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A Study of Comparison of New Tax Regime and Old Tax Regime

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ABSTRACT

A new tax regime was announced in budget 2020-21; individual taxpayers will have to pay their taxes according to new regime. This research paper aims to analyze the comparison between old tax regime and new tax regime. Secondary data collected from various literature and journal publications were used. The paper highlights changes in old tax regime and new tax regime with respect to individual. The paper also focuses on the changes in tax deduction and exemptions.

Keywords: - Tax regime, Tax payers, Tax Slabs, Tax deductions

INTRODUCTION

Taxes are the most important source of income for central and state governments, and the economic development of each country depends on the size of the tax structure it receives. A simple and easy tax structure leaves no chance of tax evasion and also brings prosperity to the country's economy. In the 2020 Budget, Indian Finance Minister Hon'b Nirmala Sitaraman announced a new tax policy. The main feature of this new tax is that it includes more tax at lower prices than the old tax. The reason for the introduction of this system is that most of the taxpayers demanded the reduction of the tax rate for the existing plates.

Another problem with the new tax code is that people don't get all the benefits they got under the old tax system.

Tax: A tax is mandatory fee or financial charges impose by a government on an individual or an organization to collect revenue for people works. Failure in payment of taxes or resisting to contribute towards it invites punishment under the law.

- **Compulsory contribution:** No one can refuse to pay taxes, because the refusal will lead to legal proceedings and sanctions.
- **Personal Obligations:** It sets out tax obligations.
- **General benefit:** Taxes are used for the general benefits and welfare of the people.
- **No quid pro quo:** the taxpayer receives any clear, direct and proportionate benefit from the government.

REVIEW OF LITERATURE

Sheth (2020) states that in the long-term, a taxpayer would indeed end up paying a higher tax amount in the new regime as compared to the old regime.

Chakrabarty (2020) discusses the difference between the old and new tax systems and the various exemptions and deductions now unavailable to those who opt for the new tax system.

Piyush Kumar (2016) focused on approximating the receptivity of individual income tax in that case a change in imbalance in the dissemination of income among the individuals rises yield of personal income tax in the country.

RESEARCH METHODOLOGY

- Descriptive type of research is used for the study.

Research Objectives

1. To study old and new tax regime with respect to individuals.
2. To study the changes in the tax regime.

3. To study the deduction changes in tax regime.
4. To study exemptions allowed under new tax regime.

Hypothesis of the study

"New tax Regime is more favorable to the taxpayers than old tax regime."

Method & Sources of data collection

The secondary data is collected from various public sources such as financial budget and websites etc.

Sampling Technique: Convenience sampling this used for this study.

Tools of Data Analysis: Secondary data was collected and compared on the basis of MS-excel sheet.

TAX REGIME

A: Old Tax regime

The income tax slabs were not tweaked for the old tax regime for FY24 and remain as below

Total Income	**Tax rate**
Up to RS. 2,50,000	0%
From Rs. 2,50,000 to Rs. 5,00,000	5%
From Rs. 5,00,000 to Rs. 10,00,000	20%
Above Rs. 10 Lakh	30%

However, if you opted for the old tax regime, you can claim a long list of exemptions, some of which are as follows:

Under section 80C of the Income Tax Act, income up to Rs. 1.5 Lakh is exempt. It is suitable for pension funds (EPF, PPF), selected mutual funds (ELSS), ULIP, tax-advantaged fixed deposit or other saving scheme like National Saving Certificate, Sukanya Samriddhi Yojana, the saving scheme for the elderly, etc. Life Insurance Payments, Home Loan Principle Payments, or Children's school fees may also be exempt under section 80C.

1. An additional NPS investment of Rs.50,000 can be deducted from taxable income under Section 80CCD.
2. Other tax benefits, such as the cost of health insurance for you and parents, may be exempt under Section 80D.
3. Other benefits include allowance for holidays, housing allowance, depending on salary structure and rent paid, and many other exemptions that can be claimed under the old tax system.

B: **New Tax regime**

The new tax regime offers six tax slabs, with zero tax for income up to Rs.3 lakh, and a tax rate rising by 5 percentage points for incremental income of Rs.3 lakh each.

On Income	Tax Rate
Up to Rs. 3,00,000	**Nil**
From Rs. 3,00,001 to Rs. 6,00,000	**5%**
From Rs. 6,00,001 to Rs. 9,00,000	**10%**
From Rs. 9,00,001 to Rs. 12,00,000	**15%**
From Rs. 12,00,001 to Rs. 15,00,000	**20%**
Above Rs. 15,00,000	**30%**

Also, the above tax tables are for those with taxable income above tax Rs. 7 Lakh. Accordingly to the latest announcement of the Union Budget 2023, those with taxable income below Rs. 7 Lakh will be exempt from tax.

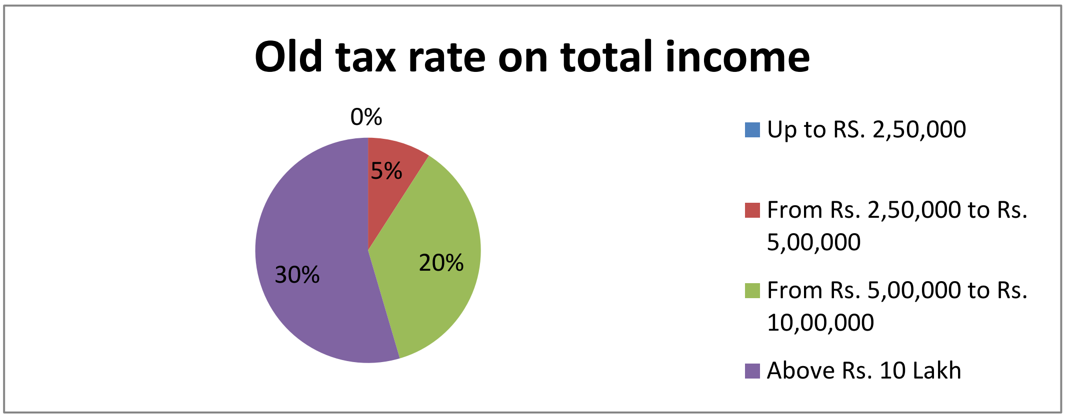
Income tax is levied gradually. This means that if a person earns RS. 10 Lakh, the flat rate of 15% will not be taxed on his entire income (as shown in the table above). In the calculation of the tax , their incomes up to Rs. 3,00,000 will not be taxed, while income of Rs. 3,00,000 to Rs. 6,00,000 will be taxed at 5% (i.e. % of Rs. 3,00,000 = Rs.15000); Rs.6,00,000 to Rs.9,00,000 will be deducted at Rs. 10,000 will be taxed at 10% (Rs.30,000) while the remaining Rs. 1,00,000 will be taxed at 15% (Rs.15,000), bringing the total tax to Rs. 60,000.

As before, the new tax system comes with one condition. Unlike those who opted for the old tax system, the new tax system does not allow taxpayers to take advantage of a general exception. Although, salaried taxpayers can deduct an additional Rs.50,000 from their income as a standard deduction for calculating tax.

DATA ANALYSIS AND FINDINGS

Old Tax regime (before 2020)

Total Income	**Tax rate**
Up to RS. 2,50,000	0%
From Rs. 2,50,000 to Rs. 5,00,000	5%
From Rs. 5,00,000 to Rs. 10,00,000	20%
Above Rs. 10 Lakh	30%

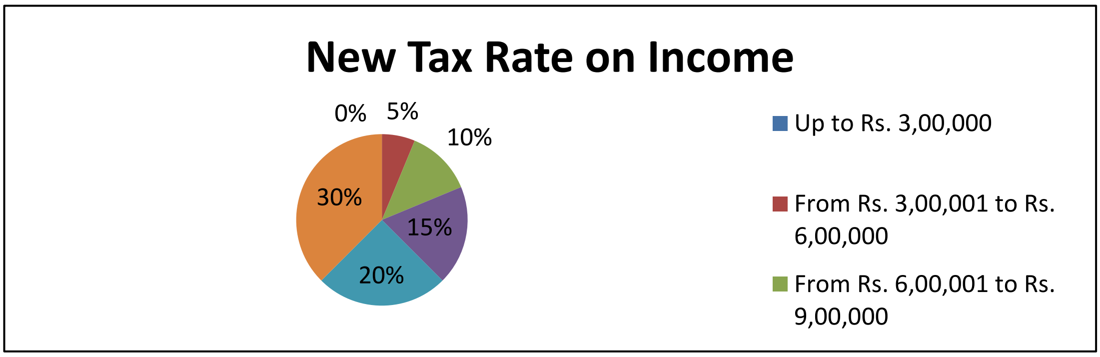


Interpretation

- Up to RS.2,50,000 income, no individual have to pay tax.
- From Rs. 2,50,000 to Rs. 5,00,000 on income, every individual have to pay 5% tax rate.
- From Rs. 5,00,000 to Rs. 10,00,000 on income, every individual have to pay 20% tax rate.
- Above Rs. 10 Lakh on income, every individual have to pay 30% tax rate.

New Tax regime (after 2020)

On Income	Tax Rate
Up to Rs. 3,00,000	**Nil**
From Rs. 3,00,001 to Rs. 6,00,000	**5%**
From Rs. 6,00,001 to Rs. 9,00,000	**10%**
From Rs. 9,00,001 to Rs. 12,00,000	**15%**
From Rs. 12,00,001 to Rs. 15,00,000	**20%**
Above Rs. 15,00,000	**30%**



Interpretation

- Up to Rs. 3,00,000 income, no individual have to pay tax.
- From Rs. 3,00,001 to Rs. 6,00,000 on income, every individual have to pay 5% tax rate.

- From Rs. 6,00,001 to Rs. 9,00,000 on income, every individual have to pay 10% tax rate.
- From Rs. 9,00,001 to Rs. 12,00,000 on income, every individual have to pay 15% tax rate.
- From Rs. 12,00,001 to Rs. 15,00,000 on income, every individual have to pay 20% tax rate.
- Above Rs. 15,00,000 on income, every individual have to pay 30% tax rate.

The hypothesis of the study "New tax Regime is more favorable to the taxpayers than old tax regime." is proven to be true on the basis of this example. Hence, the **hypothesis is accepted.**

FINDINGS AND CONCLUSION

A tax is a mandatory fee or financial charge levied by any government on an individual or an organization to collect revenue for public works providing the best facilities and infrastructure. There are two types of tax: a) Direct tax : Income Tax, Corporate Income, Tax Security Transaction, Tax Minimum Alternative Tax, Professional Tax, Other Tax, Abolished Direct Tax b) Indirect tax : GST

The new tax regime was introduced to simplify taxes and reduce the burden of compliance on taxpayers. In new old tax regime Higher Tax Rebate Limit: Full tax rebate on an income up to ₹7 lakhs has been introduced. Whereas, this threshold is ₹5 lakhs under the old tax regime. This means that taxpayers with an income of up to ₹7 lakhs will not have to pay any tax at all under the new tax regime. There is a change in the new tax regime such as tax slab, tax deduction and also inclusion of new individuals in tax slab which were exempted from earlier tax slab.

An individual is exempted from the investment he/she has done in that financial year. The exemption or deduction can be claimed under section 80C and 80D. There are also changes in tax regime, like the tax slab is increased from four to six. As per old tax regime the individual who is earning Rs.2,50,000 does not have to pay the taxes , now as per the new tax regime the slab is increased to Rs.3,00,000. Also as per the old tax regime there is 30% tax rate was there for people who earn above RS.10,00,000 but as per new tax regime the tax slab is increased to Rs.15,00,000. There is exemptions for the people whose earning upto Rs.3,00,000 and also for the individual who is earning over Rs.10,00,000 to Rs.12,00,000 has a tax rate of 15% in new tax regime whereas earlier it came under flat 30% tax bracket, by this the tax payers has a chance of having good savings. Hence, it can be concluded that new tax regime is more favorable to the taxpayers than old tax regime.

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