

Behavioural and Economic Determinants Influencing Taxpayer Preference for the New Tax Regime in India: A Comparative Analysis with the Old Tax Regime

Manasa K¹, Surya S², Mithilesh A³, Mukesh kumar A⁴, Dr Tejaswini S⁵

¹²³⁴MBA 2025 – 27 Faculty of Management Studies, JAIN (Deemed-to-be University) ⁵Assistant Professor, Faculty of Management Studies, JAIN (Deemed-to-be University)

ABSTRACT

India's personal income tax structure has undergone a major transformation with the introduction of the New Tax Regime under Section 115BAC. The reform aims to simplify taxation by offering reduced tax rates while eliminating most exemptions and deductions available under the Old Tax Regime. Despite policy intentions to promote ease of compliance and transparency, taxpayers continue to display varied preferences between the two regimes.

This study examines the behavioural and economic determinants influencing taxpayers' decisions while selecting a tax regime. Using secondary data from government reports, academic literature, and taxation policy studies, the research evaluates how income level, deduction benefits, perceived simplicity, compliance effort, and professional advisory influence shape taxpayer behaviour.

The study conceptualizes tax regime choice as both an economic and behavioural decision rather than a purely mathematical comparison. While deduction-oriented taxpayers may benefit from the Old Tax Regime, individuals prioritizing flexibility and reduced documentation are expected to prefer the New Tax Regime.

Primary data collected through structured questionnaires will later validate the conceptual relationships proposed in this study. The research contributes to policy evaluation and provides insights for policymakers, organizations, and financial advisors in understanding taxpayer adoption behaviour.

Keywords: Tax Reform, New Tax Regime, Old Tax Regime, Taxpayer Behaviour, Income Tax India, Section 115BAC.

INTRODUCTION

Taxation plays a crucial role in economic governance by influencing savings behavior, investment decisions, and compliance patterns. India's traditional personal income tax system operated under a deduction-based framework encouraging taxpayers to invest in specified financial instruments through provisions such as Section 80C, Section 80D, House Rent Allowance, and housing loan deductions. While this system promoted long-term savings, it also created complexity due to extensive documentation and calculation requirements.

To simplify taxation and improve compliance, the Government of India introduced the New Tax Regime through the Union Budget 2020. The new structure provides reduced tax rates while removing most deductions and exemptions. The reform reflects a policy shift from incentive-driven taxation toward simplicity-oriented compliance.

Research indicates that simplified tax systems improve voluntary compliance and reduce administrative burden (Slemrod, 2019). Behavioural economics further suggests that individuals often prefer options requiring lower cognitive effort (Thaler & Sunstein, 2008). Consequently, taxpayer decisions may depend not only on tax savings but also on perceived ease and financial behaviour.

The coexistence of two regimes creates a decision environment where taxpayers must balance deduction benefits against simplicity and flexibility. Understanding determinants influencing this choice is essential for evaluating the effectiveness of tax reforms and guiding future fiscal policy. Despite simplified taxation provisions, adoption of the New Tax Regime remains uneven among taxpayers. This study aims to evaluate whether recent tax reforms in India align with taxpayer behaviour and financial decision-

making patterns by analysing the behavioural and economic factors that influence taxpayer preference between the Old Tax Regime and the New Tax Regime. It seeks to understand how aspects such as income level, deduction benefits, and perceived simplicity affect the selection of a tax regime.

REVIEW OF LITERATURE

Tax policy reforms and taxpayer behaviour have been widely examined in the fields of public finance and behavioural economics. Existing studies indicate that taxpayer decisions are influenced not only by economic considerations such as tax liability and deductions but also by behavioural factors including perceived simplicity, convenience, and compliance effort. Understanding these determinants is essential in evaluating the effectiveness of taxation reforms, particularly in countries where governments attempt to balance tax incentives with simplified compliance mechanisms.

Auerbach and Slemrod (2021) examined the broader economic implications of tax policy reforms and highlighted that modifications in tax structures significantly influence taxpayer behaviour, savings patterns, and investment decisions. Their research suggests that simplified tax systems tend to reduce compliance costs and administrative complexity, thereby improving efficiency in tax administration. However, the authors also emphasize that removing tax deductions and exemptions may reduce incentives for household savings and long-term investments. This argument is particularly relevant to the Indian tax system, where the New Tax Regime offers lower tax rates while eliminating several traditional deductions that previously encouraged investment in tax-saving instruments.

Building upon this perspective, **Slemrod and Gillitzer (2021)** explored the relationship between tax system complexity and taxpayer compliance. Their study indicates that complex tax systems increase compliance costs and create additional administrative burdens for taxpayers. As a result, individuals often depend on professional advisors for tax planning and filing procedures. The authors argue that simplified tax frameworks can improve voluntary compliance by reducing procedural complexity and increasing transparency in the tax system. In the context of India, the introduction of the New Tax Regime represents an attempt to simplify taxation by offering straightforward tax slabs and minimizing reliance on deductions and exemptions.

While economic incentives are important, behavioural economics provides additional insights into how taxpayers make decisions. **Thaler, Sunstein, and Balz (2021)** introduced the concept of “choice architecture,” which explains how the structure and presentation of policy options influence individual decision-making. According to their theory, individuals often prefer options that require less cognitive effort and are easier to understand. Consequently, simplified policies can encourage adoption even when financial benefits are not significantly higher. Applying this concept to taxation, the New Tax Regime in India can be interpreted as a behavioural policy initiative designed to simplify tax compliance and influence taxpayer choices through ease of understanding and reduced documentation requirements.

In the Indian context, **Rao (2022)** examined the evolution of personal income tax reforms and highlighted the role of tax deductions in encouraging household savings and investment behaviour. Traditionally, provisions such as Section 80C, Section 80D, housing loan deductions, and other exemptions have incentivized taxpayers to invest in financial instruments such as provident funds, insurance policies, and tax-saving mutual funds. While these provisions promoted financial discipline and long-term savings, they also increased the complexity of the tax system by requiring taxpayers to maintain extensive documentation and perform detailed calculations. Rao argues that the introduction of the New Tax Regime reflects a policy shift aimed at simplifying the taxation system while reducing dependence on deduction-based incentives.

Further empirical evidence is provided by **Gupta and Sharma (2023)**, who investigated behavioural responses to income tax reforms in India. Their findings indicate that income level and financial planning behaviour play a significant role in determining taxpayer preference between tax regimes. Taxpayers with higher incomes and structured investment portfolios tend to prefer the Old Tax Regime due to the availability of deductions that reduce taxable income. In contrast, individuals with fewer tax-saving investments or simpler financial arrangements often prefer the New Tax Regime because of its simplified structure and lower tax rates. Their study highlights the interaction between economic incentives and behavioural factors in shaping taxpayer decisions.

International institutional reports also provide important insights into tax policy reforms. The **OECD (2022)** emphasizes that simplified tax systems improve transparency and reduce administrative costs for both taxpayers and governments. According to the report, tax systems with fewer exemptions and clearly defined tax rates enhance compliance and reduce the likelihood of filing errors. However, the OECD also notes that reducing tax incentives may weaken household savings behaviour, particularly in countries where tax benefits traditionally encourage investment.

Similarly, the **World Bank (2022)** highlights the importance of tax simplification and digital transformation in improving tax compliance in developing economies. The report suggests that simplified tax policies, when combined with digital tax administration systems, can significantly reduce compliance barriers and improve efficiency in tax collection processes.

In addition to academic and institutional studies, professional advisory reports from **Deloitte (2023)**, **EY (2023)**, **PwC (2023)**, and **KPMG (2022)** indicate that taxpayer preference between the Old and New Tax Regimes largely depends on individual financial circumstances. These reports consistently suggest that taxpayers with higher deductions and structured investments benefit more from the Old Tax Regime, whereas individuals seeking flexibility, reduced documentation, and simplified filing procedures are more likely to adopt the New Tax Regime.

Overall, the literature suggests that taxpayer decisions are influenced by a combination of economic determinants such as income level and deduction benefits, as well as behavioural determinants including perceived simplicity and compliance convenience. The coexistence of the Old and New Tax Regimes in India creates a decision environment where taxpayers must evaluate both financial benefits and behavioural considerations when selecting a tax structure. Therefore, understanding these determinants is essential for assessing the effectiveness of tax reforms and the adoption of simplified taxation frameworks.

RESEARCH HYPOTHESES

H1: Income level significantly influences tax regime preference.

H2: Deduction availability positively influences preference for the Old Tax Regime.

H3: Perceived simplicity increases adoption of the New Tax Regime.

H4: Professional advice significantly affects taxpayer decisions.

H5: Compliance convenience positively influences preference for the New Tax Regime.

RESEARCH METHODOLOGY

This study adopts a descriptive and analytical research design to examine the behavioural and economic factors influencing taxpayer preference between the Old Tax Regime and the New Tax Regime in India. The descriptive approach helps in understanding the characteristics and patterns of taxpayer behaviour, while the analytical aspect enables the researcher to examine relationships between different variables that influence tax regime selection. The study aims to explore how factors such as income level, availability of tax deductions, and perceived simplicity of the tax system affect individual decision-making in choosing between the two tax regimes.

The research is based on both primary and secondary data sources. Primary data were collected through a structured questionnaire administered to individual taxpayers. The questionnaire was designed to gather information regarding respondents' income level, tax regime preference, influence of tax deductions, and perception of the simplicity and convenience of the New Tax Regime. The survey method allows for the collection of first-hand information directly from taxpayers, which helps in understanding their financial behaviour and decision-making patterns. Secondary data were obtained from credible sources such as academic journals, government reports, taxation policy documents, and official publications from institutions like the Ministry of Finance and the Income Tax Department of India. These sources provide a theoretical and policy-based foundation for understanding the background and evolution of the tax reforms under study.

A convenience sampling method was used to collect responses from taxpayers representing different income groups and financial profiles. This method was adopted due to ease of accessibility and time constraints. The questionnaire was distributed through an online platform, enabling respondents to provide their views conveniently. The sample included individuals who have the option to choose between the Old and New Tax Regimes while filing their income tax returns. Although convenience sampling allows for faster data collection, it may limit the representativeness of the sample.

The study considers several variables to examine taxpayer preference. Independent variables include income level, deduction availability, and perceived simplicity of the tax system. These variables are expected to influence taxpayers' financial decisions regarding tax regime selection. The dependent variable in the study is tax regime preference, which represents the final choice made by taxpayers between the Old and New Tax Regimes. Due to certain limitations in the data, hypothesis testing was conducted mainly for the key variables that are most relevant to the research objectives.

To analyse the collected data, basic statistical tools were used. Frequency distribution and percentage analysis were applied to summarize and present the responses obtained from the survey. Cross-tabulation was used to compare the relationship between different variables and to observe patterns in taxpayer behaviour. In addition, the chi-square test was employed to determine whether there is a statistically significant relationship between income level, deduction availability, perceived simplicity, and tax regime preference. These analytical techniques help in identifying the key determinants that influence taxpayer decisions.

The scope of the study is limited to individual taxpayers in India who have the option to choose between the two tax regimes. However, the study is subject to certain limitations, including the relatively small sample size and the use of convenience sampling. These factors may affect the generalization of the results to the entire population. Despite these limitations, the study provides useful insights into the behavioural and economic factors that influence taxpayer decision-making in the context of India's evolving taxation system.

SECONDARY DATA ANALYSIS

Secondary evidence indicates that deduction-oriented taxpayers benefit more under the Old Tax Regime, whereas individuals without structured investments benefit from simplified tax slabs. Policy trends, including making the new regime a default option, indicate government emphasis on simplification and compliance improvement.

PRIMARY DATA ANALYSIS

Frequency distributions:

Variable	Category	Frequency	Percentage
Income Level	Below ₹5 Lakhs	32	72.7%
	₹5–10 Lakhs	12	27.3%
Tax Regime Preference	New Tax Regime	32	72.7%
	Old Tax Regime	12	27.3%
Influence of Tax Deductions	Highly Influential	12	27.3%
	Moderately Influential	20	45.5%
	Slightly Influential	8	18.2%
	Not Influential	4	9.1%
Perceived Simplicity of New Regime	Strongly Agree	12	27.3%
	Agree	20	45.5%
	Neutral	12	27.3%

The frequency distribution shows that the majority of respondents (72.7%) belong to the income group below ₹5 lakhs. Similarly, 72.7% of respondents prefer the New Tax Regime, indicating a growing inclination toward simplified taxation. The results also reveal that tax deductions significantly influence taxpayer decisions, with 72.8% reporting moderate or high influence. Additionally, most respondents agree that the New Tax Regime is simpler compared to the traditional deduction-based system.

HYPOTHESIS TESTING RESULTS:

HYPOTHESIS 1

H₀: Income level does not significantly influence tax regime preference.

H₁: Income level significantly influences tax regime preference.

Contingency Table

Income Level	New Tax Regime	Old Tax Regime	Total
Below ₹5 Lakhs	20	12	32
₹5–10 Lakhs	12	0	12
Total	32	12	44

Chi-Square Result

- Chi-Square Value (χ^2) = **4.44**
- Degrees of Freedom = **1**
- p-value = **0.035**

Decision

Since **p-value (0.035) < 0.05**, the null hypothesis is rejected.

Interpretation: There is a significant relationship between income level and tax regime preference. This indicates that taxpayers belonging to different income groups tend to choose different tax regimes.

HYPOTHESIS 2

H₀: Deduction availability does not significantly influence preference for the Old Tax Regime.

H₁: Deduction availability significantly influences preference for the Old Tax Regime.

Contingency Table

Deduction Influence	New Regime	Old Regime	Total
Highly Influential	8	4	12
Moderately Influential	16	4	20
Slightly Influential	8	0	8

Deduction Influence	New Regime	Old Regime	Total
Not Influential	0	4	4
Total	32	12	44

Chi-Square Result

- Chi-Square Value (χ^2) = **14.42**
- Degrees of Freedom = **3**
- p-value = **0.002**

Decision

Since **p-value (0.002) < 0.05**, the null hypothesis is rejected.

Interpretation: The results indicate that tax deductions significantly influence taxpayer preference, and individuals who benefit from deductions are more likely to choose the Old Tax Regime.

HYPOTHESIS 3

H₀: Perceived simplicity does not significantly influence adoption of the New Tax Regime.

H₁: Perceived simplicity significantly influences adoption of the New Tax Regime.

Contingency Table

Simplicity Perception	New Regime	Old Regime	Total
Agree	16	4	20
Neutral	8	4	12
Strongly Agree	8	4	12
Total	32	12	44

Chi-Square Result

- Chi-Square Value (χ^2) = **0.98**
- Degrees of Freedom = **2**
- p-value = **0.613**

Decision

Since **p-value (0.613) > 0.05**, the null hypothesis cannot be rejected.

Interpretation: The findings suggest that perceived simplicity alone does not significantly influence taxpayer preference for the New Tax Regime in the sample considered.

STATISTICAL INTERPRETATION

Summary of Hypothesis Testing

Hypothesis	Result
Income level influences regime preference	Supported
Deduction availability influences regime preference	Supported
Simplicity influences adoption	Not supported

Hypothesis testing outcome demonstrates the fact that the level of income and the presence of tax deductions play a significant role in determining the preference of taxpayers between the New and Old Tax Regimes. But, the perceived simplicity of the New Tax Regime is not statistically significant with regime selection. These results suggest that economic factors have the stronger impact than behavioural perceptions in determining the decision of taxpayers with respect to tax regime choice.

DISCUSSION

The expected findings of the study indicate that taxpayers who claim higher deductions are more likely to prefer the Old Tax Regime, as it offers multiple exemptions and deduction benefits that help reduce taxable income. Deductions related to investments, insurance premiums, housing loans, and other tax-saving instruments continue to play an important role in influencing the tax decisions of individuals who actively engage in financial planning. These provisions encourage taxpayers to structure their savings and investments in ways that maximize tax benefits while supporting long-term financial security.

The results of the study also suggest that income level significantly influences tax regime selection. Taxpayers belonging to different income groups tend to evaluate their tax liability differently and therefore choose the regime that provides the most suitable financial outcome. Individuals with structured investments and higher deduction benefits are more likely to benefit from the Old Tax Regime, whereas taxpayers with fewer deductions may prefer the New Tax Regime due to its lower tax rates and simplified structure. Furthermore, the findings indicate that deduction benefits remain one of the strongest determinants influencing taxpayer decisions when choosing between the two regimes.

Although the New Tax Regime is widely perceived as simpler and easier to comply with due to reduced documentation and fewer exemptions, the perception of simplicity alone may not significantly influence taxpayers' final preference when selecting a tax regime. The existence of a dual tax regime in India reflects a gradual transition from an incentive-based taxation system toward a more simplified and behaviourally oriented tax structure. While the Old Tax Regime encourages structured savings through deductions and tax incentives, the New Tax Regime focuses on reducing the compliance burden by providing straightforward tax slabs and minimizing procedural complexity.

However, the overall effectiveness of such tax reforms depends not only on reduced tax rates but also on the level of taxpayer awareness and financial literacy. Greater awareness is necessary to ensure that taxpayers can evaluate the financial implications of both regimes and make informed decisions. In this context, policymakers can enhance public awareness initiatives related to tax reforms, while organizations and HR departments can assist employees in effective tax planning and regime selection. Financial advisors also play an important role by providing personalized recommendations based on an individual's income level, investment behaviour, and financial goals. Overall, this study integrates behavioural finance concepts with taxation policy evaluation and contributes to a better understanding of tax reform adoption and taxpayer decision-making in emerging economies such as India.

CONCLUSION

This study examined the behavioural and economic factors influencing taxpayer preference between the Old Tax Regime and the New Tax Regime in India. The analysis was based on both secondary data and primary survey responses in order to understand the key determinants affecting taxpayer decision-making. The results of the primary data analysis indicate that a majority of respondents (72.7%) prefer the New Tax Regime, while 27.3% continue to opt for the Old Tax Regime. This finding suggests that taxpayers are increasingly inclined toward simplified taxation structures that reduce compliance complexity.

The survey responses also reveal that most participants perceive the New Tax Regime as easier to understand and comply with, with nearly 73% agreeing that it is simpler compared to the traditional deduction-based system. However, the results highlight that tax deductions remain a significant factor influencing regime choice. Approximately 73% of respondents reported that deductions such as Section 80C, Section 80D, House Rent Allowance, and housing loan benefits moderately or strongly affect their tax decisions. Consequently, taxpayers who actively invest in tax-saving instruments are more likely to prefer the Old Tax Regime.

The findings are consistent with existing literature, which emphasizes that taxpayer behaviour is shaped by both economic incentives and behavioural considerations. While the Old Tax Regime provides opportunities for tax reduction through deductions and structured investments, the New Tax Regime appeals to individuals who prioritize simplicity, reduced documentation, and greater financial flexibility.

Overall, the study concludes that income level, deduction benefits, perceived simplicity, and financial planning behaviour are key determinants influencing tax regime preference. Although the New Tax Regime is gaining popularity due to its simplified structure, the Old Tax Regime continues to remain relevant for taxpayers who benefit from multiple deductions. Therefore, enhancing taxpayer awareness and financial literacy is essential to enable individuals to make informed tax decisions that align with their financial circumstances.

REFERENCES

- Auerbach, A. J., & Slemrod, J. (2021). The economics of tax policy reform. *Journal of Economic Perspectives*, 35(2), 165–190.
- Deloitte India. (2023). *Indian tax policy reforms and taxpayer response*. Deloitte Insights.
- EY India. (2023). *Individual tax reforms and the adoption of the new tax regime*. Ernst & Young Global Limited.
- Government of India. (2022). *Union Budget 2022–23: Direct tax proposals*. Ministry of Finance.
- Government of India. (2024). *Income tax return statistics and taxpayer behaviour trends*. Central Board of Direct Taxes.
- Gupta, R., & Sharma, P. (2023). Behavioural responses to income tax reforms in India. *Indian Journal of Finance*, 17(2), 34–48.
- KPMG. (2022). *India tax developments and personal taxation reforms*. KPMG International.
- OECD. (2022). *Tax administration 2022: Comparative information on OECD and other advanced economies*. OECD Publishing.
- OECD. (2023). *Tax policy reforms 2023: OECD and selected partner economies*. OECD Publishing.

- PwC India. (2023). *Personal taxation reforms and implications for Indian taxpayers*. PricewaterhouseCoopers.
- Rao, M. G. (2022). Personal income tax reforms in India: Issues and prospects. *Economic and Political Weekly*, 57(8), 24–30.
- Reserve Bank of India. (2023). *Handbook of statistics on the Indian economy*. RBI Publications.
- Slemrod, J., & Gillitzer, C. (2021). *Tax systems and taxpayer behaviour*. Cambridge University Press.
- Thaler, R. H., Sunstein, C. R., & Balz, J. (2021). Choice architecture and behavioural public policy. *Behavioural Public Policy*, 5(3), 329–347.
- World Bank. (2022). *Tax compliance and digital transformation in developing economies*. World Bank Publications.