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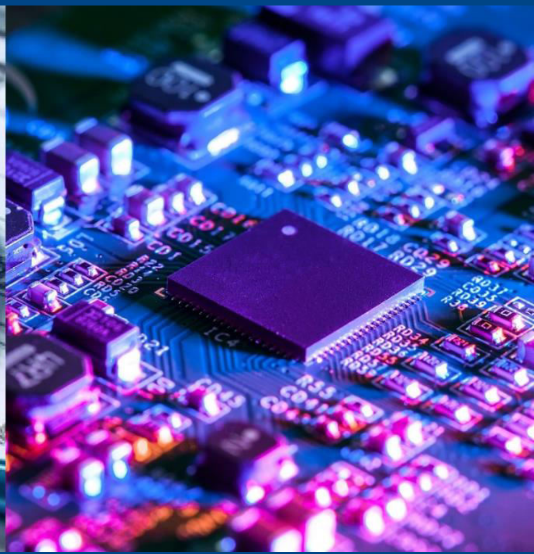

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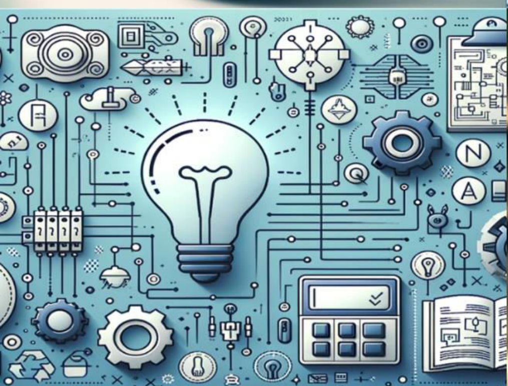

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Comparison of Tax Burden under New and Old Tax Regime

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ABSTRACT: This research paper explores the comparison of tax burden under the new and old tax regimes in India, examining their impact on taxpayers across various income groups. The study provides an in-depth analysis of the structure and components of both tax systems, focusing on the differences in tax slabs, exemptions, deductions, and overall financial implications for individuals and businesses. By utilizing empirical data and statistical analysis, the research highlights how each regime affects taxpayers' liabilities and economic behavior. Additionally, the paper discusses the incentives and disincentives created by both systems and evaluates their potential effect on compliance, revenue generation, and economic growth. Through this comparative analysis, the paper aims to provide insights into which tax structure offers a fairer, more efficient, and growth-friendly approach, while also addressing concerns regarding simplicity and tax administration. The findings are expected to guide policymakers in making informed decisions for future tax reforms

KEYWORDS: Tax burden, New tax regime, Old tax regime, Income groups, Taxpayer impact, Tax slabs, Exemptions, Deductions, Taxpayer liabilities, Economic behaviour

I. INTRODUCTION

Taxation plays a crucial role in a nation's economic framework, influencing individual financial planning, corporate investment decisions, and overall economic growth. In India, the introduction of the new tax regime in the Union Budget 2020–21 brought a significant shift in the income tax structure, offering taxpayers an alternative to the long-standing old tax regime. The key distinction between these regimes lies in their approach to tax calculation: while the old tax regime provides various deductions and exemptions to reduce taxable income, the new tax regime simplifies the structure by offering lower tax rates but eliminating most exemptions and deductions.

The choice between the two tax regimes has sparked widespread debate among taxpayers, financial experts, and policymakers. While the new tax regime aims to simplify tax compliance and provide relief to certain income groups, concerns remain regarding its impact on long-term savings and financial planning. This study seeks to compare the tax burden under both regimes across different income groups, analyzing their financial implications and determining which system provides greater benefits to taxpayers in various scenarios.

Through empirical analysis and statistical comparisons, this research evaluates the advantages and disadvantages of each tax regime. By assessing factors such as tax slabs, exemptions, deductions, and overall financial burden, the study aims to offer insights that can help individuals make informed tax-related decisions while also providing policymakers with valuable input for future tax reforms.

II. LITERATURE REVIEW

The literature review provides a comprehensive analysis of the ongoing debate surrounding the new and old tax regimes in India, particularly focusing on their implications for salaried individuals and taxpayers. The new tax regime, introduced in the Union Budget 2020-21, offers lower tax slabs but eliminates many of the deductions and exemptions available under the old regime, such as House Rent Allowance (HRA), Leave Travel Allowance (LTA), and other

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deductions under the Income Tax Act, 1961 (Bora, 2024; Bagul, 2021). The government retained the old regime as an optional alternative, allowing taxpayers to choose between the two based on their financial circumstances (Bagul, 2021). The new regime was designed to simplify the tax structure and reduce compliance burdens, particularly for individuals with lower incomes and minimal investments (Pande, 2023; Ojha & Agarwala, 2024). However, the initial response to the new regime was lukewarm, as many taxpayers, especially those in higher income brackets, continued to prefer the old regime due to its extensive deductions and exemptions (Kumar Gupta et al., 2023; Dwivedi & Patel, 2023).

In the Union Budget 2023, the government introduced significant amendments to make the new regime more attractive. These changes included increasing the tax rebate limit under Section 87A to Rs. 7 lakh, reducing the highest surcharge rate from 37% to 25%, and making the new regime the default option while still allowing taxpayers to opt for the old regime (Kamble & Isak, 2023; Sah, 2023). These adjustments were aimed at encouraging more taxpayers to transition to the new regime, particularly younger individuals and those with lower incomes who may not benefit significantly from the deductions available under the old regime (Ojha & Agarwala, 2024). Studies indicate that the new regime is particularly advantageous for individuals with incomes up to Rs. 10 lakh, as it offers lower tax rates and simplifies tax filing processes (Kumar Gupta et al., 2023; Mahato, 2022). However, higher-income individuals and those with substantial investments in tax-saving instruments continue to find the old regime more beneficial due to the availability of deductions and exemptions (Dwivedi & Patel, 2023; Pathak, n.d.).

A key point of contention is the trade-off between lower tax rates under the new regime and the loss of deductions under the old regime. The old regime incentivizes savings and investments through instruments such as Public Provident Fund (PPF), National Savings Certificate (NSC), and life insurance policies, which are not available under the new regime (Bora, 2024; Bagul, 2021). This has led to a divide in taxpayer preferences, with younger, lower-income individuals favoring the new regime for its simplicity and lower tax burden, while older, higher-income individuals and salaried professionals prefer the old regime for its long-term financial benefits (Ojha & Agarwala, 2024; Pande, 2023). Additionally, the new regime's lack of flexibility in claiming deductions has been a significant deterrent for many taxpayers, particularly those who rely on exemptions such as HRA and LTA to reduce their taxable income (Kamble & Isak, 2023; Sah, 2023).

The literature also highlights the broader implications of the new tax regime on financial planning and savings behavior. The old regime, which focuses on tax-saving investments, has traditionally motivated people to create long-term savings portfolios that are aligned with their financial goals and ensure security for the future (Mahato, 2022; Pathak, n.d.). In contrast, the new regime's focus on lower tax rates and increased disposable income may shift spending patterns, reducing savings rates among taxpayers (Pande, 2023). Some research studies, however, indicate that the new regime's simplicity and lower compliance costs would enhance general tax compliance while reducing reliance on tax professionals, especially for people with uncomplicated financial situations (Ojha & Agarwala, 2024; Kumar Gupta et al., 2023).

The government has been pushing the new regime, but it has been adopted slower than what was expected. Many taxpayers remain unaware of the nuances of both regimes, leading to confusion and suboptimal choices (Dwivedi & Patel, 2023; Prasad, 2024). Researchers emphasize the need for greater taxpayer education and awareness to help individuals make informed decisions about which regime best suits their financial circumstances (Rao, 2022; Sharma, 2020). Additionally, there is a call for further reforms to the new regime, such as reintroducing certain deductions or exemptions, to make it more appealing to a broader segment of taxpayers (Kumar Gupta et al., 2023; Pathak, n.d.).

In conclusion, the literature underscores the complexity of the choice between the old and new tax regimes in India. While the new regime offers lower tax rates and simplified compliance, its lack of deductions and exemptions makes it less attractive for higher-income individuals and those with significant savings and investments. The old regime, with its extensive tax benefits, continues to be favored by many taxpayers, particularly those in higher income brackets. The government's recent amendments to the new regime have made it more appealing, but its success ultimately depends on taxpayer awareness, financial planning preferences, and the ability to balance short-term tax savings with long-term financial goals (Bora, 2024; Ojha & Agarwala, 2024; Kumar Gupta et al., 2023).

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III.OBJECTIVES AND METHODOLOGY OF PROPOSED SURVEY

Objectives of the study:

1. To explore the relevance and applicability of the new and old tax regimes for taxpayers in India
2. To analyze and compare the effectiveness of the new and old tax regimes across varying income levels

Research Methodology:
The methodology uses both primary and secondary data for comparing the tax burden in old regime and new regime on taxable citizens of India considering the pain and pleasure points in both regimes for different taxable income situations and finding out for which regime is better in different situations. Secondary data has been taken from government reports, academic papers and tax-related statistics. This data is analysed quantitatively comparing tax liabilities across various income slabs. The study aims to use this data to provide a comparative analysis of the tax burden in both regimes.

IV.DATA ANALYSIS AND INTERPRETATION

Income Tax Slabs and Rates: Old vs. New Regime
One of the fundamental differences between the Old Tax Regime and the New Tax Regime is the structure of tax slabs and rates. Understanding these differences is crucial for analyzing how the tax burden varies across income groups.

4.1 Old Tax Regime (With Exemptions & Deductions)
• Under the old system, taxpayers paid higher tax rates but could claim various deductions and exemptions to lower their taxable income.
• Taxpayers could reduce their total tax liability by availing deductions under Section 80C, 80D, HRA (House Rent Allowance), LTA (Leave Travel Allowance), and others.
• This system was beneficial for individuals who actively invested in tax-saving instruments like PPF, EPF, NPS, insurance, and mutual funds.
Tax Slabs for the Old Regime (FY 2024-25, AY 2025-26)

Income Range (₹)	Tax Rate
0 - 2.5 lakh	Nil
2.5 - 5 lakh	5%
5 - 10 lakh	20%
Above 10 lakh	30%

4.1.1 Additional Benefits:
• Standard Deduction of ₹50,000.
• Exemptions like HRA, LTA, professional tax deduction.
• Deductions under 80C (₹1.5L), 80D (health insurance), 80E (education loan), NPS (80CCD(1B)), etc.
• Rebate under Section 87A for incomes up to ₹5 lakh.

4.1.2 Example Calculation (Old Regime)
Assume that a person earns an annual income of ₹12 lakh and claims deductions of ₹2 lakh (₹1.5 lakh under 80C and ₹50,000 standard deduction).
• Taxable Income: ₹12,00,000 - ₹2,00,000 = ₹10,00,000

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• Tax Calculation:
- ✓ 0 to 2.5L → Ni
- ✓ 2.5L - 5L → 5% on ₹2.5L = ₹12,500
- ✓ 5L - 10L → 20% on ₹5L = ₹1,00,000
- ✓ Above 10L → 30% on ₹0L = ₹0
- ✓ Total Tax (Before Rebate): ₹1,12,500 + Cess (4%)

4.2 New Tax Regime (Lower Rates, No Exemptions)

Introduced in Budget 2020, the new tax regime provides for lower tax rates but withdraws most deductions and exemptions.

It is meant for taxpayers who do not invest much in tax-saving instruments and want a relatively less complex taxation process.

Tax Slabs for the New Regime (FY 2024-25, AY 2025-26)

Income Range (₹)	Tax Rate
0 - 3 lakh	Nil
3 - 6 lakh	5%
6 - 9 lakh	10%
9 - 12 lakh	15%
12 - 15 lakh	20%
Above 15 lakh	30%

4.2.1 Extra Benefits:

• Standard Deduction of ₹50,000 is available from Budget 2023.
• No deductions under 80C, 80D, HRA, LTA, etc.
• Section 87A rebate increased: No tax for income up to ₹7 lakh.

4.2.2 Example Calculation (New Regime)

For the same person having ₹12 lakh (without deduction):

Taxable Income: ₹12,00,000 - ₹50,000 = ₹11,50,000

Tax Computation:
- ✓ 0 to 3L → Nil
- ✓ 3L - 6L → 5% on ₹3L = ₹15,000
- ✓ 6L - 9L → 10% on ₹3L = ₹30,000
- ✓ 9L - 12L → 15% on ₹3L = ₹45,000
- ✓ Total Tax (Before Rebate): ₹90,000 + Cess (4%)

The Survey dataset based on taxpayer preferences between the Old Tax Regime and the New Tax Regime in India. This dataset consists of 200 responses

4.3 Survey Details

• Sample Size: 200 respondents
• Survey Mode: Online & in-person
• Target Group: Salaried individuals, self-employed professionals, and business owners
• Income Groups: ₹5L-₹10L, ₹10L-₹15L, ₹15L-₹20L, ₹20L+
• Age Groups: 20-30, 30-40, 40-50, 50+
• Location Coverage: Metro cities and Tier 2 cities

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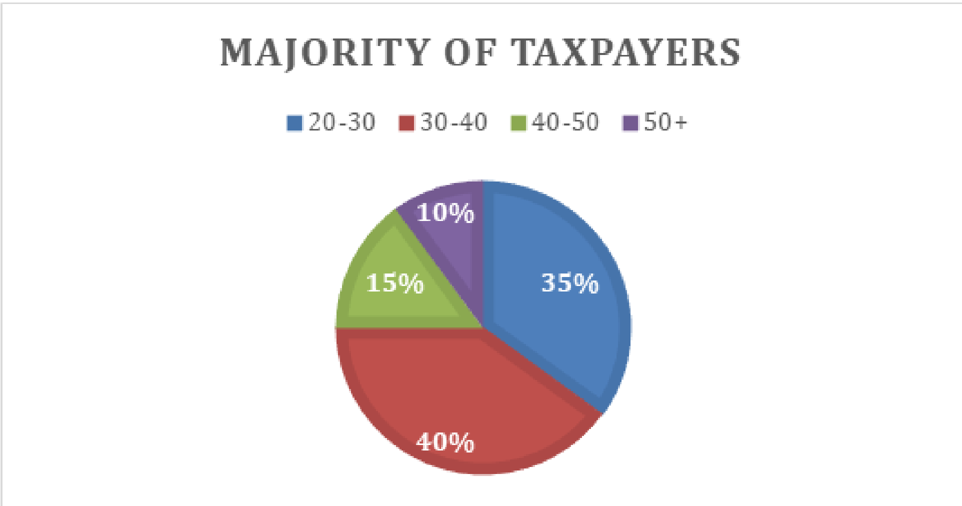
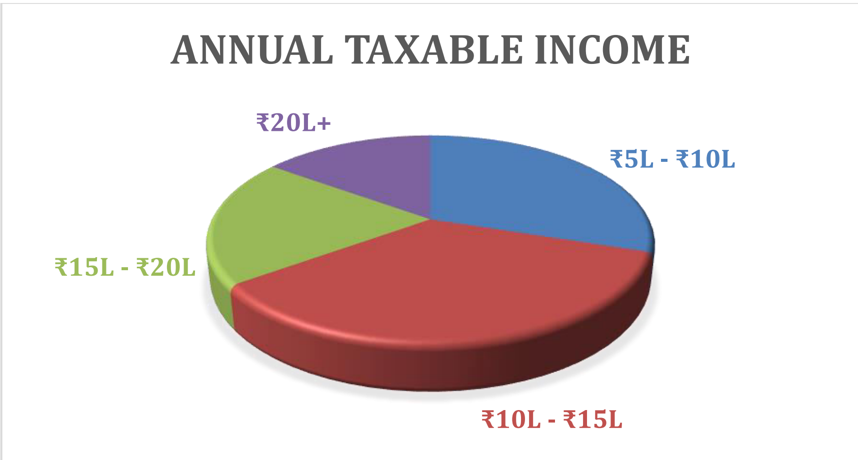
4.3.1 Survey Questions

- What is your age group?



Majority of taxpayers fall in the 30-40 age group, actively investing for tax savings.

- What is your annual taxable income?



Most respondents fall in the ₹10L - ₹15L income bracket, where tax-saving decisions are crucial.

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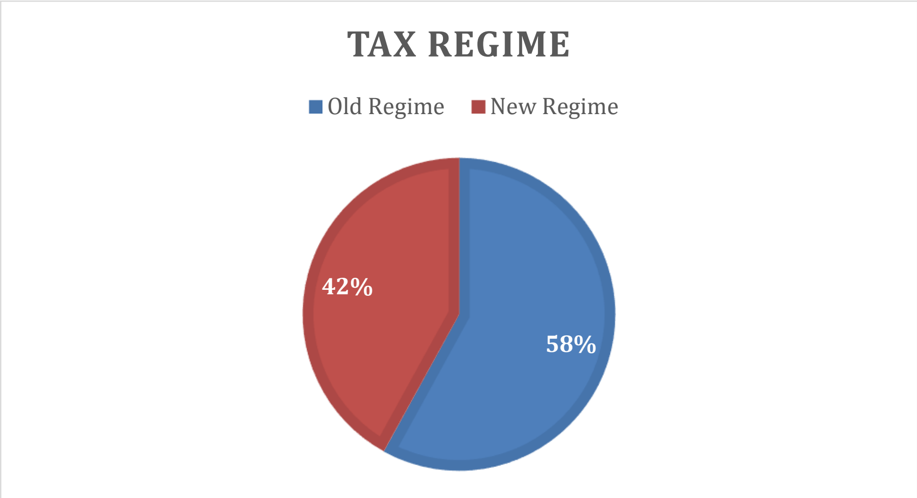
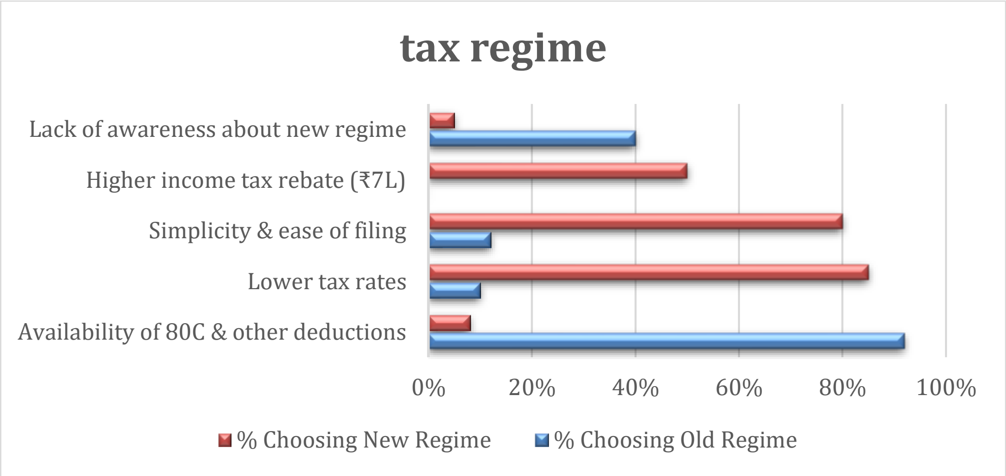
❖ Which tax regime are you currently following?



More taxpayers still prefer the Old Regime due to available deductions.

❖ Why did you choose your tax regime?



• 92% of Old Regime followers rely on 80C, HRA, and other deductions.
• New Regime is chosen for simplicity & lower tax rates.
• 40% of Old Regime users were unaware of the New Regime benefits.

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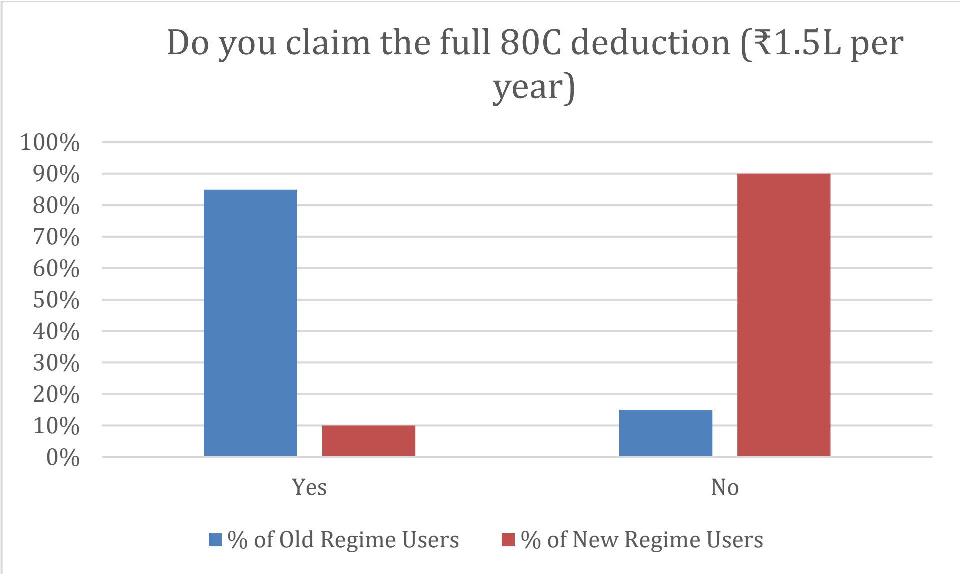
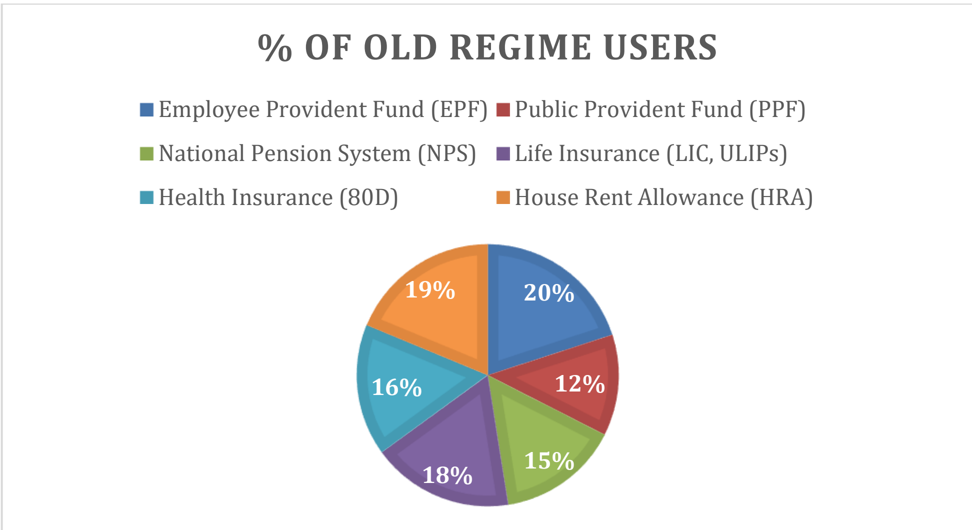
❖ Do you claim the full 80C deduction (₹1.5L per year)?



• 85% of Old Regime taxpayers use full 80C benefits.
• Most New Regime taxpayers don't use tax-saving investments.

❖ What tax-saving instruments do you use under the Old Regime?



• EPF, LIC, and HRA are the most common tax-saving tools.
• NPS is gaining popularity for additional tax benefits.

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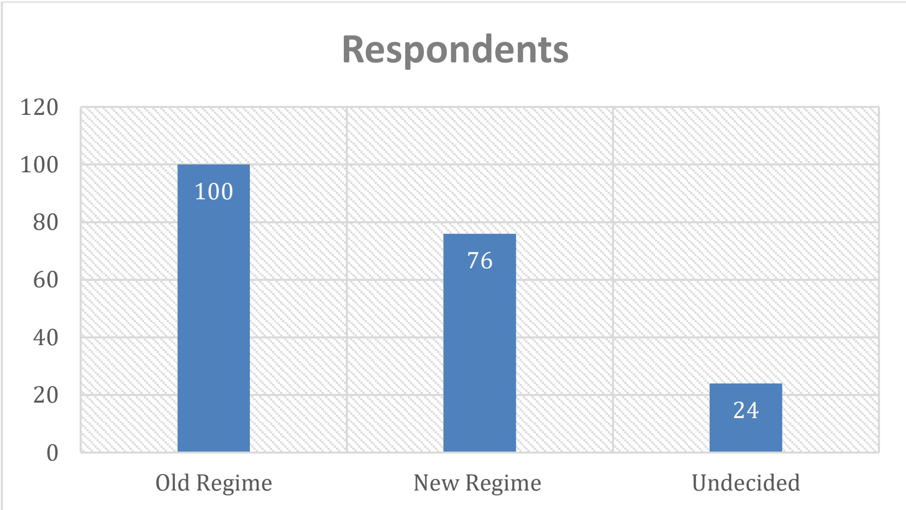
❖ What tax regime do you plan to follow next year?



12% of taxpayers are still undecided about switching tax regimes.

V. KEY FINDINGS

- 58% of taxpayers prefer the Old Regime, while 42% use the New Regime.
- Majority (92%) of Old Regime users rely on tax deductions (80C, HRA, 80D).
- 40% of Old Regime users lack awareness of the New Regime's benefits.
- Most New Regime users do not invest in tax-saving schemes and prefer simplicity.
- 72% of taxpayers would switch if the tax-free income limit increases.

VI.CONCLUSION

The comparison between the old and new tax regimes in India reveals distinct advantages and disadvantages for different taxpayer groups. The old tax regime, with its structured deductions and exemptions, continues to be the preferred choice for individuals who actively engage in tax-saving investments such as Provident Funds, insurance policies, and other eligible instruments. On the other hand, the new tax regime, which offers simplified tax slabs and lower rates, is more beneficial for individuals who prefer ease of compliance and do not claim substantial deductions.
The findings from the research indicate that while the new tax regime has the potential to enhance tax compliance due to its straightforward nature, it may discourage long-term savings and financial planning among taxpayers. The preference for the old regime among higher-income groups and salaried individuals underscores the importance of tax deductions in shaping financial decisions. Additionally, survey data suggests that a significant portion of taxpayers remain unaware of the full benefits of the new regime, highlighting the need for increased awareness and education on tax policy changes.

Overall, both tax structures serve different purposes, and the optimal choice depends on an individual's income level, financial goals, and investment habits. Policymakers may consider refining the new regime by incorporating selective deductions or incentives to make it more attractive while maintaining simplicity. Future tax reforms should aim to balance revenue generation, ease of compliance, and long-term financial security for taxpayers.

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