A Comparative Analysis of Old Vs New Tax Regime in India and Its Impact on Middle Income Taxpayers

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ABSTRACT:

Within the context of the present income tax system, this study compares the Old Tax Regime and the New Tax Regime in India and looks at how they affect middle-class taxpayers. The study relies solely on secondary sources, including public policy evaluations, Union Budget documents, Finance Acts, and statutory tax requirements. The study assesses tax liabilities, effective tax rates, and post-tax disposable income across representative middle-income levels ranging from ₹5 lakh to ₹15 lakh annually using a scenario-based and simulation-driven approach. According to the report, middle-class taxpayers who actively employ exemptions and deductions like Section 80C, health insurance payments, and house rent allowance continue to benefit from the Old Tax Regime, which promotes long-term investments and organised savings.

On the other hand, the New Tax Regime, which has been made more appealing by changes included in Budgets 2023 and 2024, provides lower slab rates, greater rebate thresholds, and easier compliance. For taxpayers with fewer deductions, this means a lower tax burden and more liquidity. The results show that policy has clearly shifted from deduction-driven tax relief to rate-based tax efficiency, but they also emphasise that there isn't a system that is better for all middle-class taxpayers.

The study comes to the conclusion that in order to maximise tax results under India's dual tax regime structure, educated regime selection—backed by increased tax literacy—is essential.

Keywords: Income Tax Slab Structure**,** Tax Policy Reforms, Middle-Class Taxpayers in India, Old Tax Regime, New Tax Regime, Comparative analysis.

INTRODUCTION:

A personal income tax system is one of the most important elements of the Indian fiscal system as it adds a huge amount to the national income and is a source of both economic regulation and social equity. The income taxation structure in India has been the subject of a number of reforms over the years, which have been trying to make it efficient, broader based, easier to comply with and to provide fairness to the tax payers. India had traditionally used the old tax regime that provided numerous exemptions and deductions like the ones in Section 80C and 80D, House Rent Allowance (HRA) and interest on a housing loan. Though these provisions spurred saving and investments, it also complicated and hard to understand the tax structure and adhere to by taxpayers.

In order to overcome these issues, the Government of India has proposed the new tax regime in the Union Budget 2020. The new regime offered to pay low tax rates under various brackets but eliminated most exemptions and deductions provided under the old regime. The main aim of this reform was to make taxation structure simple, less cumbersome and allowing taxpayers to have freedom of selecting a tax regime that best fits their financial needs. The comparative evaluation was necessary as the taxpayer was given the choice to stick to the old and the new regime.

The foremost implication of the new tax regime is especially on middle-income taxpayers who constitute a major and economic segment of the population. The middle-income earners are generally known to utilize tax-saving tools, allowances and deductions to overcome their tax burdens. The old regime allowed such taxpayers to enjoy their structured savings and deductions that are linked to investment but then in the new regime they may enjoy reduced tax rates but without the exemption. The confusion and debate that has been created by this trade-off has been on which regime is more advantageous to the middle-income group.

There are various reasons that differ depending on the income level, family structure, investment behavior, housing status, and also awareness of tax provisions which make a difference in the decision between the two regimes. Although the new tax regime will be simple and transparent, it is not always a guarantee that the new tax regime will yield tax savings to all types of middle-income taxpayers. Conversely, the old taxation system, as much as it was advantageous in terms of deductions, has a lot of documentation and compliance.

With this comparison contrasting nature, it is necessary to do a comparative analysis of the old and the new tax regimes to determine the relative effects on the middle income taxpayers. With such an analysis, it is possible to determine the reality of the tax burden, changes in disposable income, and taxpayer preferences. In addition, it gives us information as to whether the objectives of tax reform, simplicity, equity and efficiency, are being attained in practice.

This paper seeks to contrast and compare the previous and the new taxations regime in India with due Diligence to the effect they have on the middle-income taxpayers. The research aims to make its contribution to the evaluation of policies and help taxpayers make sound choices by analyzing the structure of tax liability, benefits, and restrictions of the two regimes.

LITERATURE REVIEW:

1. (Publish, January 5, 2026): The Old Tax Regime and The New Tax Regime: an updated comparison. The current trends in literature now reveal that by 2026, "the old regime is now being relegated to niche markets for high-earning individuals with large mortgages or for those who are close to retirement age." The average middle-class individual, however, now has the NTR as the benchmark.
2. (Preetham, November 2025): This study, which polled 200 Karnataka taxpayers, shows that older taxpayers with significant deductions prefer the old system, while younger respondents with smaller investment commitments favour the new regime for simplicity and liquidity. demonstrates how demographic considerations influence regime choice by focussing on regional perceptions and behavioural segmentation.
3. (A, 2025): This empirical study looks at how taxpayer behaviour and government income patterns are impacted by the dual tax system. It demonstrates that although the new regime makes compliance easier, its uptake is modest and that revenue consequences are dependent on adoption rates and demographic responses using official revenue statistics and secondary literature. links the choice of tax regime to the results of government revenue, a more comprehensive fiscal policy viewpoint that is frequently missed in preference research at the micro level.
4. (A E. , 2025): The paper examines the financial and structural differences between the two tax systems, including a break-even analysis for salaried taxpayers. The study concludes that while heavy deduction claimants continue to gain from the old system, individuals with low deductions benefit from the new regime. employs break-even analysis, a more quantitative method of framing decisions.

5. (M, February 2024): The research focusses on the tax obligations, exemptions, deductions, and relative financial effects of selecting one regime over another for salaried individuals. It draws attention to modifications to slab adjustments and rebates. comprehensive financial comparisons from a sector-specific (salaried earners) viewpoint that is helpful for focused policy insights.
6. (Bharad, December 2024): The paper compares the legislative foundations of the two regimes and looks into taxpayer perceptions of ease, compliance, savings, and investment implications using survey data from Ahmedabad. It discovered notable variations in regime choice by age and educational attainment. includes a legal analysis component that demonstrates how tax behaviour is impacted by legal knowledge, which is sometimes absent from simply economic comparisons.
7. (Ojha, Spetember 2024): This paper examines the beginnings, development, and comparison of India's New Tax Regime (Section 115BAC) with the Old Regime. It talks about how the new system has lowered deductions and exemptions and emphasises how taxpayer decisions are influenced by things like age and income. According to the survey, the new regime's greater rebate and ease of compliance have enhanced its approval, particularly among younger taxpayers. emphasises that there is little longitudinal data on taxpayer outcomes and offers an early systematic examination of changing preferences in the wake of the 2023 budget adjustments.
8. (K, 2023): This study uses macro tax data and secondary sources to evaluate structural distinctions, i.e., who benefits under which system. It talks about how investment and liability habits are changing throughout generations. discusses how taxpayer burden is affected across income levels by macro fiscal adjustments (like as slab modifications).
9. (Balaji Gurunath Kamble, 2023): A Comparative Study between Old and New Tax Regime for the F.Y. 2023-2024. Analysed the modifications brought about in Union Budget 2023, where NTR has become the default tax regime. Emphasized that as a consequence of a raise in the tax rebate threshold to ₹7 Lakhs, people in the “lower-middle" class, who fall in the tax bracket of ₹5L-₹9L, would increasingly find NTR supporting.
10. (Ankit Goel, April 2021): A comparative study on individual taxpayer preference between old vs new tax regime. Explored the primary preference among a total of 80 taxpayers. The study concluded that more than 70% taxpayers showed a preference for Old Regime since NTR does not allow major deductions as 80C and HRA.

OBJECTIVES OF THE STUDY:

The research paper's goals are centered around secondary research, formulated using current and the previous tax legislation, official reports, publicised databases, and previous research.

1. To use secondary data to compare tax liabilities across the Old versus New Tax Systems.
2. To assess how legislative exemptions and reductions contributed to the Old Tax Regime's taxable burden reduction, majorly on the middle-class taxpayers through various policies and rules such as Section 80C, 80D etc.
3. To evaluate the New Tax Regime's proportional tax effectiveness in light of its reduced slab rates and streamlined adherence framework
4. To examine how regime selection affects middle-class taxpayers' disposable earnings and fiscal habits.

RESEARCH METHODOLOGY:

The current research design is descriptive and analytical research design in order to draw a comparative analysis of the old and the new tax regime in India and how they affect the middle-income taxpayers. The study is mainly founded on secondary research which was gathered within credible sources regarding the topic including government reports, Union Budgetary reports, Central Board of Direct Taxes (CBDT) reports, research articles, books, policy reports and trusted financial sites.

Middle-income taxpayers are classified by predetermined ranges of income which are generally used in the study of Indian taxation. A comparative framework is established to evaluate the disparities in tax liability in the two regimes taking into consideration the tax slabs and rates, exemptions, and deductions. The two regimes vary in terms of tax burden variations as depicted by hypothetical income scenarios.

DATA ANALYSIS:

The secondary information used in this research was gathered from publicly accessible, formally published resources. The IT Department's interpretative documentation, Union Budget records, fiscal laws, and IT slab rates along with rebates for the fiscal year 2025–26 (assessment year 2026–27) as announced by the Indian government are the main references. Legislative reports, scholarly works examining the former and current taxable schemes, and printed tax calculation examples served as supplementary secondary sources.

By utilising secondary information comprising income tax bracket levels for FY 2025–26, Treasury Acts, and budgetary releases, this section examines the effects of both the previous and the current Taxation Structure (Section 115BAC) on middle-class Indian taxpayer. Employing a hypothetical-oriented modelling method, the investigation uses federal tax regulations for assessing potential income profiles.

The middle-income categories characterization to provide Assessment

According to categories cited in policy talks and tax publications, employees who make between ₹5 to ₹15 lakh annually are considered to be falling under the middle-income category for the purposes of this study. Three typical revenue scenarios are chosen:

- Lower middle-class: ₹6,00,000.
- middle-class: ₹10,00,000.
- upper-class: ₹15,00,000.

Previous Tax System: Deduction-Based Tax Framework:

The Old Tax Regime used a number of concessions and allowances, including the following, in addition to progressive slab rates to calculate tax liability:

- The standard reduction
- Public Provident Fund, ELSS, the Life Insurance Plan under Section 80C
- Medical coverage under Section 80D
- If applicable, HRA.

This system encourages prospective savings and financial planning, which is especially advantageous for middle-income citizens with taxable salaries.

New Tax System: Simpler, Rate-Based Framework:

The existing statutory regime, the revised taxes regime (Section 115BAC), provides:

- Reduced slab rates
- An increased rebate ceiling of up to ₹12 lakh
- Streamlined adherence

But it eliminates the majority of exemptions and allowances, putting urgent discretionary income ahead of tax-saving activities.

Tax Obligation Comparison according to Scenarios:

Table 1: Old vs New System's contrast in Tax Liabilities (₹)

Annual Income	Old Tax Regime*	New Tax Regime*	More Beneficial Regime
₹6,00,000	Nil / Negligible (post deductions and rebate under Section 87A)	Nil (Because of rebate up to ₹12 lakh)	Both
₹10,00,000	Lesser (with complete deductions)	Nil / Very Less (rebate applicable)	New Regime
₹15,00,000	Higher (with a taxation at 20% slab above ₹5 lakhs)	Lower (lower marginal slabs)	New Regime

**Tax obligation comprises Health and Educational Cess @ 4%*

Interpretation: According to data from secondary research, middle-class taxpayers now pay nearly ₹12 lakh less in taxes thanks to fresh hikes in rebate ceilings within the New System. For individuals with few exceptions, the new system is becoming more and more dominant, whereas the former system still advantages those with high deduction utilization.

Efficient Assessment of Tax Rates:

A proportionate estimate of the cost of taxes in relation to revenue is provided by the efficient rate of taxation.

Interpretation of table 2: Because of greater marginal slabs, the Old Regime exhibits a greater spike in the actual rate of taxation as revenue grows. The tax evolution under the New System is less steep, which lessens the overall load on taxpayers with greater middle-income incomes.

Table 2: Analysis of Applicable Tax Rates (%)

Income Level	Old Regime	New Regime
₹6,00,000	0–1%	0%
₹10,00,000	5–7%	0–1%
₹15,00,000	12–14%	8–10%

Effect on Earnings available for consumption:

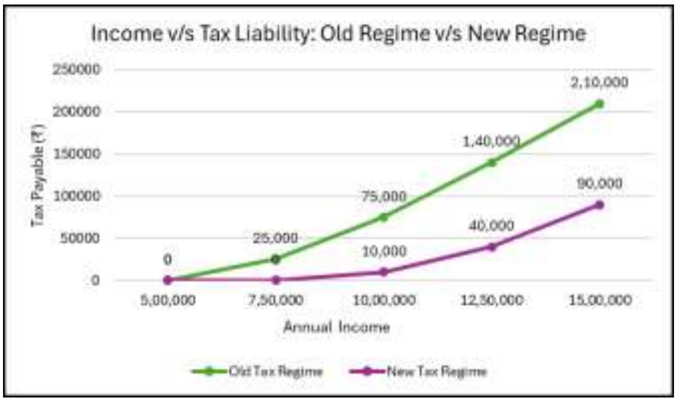
A crucial measure of taxpayers' benefits, disposable revenue affects investment and spending.

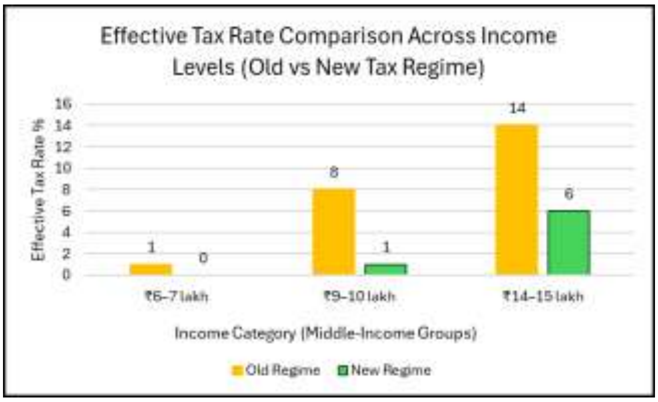
Table 3: Measuring Post-Tax Disposable Earnings (₹)

Income Level	Old Regime	New Regime
₹6,00,000	High	High
₹10,00,000	Moderate	Higher
₹15,00,000	Lower	Higher

Interpretation: Secondary scenarios show that by permitting more after-tax earnings, the New Regime improves financial flexibility for middle-class taxpayers, especially individuals who don't regularly look for tax-efficient products.

Trend Observation backed by graphical representations :





When displayed visually, the revenue vs. tax obligations line graph reveals a substantial increase in the preceding regime above 10 lakh. Reduced slab rates cause the current Regime curve to grow steadily. At greater median income brackets, the current scheme clearly has a tax benefit, as shown by the bar chart showing effective tax rates. These patterns support conclusions drawn from subsequent fiscal policy evaluations conducted after Budgets 2023 and 2024.

Crucial Data Analysis Findings:

- The current Tax System helps middle-income taxpayers who rely upon their salaries and want ease of use.
- On the other hand, the Old Tax Regime supports investment-oriented, deduction-focused individuals.
- Middle-class preferences have evolved dramatically towards the adoption of the Modern Regime due to higher rebate levels.
- The simultaneous operation of these two regimes complicates choices, which makes understanding taxes essential.

Importance of Strategy for middle-income Taxpayers:

For a middle-income payer in the country, the comparison of two regimes of taxation on earnings reveals significant policy ramifications. The newly implemented Tax System's reduced slab charges and higher rebates show a distinct shift in policies towards simplicity and enhanced liquidity, which is especially advantageous for workers with restricted deduction options.

Nonetheless, the government's intention to maintain benefits for prospective financial planning and accumulation amongst frugal taxpayers is reflected by the Old Policy's continuation. Middle-class workers are more accountable for evaluating their fiscal behaviour and ability for organising their taxes prior to selecting a tax system under this multi-regime arrangement. Through a standpoint of policy, the integration involving the two systems provides options but additionally complicates decision-making, highlighting the requirement for middle-income taxpayers to have better comprehension of taxes and support services.

Suggestions:

- Instead of using the standard choice, middle-class individual taxpayers ought to review both taxation systems on a yearly schedule depending on their financial standing and capacity to obtain exemptions.
- The previous system might remain to be more advantageous to individuals who have made numerous investments in tax reduction strategies.
- The current Tax System's reduced slab rates and larger reimbursement ceilings may make it ideal for workers who desire simplification and have few exemptions.
- To lessen uncertainty in system determination, policy makers should think about streamlining system evaluation instruments and raising taxpayer knowledge.
- To assist middle-income taxpayers in making wise fiscal choices, fiscal education campaigns ought to be reinforced.

RESULTS:

Research on the comparison between the Old and New Tax Regimes (OTR vs. NTR) in India shows a clear move from encouraged savings to more disposable income. As of early 2026, these studies typically fall into three areas: break-even points, changes in savings behavior, and administrative effects.

1. Key Quantitative Results:

The most important finding is the "Break-Even Point." Research indicates that for middle-income taxpayers, the choice depends entirely on the total value of deductions (like 80C, 80D, HRA, and home loan interest).

Income Bracket (FY 2025-26)	Optimal Choice	Key Condition
Up to ₹12.75 Lakh	New Tax Regime	Effectively zero tax due to the standard deduction (₹75,000) and rebate under Section 87A.
₹13 Lakh – ₹20 Lakh	Depends	The break-even point is usually between ₹4 Lakh and ₹4.5 Lakh in deductions. If deductions are less than ₹4 Lakh, the New Regime is better.
Above ₹24 Lakh	Old Tax Regime	Typically better for those with large home loans and insurance, since the 30% tax bracket hits earlier in the Old Regime.

2. Impact on Middle-Income Taxpayers: Studies point out a trade-off for the middle class:

- Increased Liquidity: The NTR provides more cash on hand by reducing monthly tax outflow. This increase has led to a noticeable rise in short-term spending among urban middle-class households.
- The Savings Penalty: A key finding is that the NTR discourages mandatory savings. Under the Old Regime, the middle class used 80C to save in PPF, LIC, and ELSS. Without these tax incentives, many have turned to riskier investments (like direct equity) or stopped saving for the long term altogether.
- Simplicity vs. Customization: New-age professionals, who have fewer liabilities like home loans, prefer the New Regime. On the other hand, established taxpayers with families, mortgages, and high insurance premiums still favour the Old Regime.

3. Behavioral and Economic Findings:

- Declining Tax Planning: Research shows a 30-40% drop in the use of tax consultants among those who switched to the New Regime, as the math is easier.
- Policy Shift: The government is successfully guiding people toward a deduction-free system. Reports indicate that over 70% of individual taxpayers are expected to be under the New Regime by the end of AY 2026-27, thanks to the high rebate threshold of ₹12 Lakh.

Summary of Research Conclusion

While the New Tax Regime provides immediate financial relief and easier administration, it risks undermining the long-term financial security of the middle class by removing the incentives that previously encouraged disciplined investment in retirement and insurance products.

CONCLUSION:

This study compared the old tax regime and the new tax regime in India with a focus on middle-income taxpayers. The analysis clearly shows that there is no single tax regime that is best for everyone. The benefit of each regime depends mainly on a taxpayer's income level, saving habits, and use of deductions.

The old tax regime continues to be useful for middle-income earners who regularly invest in tax-saving options like PPF, insurance, ELSS, and who claim benefits such as HRA and health insurance deductions. This system supports long-term savings and financial discipline, but it also involves more paperwork and planning.

The new tax regime, on the other hand, offers lower tax rates, higher rebate limits, and a simpler structure. It is more suitable for taxpayers who do not have many deductions and prefer ease of compliance. Recent budget changes have made this regime more attractive, especially by reducing tax liability and increasing take-home income for many middle-income earners.

Overall, the government's tax policy shows a clear shift from deduction-based benefits to a simpler, rate-based system. However, this dual system makes it important for taxpayers to understand both options before choosing. Proper tax awareness and yearly review of personal finances are necessary to make the right decision. A well-informed choice can help middle-income taxpayers reduce tax burden while balancing savings and current spending.

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