

A Study of Income Taxpayers' Perception Towards the Selection of Tax Regime: Old Regime vs New Regime

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Abstract

The new income tax system in India was a big change in how people pay taxes. It offered lower slab rates in exchange for fewer exemptions and deductions. The policy changed over time from being an optional choice to the default choice for many taxpayers. This made taxpayer perception even more important when choosing a regime. This systematic literature review investigates Indian income taxpayers' perceptions of the old and new tax regimes and identifies the principal factors influencing their preferences. The review integrates official policy documents with contemporary academic and practitioner-focused research regarding tax regime selection, awareness, equity, compliance simplicity, savings behavior, and demographic impacts. The evidence suggests that taxpayers do not select between the two regimes exclusively based on tax liability; instead, their choices are influenced by a confluence of economic considerations, familiarity with deductions, confidence in policy design, financial discipline, risk tolerance, and compliance simplicity. Younger taxpayers and those who don't claim many deductions tend to like the new system better because it is easier to understand. On the other hand, taxpayers who have already set up investment-linked tax planning often still like the old system better. The literature also indicates that the new regime may modify savings and investment behavior by diminishing the motivational function of deductions. The review finds that how taxpayers see things is based on both behavior and money, and that future policy design needs to find a balance between making things easier and making sure everyone is treated fairly, that the rules are clear, and that people can save money over the long term.

Keywords: income tax, taxpayer perception, old tax regime, new tax regime, India, systematic literature review

1. Introduction

Since Section 115BAC brought in the concessional tax regime, India's personal income tax system has changed clearly. The main goal of the reform was to make taxes easier by lowering the number of deductions and exemptions needed and lowering the slab rates. The reform didn't just change how taxes are calculated; it also changed how people think about tax planning, saving, and what a "better" tax system means. The new system later became the default for many eligible taxpayers, so the issue of how taxpayers see things has changed from being about choice architecture to being about behavioral adaptation. The Income Tax Department says that the new regime became the default regime starting with the assessment year 2024–25. However, eligible taxpayers could still choose to stay under the old regime if they met certain conditions. Budget 2025 made the new system even more appealing by increasing tax breaks and raising the effective no-tax threshold for many taxpayers, especially those who work for a salary. The move to the Income-tax Act, 2025, starting in April 2026, has kept the new regime's default status, which shows that the policy direction is now structural instead of experimental. In light of this policy, the issue of how taxpayers see things has become both academically important and practically urgent. Tax systems work not only because they can be enforced by law, but also because people think they are fair, easy to understand, and in line with their financial situations[1]. In the past, the older system was linked to tax planning through deductions for things like Section 80C, house rent allowance, home loan benefits, and other exemptions. For many salaried taxpayers, this structure became a big part of their personal financial planning. It connected tax savings with insurance, contributions to a provident fund, housing, and long-term investments. The new system, on the other hand, has lower nominal rates and fewer exemptions. Some people might see this as a simplification, while others might see it as a loss of familiar incentives. So, the comparison between the old and new systems is more than just technical. It is also psychological, social, and behavioral. Recent research regarding taxpayer sentiments towards the two regimes indicates that public opinion continues to be polarized[2]. Some studies show that taxpayers who value transparency, convenience, and less paperwork are more likely to support the new regime. Other studies show that taxpayers still prefer the old regime because it rewards planned saving and is seen as better for middle-income earners with established deduction patterns. Recent empirical studies from Indian cities like Ahmedabad, Pune, Bangalore, and Hyderabad reveal that factors such as awareness, occupation, age, income level, and investment behaviors profoundly influence taxpayers' attitudes. Some studies indicate that numerous taxpayers comprehend the primary promise of reduced rates but remain uncertain regarding the more profound consequences of forfeiting exemptions. This mixed evidence makes the topic especially good for a systematic literature review because the research that is out there is new, scattered, and uses

different methods. This review aims to consolidate the current literature regarding taxpayers' perceptions of the choice between the old and new tax regimes in India. [3] It seeks to address three overarching inquiries: firstly, which themes prevail in the current literature regarding taxpayer perception and tax regime preference; secondly, which factors most significantly affect the decision between the old and new regimes; and thirdly, what deficiencies persist in the literature for subsequent research. The study enhances comprehension of tax reform as a behavioral public policy issue by emphasizing perception over mere tax calculations. It also gives tax administrators, policymakers, financial advisors, and researchers who are interested in compliance behavior, tax literacy, and the design of fiscal reform useful information.

Table 1. Comparison between the old tax regime and the new tax regime

Basis of Comparison	Old Tax Regime	New Tax Regime
Tax structure	Higher slab rates	Lower slab rates
Exemptions and deductions	Available	Mostly not available
Tax planning scope	High	Limited
Compliance complexity	Comparatively higher	Comparatively lower
Suitable for	Taxpayers with deductions/investments	Taxpayers with fewer deductions
Financial behaviour encouraged	Savings-linked tax planning	Simplicity and liquidity
Perceived benefit	Better for structured savers	Better for simplified filing

2. Review Methodology

This study employs a systematic literature review methodology to synthesize the burgeoning scholarship on taxpayer perceptions concerning the selection between the traditional and contemporary personal income tax systems in India. An SLR is suitable when the literature is scattered among recent journals, institutional repositories, working papers, and policy documents. The subject matter in this instance is comparatively novel, as the dual-regime framework is recent and has experienced several legislative enhancements. Consequently, the review aimed to encompass both legislative advancements and perception-driven empirical investigations[4]. The search process utilized a review methodology akin to PRISMA-style evidence identification, screening, eligibility assessment, and thematic synthesis; however, this paper is predominantly interpretive rather than meta-analytic. There were two types of sources in the literature universe for this review[5]. The first category included official documents and public policy materials that are widely accepted as correct, such as guidance from the Income Tax Department and announcements

about the Union Budget. This is because the legal structure of the tax systems directly affects how taxpayers see them and because the rules have changed over time[6]. The second category comprised recent empirical and analytical studies examining awareness, preference, equity, savings consequences, behavioral attitudes, and decision-making within the old and new regimes. Search terms encompassed combinations of “old tax regime,” “new tax regime,” “taxpayer perception,” “Section 115BAC,” “India,” “income tax regime choice,” and “taxpayer behaviour.” We only used studies that focused on computational comparison without behavioral interpretation. We prioritized studies that clearly looked at perception, awareness, or behavioral determinants. The inclusion criteria specified that studies must pertain to India's personal income tax system; address either the previous system, the current system, or a comparative analysis of both; and provide insights into taxpayer perception, behavior, awareness, or decision-making preferences. Both qualitative and quantitative studies were evaluated, alongside scenario-based and sentiment-based analyses when directly applicable[7]. Exclusion criteria encompassed studies focused solely on corporate taxation, GST devoid of behavioral carryover value, or tax policy reforms lacking relevance. The precise regime-choice literature is still evolving, so some general theories about tax perception and tax compliance were added to help with understanding. Specifically, research utilizing the slippery slope framework was employed to formulate how perceptions of trust, simplification, and authority might influence taxpayer attitudes and voluntary compliance. After screening, the literature was arranged into recurring themes instead of just a chronological summary. The thematic categories encompassed: awareness and comprehension of the two regimes; perceived tax savings and financial utility; simplicity and compliance burden; fairness and transparency; savings and investment behavior; and demographic or behavioral determinants of regime selection[8]. The synthesis approach was narrative and comparative, with the goal of finding similarities, differences, and areas that had not been looked at before. The review considers the evidence as suggestive rather than definitive, given that many of the studies are recent and rely on limited local samples. That limitation is an important finding in and of itself because it shows that the academic study of how taxpayers see the system is still in its early stages[9].

Table 2: SLR Search Strategy and Inclusion Criteria

Item	Description
Review type	Systematic Literature Review (SLR)
Topic	Taxpayers' perception of the selection of the tax regime in India
Time focus	Recent literature after the introduction of the new regime
Keywords used	“old tax regime”, “new tax regime”, “taxpayer perception”, “Section 115BAC”, “income tax regime choice”, “India”

Types of sources	Journal articles, working papers, conference papers, official tax documents, policy notes
Inclusion criteria	Studies related to the Indian personal income tax regime and taxpayer awareness, perception, behaviour, or preference
Exclusion criteria	Corporate tax studies, GST-only studies, and unrelated fiscal reforms
Approach to synthesis	Thematic narrative synthesis

3. Conceptual Background: Taxpayer Perception and Tax Regime Choice

Taxpayer perception is a complex idea that includes more than just knowing the tax rules. It encompasses perceived equity, cognitive ease, confidence in governmental institutions, a sense of agency, comfort with compliance, and subjective assessment of financial results. In the field of taxation, behavioral models indicate that compliance and acceptance are influenced not solely by the probability of audits or legal penalties, but also by trust in institutions and the perceived legitimacy of tax regulations. The slippery slope framework is useful here because it shows how trust in authorities and their power affect tax behavior. Taxpayers may be more willing to follow the rules if they think the tax system is simple, clear, and not arbitrary. On the other hand, taxpayers may resist, put off decisions, or rely too much on middlemen when a system seems confusing, unfair, or out of sync with their real-life financial situations. In the context of India's dual regime, this conceptual framework indicates that regime preference transcends mere calculation[10]. For taxpayers who are used to actively planning their taxes by taking deductions, the old regime can give them a sense of control and improvement. It also rewards people who save money, buy insurance, invest in housing, and plan for retirement in a symbolic way. The new regime, on the other hand, works on a different logic: it makes things easier, requires less paperwork, less planning, and makes it clear who owes what in taxes. These aren't just administrative traits; they also match up with different types of taxpayers. One type of person is a planner who sees taxes as part of a bigger plan for their money. The other is the person who makes things easier and wants less friction and faster compliance. So, perception is connected to lifestyle, how much money you make, and how you think about money. The choice between the old and new regimes is also connected to behavioral economics. Taxpayers frequently demonstrate status quo bias, favoring established systems despite the potential financial advantages of alternatives in certain instances. Loss aversion can also be very strong. People may see the loss of deductions as a loss even if their overall liability stays the same or goes down[11]. Mental accounting adds another layer because a lot of people think of tax-saving tools as separate from regular investments. People may value an investment linked to a deduction not only for the money it makes, but also for the peace of mind that comes

from "saving tax." Because of this, the new regime's lower rates don't automatically mean that taxpayers prefer them if they think that not having deductions means losing a familiar benefit. This helps explain why taxpayers still have mixed feelings about the new regime, even though the government is trying to make it more popular[12].

4. Thematic Review of Literature

4.1 Awareness and Understanding of the Two Regimes

One of the main ideas in the literature is taxpayer awareness. Several recent studies indicate that awareness of the new regime is relatively high, especially among salaried and urban taxpayers; however, a comprehensive understanding is still inconsistent. Respondents frequently recognize that the new regime provides reduced rates and diminished deductions; however, they may lack a comprehensive understanding of the break-even point at which one regime becomes more advantageous than the other. This gap between being aware of something and being able to make a decision is important because a taxpayer may seem to know what they're talking about while still using incomplete mental shortcuts. Research utilizing structured questionnaires in Indian urban populations indicates that taxpayers often rely on peers, employers, consultants, or online calculators instead of their own independent comprehension. The tax department now has tools and guides for comparing different regimes, which shows that the tax authorities themselves know that they need help making decisions. The literature indicates that awareness is differentiated by occupation, age, and financial literacy. People who get paid on a regular basis and have regular payroll disclosures are more likely to see comparisons between regimes. On the other hand, taxpayers who have mixed or variable income sources may not be as sure what to expect. Younger taxpayers sometimes say they are more open to the new system because they have fewer deductions to lose and are more comfortable using digital tools to figure out their taxes. However, being aware does not always make you feel confident. Some people who answered recent surveys know the formal difference between the two systems, but they are still worried about whether they are making the right choice. This anxiety about making a decision show that how taxpayers see things is affected not only by what they know but also by how well they think they can judge policy options.

4.2 Perceived Tax Savings and Financial Utility

In the literature, the most important factor in choosing a regime is how much money people think they will save on taxes. Numerous studies indicate that taxpayers initially assess anticipated liabilities under both regimes before addressing more comprehensive concerns. People with big deductions from their provident

fund, life insurance, tuition, housing loan interest, rent-related benefits, and other eligible claims are more likely to stay with the old regime. For these taxpayers, the old system is not just a legacy system; it is also seen as financially beneficial because it turns planned spending and disciplined saving into tax breaks. This is especially appealing to middle-class families with stable long-term commitments[18]. Taxpayers who don't use a lot of deductions or whose income mix makes it hard to follow the old regime generally think that the new regime is better. Recent changes to the policy made this idea even stronger by increasing the tax breaks that come with the new system. Budget 2025 announced big changes to slabs and rebates and made it clear that salaried taxpayers up to a certain amount would not have to pay any taxes under the new system. This made the system very appealing to some middle-class people. This policy signal is important because how people feel about taxes is affected by both the actual tax burden and the way the state talks about it. When the government describes a regime as simpler and better for regular taxpayers, that description can change how people feel about it even before they change their behavior[17]. But the literature says that tax savings shouldn't be seen as universally objective. Taxpayers frequently depend on perceived savings instead of meticulously calculated savings. Studies that use scenarios show that many people think that lower rates mean lower taxes, even when they might lose more money by not taking deductions. On the other hand, people who have been using the old system for a long time may think that deductions are worth more than they really are if they don't recalculate under the new system's new thresholds. So, research on how taxpayers think shows that the choice of regime is based on how they think about money, not just the numbers.

4.3 Simplicity, Convenience, and Compliance Burden

Simplification is one of the strongest moral reasons to support the new regime. The reform officially aims to make tax filing easier by reducing the need for multiple exemptions and deductions. Recent studies back up this story by showing that many taxpayers like the idea of being able to figure out their taxes with fewer documents and less planning at the end of the year. People who are new to paying taxes or who don't know much about taxes often find the new system less scary. This is especially important in a digital filing setting where how easy it is to understand can directly affect how comfortable people are with compliance. But not everyone feels the same way about simplification. Some taxpayers think that having two systems at the same time is confusing in and of itself. The dual structure may not make things simpler; instead, it may move complexity from deduction compliance to regime comparison. Taxpayers have to look at two tax systems instead of just one. This can make them more reliant on tax consultants, payroll teams at work, or online tools. Emerging empirical studies thus depict a complex scenario: the new regime may streamline filing post-selection, yet the selection process itself can be intellectually taxing. This difference is very important for judging policies. A reform can make operations simpler while making decisions more

complicated. [16]The literature also shows that different groups of taxpayers value simplicity in different ways. People with stable, low-complexity financial portfolios often like the new system. People who actively lower their taxes by saving, borrowing, getting allowances, and using reimbursement structures may not see "simplification" as a good thing if it makes it harder to plan their finances in a legal way. For them, the old system might be harder to deal with but also give them more power. This difference helps explain why convenience alone doesn't fully explain what taxpayers want.

4.4 Fairness, Transparency, and Trust

Another important theme is how fair things seem. People don't just judge tax systems by how much people pay; they also look at whether the rules seem fair, consistent, and fair to society. Recent literature on taxpayer perceptions in India indicates that fairness, transparency, and opinions regarding revenue allocation affect attitudes toward the tax system. When it comes to the old and new regimes, fairness can mean different things. Some taxpayers think the new system is fairer because it lowers rates and makes people less reliant on tax planning tools that may help people who know more about taxes. Some people think the old system is fairer because it lets people deduct things like family responsibilities, housing costs, retirement savings, and long-term savings habits. Trust is also related to fairness. If taxpayers trust the government and think that simplifying the process is really meant to make it easier for them to follow the rules, they might like the new system[15]. If they think that the reform is mostly about getting rid of tax breaks without giving families enough money, they might still be skeptical. The slippery slope framework bolsters this interpretation by associating trust with voluntary compliance. The literature indicates that regime selection may be affected by overarching tax morale rather than solely by individual benefit. This is especially important in a system where changes to deductions, slabs, and procedures happen often, and taxpayers may be worried about what will happen in the future.

4.5 Savings and Investment Behaviour

A persistent issue in the literature is the influence of regime selection on savings and investment behavior. The old regime used to be a policy tool that pushed households to save money through contracts and certain long-term financial products. The system made taxes a part of household financial discipline by linking them to things like provident funds, insurance, housing, and other tools. The new regime makes this incentive structure less effective, which could change how households save money instead of just lowering their tax bill[14]. A recent sentiment-analysis study on the new tax regime indicates apprehensions that the lack of deductions may redirect savings from conventional tax-saving instruments to market-linked or discretionary applications, especially among younger taxpayers. There are two different ways to understand

this change in the literature. One perspective asserts that the alteration is advantageous, as taxpayers ought not to be coerced into particular investments solely for tax advantages; rather, they should engage in financially judicious decisions grounded in objectives and returns. The other view is that deductions had an economically useful effect on behavior by encouraging people to save for retirement, buy insurance, and plan for the long term. This perspective posits that the previous regime provided a welfare-enhancing impetus, and its deterioration may undermine fiscal discipline among certain taxpayer demographics. This theme is important because it shows that how taxpayers feel about regime choice is related to both how much they pay in taxes each year and how they think about smart money management.

4.6 Demographic and Behavioural Determinants

The literature consistently indicates that taxpayer preferences differ among demographic and behavioral categories. Younger earners, first-time taxpayers, and those with fewer established deductions often prefer the new system because it is easier for them to understand. People with middle incomes and families who pay taxes on their salaries and have home loans, insurance obligations, and structured savings often prefer the old system[13]. Occupation is also important. For example, salaried workers may get more formal advice from their bosses, while self-employed or mixed-income taxpayers may have to deal with a more complicated evaluation process. Local studies also show that education and financial literacy affect how aware and confident people are when choosing a regime. Behavioral traits seem to be just as important. Preference may be influenced by risk attitude, habit formation, mental accounting, and resistance to policy change. Taxpayers who strongly link deductions to disciplined personal finance may continue to support the old system even when the net differences are minor. Some people may prefer the new system because it is easier to plan and has more liquidity. This shows that choosing a regime is not just an economic choice, but also a behavioral choice that is part of the culture of personal finance.

Table 3: Summary of reviewed literature

Author(s) / Year	Focus of Study	Area / Sample	Method	Major Finding
Siddam & Yesubabu (2025)	Perception of the new tax regime	Indian taxpayers	Survey-based study	Simplicity attracts some taxpayers, but many remain uncertain
Ahmedabad-based study (2024)	Old vs new regime perception	Ahmedabad city	Questionnaire survey	Awareness exists, but taxpayers prefer based on the deduction pattern

Pune readiness study (2025)	Readiness for the new tax system	Pune taxpayers	Empirical analysis	Younger taxpayers show greater adaptability
Public perception study (2025)	Public opinion on both regimes	Urban respondents	Survey	Financial utility and familiarity influence regime choice
Comparative middle-income study (2026)	Taxpayer benefit comparison	Middle-income taxpayers	Comparative analysis	Old regime remains preferred where deductions are substantial
Behavioural determinants study (2026)	Behaviour and tax preference	Indian individual taxpayers	Analytical study	Taxpayer choice is shaped by both economic and behavioural variables

5. Discussion

The literature review suggests that taxpayers' perceptions regarding the choice between the old and new tax regimes are most effectively understood as an interplay of calculation, cognition, and context. Policy discussions often frame the issue as a simple comparison of tax outgo under two formulas. However, the evidence shows that taxpayers see the regimes in a broader context, with saving, fairness, and ease of compliance being some of the meanings they attach to them. The new regime has gained policy momentum because it is now the default and has a better relief structure. However, this does not change the emotional and financial ties people have to the old regime. The enduring taxpayer affinity for deductions indicates that tax policy in India has historically influenced financial behaviors, rather than merely obligations. One important finding is that "simplicity" is both a strength and a weakness of the new system. Once you pick it, it can cut down on paperwork and make liability clearer. But when two systems are in place, simplicity depends on the taxpayer first making a comparison that could be complicated. So, the dual structure creates a transitional policy environment where making things easier for some taxpayers makes things harder for others. This might be why a lot of studies show mixed attitudes instead of a clear move toward one regime. The policy implication is that how you talk about reform is just as important as how you design it. Tax calculators, payroll advisories, targeted awareness campaigns, and taxpayer education can have a big impact on how people see things and help them make better choices. The literature also shows that there is a big conflict between making things easier and encouraging people to save. The old system linked tax breaks to good money management at home, but the new system separates tax from many saving choices. There is still debate over whether this is good for society. From a purely efficiency

standpoint, neutral taxation may be advantageous as it minimizes distortion. However, from a behavioral welfare standpoint, deductions can promote socially beneficial long-term saving. This tension is reflected in how taxpayers think: many don't just want to know which system is cheaper, but also which one is better for their money. This makes the subject well-suited to interdisciplinary research integrating taxation, behavioral economics, public policy, and personal finance.

Table 4: Determinants of Tax Regime Preference

Determinant	Likely Preference	Reason
High deduction claims	Old regime	Deductions reduce taxable income
Fewer or no investments	New regime	Lower rates may be more beneficial
Preference for simple filing	New regime	Less documentation and planning
Habit of tax-saving investment	Old regime	Familiarity with deductions
Younger/first-time taxpayers	New regime	Lower complexity and higher flexibility
Home loan / HRA / insurance benefits	Old regime	Significant exemption advantage
Financial literacy and active planning	Old regime or optimized choice	Better ability to compare regimes
Low decision confidence	Depends on advice received	Reliance on employers or tax consultants

6. Research Gaps and Future Directions

The initial significant deficiency in the literature is the absence of extensive, nationally representative empirical investigations. A lot of the evidence we have now comes from samples from cities or institutions with only a few respondents. These studies provide preliminary insights, but they have not yet succeeded in formulating stable generalizations applicable to the entire Indian taxpayer demographic. Future research should employ larger multi-state samples encompassing salaried, self-employed, professional, and pensioner cohorts.

Second, the majority of current studies are cross-sectional. They take snapshots of people's thoughts at a certain time, usually right after a policy is announced. But how people see the regime changes over time. Taxpayers' preferences may change as they gain experience, payroll systems change, and budget announcements change rates and thresholds. Longitudinal studies are necessary to ascertain whether taxpayers transition to the new regime due to authentic preference, gradual policy influence, or adjustment

to default configurations. Third, there is a need for more theory-driven research. Numerous contemporary studies are descriptive and reliant on surveys. There is a significant opportunity to utilize models from behavioral public finance, tax morale, choice architecture, and financial planning psychology. Stronger explanatory models should include things like trust in government, financial literacy, loss aversion, future orientation, and confidence in digital taxes. Fourth, the impact of regime selection on long-term savings, insurance practices, retirement strategies, and household financial stability is still not well understood. Current discussions highlight the concern, yet substantial evidence remains scarce. Subsequent research ought to correlate tax regime selection with tangible financial results rather than solely depending on expressed perceptions.

7. Conclusion

This systematic literature review demonstrates that taxpayers' attitudes regarding the choice between the old and new income tax regimes in India are influenced by a multifaceted interplay of financial utility, behavioral inclination, perceived simplicity, and normative convictions concerning equity. The new system has clearly changed from being an optional reform to a key part of India's personal tax system. Recent budget measures and official guidance show that the government is still moving toward a policy of simplification, lower taxes, and more acceptance of the new system. The literature also makes it clear that taxpayers don't always react to tax changes in a straightforward way. Their decisions are based on their past habits, how they save money, what society expects of them, and how comfortable they feel with their own thoughts. The old system is still important because it fits with the way many families, especially those who use deductions and exemptions, plan their finances. The new system is more appealing when there aren't many deductions, the paperwork is hard, or it's very important to make it easy to follow the rules. So, neither regime can be seen as better than the other in terms of how people see things; different groups of taxpayers prefer one over the other for different reasons. This insight is useful because it changes the policy discussion from "which regime is better?" to "for whom, under what conditions, and why?" The answer is as much about how taxpayers think as it is about how taxes work. The review also shows that being aware of something and actually understanding it are not the same thing. A lot of taxpayers know that there are two systems, but not as many are sure that they are making the best choices. This makes it possible to misunderstand things, depend too much on heuristics, and rely on middlemen. So, policymakers and administrators need to improve comparative guidance, calculators that are easy to use, communication that is clear, and efforts to teach people about money. As the new regime becomes more and more the default choice, informed consent and decision support become important parts of a fair tax system. Finally, the literature indicates that the discourse regarding tax regime selection transcends mere revenue generation or computational simplicity. It concerns the nature of the relationship the government desires taxpayers to

maintain with taxation, saving, and compliance. A good tax reform should make things easier for people without hurting their long-term financial health, and it should make people feel more confident without making them worry about making decisions. Future research must transcend rudimentary comparative tables and investigate regime choice as a behavioral and institutional phenomenon. In that sense, how taxpayers see things is not a minor issue; it is key to the success of tax reform in India today.

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