An Analysis of Old Tax Regime and New Tax Regime for Individual Taxpayers in India

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ABSTRACT

The personal income tax system in India has undergone major changes with the introduction of the New Tax Regime. Unlike the traditional Old Tax Regime, which allows multiple exemptions and deductions, the New Tax Regime offers reduced tax rates with limited tax benefits. This research paper examines the key differences between the two regimes and evaluates their impact on salaried taxpayers. The study focuses on tax liability, ease of compliance, and taxpayer preference. The findings suggest that while the New Tax Regime simplifies taxation, the Old Tax Regime remains more advantageous for individuals who engage in tax planning through savings and investments.

Keywords: Income Tax, Old Tax Regime, New Tax Regime, Salaried Taxpayers, Tax Planning

INTRODUCTION

Taxes are pretty much the government's main way to bring in money, and they shape the country's economy in a big way. When you pay taxes whether you're an individual or a business that money goes straight into things like schools, hospitals, roads, defence, and social programs. Without taxes, none of that gets funded.

If the tax system works well, it does more than just collect money. It helps keep the economy steady, closes the gap between rich and poor, and pushes growth that lasts. With the right tax policies, the government can nudge people to save, invest, or spend in the areas that matter most for the country. In India, taxes aren't just a small piece of the budget they're front and centre, and any change in the tax laws hits people's wallets, especially those who earn a salary.

India's tax system didn't just show up overnight. Way back in ancient times, taxes were about land and trade, and people cared about fairness and the public good even old texts like the Artha shastra talk about it. Fast forward to today, and everything's laid out in the constitution and a pile of laws.

Right now, income tax is one of the government's biggest earners. Every year, the Union Budget lays out what's changing basically, it's a snapshot of what the government wants to focus on for the country's future. Over the years, the government has rolled out all sorts of reforms to make taxes easier to understand, to get more people to actually pay, and to make the whole thing fairer and more open.

One of the biggest shake ups lately has been the launch of the New Tax Regime, which sits right alongside the Old Tax Regime. The Old Tax Regime lets you claim a bunch of deductions and exemptions things like House Rent Allowance, Leave Travel Allowance, and other perks under the Income Tax Act. It's designed to get people to save and invest for the long run. The New Tax Regime, on the other hand, strips away most of those breaks and just gives you lower tax rates. The idea? Make filing simpler and cut down on paperwork.

Now, people have a choice i.e. stick with the old system or switch to the new one whatever fits your income, savings habits, or future plans. With everything going digital and more people getting clued in about taxes, you really have to pay attention and make smart decisions about which system to pick.

All this means it's important to dive into the budget and tax policies, and really compare the old and new regimes. That's the only way to figure out how these changes hit people with salaries, and how they shape the bigger economic picture for India.

OBJECTIVES

This research dives into how taxation works in India and why tax policy matters for the country's economy. Taxation isn't just about collecting money it shapes how people and businesses operate, and it sets the stage for economic growth. One big goal here is to break down the Indian income tax system, especially the Old Tax Regime and the New Tax Regime that the government rolled out. I'll look at how these two systems differ think tax slabs, what kind of exemptions or deductions you get, and how easy or hard it is to comply with the rules.

A big part of this study is figuring out which taxpayers especially salaried have it better under each regime. I want to see how changes in tax policy actually affect the way people plan their finances, save, and invest. It's not just about which system looks better on paper, but how these choices play out in real life.

This research also looks at the impact of recent budget reforms. Did the new tax rules really make things simpler and more transparent? And are they helping taxpayers the way the government promised? I also want to help people understand why it's so important to know the ins and outs of tax laws before picking a system. Tax policy doesn't happen in a vacuum it's tied to bigger goals like making business easier, boosting compliance, and keeping the economy steady in the long run.

In the end, this paper aims to give a clear, side-by-side look at both tax regimes. Whether you're a taxpayer, a student, or a researcher, the goal is to help you actually understand how India's tax system works and make smarter choices with your money

OLD TAX REGIME

Old Tax Regime In India, the Old Tax Regime has been followed since many years. The current system allows tax to be treated as liability and that amount gets reduced due to deductions, exceptions etc. The objective was simple. Encourage savings. Promote financial planning.

This is the regime most a salaried person would know. You often us the deductions associated with provident fund, life insurance, HRA and medical insurance. Certainly, taxpayers have come into the habit of planning investments primarily with tax advantage in mind. This practice was now appended to the annual fiscal exercises.

But the road is not always blacktop. Tax is a multi-conditioned, document driven process. In a lot of cases, taxpayers are unclear whether they're eligible to make a contribution or where the limits are. Tiny mistakes can result in denials. Yet people who invest regularly often prosper in this regime. It encourages long-term savings, while imposing a greater compliance burden.

NEW TAX REGIME

New Tax Regime was meant to simplify India's income tax structure. It provides for lower tax rates, but eliminates most exemptions and deductions. The emphasis is on simplification of compliance, rather than tax planning.

Under such a system, taxes are assessed primarily on gross income. Re: The Number of proofs is cut, it gets easier. And this is clarifying for some taxpayers. Filing becomes easier. Especially when you don't invest every month.

At the same time, this order has its own disadvantages. And when there are no deductions, the lessened incentive to save. Middle-class taxpayers may not always come out ahead, even if rates are lower. So, though New Tax Regime benefits simplicity but does not lead to lower tax liability in all cases.

COMPARATIVE ANALYSIS OF THE OLD AND NEW TAX REGIMES

For many years, salaried individuals in India followed a single income tax structure, which is now referred to as the Old Tax Regime. Since there was no alternative, most employees planned their savings and investments according to this system without much comparison. The introduction of the New Tax Regime marked a major change by giving taxpayers the option to choose between two different systems. This shift created confusion among salaried individuals, as both regimes differ significantly in their structure, benefits, and compliance requirements. Therefore, a comparative analysis of the Old and New Tax Regimes becomes essential to understand their practical implications.

The Old Tax Regime is designed to encourage savings and long-term financial planning. Under this system, tax rates are relatively higher, but taxpayers are allowed to reduce their taxable income through various deductions and exemptions. Salaried individuals can claim deductions under Section 80C by investing in provident funds, life insurance policies, and tax-saving deposits. In addition, exemptions such as House Rent Allowance (HRA), Leave Travel Allowance (LTA), medical insurance deductions, and interest on housing loans further reduce tax liability. This regime benefits individuals who actively plan their finances and maintain a disciplined saving habit.

In practical office environments, the Old Tax Regime is closely associated with the annual submission of investment proofs to the human resources department. Employees are required to submit documents such as rent receipts, insurance premium receipts, and investment statements within a specified deadline. While this process encourages financial discipline, it also increases paperwork and often leads to last-minute stress toward the end of the financial year.

The New Tax Regime follows a simpler and more straightforward approach. Under this system, tax rates are lower, but most deductions and exemptions available under the Old Tax Regime are removed. Tax is calculated almost directly on salary income, which reduces the need for documentation and proof submission. This regime is particularly suitable for salaried individuals who do not have significant investments or deductions, such as young professionals or employees in the early stages of their careers. The simplicity of this system also improves tax compliance and reduces administrative burden.

A key difference between the two regimes lies in the level of financial planning required. The Old Tax Regime encourages structured and disciplined savings, but may lead to forced investments made primarily for tax benefits. In contrast, the New Tax Regime provides greater flexibility by allowing individuals to decide how they want to use their income, though this flexibility requires personal financial discipline to maintain long-term savings.

IMPACT OF THE OLD AND NEW TAX REGIMES ON SALARIED INDIVIDUALS IN INDIA

The introduction of two income tax regimes has significantly changed the way salaried individuals approach taxation in India. Earlier, employees followed a single tax structure without actively evaluating alternatives. Today, the choice between the Old and New Tax Regimes directly affects take-home salary, saving patterns, and overall financial planning.

For low-income salaried individuals, particularly fresh graduates and entry-level employees, the New Tax Regime often appears more beneficial. Since these individuals usually do not have home loans, insurance premiums, or major investments, they are unable to fully utilise deductions under the Old Tax Regime. As a result, the lower tax rates under the New Tax Regime may lead to higher take-home pay and reduced complexity in tax filing.

For middle-income salaried individuals, the impact of the two regimes varies depending on personal circumstances. Employees with family responsibilities, regular savings, and insurance coverage may benefit more from the Old Tax Regime due to the availability of deductions. On the other hand, employees with limited deductions may find the New Tax Regime equally suitable. This makes it essential for this group to compare tax liability under both regimes before making a decision.

High-income salaried professionals generally benefit more from the Old Tax Regime if they engage in effective tax planning. Deductions related to housing loans, retirement savings, and insurance help reduce taxable income. However, professionals who do not actively invest may not experience significant advantages under either regime.

The availability of two tax regimes has also influenced saving behaviour among salaried individuals. While the Old Tax Regime promotes structured savings, it may encourage investments made solely for tax benefits. The New Tax Regime offers flexibility and simplicity, but places greater responsibility on individuals to maintain financial discipline without tax incentives.

In conclusion, there is no single tax regime that is suitable for all salaried individuals. The choice between the Old and New Tax Regimes depends on income level, life stage, and financial behaviour. Salaried taxpayers should evaluate their income structure, expenses, and long-term financial goals and calculate tax liability under both regimes before making a final decision.

ADVANTAGES AND DISADVANTAGES

Advantages of the Old Tax Regime

The Old Tax Regime has been around in India for ages, and honestly, it’s built to encourage people to save and invest. The biggest draw is that you get to lower your taxable income thanks to a bunch of exemptions and deductions. If you’re a salaried employee, you can use things like house rent allowance and leave travel allowance to cut down your tax. In addition to that, if you put money into your provident fund, insurance, or any of those approved savings schemes, you get even more relief.

This system kind of nudges you to plan your money better and save for the long run. People paying off home loans or health insurance premiums usually find it especially helpful, since it really brings down their tax load. If you’re someone who likes to invest and keep track of expenses, you can save a good sum of money under this regime.

Disadvantages of the Old Tax Regime

The Old Tax Regime isn’t perfect. It’s complicated. You have to understand a maze of rules and limits for every deduction and exemption. Keeping track of bills, receipts, and all the paperwork can get annoying fast. And the tax rates themselves are on the higher side. If you don’t have enough investments or expenses to claim, you’ll probably end up paying more tax than you would under the new system. So, if you’re not investment focuesd or you just want a simple tax process, this regime isn’t best suited.

Advantages of the New Tax Regime

The New Tax Regime is all about making taxes simpler and more transparent. That’s really its main selling point. Lower tax rates, hardly any exemptions or deductions to worry about it cuts out most of the hassle when you’re filing your return. You don’t have to go hunting for proof of every investment, and you don’t need to plan your spending just to save on taxes. Young professionals, recent graduates, or anyone with a straightforward income usually find this regime much easier to handle. It also makes life easier for the government, since a simpler system means fewer mistakes and better tax compliance.

Disadvantages of the New Tax Regime

The biggest catch with the New Tax Regime is that you lose out on most of the tax saving deductions and exemptions. So, if you’re someone who’s already putting money into insurance, provident funds, or paying off a home loan, you might actually pay more tax despite the lower rates. Plus, since there aren’t any tax breaks for long term investments, there’s not much incentive to save. Over time, this could mess with people’s saving habits, especially for those who rely on tax benefits to build up their finances

FINDINGS

The comparison of the current income-tax systems in India proves that there is no perfect regime that should be considered as the best since the best decision depends on the financial conditions and the life stage of a particular person. In the case of people who are located in the lower and middle-income category or in other words those with an income between 8 lakh and 15 lakh per annum, the traditional system is often more beneficial. This is preferred since the old regime allows the taxpayers to substantially lower their taxable income claiming a variety of exemptions and deductions related to investments made into provident funds, life insurance, and home loans. This system poses the tax relief as equivalent to specific financial instruments, and it is a good idea of encouraging saving behaviours and disciplined financial planning over the long run.

On the other hand, the new regime is more suited towards the high-income earners especially those earning over 20 lakh per annum who do not aim to impose numerous deductions. It is also very efficient among young professionals or entry level employees who may not have substantial investments or insurance premiums to put as claims. Though, this new method has reduced taxation rates and a significantly easier filing process, which does not require any paperwork, it erases instantaneous taxation-based savings. In this regard, taxpayers are expected to carry out a comparative evaluation of their payments in both systems to establish the best model in relation to their specific income-based framework as well as long-term goals.

CONCLUSION

The findings and suggestions made in this study give a broad idea to the salaried tax payers. Both the tax regimes have their own set of merits and demerits. The old tax regime has provided many exemptions and deductions which results in reduction of tax liability for salaried employees claiming exemption and deductions. Whereas, mew tax regime has not provided exemptions and deductions, but it has provided lower tax rates with simple procedure of filing returns. It is preferable for salaried tax payers who do not want to avail exemption and deductions. Hence, it is advisable salaried tax payers to do comparative evaluation and analysis under both regimes and then choose the most beneficial one as it may vary from person to person. From this study, it is clear that old tax regime is a better option for salaried tax payers who are getting lower and middle income (i.e. 8 lakh to15 lakh p.a.) claiming exemptions and deductions for their payments and savings. The new tax regime is a better option for salaried tax payer who are getting higher income (i.e. more than 20 lakh p.a.) do not want to claim exemptions and deductions.

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