

# A Study of Investor's Behavior Towards Income Tax Planning under New and Old Tax Regime: Case Study Approach

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## Abstract

Tax planning is an essential aspect of financial management, enabling individuals to optimize their tax liabilities while adhering to legal frameworks. This study examines investor behavior towards income tax planning, exploring the factors influencing their decisions, awareness levels, and preferred tax-saving instruments. Using a mixed-method approach, primary data was collected through surveys and interviews with investors across different income groups. The research highlights the role of financial literacy, risk perception, and tax-saving preferences in shaping tax planning strategies. Findings suggest that while some investors actively engage in tax planning to maximize benefits, others lack awareness or rely on traditional methods. The study provides insights into behavioral patterns and policy implications, emphasizing the need for financial education and advisory support to enhance tax efficiency.

**Keywords:** Investor behavior, Income tax planning, Financial literacy, Tax-saving instruments, Financial management.

## Introduction to Concept of Tax:

Taxation is the essential power of the state to put and demand donation upon Persons, parcels, or right for the purpose of generating earnings for public purposes. Levies are executed commensurable benefactions from Persons to property levied by the law- making body of the state by virtue of its sovereignty for the support of the government and all public requirements.

## Taxation System:

Tax system for generating revenue to support the Government. Each government necessitates the collection of monetary taxes from its citizens.

The government utilizes revenues to compensate soldiers and police, construct dams and roads, operate schools and hospitals, supply food to the needy, and offer medical care facilities, among other functions. Without taxes to support its operations, the government would cease to exist.

Hence, taxation is the primary source of revenue for contemporary government, usually accounting for

90% or greater of their income.

## Essentials Characteristics of Tax:

- It is a mandatory Contribution.
- It was allotted in character, typically depending on capability to pay.
- It is imposed on individuals and assets within the state's jurisdiction.
- It is imposed for the benefit of the public.
- It is typically necessary to receive payment at consistent intervals.

## Why Are Taxes Levied?

The purpose of imposing taxes is that they serve as the fundamental source of income for the government. The revenue generated is used to cover government expenses such as defense, education, healthcare, and infrastructure facilities including roads, dams, and more.

## What Are the Reasons of Taxation?

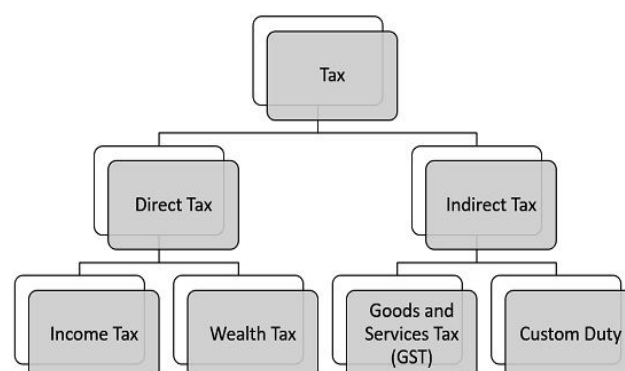
- Offer essential services for each citizen of the nation.
- Fund various initiatives and programs by the government.
- Safeguarding of Existence.
- Duty of a citizen to the Nation.

## Meaning Of Tax:

The term Tax originates from the Latin word "Taxon, Tax are," signifying the act of assessing or estimating.

## Different Types of Taxes:

Figure 1.1



Source: Businessjargons.com

#### Direct Taxes:

They are paid directly to the union government of India. According to a survey, the Republic of India has experienced a steady increase in the collection of these taxes over recent years. The apparent increase in these tax revenues and the tax rates indicates a robust tax system accompanied by improved tax administration. Some examples of direct taxes levied by the Indian government include:

- a) Tax on Cash Transactions for Banking.
- b) Corporate Tax.
- c) Tax on Profits from Investments.
- d) Agreement to prevent double taxation.
- e) Tax on Non-Cash Benefits.
- f) Tax on Transactions of Securities.
- g) Personal Income Tax.
- h) Advantages of Taxation.

#### Indirect Taxes:

Unlike direct taxes, this type of tax in the country is typically imposed on certain designated services or specific products. An indirect tax is not imposed on any specific organization or individual. Nearly all activities associated with indirect taxation are encompassed within the scope extending from the production of goods and the provision of services to those intended for consumption.

Typically, the indirect taxation system in the Indian Republic is a complicated process that includes laws and regulations that are interlinked with one another. These tax regulations also encompass certain laws that pertain specifically to some states within the nation. The organizations provide services across all or nearly all relevant areas, including some of the following:

- a) Anti-Dumping Duty.
- b) Custom Duty.
- c) Excise Duty.
- d) Sales Tax.
- e) Service Tax.
- f) Value Added Tax. Or VAT

#### Income Tax Act, 1961:

The Income Tax Act of 1961 regulates the taxation of earnings produced in India and those earned by Indians abroad. This research seeks to offer a clear and straightforward comprehension of the taxation framework related to an individual's income in India for the assessment year 2019-20. The Income Tax Act of 1961 serves as the foundational reference for all information in this document, and the tax-saving advice contained herein stems from an analysis of

options accessible in the present market. Every person should be aware that tax planning to take advantage of all the incentives offered by the Government of India under various statutes is lawful. This project addresses the fundamentals of the Income Tax Act of 1961 as modified by the Finance Act 2019, and generally outlines tax planning and taxation.

options for saving available under these regulations. The finance act determines the tax brackets that are applicable to taxpayers.

#### Meaning Of Income Tax:

In India, income tax is a levy you pay to the government that is determined by your earnings (and profits for businesses). The government allocates this tax revenue for numerous purposes such as public services, infrastructure improvement, defense expenditures, and subsidies, among other uses. If your earnings exceed a specific threshold, you must pay income tax annually.

#### Five Main Income Tax Heads:

Figure 1.2



Source: incometax.gov.in

#### Key Features New Tax Regime 2024-25

##### Simplification

intended to lessen the burden of compliance and simplify the tax system.

removed the requirement to keep track of numerous exclusions and deductions.

##### Encouraging Compliance:

The government wanted to promote taxpayers' voluntary cooperation with a simple mechanism.

##### Focus and Consumption:

The system increased people's disposable income and boosted spending by decreasing reliance on tax-saving investments.

##### Attracting New Taxpayers:

First-time taxpayers and those who found the Old Regime burdensome were intended to find the streamlined framework appealing.

#### Objective of Study:

1. To study the income tax act 1961, with respect to new amendments

2. To study the behavior of individual tax payer towards tax filing and planning
3. To conduct comparative tax calculation of an individual under new and old regime.

## Review of Literature

The survey looks at how Indian taxpayers feel about both the new and old income tax systems. 46 people participated in the survey, and the results showed a wide range of viewpoints. The majority of them acknowledged the suggested changes but had differing perspectives on how they should be implemented. (YES-IIMS, Chinchwad, Pune et al., 2025) There is a request for additional enhancements to the current tax structure, even if many people think the new regime can make tax filing easier and promote compliance. Due to familiarity and perceived benefits, the majority's preference for the previous tax system indicates a hesitancy to embrace new changes. The results highlight the necessity of ongoing development, improved communication, and a well-rounded strategy to satisfy the various needs of taxpayers. (Ranka, n.d.)

In light of the Income Tax Act of 1961, this article compares and contrasts the Old and New Tax Regimes, emphasizing the consequences for 2024. Long-term savings and investments are encouraged under the Old Regime, which offers higher tax rates combined with a variety of deductions and exemptions (such as under Section 80C for investments). The New Regime, on the other hand, which was implemented by Section 115 BAC, streamlines the tax code with reduced tax rates and fewer deductions in an effort to boost taxpayer compliance and disposable income. (Bora, 2024) comparison between the current and old tax regimes with regard to various income levels and tax slabs. The study also demonstrates that saving money is an important aspect of life because our government allowed tax deductions and exemptions under the previous tax system. This paper analyzes which tax regime will benefit investors based on their income bracket and investment goals.

## Data Analysis & Interpretation

Two regimes are available under the Indian income tax system: the old regime with deductions and the new regime with simplified rates. Making the correct choice will maximize your savings. Let's examine the main changes, their effects, and the

income tax slabs for **FY 2024–2025 under both regimes.**

Income Tax Slabs Under the Old Regime:

Income Slabs	Tax Rate
Up to 2,50,000	NIL
2,50,001 – 5,00,000	5%
5,00,001 – 10,00,000	20%
Above 10,00,000	30%

- The exemption limit for older citizens (60–80 years old) is ₹3 lakh.
- The cap is ₹5 lakh for very elderly folks (those who are 80 years of age or older).

Income Tax Slabs Under the New Regime (FY 2024-25)

Income Slabs	Tax Rate
Up to 3,00,000	NIL
3,00,001 – 7,00,000	5%
7,00,001 – 10,00,000	10%
10,00,001 – 12,00,000	15%
12,00,001 - 15,00,000	20%
Above 15,00,000	30%

## Modifications to the New Tax System for Fiscal Years 2024–2025

- Increased Basic Exemption: Every taxpayer is now exempted up to ₹3 lakh.
- Section 87A Rebate: Income of ₹7 lakh or less is exempt from tax.
- Improved Standard Deduction: Raised to ₹75,000 for individuals earning a salary.
- Family Pension Deduction: Increased from ₹15,000 to ₹25,000.
- Reduced Surcharge: The maximum surcharge rate has been decreased from 37% to 25%.

To highlight the impact on Final Tax amount, the researcher has taken up 4 case studies to explain the Tax calculation and treatment.

The researcher has attempted the comparison

amongst Tax payer while selecting the case studies among different income slabs. These tax returns are further calculated under new and old Tax regime to arrive at a conclusion.

### Case Study 1

Suppose an individual has an income of Rs. 7,75,000. The following table shows the tax calculation under the new and old regimes:

Particulars	Old Tax Regime	Proposed New Tax Regime
Gross Salary	7,75,000	7,75,000
Interest deduction on housing loan (self-occupied) deduction/HRA exemption	-	-
Standard Deduction	-50,000	-75,000
Gross Total Income	7,25,000	7,00,000
Deduction under Section 80C	-50,000	-
Deduction under Section 80D	-	-
Deduction under Section 80CCD(1B)	-	-
Total Taxable Income	6,75,000	7,00,000
Tax	47,500	20,000
Rebate	-	-20,000
Cess	1,900	-
Total Tax	49,400	-
Total Deductions/Exemptions	1,00,000	75,000

### Interpretation

- The proposed **new tax regime is more beneficial** in this case, as it results in **zero tax liability** due to the enhanced standard deduction and rebate benefits.
- The old tax regime provides more deduction options but still leads to a higher tax liability.
- For individuals who do not invest in tax-saving instruments under Section 80C, the new tax regime provides a **simpler and more tax-efficient** alternative.

### Case Study 2

Suppose an individual has an income of Rs. 16,00,000. The following table shows the tax calculation under the new and old regimes:

Particulars	Old Tax Regime	Proposed New Tax Regime
Gross Salary	₹ 16,00,000	₹ 16,00,000
Interest deduction on housing loan (self-occupied) / HRA exemption	-	-
Standard Deduction	₹ -50,000	₹ -75,000
Gross Total Income	₹ 15,50,000	₹ 15,25,000
Deduction under Section 80C	₹ -50,000	-
Deduction under Section 80D	-	-
Deduction under Section 80CCD(1B)	-	-
Total Taxable Income	₹ 14,50,000	₹ 15,25,000
Tax	₹ 2,92,500	₹ 1,72,500
Rebate	-	₹ -25,000
Cess	₹ 7,350	-
Total Tax	₹ 2,99,850	₹ 1,47,500
Total Deductions/Exemptions	₹ 1,00,000	₹ 75,000

### Interpretation

1. The new tax regime is more beneficial for this income bracket as it results in a much lower tax liability (₹1,47,500 vs. ₹2,99,850 in the old regime).
2. Even though the old tax regime offers more deductions, the new regime provides simpler tax calculations and lower tax rates, making it the better choice for individuals not heavily relying on tax-saving investments.
3. The tax rebate under the new regime further enhances its attractiveness.

### Case Study 3

Suppose a business has an income of Rs. 7,75,000. The following table shows the tax calculation under the new and old regimes:

Particulars	Old Tax Regime	Proposed New Tax Regime
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Gross Business Income	₹ 7,75,000	₹ 7,75,000
Less: Expenses (e.g., Rent, Salary, Depreciation)	₹ 2,00,000	₹ -2,00,000
Net Business Income	₹ 5,75,000	₹ 5,75,000
Interest Deduction on Housing Loan (Self-Occupied)	-	-
Standard Deduction	₹ -50,000	₹ -75,000
Gross Total Income	₹ 5,25,000	₹ 5,00,000
Deduction under Section 80C	₹ -50,000	-
Deduction under Section 80D	-	-
Deduction under Section 80CCD(1B)	-	-
Total Taxable Income	₹ 4,75,000	₹ 5,00,000
Tax	₹ 62,500	₹ 37,500
Rebate	-	₹ -12,500
Cess	₹ 1,875	-
Total Tax	₹ 64,375	₹ 25,000
Total Deductions/Exemptions	₹ 1,00,000	₹ 75,000

### Interpretation

- Despite lower deductions under the **New**
- **Tax Regime**, the overall tax liability is **significantly lower (₹25,000 vs. ₹64,375)** due to lower tax rates and rebates.
- The new regime is more **beneficial for business owners** who do not rely heavily on tax-saving investments under **Section 80C**.
- **Simplified tax structure and lower tax rates make the New Regime a better choice** for individuals with moderate business income.

### Case Study 4

Suppose a business has an income of Rs. 16,00,000. The following table shows the tax calculation under the new and old regimes:

Particulars	Old Tax Regime	Proposed New Tax Regime
Gross Business Income	₹ 16,00,000	₹ 16,00,000
Less: Expenses (e.g., Rent, Salary, Depreciation)	₹ -5,00,000	₹ -5,00,000
Net Business Income	₹ 11,00,000	₹ 11,00,000
Interest Deduction on Housing Loan (Self-Occupied)	-	-
Standard Deduction	₹ -50,000	₹ -75,000
Gross Total Income	₹ 10,50,000	₹ 10,25,000
Deduction under Section 80C	₹ -50,000	-
Deduction under Section 80D	-	-
Deduction under Section 80CCD(1B)	-	-
Total Taxable Income	₹ 10,00,000	₹ 10,25,000
Tax	₹ 1,12,500	₹ 1,02,500
Rebate	-	₹ -25,000
Cess	₹ 3,375	-
Total Tax	₹ 1,15,875	₹ 77,500
Total Deductions/Exemptions	₹ 1,00,000	₹ 75,000

### Interpretation

Even though the Old Tax Regime allows for additional deductions, the New Tax Regime results in significantly lower tax liability (₹77,500 vs. ₹1,15,875) due to lower tax rates and a rebate of ₹25,000.

For business owners with an income of ₹11,00,000, the New Tax Regime is more tax-efficient unless they heavily rely on tax-saving investments. The simplified tax structure and reduced tax burden make the New Regime a more favorable option.

### FINDINGS

The study examines how investors choose between the Old and New Tax Regimes based on their financial planning strategies, income levels, and tax-saving behaviors

### 1. Awareness and Knowledge of Tax Regimes

Many investors are not fully aware of the differences between the Old and New Tax Regimes.

Financially literate investors tend to make informed decisions, while others rely on tax consultants or employer-provided guidance.

### 2. Investor Preferences: Old vs. New Tax Regime

High-income earners and investors with substantial tax-saving investments (PPF, ELSS, NPS, insurance, etc.) prefer the Old Tax Regime due to multiple deductions.

Middle-income earners (₹7–15 lakh range) find the New Tax Regime more attractive because of lower tax rates and simpler compliance.

Self-employed and business professionals lean towards the New Tax Regime to reduce compliance and maximize post-tax income.

### 3. Impact of Standard Deduction and Rebate

The increase in standard deduction (₹75,000 in the new regime) reduces taxable income, making the New Regime more beneficial for salaried professionals.

The rebate of ₹25,000 (for income up to ₹7 lakh) makes the New Tax Regime more favorable for lower-income earners.

### 4. Behavioral Factors Affecting Tax Planning

Investors prioritizing long-term wealth creation through deductions under Section 80C (ELSS, PPF, LIC, etc.) continue to prefer the Old Tax Regime.

Those who prioritize higher take-home income and flexibility opt for the New Tax Regime despite the lack of deductions.

Many individuals choose the tax regime at the last moment, often without strategic planning for tax-saving investments.

### 5. Business vs. Salaried Tax Planning Strategies

Business owners prefer the New Tax Regime due to its lower tax burden and fewer documentation requirements.

Salaried employees with home loans, insurance, and retirement savings often find the Old Tax Regime more beneficial due to multiple deductions.

### 6. Shift in Investment Behavior Due to the New Tax Regime

The New Tax Regime discourages tax-saving investments, as it does not offer deductions under Section 80C and 80D.

Many individuals opting for the New Regime invest in mutual funds, stocks, or alternative assets rather than tax-saving instruments.

There is a decline in insurance and retirement savings contributions among New Tax Regime adopters.

### Conclusion

Investors' choice between the two tax regimes depends on income levels, tax planning awareness, financial goals, and risk appetite.

The Old Tax Regime is beneficial for individuals with planned investments, while the New Tax Regime suits those seeking lower tax rates and simplicity.

Policy changes in tax deductions can significantly impact investor behavior, affecting financial markets and tax-saving product demand.

This study highlights the need for increased financial literacy to help investors make informed tax planning decisions aligned with their financial goals.

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