

Old Tax Regime vs New Tax Regime in India

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Abstract

This study looks into what India's Old and New tax systems, which were set up by Section 115BAC of the Income Tax Act, 1961, mean for the country. The goal is to find out which system is better for individual taxpayers with different income levels and investment habits. The study looks at the tax burdens, exemptions, and deductions that apply under both systems by comparing them and using real-life data. The study finds that the Old Tax Regime is still better for people who can take advantage of multiple deductions and exemptions, even though the New Tax Regime has lower tax rates and fewer deductions. The study's goal is to help taxpayers make smart choices based on their income and financial goals.

Keywords

Income Tax, Old Tax Regime, New Tax Regime, Individual Taxpayer, Tax Planning, Section 115BAC, India

1. Introduction

In the Union Budget 2020–21, the Indian government implemented a new tax regime under Section 115BAC, which went into effect in FY 2020–21. With the condition of giving up a number of exemptions and deductions, this alternative system offers lower tax rates while maintaining the current Old Tax Regime. The dual-structure regime seeks to increase base coverage, streamline the taxation process, and give taxpayers the freedom to select the tax system that best suits their individual financial circumstances. In order to address the crucial question of which tax structure is more advantageous in various financial situations, this paper examines the subtleties of both regimes with an emphasis on individual salaried taxpayers.

2. Literature Review

Numerous studies have evaluated the socioeconomic effects of India's tax policy reforms. Among these, analyses from independent tax consulting firms and the Ministry of Finance are noteworthy because they demonstrate the critical role behavioural economics plays in tax planning. Additionally, prior studies have demonstrated that taxpayers generally prefer regimes that offer greater savings, even if doing so results in a higher short-term tax liability. Comparative studies of the new regime's post-implementation effects on various income brackets have, however, been scarce.

3. Research Methodology

Using a comparative analytical approach, the study makes use of the following: Income tax slabs and conditions under both regimes

Sample profiles of taxpayers with varying incomes (₹5 lakh to ₹20 lakh)
 Tax computations based on slabs for the current assessment year (AY 2024–25)
 Common deductions are taken into account, including HRA, Standard Deduction, 80D (Health Insurance),
 and 80C (LIC, PPF).

Government publications, CA advisory notes, and actual tax computation examples are the sources of the data. For clarity, tabular presentations are used to illustrate the comparisons.

4. Tax Structure: Old vs New Regime

Old Tax Regime (AY 2024–25): Permits deductions in a number of areas:
 Section 80C: ₹1,50,000; Section 80D, HRA, LTA, etc.; Standard Deduction: ₹50,000.

Post-Budget 2023 New Tax Regime: - Updated slab rates (e.g., 5% for ₹3–6 lakh, 10% for ₹6–9 lakh, up to 30%)

A standard deduction of ₹50,000 is applicable starting in AY 2024–2025.

Major deductions are prohibited, with the exception of NPS deductions under 80CCD(2) and EPF/employer contributions.

5. Data Analysis and Interpretation

Example 1: Income ₹7,50,000 - Old Regime: Taxable income after deductions = ₹5,50,000 ⇒ Tax ≈ 23,400
 Under the new regime, taxable income is ₹7,00,000 (after standard deduction) ⇒ tax is ₹0 (after u/s 87A rebate).

Example 2: Earning ₹12,50,000

Under the previous regime, taxable income after deductions was ₹9,50,000, and taxes were ₹92,600.

- New Regime: Taxable income = ₹12,00,000 ⇒ Tax = 93,600

Interpretation: The New Regime is more advantageous at lower income slabs (₹5–7.5 lakh) because of the full refund.

Benefits at mid-level slabs (₹10–15 lakh) are contingent on the size of deductions. Under the Old Regime, people who have investments and expenses that qualify for deductions gain more.

6. Findings and Discussion

Flexibility vs. Simplicity: Through a variety of deductions, the Old Regime provides greater tax planning flexibility. With fewer computations, the New Regime offers simplicity. The Old Regime is preferred by the majority of salaried taxpayers who have investments, insurance, and home loans.

Government Strategy: Promoting the New Regime is consistent with the long-term objective of expanding the tax base and decreasing exemptions.

7. Conclusion

Although the New Tax Regime lowers tax rates, it eliminates important exemptions and deductions that are essential for salaried people with financial obligations. The New Regime provides simplicity and savings for taxpayers without large investments. The Old Regime is still more advantageous, though, for people who take deductions under Sections 80C, 80D, and HRA. The choice needs to be made following an annual assessment of each person's financial situation.

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