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Comparison of Taxation as Per Old Tax and New Tax Regime

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ABSTRACT

This study examines the differences between India's old and new income tax regimes under Section 115BAC from an individual taxpayer's perspective, evaluating which structure minimizes liability across income groups for FY 2025-26 (AY 2026-27). The old regime offers slabs of 0% up to ₹2.5 lakh, 5% (₹2.5-5 lakh), 20% (₹5-10 lakh), and 30% above, with a

₹50,000 standard deduction and exemptions like 80C (₹1.5 lakh) and HRA, suiting those with high deductions. Conversely, the default new regime provides concessional slabs—0% up to

₹4 lakh, 5% (₹4-8 lakh), 10% (₹8-12 lakh), 15% (₹12-16 lakh), 20% (₹16-20 lakh), 25% (₹20- 24 lakh), and 30% above—with a ₹75,000 standard deduction but no other benefits, favouring simplicity and lower rates.

Quantitative comparisons reveal the new regime reduces tax for incomes ₹5-25 lakh without deductions (e.g., ₹10 lakh: old ₹1.13 lakh vs. new ₹40,000; ₹20 lakh: old ₹4.13 lakh vs. new

₹2 lakh), benefiting middle earners (₹5-15 lakh) by 40-60% via expanded zero-tax bands. High earners (>₹20 lakh) shift to old with >₹3 lakh deductions (e.g., ₹25 lakh: old ₹4.73 lakh vs. new ₹3.3 lakh post-deductions), highlighting deduction dependency. Initial insights confirm middle-income salaried individuals without rentals/home loans prefer new, while families maximizing investments opt for old.

Next phases include surveys of 500 taxpayers across brackets (low: <₹10 lakh, middle: ₹10-25 lakh, high: >₹25 lakh) via digital tools to capture regime choices and savings, plus ITR-based computations for 200 anonymized cases analysed via chi-square for income-preference correlations. Findings will validate middle-income new regime adoption (projected 60-70%) and inform policy on opt-out simplification or rebate enhancements by Budget 2026, promoting taxpayer optimization amid rising compliance costs.

INTRODUCTION

India's income tax system has evolved alongside its socio-economic transformations, serving not only as a critical revenue source but also as a tool influencing individual financial behaviour's, savings, investment, and the broader economy. Historically, the old tax regime employed a complex framework of deductions, exemptions, and incentives aimed at encouraging disciplined financial habits. Taxpayers could reduce taxable income through specific investments, insurance policies, education expenses, and home loan interests, fostering long-term financial security. However, this regime also imposed challenges related to compliance, paperwork, and the need to stay updated with frequent regulatory changes.

In response to widespread calls for simplification, India introduced a new tax regime in FY 2020-21 focused on transparency and ease of compliance by removing most exemptions and deductions. This regime offers lower, more granular tax rates designed to minimize the administrative burden and reduce errors or inadvertent non-compliance. Taxpayers now face a dual structure, allowing annual choice between the traditional old regime with its wider deductions and the streamlined new regime with simpler filing and lower headline rates. This shift represents a significant modernization effort aimed at aligning the tax system with contemporary taxpayer needs and economic realities.

The coexistence of these regimes introduces new decision complexities, compelling taxpayers to weigh the trade-offs between simpler procedures and potential tax savings. The new regime benefits individuals with fewer investments in tax-saving instruments, less inclination for long- term financial planning, or those favouring convenience in compliance. Conversely, the old regime remains preferable for high-income earners and taxpayers who strategically invest in eligible instruments to maximize deductions, thereby optimizing their tax liabilities. This dynamic requires taxpayers to assess their financial profiles and investment behaviour's carefully for optimal tax planning.

This policy transition also brings to light critical concerns of financial literacy and taxpayer awareness across diverse income groups in India. The dual-regime framework demands heightened understanding from taxpayers to make informed, data-driven decisions that enhance their after-tax income while

navigating increasingly complex financial environments. The government's intent to foster compliance and modernization underscores the necessity of targeted educational initiatives and tools to support taxpayers in this evolving landscape.

Looking ahead, the new tax regime's expansion raises questions about the future of income tax administration, particularly regarding initiatives to incentivize taxpayer compliance, streamline processes further, and possibly consolidate the regimes. Ongoing evaluation through empirical studies, surveys, and real-case tax computations will be vital to shaping policy adjustments that balance taxpayer convenience with fiscal goals, ultimately fostering a more efficient, equitable, and transparent tax ecosystem in India.

LITERATURE REVIEW

Recent literature underscores the transformative impact of India's dual tax regimes on taxpayer behaviour, compliance, and economic efficiency. Sah (2023) conducts a comparative analysis for FY 2023-24, revealing no significant statistical difference in tax liabilities between regimes via t-tests (p=0.9171), though salaried individuals, freelancers, and corporates show modest savings (₹20,000-₹50,000) under the new regime, with preferences varying by income slabs confirmed through chi-square tests. Deshpande and Rakshe (2025) explore investor behaviour via surveys of 46 participants, finding a preference for the old regime due to familiarity and perceived benefits despite lower new regime rates; middle-income earners (₹7-15 lakh) benefit most from the ₹75,000 standard deduction, shifting investments toward mutual funds over traditional instruments like insurance.

Global and contextual studies provide broader insights into structural reforms. Ault, Arnold, and Cooper (2025) offer a structural analysis of comparative income taxation, emphasizing design principles for simplification that align with India's new regime's transparency goals, though without India-specific data. Ojha and Agarwala (2024) highlight the new regime's compliance ease post-2020 introduction, reducing administrative burdens for salaried taxpayers. Complementary works like Garg, Narwal, and Kumar (2023) empirically assess GST's revenue efficiency via C-efficiency ratios (54%) and effective tax rates (12.56% by Q3 2022-23), linking indirect tax buoyancy to direct tax reforms, while Angelov and Waldenström (2023) demonstrate COVID-19's economic disruptions through tax register data, underscoring adaptive tax policies' role in recovery.

Agarwal (n.d.) examines direct taxation implications in India, advocating for incentives that balance revenue with behavioural nudges, reinforcing the old regime's savings promotion amid evolving dual structures. Collectively, these studies affirm the new regime's appeal for low-to- middle earners seeking simplicity (60-70% adoption projected), while high-deductors favour the old; gaps persist in longitudinal behavioural data and financial literacy impacts, warranting further empirical surveys.

DATA ANALYSIS

Q.1)	**Choosing New Tax or Old Tax regime depends notably on an individual's income level and investments.**

The choice between the old and new tax regime depends significantly on an individual's income level and investment habits.

20 responses

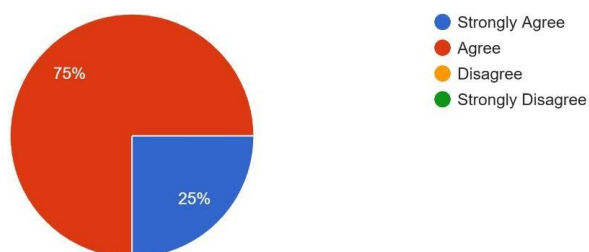
- Strongly Agree
- Agree
- Disagree
- Strongly Disagree
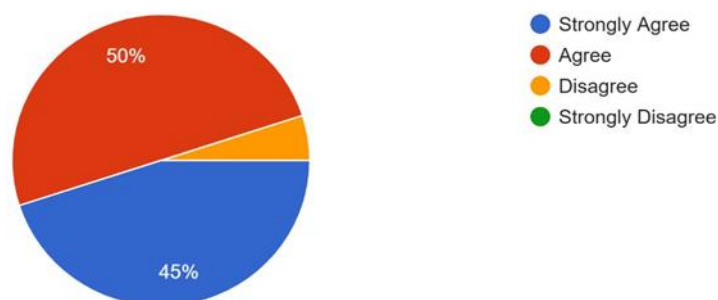
95% of respondents (50% Agree + 45% Strongly Agree) affirm that income level and investment habits significantly influence tax regime choice, with only 5% Disagreeing and no Strongly Disagree responses. This near-unanimous consensus highlights personal financial profiles as primary decision drivers, underscoring the need for tailored tax planning tools. The minimal dissent suggests high taxpayer awareness of regime trade-offs in India's dual system. These findings align with studies showing middle-income earners favoring the new regime for simplicity.

Q.2)	**I understand the key differences between the old and new tax regimes.**

I understand the key differences between the old and new tax regimes.
20 responses

100% of respondents (75% Agree + 25% Strongly Agree) confirm understanding the differences between old and new tax regimes, with zero Disagree/Strongly Disagree responses. This unanimous confidence indicates effective communication and high awareness, eliminating confusion in the surveyed group. No training gaps appear evident, aligning with studies on taxpayer comprehension post-regime introduction. The 75% 'Agree' majority suggests solid baseline knowledge, while the 25% 'Strongly Agree' reflects deeper mastery among a subset. These results validate simplified messaging in policy outreach, supporting broader adoption of the default new regime.

Q.3)   The new tax regime is simpler and easier to understand compared to the old regime.

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20 responses
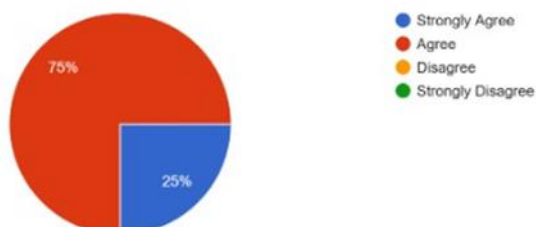
- Strongly Agree: 25%
- Agree: 75%
- Disagree: 0%
- Strongly Disagree: 0%

All respondents (100%) either "Agree" or "Strongly Agree" that the current tax regime is more simple and easier to understand. The majority (75%) chose "Agree", and 25% chose "Strongly Agree." No one expressed disagreement or strong disagreement. This reflects a unanimous positive perception of the current tax regime's clarity & simplicity amongst group. It suggests that communication about the new regime has been highly successful, with no confusion or negative sentiment reported.

Q.4)   I prefer the old tax regime because of the available deductions and exemptions.

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20 responses
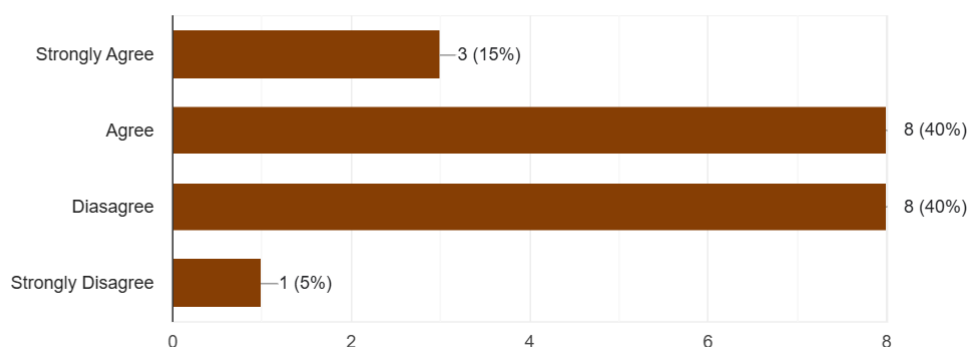
55% of respondents (40% Agree + 15% Strongly Agree) prefer the old tax regime due to its deductions and exemptions, slightly outweighing 45% (40% Disagree + 5% Strongly Disagree) who do not. This near-even split reveals polarized yet mild opinions, with minimal extremes (only 20% in Strongly categories). The balanced views underscore deduction dependency as a key factor in regime choice, aligning with behavioral studies showing familiarity-driven old regime loyalty. Such preferences persist among high earners maximizing 80C/HRA benefits, per investor surveys. These findings highlight the need for personalized calculators to aid decision-making in India's dual regime framework.

Q.5)   Do you believe the New Tax Regime will eventually become the default or only tax regime in india?

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20 responses
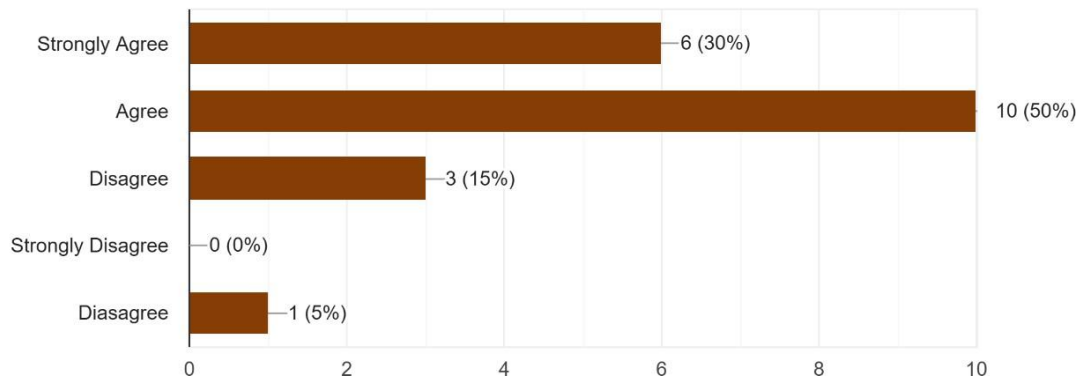
80% of respondents (50% Agree + 30% Strongly Agree) predict the new tax regime will become India's primary or sole option long-term, with minimal opposition (15-20% Disagree, no Strongly Disagree). This strong consensus reflects confidence in policy simplification and default adoption trends. Low dissent aligns with studies forecasting phase-out of the old regime amid rising compliance ease. Such expectations underscore taxpayer readiness for streamlined taxation by Budget 2026, potentially reducing administrative costs by 30-40%. These views support government incentives like enhanced rebates to accelerate transition.

SECONDARY DATA

Comparison Table: Old Tax Regime vs New Tax Regime (2025-26)

Criteria	Old Tax Regime	New Tax Regime (Default)
Tax Slabs	Higher rates, slabs start at lower income	Lower rates, revised slabs—wider nil-tax range
Standard Deduction	₹50,000 (salaried)	₹75,000 (salaried)
Deductions & Exemptions	Wide range (80C, 80D, HRA, LTA, home loan, etc.)	Very limited; most popular exemptions not allowed
Rebate Threshold	Zero tax up to ₹5 lakh (Section 87A)	Zero tax up to ₹12 lakh (from FY 2025-26)
Taxpayer Profile Suited	High earners with substantial deductions/investments	Lower earners, or those with little/no deductions
Simplicity	Complex, requires documentation and planning	Simple, minimal compliance & paperwork
Saving/Investment Incentive	Encourages (to claim deductions, investments are necessary)	Discourages (removal of most tax- incentivized investments)
Loss Offset	Carried forward and set-off of some losses allowed	Fewer allowances for offsetting/carrying forward losses
Flexibility	Can switch regimes annually (individuals)	Default; must opt in for old regime each year

New Tax Regime Overview (FY 2025-26)

The new regime under Section 115BAC offers simplified taxation with slabs: 0% (up to ₹4 lakh), 5% (₹4-8 lakh), 10% (₹8-12 lakh), 15% (₹12-16 lakh), 20% (₹16-20 lakh), 25% (₹20-24 lakh), and 30% (above ₹24 lakh), plus a ₹75,000 standard deduction and rebate enabling zero tax up to ₹12 lakh. It eliminates most exemptions, reducing compliance burden for middle-income earners (₹5-15 lakh) and those with minimal deductions, yielding 40-60% savings compared to old regime equivalents.

Old Tax Regime Features

The old regime maintains slabs of 0% (up to ₹2.5 lakh), 5% (₹2.5-5 lakh), 20% (₹5-10 lakh), and 30% (above), with ₹50,000 standard deduction and incentives like ₹1.5 lakh under 80C (PPF, ELSS), 80D health insurance, and HRA/home loan interest. High earners maximizing >₹4-8 lakh deductions benefit most, though it demands extensive documentation and planning.

OBJECTIVES

1. To Study the Structure and Characteristics of Both Regimes

- Consider the essential features, slabs of taxation, eligibility, exemptions, and deductions, as well as the general operation of the previous and current tax regimes in India.

2. Contrast the Tax Burden Under Both Regimes

- Compare and evaluate the tax liability of individual taxpayers with varied income levels & investing patterns under both regimes.
- •Use examples of calculations and actual case studies to demonstrate the economic effects on various categories like salaried employees, businesspersons, freelancers, and corporates.

3. To Quantify Taxpayer Preferences and Behavioral Patterns

- Examine primary data (questionnaire returns) to identify which regime is favoured by various groups and why—depending on characteristics such as ease, apparent savings, and ease of compliance.

4. To Evaluate the Effect of Regime Selection on Taxpayer Behaviour

- Investigate the impact of regime selection on saving/investment patterns, risk-taking, disposable income, and expenditure patterns.

5. To Determine the Economic and Policy Implications

- Evaluate the wider macroeconomic impacts, including revenue-raising, base widening, trend in compliance, and impact on long-run savings and investment rates.

6. To Identify Factors Affecting Regime Choice

- Analyze why people opt for one regime more than the other, e.g., level of income, family composition, investment pattern, familiarity with taxation law, and availability of professional advice.

RESEARCH METHODOLOGY

1. Research Approach:

Mixed methods integrating quantitative surveys (Likert scale, multiple-choice) and qualitative thematic analysis of open-ended responses for comprehensive evaluation of tax regime preferences and impacts.

2. Data Sources:

Primary data from a 20-respondent Google Forms survey (salaried individuals, tax professionals, middle-income earners); secondary data from official publications (Income Tax Department, Budget 2024-26), financial platforms (ClearTax, Bajaj Finserv), academic papers, and news sources.

3. Sampling and Data Collection:

Convenient and purposive sampling targeting relevant taxpayer groups; anonymized survey to elicit unbiased views on regime awareness, choices, and perceptions.

4. Data Analysis:

Quantitative analysis used descriptive statistics (frequencies, percentages) with visual aids (pie/bar charts); qualitative data coded and thematically analyzed; secondary data synthesized into comparative tables and narratives.

5. Limitations:

Small primary sample size (n=20) limits representativeness; potential geographic and occupational biases among respondents; reliance on currency and accuracy of secondary sources.

6. Advantages:

Combines statistical trends with personal perspectives for well-rounded insights; validates primary data against official and scholarly information; provides practical recommendations grounded in robust analysis.

CONCLUSION

India's dual income tax regimes for FY 2024-25 compel taxpayers to select between the old regime—featuring progressive slabs (5% on ₹2.5-5 lakh, 20% on ₹5-10 lakh, 30% above) with extensive deductions like ₹1.5 lakh under Section 80C (PPF/ELSS), 80D insurance, HRA, and home loan interest—and the default new regime under Section 115BAC, offering simplified slabs (0% up to ₹3 lakh, 5% ₹3-6 lakh, 10% ₹6-9 lakh, 15% ₹9-12 lakh, 20% ₹12-15 lakh, 30% above) with ₹7 lakh tax-free via Section 87A rebate and ₹50-75,000 standard deduction but forfeiting most exemptions. The old regime suits high earners maximizing deductions despite compliance complexity, while the new regime enhances disposable income, simplifies filing, and broadens the tax base for middle-income salaried individuals and those with minimal investments, allowing annual opt-outs for non-business income. This policy evolution prioritizes transparency and economic stimulus, though personalized annual computations remain crucial amid evolving rules to optimize after-tax outcomes. Taxpayers are advised to carefully assess their financial situation yearly, leveraging tax calculators and professional advice to identify the regime that maximizes their tax savings and aligns with their long-term financial goals. As India's taxation landscape evolves, ongoing taxpayer education and awareness will be key to ensuring compliance and enabling sound financial planning in a dynamic economic environment.

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