Direct Taxes CIA 1 – Research Paper on Old Tax Regime and New Tax Regime

Submitted to:

DR. Batani Raghavendra Rao

Submitted by:

SL No.	USN	SECTION	NAME OF THE STUDENT	CONTRIBUTIONS
1	25MBAR0051	CF 1	**JAGDISH SAHOO**	Abstract & Objectives
2	25MBAR0825	CF 1	**KESHAV COMANDUR BALAJI**	Introduction & Conclusion
3	25MBAR0056	CF 1	**JOYAL DAVID**	Data Analysis
4	25MBAR0497	CF 1	**C.LOCHAN**	Research Methodology
5	25MBAR0058	CF 1	**M JYOTHI**	Literature Research & Results
6	25MBAR1047	CF 1	**M.HEMANTH RAJU**	Reference

JAIN UNIVERSITY

Abstract

In India, taxpayers can pick between the old tax regime and the new one for their income taxes. The old setup lets people claim a bunch of deductions, like savings in section 80C or house rent allowance, and for medical insurance or interest on home loans. It seems like that makes taxes more personalized in some way. The new regime changes the slab rates and cuts down on those exemptions to make everything simpler, Less hassle in calculating, at least that's the idea. With both options out there, people and even researchers need to figure out which one fits better or compare them properly.

This paper looks at how both regimes are built, what features they have, and the goals behind the policies. It also checks out the effects on things like planning your income, what you need to do for compliance, and how tax administration works. All the info comes from secondary sources, like government budgets, official notifications, some research papers We have read, textbooks, financial reports, and reliable websites. For analysis, we use descriptive data and comparisons to go over the tax slabs, limits on deductions, how to file returns, and changes that happened over the years. Some parts get a bit complicated when comparing the procedures. Looking at other literature, it shows how this tax reforms affect how aware people are about taxes, their saving habits, and if administration gets more efficient. Trends like ongoing reforms, the push for digital filing, and efforts to simplify keep coming up. That evolving side of the Indian tax system stands out. The overview here covers the frameworks for both regimes, what the rules intend, and practical things to consider. It might help with learning in academics and starting discussions on personal tax policies in India, though we are not totally sure how deep it goes into everything.

Keywords

Old Tax Regime, New Tax Regime, Income Tax Structure, Tax Slabs, Deductions and Exemptions, Tax Reforms, India

Introduction

A key element of public finance, taxes allow governments to raise funds for social welfare, infrastructure development, and economic growth. The personal income tax system in India has historically been designed to both generate revenue and influence individual financial behavior, especially with regard to investments and savings. But as tax laws and compliance processes became more complicated over time, structural changes became necessary. The shift from the conventional Old Tax Regime, which was in place until the assessment year 2023–2024, to the New Tax Regime, which is now the default taxation framework starting in the fiscal year 2024–2025, is a significant turning point in this reform process.

The Old Tax Regime served as the foundation for India's personal income tax system until FY 2023–2024. A progressive slab system and a number of exemptions and deductions under different sections of the Income Tax Act, 1961 were its defining features. This system included provisions like deductions under Section 80C for certain investments, exemptions for House Rent Allowance (HRA), Leave Travel Allowance (LTA), and deductions for contributions to provident funds and insurance premiums. These incentives were intended to support long-term savings, investment in high-priority industries, and taxpayer financial security. The regime increased complexity and made tax compliance difficult and documentation-intensive, even though it provided significant opportunities for tax planning and savings.

Several structural issues arose as a result of the Old Tax Regime's inherent complexity. Many taxpayers relied on expert assistance to maximize their tax liability because they were unable to navigate the complex web of exemptions and deductions. This raised the cost of compliance and decreased the tax system's transparency. Additionally, because people often prioritized tax benefits over real financial returns, the widespread use of exemptions reduced the tax base and caused distortions in investment and savings decisions. These restrictions made it clear that a more streamlined and effective tax system was required.

The Indian government responded to these difficulties by implementing the New Tax Regime, which became well-known and eventually became the default regime starting in FY 2024–2025. The New Tax Regime greatly reduces or eliminates the majority of the exemptions and deductions that were available under the previous system, while lowering tax rates across a wider range of income slabs. This reform aims to improve transparency, streamline tax compliance, and give taxpayers the freedom to make financial decisions without regard to taxes. The government made it obvious that it was moving toward a more straightforward and impartial tax system by making the New Tax Regime the default option.

India's personal income taxation philosophy has undergone a substantial shift with the adoption of the New Tax Regime. The New Tax Regime places more emphasis on ease of compliance and increased take-home income than the Old Tax Regime, which actively encouraged particular types of savings and expenditures. This change has significant effects on household savings patterns, taxpayer behavior, and industries that previously profited from tax-linked incentives. The government's long-term goal of reducing administrative complexity and expanding the tax base is reflected in the default adoption of the New Tax Regime starting in FY 2024–2025, even though taxpayers still have the option to select the Old Tax Regime under specific circumstances.

In light of this, it is crucial to conduct a methodical comparison between the Old Tax Regime that was in effect prior to FY 2024–2025 and the New Tax Regime that is in effect as of FY 2024–2025. This study aims to analyze the structural characteristics, advantages, and drawbacks of both regimes as well as their behavioral and economic ramifications. The purpose of the study is to determine whether the transition to the New Tax Regime accomplishes its goals of efficiency and simplification without jeopardizing long-term savings and fiscal stability.

Literature research

Important distinctions in taxpayer behavior, compliance, and economic impact are highlighted in scholarly literature reviews of India's old and new tax regimes, especially since the new regime's introduction in the Union Budget 2020–21. The main agreement is that a person's financial circumstances and investment practices play a significant role in determining which regime is best for them.

Rationale and Structure of Policy: By removing the majority of exemptions and deductions, the new tax regime (under Section 115BAC of the Income Tax Act, 1961) was designed to simplify the tax structure, provide lower tax rates, and lessen the burden of compliance. In contrast, the previous system allows for many tax-saving incentives (such as Sections 80C, 80D, HRA, LTA, and interest on education loans) while maintaining higher slab rates.

Taxpayer Preferences and Behavior:

Old Regime Preference: Because the deductions significantly lower their total tax liability, taxpayers with large investments and expenses (such as home loans, health insurance premiums, and life insurance) typically favor the old regime. High-income earners with intricate financial plans and long-term savings objectives frequently benefit more from this regime.

New Regime Preference: The new system is frequently favored by middle-class people, those with few deductions, and those who want a more straightforward filing process. Increased disposable income and possibly higher consumer spending may result from the new regime's streamlined structure and lower rates.

Awareness and Adoption: Preliminary research showed that although there was a high level of awareness of the new regime, many taxpayers remained wary and favored the well-known old system. Although the Income Tax Department's website offers resources for comparing the two choices, some research indicates that improved financial literacy initiatives are necessary to support decision-making.

Impact on the Economy and Compliance:

Incentives vs. Simplicity: There is broad consensus in the literature that the new regime, which is viewed as a step toward greater transparency, improves simplicity and may boost compliance rates because of the simple regulations. Although the previous system had advantages, it frequently included a complicated web of regulations that could be confusing.

Savings and Investment: By eliminating incentives for conventional tax-saving instruments (such as PPF, NPS, and ELSS), the new regime may lower the overall domestic savings rate, which could have an effect on long-term financial planning and investment patterns. This is a persistent worry in scholarly research

Government Revenue: Research looks at the effect on government revenue collection, and initial results indicate that although the new, simplified system aims to increase the tax base, revenue outcomes are still impacted by the continued use of deductions under the previous system due to its moderate initial uptake.

Objective

1. To study the basic structure and features of the Old Tax Regime in India.
2. To examine the structure and key provisions of the New Tax Regime.
3. Comparing the tax slabs, deductions, and exemptions under both tax regimes.
4. To analyze policy objectives and recent changes in the Indian income tax system.
5. To understand the impact of tax reforms on income planning and compliance based on secondary sources.
6. To review existing literature and reports related to personal income taxation in India.
7. To provide a clear and factual overview of both tax regimes for academic reference.

Research Methodology

Research Design

Descriptive and comparative research design has been adopted.

Nature of Data

The study is based on secondary data.

Sources of Data

- Income Tax Act and official government notifications
- Union Budget documents
- Research journals and financial websites

Tools and Techniques

- Comparative tax computation tables

Parameter	Old Tax Regime	New Tax Regime
Tax Slabs	Up to ₹2.5 lakh (NIL); ₹2.5–₹5 lakh (5%); ₹5–₹10 lakh (20%); Above ₹10 lakh (30%)	Up to ₹4 lakh (NIL); ₹4–₹8 lakh (5%); ₹8–₹12 lakh (10%); ₹12–₹16 lakh (15%); ₹16–₹20 lakh (20%); ₹20–₹24 lakh (25%); Above ₹24 lakh (30%)
Deductions Available	Allowed (Section 80C, 80D, HRA, LTA, etc.)	Not allowed (most exemptions removed)
Common Tax Rates	5%, 20%, 30%	5%, 10%, 15%, 20%, 25%, 30%
Impact on Middle Class	Higher tax liability if deductions are not fully utilized	Lower tax burden due to reduced tax rates
Impact on Savings	Encourages savings and long-term investments	Less incentive for traditional savings
Overall Result	Beneficial for taxpayers with investments	Beneficial for taxpayers preferring simplicity

Data analysis

The comparison between Old Tax Regimen and New Tax Regimen in India could be understood clearly with the help of scenario based and simulation based analysis. The Old Tax Regime comprises of a progressive structure of slabs with a higher tax rate usually with a number of exemptions and deductions like Section 80C, 80D, House Rent Allowance (HRA), Leave Travel Allowance (LTA), home loan interest and a standard deduction of [?]50,000. In comparison, New Tax Regime introduced under Section 115BAC provides lower and finer tax rates while removing most exemptions and deductions, except the basic deduction and employer contribution to NPS. The goal of the new regime is to make tax compliance easier and to give flexibility to tax avoiding investors who do not invest substantially in tax-saving investments.

A simulation-based approach demonstrates how for the low income earners with little deductions a lower tax liability is usually the outcome of the New Tax Regime. For instance, a person earning 6,00,000 annually with just a standard deduction enjoys less taxation under the New Regime on account of the lower slab rates and the benefit of rebate provisions. In such cases, the omission of deduction does not have a big effect on the amount of taxable income, hence simplified regime is better. This makes the New Tax Regime suitable for those who are in young professions and are first-time job holders and for those who prefer higher take-home pay over taking tax-saving investments at a long-term.

For middle-income earners, especially 5th salary earners taking home around 10,00,000 as income per annum, regime preference is dependent on the amount of deductions claimed. Simulation results show that in the presence of such deductions as Section 80C investments and the standard deduction, when combined they reduce the taxable income by about 2,00,000 or more, they make the Old Tax Regime more advantageous. Despite the higher tax rates, the amount of taxable income is lowered resulting in a lower total amount of tax compared to the New Regime, where such deductions are not permitted. This brings out how the Old Regime still rewards disciplined saving and investment behavior.

In the case of high income people who earn 15,00,00 or more a year, the Old Tax Regime is often more tax efficient if significant deductions are permitted. Professionals or salaried taxpayers opting for benefits like home loan interest, health insurance premiums, maximum 80C deductions, etc receive a heavy reduction in taxable income under the Old Regime. Simulation analysis indicates that despite the reduction in slab rates under the New Regime, the loss of high value deductions results in an increased tax burden for such taxpayers, making the Old Regime more friendly in most cases of high deductions.

Overall, from data-driven insights from the simulations, the point is clear that, there is a clear break-even point: Total deductions if higher than around 2.5-3 lakh per year, the Old Tax Regime more often than not means lower tax liability unlike taxpayers with deductions lower than the break-even threshold, who benefit from the New Tax Regime. The New Regime fosters consumption and flexibility by eliminating mandatory savings and the Old Regime fosters long-term financial planning and investing discipline. Therefore, the best choice of tax regime is very individual-specific depending on income level, deduction ability and financial goals instead of tax rates alone.

Results

Comparison of results (tax payable) under the Old Tax Regime vs the New Tax Regime (Section 115BAC) for individuals in India — showing which regime gives more tax savings in typical scenarios

1.Tax Slab Differences (FY 2025-26 / AY 2026-27)

New Tax Regime Slabs

• Up to ₹4 L: 0%

• ₹4–8 L: 5%

• ₹8–12 L: 10%

• ₹12–16 L: 15%

• ₹16–20 L: 20%

•₹20–24 L: 25%

• ₹20–24 L: 25%

(Standard deduction ₹75,000; large rebate up to ₹60,000 up to ₹12 L taxable)

Old Tax Regime Slabs

• Up to ₹2.5 L: 0%

• ₹2.5–5 L: 5%

• ₹5–10 L: 20%

• Above ₹10 L: 30%

(Standard deduction ₹50,000; many exemptions/deductions allowed)

2.General Patterns (Based on Many Tools and Calculators)

The new tax system is usually better if you don't have big deductions, like HRA, home loan interest, or 80C/80D instruments.

• Your income is ₹12 L or below → often no tax with new regime.

• Simplicity and fewer compliance requirements matter.

Example: Up to ₹7 L–₹10 L without deductions → new regime wins.

Old Tax Regime is better if You have high tax-saving investments & exemptions (80C, HRA, home loan interest, NPS, etc.).

• Your income is higher and you can reduce taxable income a lot via deductions.

Example: ₹15 L–₹30 L with large HRA/80C/80D deductions → old regime can save more.

3. Key Takeaways Before Filing

- Compare both regimes every year before selecting when filing ITR it changes with your deductions/income.
- New Regime is now the default (but you can opt for old while filing).
- If you have significant exceptions, the old regime may still be worthwhile.

CONCLUSION

Beginning in FY 2024–25, there will be a switch from the Old Tax Regime (in place until the end of FY 2023-24) to the New Tax Regime which will be the default option for all taxpayers from that date moving forward. This represents an overhaul of the current personal income tax structure for the Indian government. The Old Tax Regime primarily focused on incentivizing taxpayers to save and invest by providing them with various allowances and deductions, making it more complicated and imposing greater compliance costs on them. Conversely, the New Tax Regime attempts to reduce those complexities and compliance costs by lowering tax rates and creating a more user-friendly taxation system that has fewer deductions (exemptions) which will enable taxpayers to have greater visibility into their income tax obligations.

Changes to the tax system illustrate generally shifting the focus of taxation away from incentives and toward neutrality and efficiency, which is consistent across many types of tax systems, but certainly not all. While the New Tax Regime does not necessarily benefit every taxpayer equally, some taxpayers will benefit more than others, especially those who take a greater number of deductions. At the same time, the New Tax Regime provides less complicated and more predictable taxation to a greater portion of the population. Because of this, determining the effectiveness of this reform will ultimately depend of the long-term effects on taxpayer's behaviour, saving behaviour, and revenue-generating capabilities of the taxpayers. A balanced view of both tax regimes highlights the need for taxpayers to have the flexibility to make informed choices so that the taxation process remains fair and efficient, and that tax policy continues to align with broader economic goals.

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