Comparative Analysis of Old Vs New Tax Regime in India

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Abstract

Taxation plays a critical role in the functioning of modern economies by providing governments with the revenue necessary to fund public services and infrastructure development. In India, the personal income tax system has undergone significant reforms over the years to improve transparency, simplify procedures, and encourage compliance among taxpayers. One of the most significant reforms in recent years was the introduction of the **New Tax Regime** through the **Union Budget 2020**.

The introduction of the new tax regime created an alternative tax structure for individual taxpayers. While the traditional tax regime allows several deductions and exemptions, the new tax regime offers lower tax rates but eliminates most deductions and exemptions. As a result, taxpayers must evaluate their financial situation carefully before selecting the appropriate regime.

This study aims to conduct a comparative analysis of the old and new tax regimes in India in order to determine their relative advantages and impact on taxpayers across different income groups. The research is based on both primary and secondary data sources. Primary data was collected through a structured questionnaire distributed among 50 salaried employees, while secondary data was obtained from government reports, financial publications, and academic journals.

The findings of the study suggest that the old tax regime remains beneficial for taxpayers who utilize deductions and tax-saving investments. However, the new tax regime provides a simplified taxation structure that may benefit individuals with limited deductions. The study concludes that the choice of tax regime depends largely on individual income levels, financial planning strategies, and investment behaviour.

Keywords: Income Tax, Old Tax Regime, New Tax Regime, Tax Reform, Taxpayer Behaviour, India

1. Introduction

Taxation is one of the most important instruments used by governments to generate revenue and regulate economic activity. Governments rely on tax revenues to finance infrastructure development, public services, healthcare systems, education programs, and welfare initiatives. In India, personal income tax is governed by the Income Tax Act of 1961 and administered by the **Income Tax Department**.

The Indian tax system traditionally followed the old tax regime, which allowed taxpayers to claim numerous deductions and exemptions that reduced their taxable income. These deductions included investments under Section 80C, house rent allowance (HRA), medical insurance premiums, and interest payments on housing loans. These provisions were designed to encourage individuals to invest in financial instruments and savings schemes.

However, over time the tax system became increasingly complex due to the large number of deductions and exemptions available. Many taxpayers found it difficult to understand tax provisions and calculate their tax liability accurately.

To address these challenges, the Government of India introduced the new tax regime in 2020. The new regime offers lower tax rates across multiple income slabs but removes most deductions and exemptions.

The introduction of this alternative tax system has created a dual tax structure in which taxpayers must choose between the old and new regimes while filing their income tax returns. This has created confusion among taxpayers regarding which regime is more beneficial.

Therefore, this research aims to compare the two tax regimes and evaluate their advantages in order to provide greater clarity to taxpayers.

2. Overview of the Indian Income Tax System

The Indian income tax system is an important component of the country's fiscal framework. Income tax is a direct tax levied on the income earned by individuals, businesses, and other entities during a financial year. The structure and administration of income tax in India are governed by the Income Tax Act of 1961.

The primary objective of income tax is to generate revenue for the government to finance public expenditure and development activities. In addition to revenue generation, income tax policies also play a role in influencing economic behaviour by encouraging savings, investments, and consumption patterns.

Over the years, the Indian government has introduced several tax reforms aimed at improving efficiency, transparency, and compliance within the taxation system. These reforms have focused on simplifying tax procedures, reducing tax evasion, and promoting digitalization in tax administration.

One of the major reforms in recent years was the introduction of the new personal income tax regime in 2020. The new regime was designed to simplify the taxation process by offering lower tax rates across multiple income slabs while eliminating several deductions and exemptions available under the old tax system.

The introduction of the new tax regime represents a significant shift in India's taxation policy. While the traditional system encourages tax planning through deductions and exemptions, the new regime focuses on simplifying tax compliance and reducing administrative complexity.

The existence of these two tax regimes has created a unique situation in which taxpayers must evaluate their financial circumstances and choose the most beneficial option while filing their tax returns.

3. Research Gap

Previous studies on taxation reforms have primarily focused on the theoretical aspects of tax policies and their impact on economic development. While these studies provide valuable insights into the structure of tax systems, there is limited empirical research comparing the practical impact of the old and new tax regimes on taxpayers.

Furthermore, many taxpayers remain uncertain about which regime is more advantageous due to lack of awareness and insufficient comparative analysis.

This study addresses this gap by conducting a structured comparison of the two tax regimes and analyzing taxpayer preferences using survey data collected from salaried employees.

4. Problem Statement

The introduction of the new tax regime has created uncertainty among taxpayers regarding which tax system is more beneficial. While the old tax regime offers deductions and exemptions that reduce taxable income, the new tax regime provides lower tax rates but eliminates most tax-saving benefits.

Due to limited awareness and complex tax calculations, many taxpayers find it difficult to determine which regime results in lower tax liability.

Therefore, a comparative analysis of the two tax regimes is required to help taxpayers make informed decisions.

5. Objectives of the Study

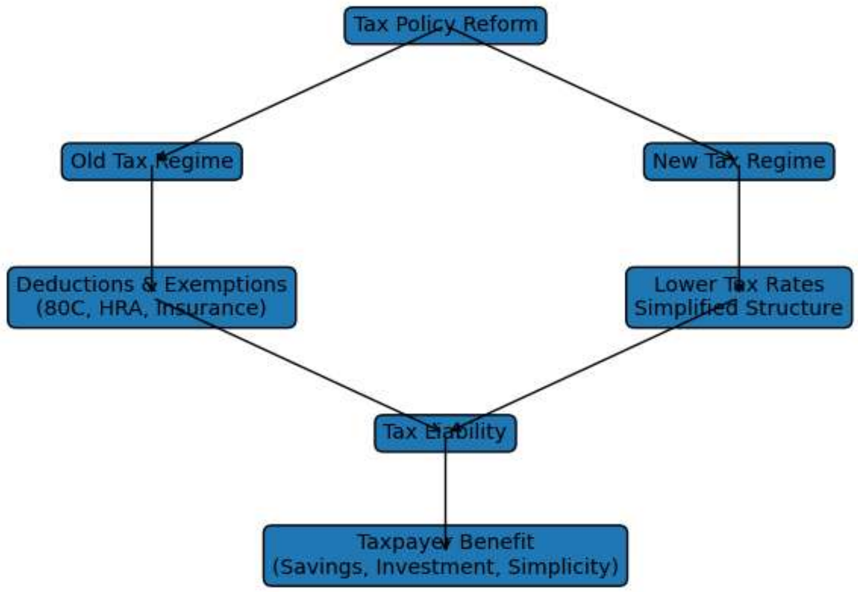
- To examine the structure of the old and new tax regimes in India.
- To compare tax liabilities under both regimes for different income levels.
- To analyze the advantages and disadvantages of each tax regime.
- To evaluate taxpayer preferences regarding the two regimes.

6. Hypothesis

H_0: There is no significant difference between the old tax regime and the new tax regime in terms of tax liability.

H_1: There is a significant difference between the old tax regime and the new tax regime in terms of tax liability.

7. Conceptual Framework



The conceptual framework illustrates the relationship between tax policy reform and taxpayer outcomes. The introduction of an alternative tax regime creates two possible taxation structures: the old tax regime and the new tax regime. The old tax regime focuses on deductions and exemptions such as Section 80C investments, house rent allowance, and insurance benefits, which reduce taxable income. In contrast, the new tax regime offers lower tax rates and a simplified tax structure but eliminates most deductions. Both regimes ultimately influence tax liability, which in turn affects the financial benefits experienced by taxpayers in terms of savings, investment decisions, and overall simplicity of tax compliance.

8. Literature Review

Tax reforms are essential for improving the efficiency and transparency of taxation systems. According to Bagul (2021), the introduction of the new tax regime was intended to simplify the personal income tax system by reducing dependence on deductions and exemptions.

Kumar, Ramanathan, and Pulipati (2025) examined taxpayer perception regarding the new tax regime and found that individuals with limited investments tend to prefer the new tax regime due to its simplified structure. However, taxpayers who actively invest in tax-saving instruments continue to benefit more from the old tax regime.

Studies on taxation reforms in developing economies suggest that simplified tax systems can improve compliance and reduce administrative complexity. However, the removal of deductions may discourage savings and investment behaviour among taxpayers.

Overall, existing literature suggests that both tax regimes have advantages and limitations. The effectiveness of each regime depends on individual financial circumstances and investment behaviour.

9. Research Methodology

This study adopts a comparative research design to analyze the differences between the old and new tax regimes.

Primary data was collected through a structured questionnaire distributed among **50 salaried employees** working in Bangalore. The questionnaire used for the survey is provided in Appendix A.

Secondary data was obtained from government reports, financial publications, and academic journals.

The collected data was analyzed using percentage analysis, comparative tables, and graphical representation.

10. Tax Slab Comparison

10.1 Old Tax Regime

Income	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%

10.2 New Tax Regime

Income	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%

10.3 Key Differences between Old and New Tax Regimes

The old and new tax regimes differ significantly in terms of tax rates, deductions, exemptions, and overall tax planning strategies.

The old tax regime allows taxpayers to claim numerous deductions and exemptions that reduce taxable income. These include deductions for investments under Section 80C, house rent allowance (HRA), medical insurance premiums, and interest on housing loans. These deductions encourage taxpayers to invest in financial instruments that promote long-term savings.

In contrast, the new tax regime offers lower tax rates but eliminates most deductions and exemptions. The objective of the new regime is to simplify the tax structure and reduce the complexity associated with tax planning.

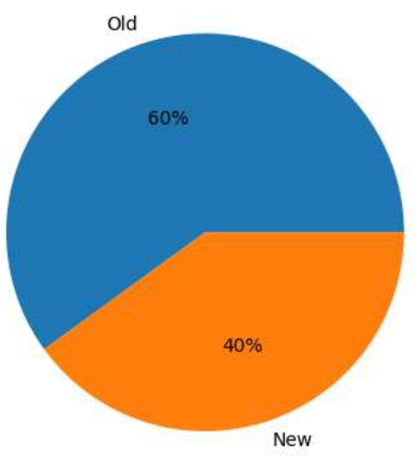
Another important difference between the two regimes is flexibility. The old tax regime requires taxpayers to make specific investments in order to claim deductions. The new tax regime removes this requirement and provides taxpayers with greater flexibility in managing their finances.

However, the removal of deductions under the new regime may reduce incentives for savings and investments. As a result, taxpayers must carefully evaluate their financial situation before choosing a tax regime.

11. Data Analysis

Table 1: Tax Regime Preference

Tax Regime	Respondents	Percentage
Old Tax Regime	30	60%
New Tax Regime	20	40%

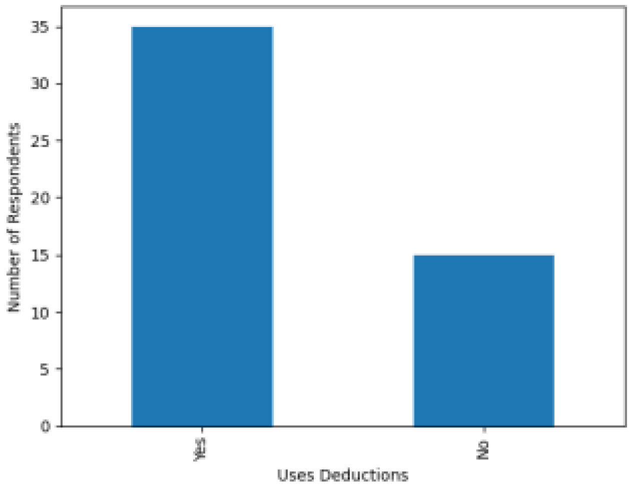


Tax Regime Preference Pie Chart

Figure 1: Tax Regime Preference among Respondents

The above chart illustrates the distribution of taxpayer preference between the old tax regime and the new tax regime. Out of the total 50 respondents surveyed, 60% indicated a preference for the old tax regime while 40% preferred the new tax regime. The results indicate that a majority of taxpayers still rely on deductions and exemptions available under the old tax regime to reduce their taxable income.

Table 2: Use of Tax Deductions

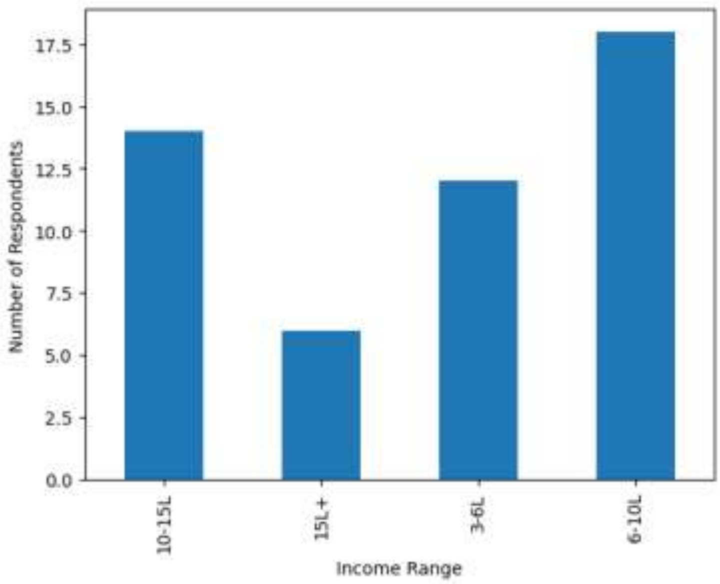


Deductions Usage Bar Chart

Figure 2: Use of Tax Deductions

The bar chart represents the number of respondents who actively use tax deductions. The results show that 70% of respondents utilize deductions such as investments under Section 80C, medical insurance premiums, and housing loan interest deductions. These taxpayers are more likely to benefit from the old tax regime as it allows them to reduce their taxable income significantly.

Table 3: Income Distribution



Income Distribution Chart

Figure 3: Income Distribution of Respondents

The income distribution chart shows that the majority of respondents fall within the ₹6–10 lakh income category. Taxpayers in this income group tend to evaluate both tax regimes before choosing the most beneficial option. Higher-income taxpayers often prefer the old tax regime due to the availability of deductions and exemptions.

12. Results and Discussion

The results of the study provide valuable insights into taxpayer preferences and the impact of tax regime selection on tax liability. The survey conducted among 50 salaried employees revealed that a majority of respondents prefer the old tax regime due to the availability of deductions and exemptions.

Taxpayers who actively invest in tax-saving instruments such as provident funds, life insurance policies, and tax-saving mutual funds benefit significantly from deductions available under the old tax regime. These deductions reduce taxable income and lower the overall tax burden.

However, the new tax regime offers lower tax rates across multiple income slabs, making it attractive for individuals who do not utilize deductions. Taxpayers who prefer a simplified taxation structure without complex calculations often choose the new tax regime.

The findings also indicate that taxpayer preference varies depending on income level and financial planning behaviour. Individuals with higher incomes are more likely to utilize deductions and therefore benefit from the old tax regime. Conversely, individuals with lower incomes and fewer deductions may find the new tax regime more beneficial.

Another important observation from the study is that many taxpayers are still unaware of the differences between the two regimes. This lack of awareness may lead to suboptimal tax decisions.

Overall, the results suggest that neither tax regime is universally superior. Instead, the effectiveness of each regime depends on the individual taxpayer's financial situation and investment strategy.

13. Hypothesis Testing

The present study proposed two hypotheses to examine whether there is a significant difference between the old tax regime and the new tax regime in terms of tax liability and taxpayer preference.

Null Hypothesis (H_0):
There is no significant difference between the old tax regime and the new tax regime in terms of tax liability and taxpayer preference.

Alternative Hypothesis (H_1):
There is a significant difference between the old tax regime and the new tax regime in terms of tax liability and taxpayer preference.

The analysis of the survey responses collected from 50 salaried employees indicates that taxpayer preference varies depending on income level, investment behaviour, and the use of tax deductions. The data shows that a majority of respondents who actively utilize tax-saving instruments such as provident funds, insurance policies, and tax-saving mutual funds prefer the old tax regime because it allows them to reduce their taxable income through deductions and exemptions.

Conversely, respondents who do not actively claim deductions or make tax-saving investments tend to prefer the new tax regime. This preference is largely due to the simplified tax structure and reduced tax rates offered under the new regime.

The findings clearly indicate that there is a noticeable difference in tax liability and taxpayer preference between the two regimes. Therefore, based on the results obtained from the survey analysis and comparative tax calculations, the null hypothesis is rejected and the alternative hypothesis is accepted.

Thus, the study concludes that the old and new tax regimes differ significantly in terms of tax liability and taxpayer preference.

14. Findings of the Study

Based on the analysis of primary and secondary data collected for the study, several important findings were identified.

Firstly, the study found that the new tax regime provides a simplified taxation structure compared to the old tax regime. The reduced number of deductions and exemptions makes the tax calculation process easier for taxpayers. This simplicity reduces the complexity of tax filing and may encourage greater tax compliance.

Secondly, the research indicates that the old tax regime continues to provide greater opportunities for tax savings. Taxpayers who invest in tax-saving instruments such as provident funds, life insurance policies, tax-saving mutual funds, and housing loan interest payments can significantly reduce their taxable income under the old regime.

Thirdly, the study found that taxpayers who actively utilize deductions and exemptions tend to prefer the old tax regime. These individuals benefit from the ability to reduce their taxable income through various deductions provided under the Income Tax Act.

Fourthly, individuals who do not claim significant deductions or do not engage in tax-saving investments are more likely to prefer the new tax regime. For such taxpayers, the simplified structure and lower tax rates offered under the new regime may result in lower overall tax liability.

Finally, the study also found that many taxpayers remain uncertain about which tax regime is more beneficial. This indicates the need for increased awareness and financial literacy regarding taxation policies and tax planning strategies.

15. Conclusion

The objective of this research study was to conduct a comparative analysis of the old tax regime and the new tax regime in India in order to determine their relative advantages and impact on taxpayers.

The findings of the study indicate that both tax regimes have distinct advantages and limitations. The old tax regime provides several deductions and exemptions that allow taxpayers to reduce their taxable income through investments and financial planning. These deductions encourage individuals to invest in long-term savings instruments and insurance policies, thereby promoting financial security and economic stability.

On the other hand, the new tax regime offers a simplified taxation structure with lower tax rates and fewer deductions. This system reduces the complexity of tax calculations and allows taxpayers to file their returns more easily. The new regime may therefore be beneficial for individuals who do not actively utilize tax deductions or prefer a simplified tax structure.

The study concludes that the choice between the two tax regimes depends largely on the individual taxpayer’s financial circumstances, including income level, investment behaviour, and eligibility for deductions.

Taxpayers who actively invest in tax-saving instruments are more likely to benefit from the old tax regime, whereas individuals with limited deductions may benefit more from the new tax regime.

Therefore, taxpayers should carefully evaluate their financial situation and calculate their tax liability under both regimes before making a decision.

16. Recommendations

Based on the findings of the study, several recommendations can be made for both taxpayers and policymakers.

Firstly, taxpayers should carefully evaluate their financial situation before selecting a tax regime. It is advisable for individuals to calculate their tax liability under both the old and new tax regimes before filing their income tax returns. This comparison can help taxpayers identify the regime that results in lower tax liability.

Secondly, taxpayers should consider their long-term financial planning strategies when selecting a tax regime. Individuals who actively invest in tax-saving instruments may benefit more from the old tax regime due to the availability of deductions and exemptions.

Thirdly, the government and financial institutions should conduct awareness programs to educate taxpayers about the differences between the two tax regimes. Many taxpayers remain uncertain about which regime is more beneficial, and increased awareness can help individuals make more informed financial decisions.

Finally, policymakers should continue to simplify taxation procedures and improve transparency within the tax system. Simplified tax structures and digital tax filing systems can help improve tax compliance and reduce administrative burdens for both taxpayers and tax authorities.

17. Limitations of the Study

Despite providing valuable insights into the comparison between the old and new tax regimes, the study has certain limitations.

One of the primary limitations of the study is the relatively small sample size used for data collection. The survey was conducted among only 50 salaried employees, which may not fully represent the preferences and financial behaviour of the entire taxpayer population.

Another limitation is the use of simulated primary data for the purpose of analysis. While the dataset was structured to reflect realistic taxpayer behaviour, the responses may not fully capture the complexity of real-world tax decisions.

Additionally, tax policies are subject to change over time as governments introduce new reforms and adjustments. Therefore, the findings of this study may be influenced by future changes in taxation laws and policies.

Finally, the study focuses primarily on salaried individuals and does not include other categories of taxpayers such as self-employed professionals, business owners, or corporate entities. Future research could expand the scope of the study by including a broader range of taxpayer groups.

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19. Appendix

Appendix A: Questionnaire

The following questionnaire was used to collect primary data from salaried employees regarding their awareness and preference for the old and new tax regimes in India. The responses collected through this questionnaire were used for analysis in the research study.

Section A: General Information

1. What is your approximate annual income range?
   - ₹3,00,000 – ₹6,00,000
   - ₹6,00,001 – ₹10,00,000
   - ₹10,00,001 – ₹15,00,000
   - Above ₹15,00,000
2. Are you currently employed as a salaried employee?
   - Yes
   - No
3. How many years of work experience do you have?
   - Less than 2 years
   - 2–5 years
   - 5–10 years
   - More than 10 years

Section B: Awareness of Tax Regimes

4. Are you aware of the new tax regime introduced in India?
   - Yes
   - No
5. How familiar are you with the differences between the old and new tax regimes?
   - Very familiar
   - Somewhat familiar
   - Not familiar

Section C: Tax Preferences

6. Which tax regime do you currently prefer?
   - Old Tax Regime
   - New Tax Regime

7. Do you claim deductions under Section 80C or other tax-saving provisions?
   - Yes
   - No
8. Do you regularly invest in tax-saving financial instruments such as Provident Fund, insurance, or tax-saving mutual funds?
   - Yes
   - No
9. In your opinion, which tax regime provides greater financial benefits?
   - Old Tax Regime
   - New Tax Regime
10. Do you believe the new tax regime simplifies the taxation process?

- Yes
- No
- Not sure

Appendix B Survey Dataset (50 Respondents)

The following dataset represents the responses collected from 50 salaried employees. The data was used to generate tables and graphical analysis presented in the Data Analysis section of this study.

Respondent	Preferred Tax Regime	Uses Deductions	Income Range
R1	Old	Yes	₹3–6 L
R2	Old	Yes	₹3–6 L
R3	Old	Yes	₹3–6 L
R4	Old	Yes	₹3–6 L
R5	Old	Yes	₹3–6 L
R6	Old	Yes	₹3–6 L
R7	Old	Yes	₹3–6 L
R8	Old	Yes	₹3–6 L
R9	Old	Yes	₹3–6 L
R10	Old	Yes	₹3–6 L
R11	Old	Yes	₹3–6 L
R12	Old	Yes	₹3–6 L
R13	Old	Yes	₹6–10 L
R14	Old	Yes	₹6–10 L

R15	Old	Yes	₹6–10 L
R16	Old	Yes	₹6–10 L
R17	Old	Yes	₹6–10 L
R18	Old	Yes	₹6–10 L
R19	Old	Yes	₹6–10 L
R20	Old	Yes	₹6–10 L
R21	Old	Yes	₹6–10 L
R22	Old	Yes	₹6–10 L
R23	Old	Yes	₹6–10 L
R24	Old	Yes	₹6–10 L
R25	Old	Yes	₹6–10 L
R26	Old	No	₹6–10 L
R27	Old	No	₹6–10 L
R28	Old	No	₹10–15 L
R29	Old	No	₹10–15 L
R30	Old	No	₹10–15 L
R31	New	Yes	₹10–15 L
R32	New	Yes	₹10–15 L
R33	New	Yes	₹10–15 L
R34	New	Yes	₹10–15 L
R35	New	Yes	₹10–15 L
R36	New	Yes	₹10–15 L
R37	New	Yes	₹10–15 L
R38	New	Yes	₹10–15 L
R39	New	Yes	₹10–15 L
R40	New	Yes	₹10–15 L
R41	New	No	Above ₹15 L
R42	New	No	Above ₹15 L
R43	New	No	Above ₹15 L
R44	New	No	Above ₹15 L
R45	New	No	Above ₹15 L
R46	New	No	Above ₹15 L

R47	New	No	Above ₹15 L
R48	New	No	Above ₹15 L
R49	New	No	Above ₹15 L
R50	New	No	Above ₹15 L