

Impact of Standard Deduction on Disposable Income of Salaried Employees in India

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ABSTRACT

This study examines the impact of standard deduction on the disposable income of salaried employees in India. The standard deduction is a fixed amount deducted from gross salary to reduce taxable income, thereby easing the tax burden. With recent reforms in the Indian taxation system, including the introduction of the new tax regime and the increase in standard deduction to ₹75,000, its relevance has significantly increased.

The research focuses on two key aspects: the level of awareness among salaried individuals regarding standard deduction and its influence on tax liability across different income groups. A descriptive research design was adopted, and primary data was collected through a structured questionnaire from salaried employees, along with secondary data from journals and government sources.

The findings reveal that while awareness of standard deduction is relatively high, there is a gap in detailed understanding and practical application. Many individuals are unsure about how the deduction works or whether they are effectively utilizing it. The study also highlights that although the deduction is uniform, its impact varies across income groups, with middle-income earners benefiting the most.

The study concludes that standard deduction plays a crucial role in simplifying taxation and improving disposable income. However, increasing financial literacy and awareness is essential to ensure that salaried employees fully utilize its benefits. The findings provide useful insights for policymakers, employers, and individuals to enhance tax planning and financial decision-making.

KEYWORDS: Standard Deduction, Disposable Income, Salaried Employees, Income Tax, Tax Liability, New Tax Regime, Tax Planning, Financial Literacy, Tax Reforms, Economic Impact, Middle-Income Group, Personal Finance

INTRODUCTION

The taxation system in India plays a vital role in shaping the financial stability and economic well-being of individuals, particularly salaried employees. Among the various provisions under the Income Tax Act, deductions serve as an important tool to reduce taxable income and ease the financial burden on taxpayers. One such key provision is the standard deduction, which has gained renewed importance after its reintroduction in recent years. The concept of standard deduction simplifies the tax process and provides uniform relief to salaried individuals without requiring detailed documentation of expenses.

Over the years, the Indian government has undertaken several reforms to make the tax system more efficient, transparent, and taxpayer-friendly. The introduction of the new tax regime alongside the existing old regime has further transformed the landscape of personal income taxation. While the new regime offers lower tax rates, it eliminates many deductions initially, creating a trade-off between simplicity and tax-saving opportunities. This shift has made it essential for salaried individuals to understand the implications of deductions on their overall tax liability and disposable income.

Standard deduction refers to a fixed amount that is deducted from the gross salary of an individual before calculating taxable income. Unlike other deductions such as those under Section 80C, 80D, or House Rent Allowance (HRA), the

standard deduction does not require any supporting documents or proof of expenses. It is provided as a flat reduction to account for routine employment-related expenses such as commuting, office supplies, and other miscellaneous costs.

In India, the concept of standard deduction has evolved over time. Currently, under the old tax regime, salaried individuals are allowed a standard deduction of ₹50,000. However, under the new tax regime, the government has increased the standard deduction to ₹75,000, making it more beneficial and attractive for taxpayers opting for the simplified regime.

The primary objective behind this deduction is to simplify tax compliance and provide relief to taxpayers in a uniform manner. It reduces the complexity associated with claiming multiple reimbursements and ensures that all salaried employees receive a basic level of tax relief regardless of their spending patterns.

Furthermore, the increase in standard deduction under the new regime enhances disposable income by reducing taxable income more significantly. This not only benefits salaried individuals but also encourages a shift towards simplified tax structures. Overall, the standard deduction acts as a crucial instrument in balancing tax efficiency, fairness, and ease of compliance within the Indian taxation framework.

India's taxation system has recently undergone major reforms with the introduction of the new tax regime. Taxpayers now have the option to choose between the old regime (with deductions) and the new regime (with lower rates and fewer deductions). The introduction of ₹75,000 standard deduction in the new regime has further changed decision-making.

This dual system has created confusion among salaried employees. Many individuals are unsure which regime provides maximum benefits. Awareness regarding deductions and tax planning remains uneven across income groups.

Despite the availability of standard deduction as a tax relief measure, there exists a significant gap in awareness and understanding among salaried employees. Many individuals are unaware of the exact deduction amount, its applicability, and its impact on their tax liability. Furthermore, the introduction of the new tax regime has added complexity, making it difficult for taxpayers to evaluate the benefits of deductions.

Another key issue is the variation in the impact of standard deduction across different income groups. While it provides uniform relief, its relative benefit differs depending on income levels. This raises questions about the effectiveness of standard deduction in achieving equity and maximizing disposable income.

To study the awareness level of salaried employees regarding standard deduction: The study aims to examine the level of awareness among salaried employees regarding standard deduction, including their understanding of its concept, applicability, and benefits under different tax regimes. Awareness plays a significant role in effective tax planning, as individuals who are well-informed are better able to utilize available deductions to reduce their tax burden and improve their financial decision-making.

To examine how standard deduction influences the tax liability of salaried individuals in different income groups: The study also aims to analysis how standard deduction influences the tax liability of salaried individuals across different income groups. Although the deduction amount is fixed, its actual impact varies depending on income levels and applicable tax slabs. This helps in understanding how the deduction affects disposable income and whether it provides equitable benefits to taxpayers across different income categories

REVIEW OF LITERATURE

The ever-shifting sands of tax rules. Just recently, changes for Assessment Year 2026–27 have shown us that even small tweaks to tax brackets and deductions can really shake up how much money salaried folks have left after taxes and what they decide to do with it whether to spend or save [Kumar & Sharma, 2025]. It's a bit like a seesaw: the new tax system offers simplicity, cutting out a lot of the paperwork, but the old system still holds its appeal for those who've smartly invested in tax-saving schemes [Patel, 2024; Singh, 2023].

Digging a bit deeper, many studies focus on the nitty-gritty of tax-saving. Things like House Rent Allowance (HRA), standard deductions, and Chapter VI-A deductions are often discussed. HRA, for instance, turns out to be a big deal for city-dwelling employees who use the old tax system, helping them significantly lower their taxable income [Reddy, 2025]. And while standard deductions aim to make things fairer and offer some relief, their actual impact can vary

depending on how much someone earns [Gupta, 2024]. Yet, some experts point out that the current limits on deductions, especially for health-related costs, might not be doing as much good as they could [Mehta & Joshi, 2022].

One of the brightest beacons in this financial landscape is financial literacy. It turns out that the more financially savvy you are, the better you become at planning your taxes and making smart investment choices. Studies from places like Amravati, Udipi, and Pune consistently show that understanding money helps people diversify their investments and really make the most of tax-saving opportunities [Deshmukh, 2024; Naik, 2023]. On the flip side, if you're not clued in, you might end up making less-than-ideal financial choices and missing out on valuable deductions [Kale & Patil, 2022].

When it comes to where salaried employees put their money, there's a clear trend: they often lean towards safer bets like fixed deposits, insurance, and provident funds. This usually comes down to factors like not wanting too much risk, having a steady income, and attractive tax benefits [Sharma & Verma, 2023]. Even gender plays a role; for women, changes in tax limits and exemptions can shift investment habits, though factors like awareness and financial independence still matter a great deal [Kaur, 2025].

Staying on the right side of the taxman is another big topic. Thanks to automated systems, most salaried employees are pretty good about paying their taxes and using digital filing methods [NCL Survey Report, 2025]. However, there's still a noticeable gap in understanding deductions and filing procedures, especially in smaller towns [Sawant, 2021]. The good news is that technology, even things like artificial intelligence, is stepping up to make tax compliance and planning simpler and less prone to errors [Agarwal, 2024].

Planning for your financial future isn't just about taxes; it's about reaching your long-term goals. Studies in corporate settings show that having a structured financial plan dramatically improves how well you save taxes and invest your money [Rao, 2023]. And this isn't just an Indian phenomenon; insights from countries like Nigeria confirm that financial planning is universally important for managing taxes and personal finances [Olawale, 2022].

While salaried individuals are generally considered ethical taxpayers because there aren't many loopholes for them, there have been observations about certain deduction claims and reporting [Iyer, 2021]. This all points to one clear conclusion: tax systems need continuous evolution, simplification, and better awareness campaigns to keep taxpayers happy and compliant [Banerjee, 2024].

METHODOLOGY

This study adopts a descriptive and analytical research design to examine the impact of standard deduction on the disposable income of salaried employees in India. Both primary and secondary data were used for the study. Primary data was collected through a structured questionnaire using Google Forms, which included multiple-choice and close-ended questions to assess the awareness and understanding of respondents. The study focused on salaried employees, with a sample size of 100 respondents selected through convenience sampling.

Secondary data was collected from research papers, journals, and government sources to support the study. For data analysis, tools such as percentage analysis and tabulation were used. The findings were presented using tables and charts to ensure clear interpretation and better understanding of the results.

SOURCES OF SECONDARY DATA

The data for the study has been collected from reliable and authentic secondary sources to support the analysis. The major sources include:

- Income Tax Department of India
- Central Board of Direct Taxes (CBDT)
- Ministry of Finance, Government of India
- Union Budget documents and Economic Survey reports
- Research papers and academic journals
- Financial websites and official government portals

These sources ensure the accuracy, reliability, and consistency of the data used in the study.

TOOLS AND TECHNIQUES USED

The study employs the following analytical tools and techniques for data analysis:

- Percentage analysis
- Tabular analysis
- Graphical representation (Charts)
- Comparative analysis
- Descriptive analysis

These tools help in interpreting the data effectively and understanding the impact of standard deduction on disposable income.

Analysis and Result

Primary Data Analysis

A structured questionnaire was administered to salaried employees across various income groups and work experience levels to assess their awareness of standard deduction under the Income Tax Act, 1961. The key findings from the primary survey are summarised below.

An overwhelming majority of respondents (90.6%) confirmed awareness of the standard deduction provision available to salaried employees, while a small proportion (9.4%) remained unaware. This indicates reasonably high surface-level awareness; however, deeper understanding remains limited.

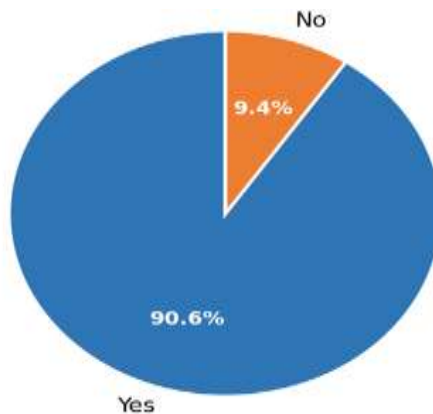


Figure 1: Awareness of Standard Deduction among Salaried Employees

When asked to self-rate their knowledge of standard deduction on a scale of 1 to 4, the majority of respondents rated themselves at Level 1 (Very Low) or Level 2 (Low), accounting for 34.4% and 31.3% respectively. Only 3.1% rated their knowledge as Level 4 (High). This suggests a significant gap between awareness and in-depth understanding of the provision.

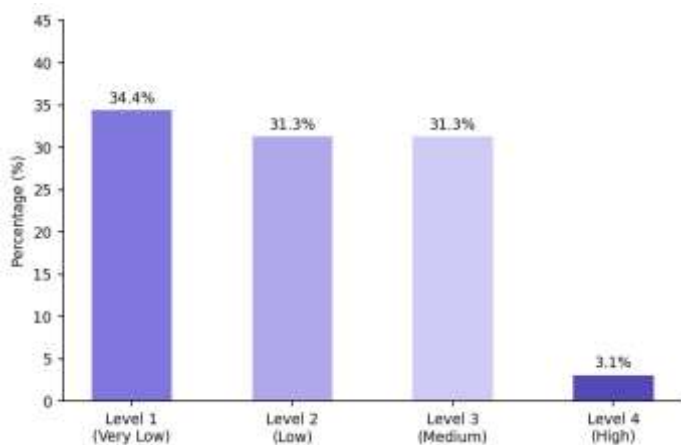


Figure 2: Self-Rated Knowledge Level of Standard Deduction

Demographic Profile of Respondents

Table 1: Age Distribution of Respondents

Age Group	Percentage (%)
Below 25 years	93.8%
25 – 35 years	3.1%
36 – 45 years	3.1%

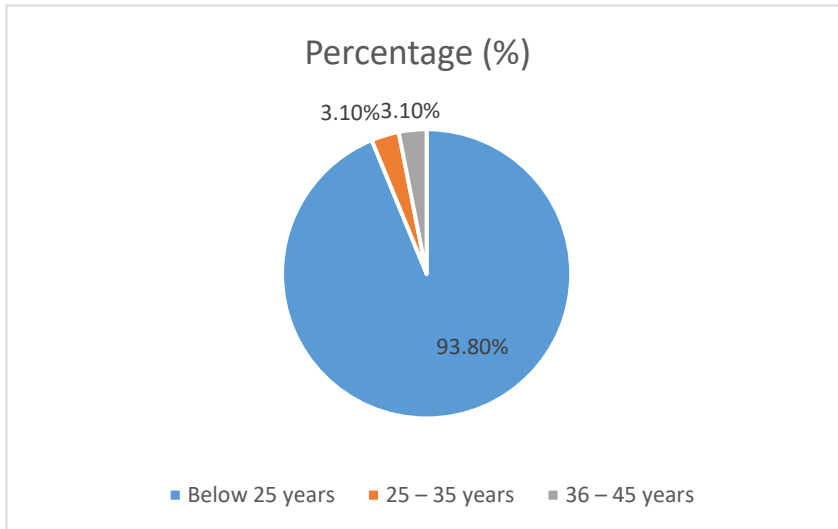


Figure 3: Age Distribution of Respondents

Table 2: Gender Distribution of Respondents

Gender	Percentage (%)
Female	75.0%
Male	25.0%

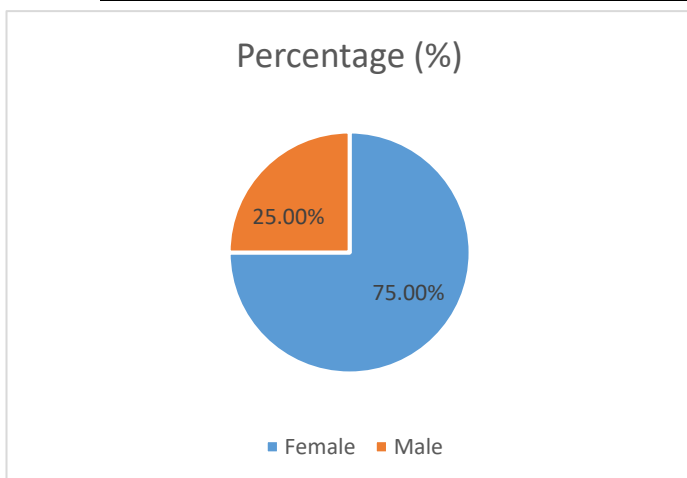


Figure 4: Gender Distribution of Respondents

Table 3: Monthly Income Distribution

Monthly Income	Percentage (%)
Below ₹25,000	68.8%
₹25,000 – ₹50,000	9.4%
₹50,000 – ₹1,00,000	3.1%
Above ₹1,00,000	9.4%

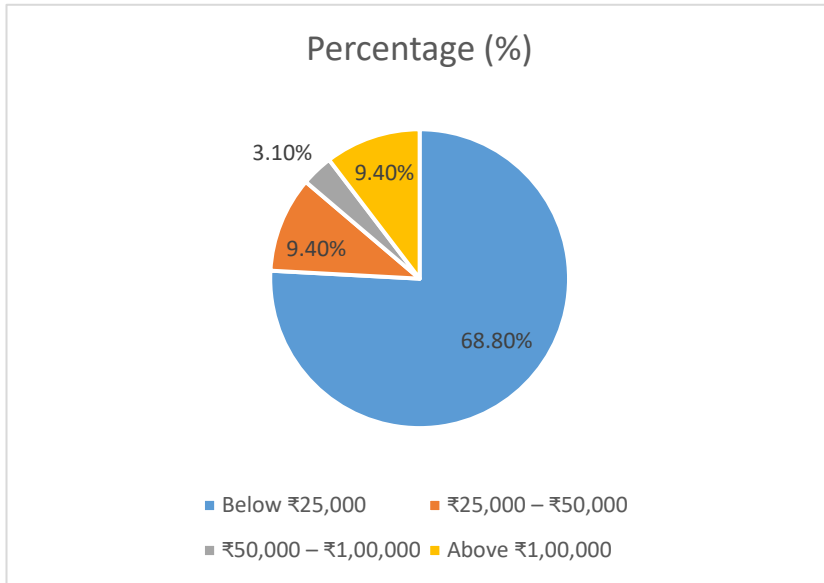


Figure 5: Monthly Income Distribution

Utilisation and Compliance Behaviour

Survey data reveals mixed patterns in actual utilisation of the standard deduction. While 62.5% of respondents are aware that it is automatically applicable to salaried employees, 21.9% remain unsure and 15.6% are unaware of this provision. Regarding ITR filing, approximately 40.6% confirmed claiming the deduction, while an equal proportion were uncertain. Furthermore, 28.1% of respondents admitted to having missed claiming the deduction at least once due to lack of awareness.

Table 4: Claiming of Standard Deduction while Filing ITR

Response	Percentage (%)
Yes, claimed	40.6%
Not Sure	40.6%
No, not claimed	18.8%

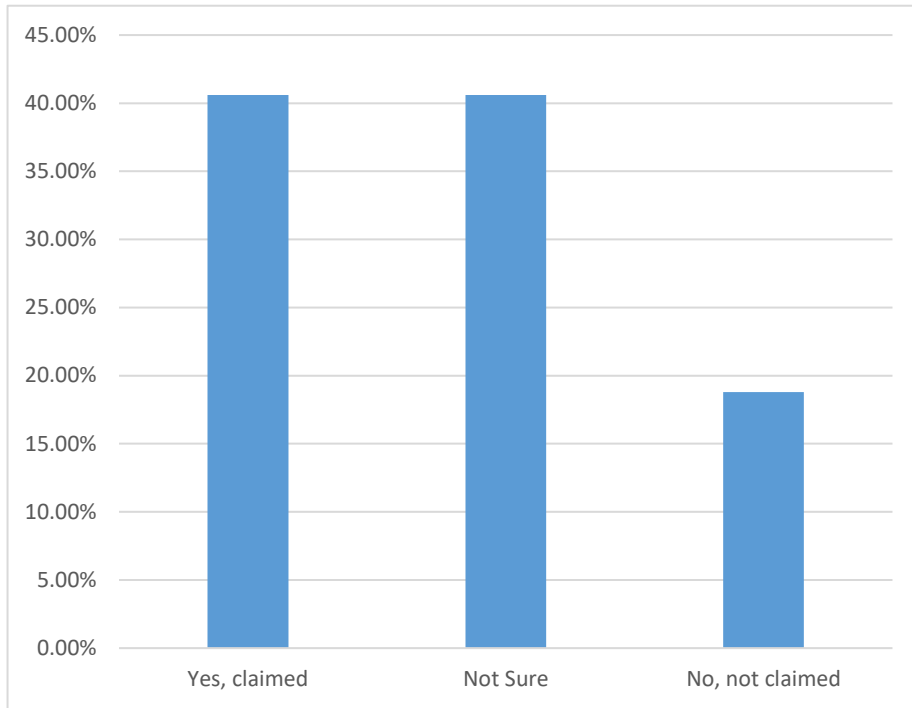


Figure 6: Claiming of Standard Deduction while Filing ITR

Table 5: Mode of ITR Filing

Mode of Filing	Percentage (%)
Chartered Accountant (CA)	43.8%
Self	25.0%
Employer	18.8%
Online Platform	12.5%

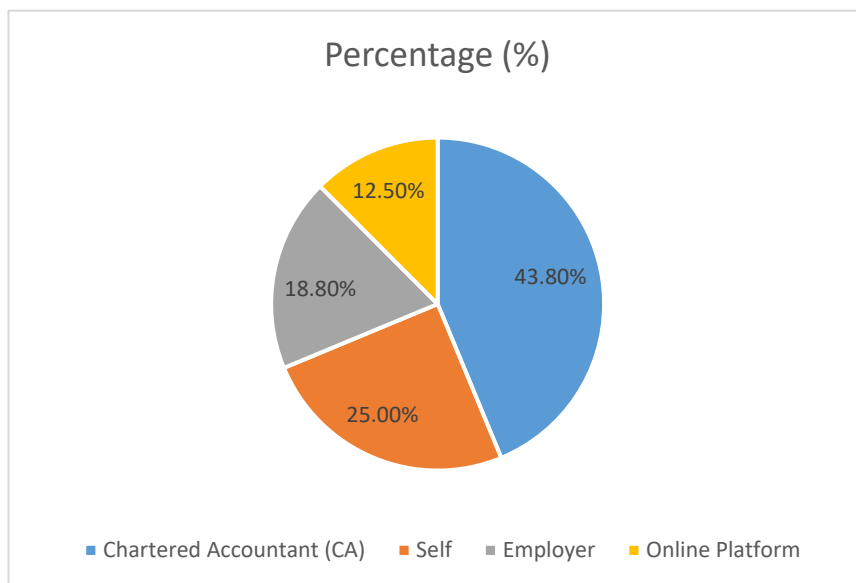


Figure 7: Mode of ITR Filing

Perception and Policy Outlook

A large proportion of respondents (87.5%) perceived the overall awareness of standard deduction among employees as "Moderate," while 9.4% rated it as "High" and only 3.1% as "Low." This indicates that while basic awareness exists, it has not yet reached a level of comprehensive understanding across the workforce. Additionally, 90.6% of respondents expressed that employers should actively educate employees about standard deduction and related tax benefits.

Table 6: Perceived Overall Awareness Level among Employees

Awareness Level	Percentage (%)
Moderate	87.5%
High	9.4%
Low	3.1%

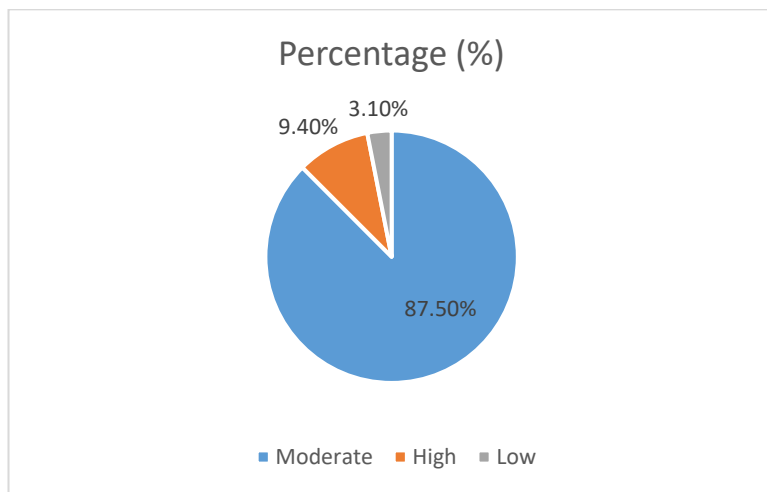


Figure 8: Perceived Overall Awareness Level among Employees

Secondary data analysis

Table 7: Tax Liability Before and After Standard Deduction

Income Group (₹)	Gross Income	Standard Deduction (₹50,000)	Taxable Income	Tax Liability Before Deduction	Tax Liability After Deduction
3,00,000	3,00,000	50,000	2,50,000	0	0
6,00,000	6,00,000	50,000	5,50,000	15,000	12,500
10,00,000	10,00,000	50,000	9,50,000	75,000	65,000
15,00,000	15,00,000	50,000	14,50,000	1,87,500	1,72,500

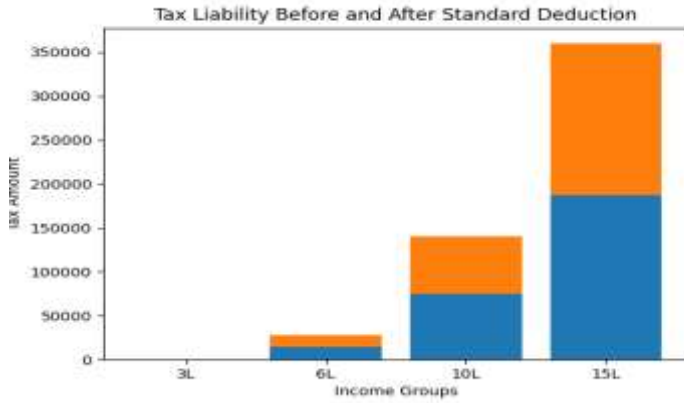


Figure 9: Comparison of Tax Liability (Before vs After Deduction)

(Source: Income Tax Department, Government of India, “Income Tax Slab Rates and Deductions,” various years.)

The table shows that standard deduction reduces taxable income for all groups. However, the actual tax savings increase with higher income levels. Lower-income groups benefit less in absolute terms, while higher-income groups experience greater tax reduction.

Table 8: Impact on Disposable Income

Income Group (₹)	Tax Saved (₹)	Increase in Disposable Income	% Increase in Disposable Income
6,00,000	2,500	2,500	0.42%
10,00,000	10,000	10,000	1.00%
15,00,000	15,000	15,000	1.00%

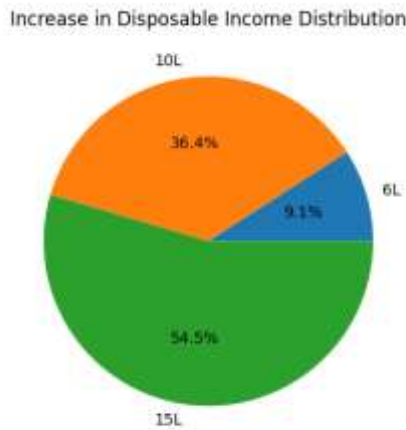


Figure 10: Increase in Disposable Income

(Source: Economic Survey of India, Ministry of Finance, Government of India, various years.)

Standard deduction increases disposable income for all salaried individuals. However, the improvement is modest for lower-income groups and more noticeable for higher-income groups, indicating unequal benefits.

Discussion

The present study was undertaken to analyse the impact of standard deduction on the disposable income of salaried employees in India. The problem identified in this research is that, despite the availability of standard deduction as a tax relief measure, many salaried individuals lack complete awareness about its benefits and implications. Additionally, the

introduction of the new tax regime has created confusion among taxpayers regarding the choice of regime and the actual advantages of deductions. The variation in the effectiveness of standard deduction across different income groups further adds to the complexity of tax planning.

The study was guided by two main objectives. The first objective was to examine the level of awareness among salaried employees regarding standard deduction, including their understanding of its concept, amount, and applicability under different tax regimes. The second objective was to analyse how standard deduction influences the tax liability of salaried individuals across different income groups and how it affects their disposable income.

The findings of the study reveal that a majority of respondents are aware of the existence of standard deduction; however, detailed knowledge regarding its exact amount and impact is still limited. Many employees are familiar with the concept but lack clarity about how it influences their tax liability. The analysis also shows that standard deduction reduces taxable income uniformly, but its actual benefit varies across income groups. Middle-income individuals derive the maximum advantage as the deduction significantly lowers their taxable income, leading to noticeable tax savings. High-income groups also benefit, but the relative impact is smaller, while the benefit for low-income groups is limited due to their already low tax liability.

Another key finding is that the recent increase in standard deduction to ₹75,000 under the new tax regime has made it more attractive and competitive compared to the old regime. This change has the potential to influence taxpayers' preferences and encourage a shift towards the simplified tax structure. However, the choice of tax regime still depends on individual financial conditions, awareness levels, and eligibility for other deductions.

This study makes a significant contribution by providing a clear understanding of both the awareness and impact of standard deduction among salaried employees in India. It highlights the gap between general awareness and detailed knowledge, emphasizing the need for improved financial literacy and taxpayer education. By identifying this gap, the study provides useful insights for policymakers, educators, and financial advisors to design effective awareness programs.

The research also contributes by analysing the differential impact of standard deduction across various income groups. It shows that while the deduction is uniform in nature, its benefits are not equally distributed, thereby raising important questions about equity in taxation. This insight can help policymakers in designing more balanced and inclusive tax policies in the future.

Furthermore, the study adds value by examining the role of recent policy changes, particularly the increase in standard deduction under the new tax regime. It demonstrates how such changes can influence taxpayer behaviour and decision-making. This understanding is important for evaluating the effectiveness of tax reforms and their impact on individuals' financial well-being.

Another important contribution of the study is its emphasis on the role of tax planning and awareness in improving disposable income. It shows that individuals who are well-informed about deductions and tax provisions are better able to optimize their tax liability and enhance their financial stability. This highlights the importance of continuous education and awareness initiatives.

Overall, the study provides a comprehensive view of how standard deduction functions as a tool for reducing tax burden, increasing disposable income, and simplifying the taxation process. It contributes not only to academic understanding but also offers practical insights that can benefit salaried employees, policymakers, and financial planners.

CONCLUSION

The study concludes that standard deduction is an important tool for improving disposable income and simplifying taxation. It reduces taxable income and provides uniform relief to salaried individuals. The findings show that while awareness exists, detailed understanding is still lacking.

The introduction of ₹75,000 deduction under the new regime is a positive step. It makes taxation simpler and more beneficial. However, the choice between regimes still depends on individual situations.

The study highlights the importance of financial literacy. Increasing awareness can improve tax planning and financial stability. Standard deduction contributes to economic growth by increasing spending power.

Overall, standard deduction plays a crucial role in ensuring fairness, simplicity, and efficiency in taxation.

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