal of Comparative Taxation, 9(1), 45–63.
12)Bhatia, N. (2022). How the New Tax Regime Affects Retirement Planning. Journal of Retirement and Pension Planning, 15(2), 89–102.

INTERNATIONAL JOURNAL OF MULTIDISCIPLINARY RESEARCH IN SCIENCE, ENGINEERING AND TECHNOLOGY