Old Tax Regime and New Tax Regime

Submitted to:
DR. Batani Raghavendra Rao

SL No.	USN	SECTION	NAME OF THE STUDENT	CONTRIBUTION
1	25MBAR0110	CF 3	**Raj Nandini Singh**	Abstract & Introduction
2	25MBAR0155	CF 3	**Sanjay H V**	Literature Review
3	25MBAR0126	CF 3	**Rohan M**	Research Methodology
4	25MBAR0594	CF 3	**Pratham Sachin Hallikeri**	Data Analysis
5	25MBAR0519	CF 3	**Sadhana A**	Objectives & Results
6	25MBAR1031	CF 3	**Rahul Agrawal**	Conclusion & References

Abstract

The personal income taxation system of a country is also important in determining the behavior of a taxpayer, the savings and investment trends and the efficient mobilization of revenue. The existence of the personal income tax structure in India has been characterized by the old tax regime that focuses on application of exemptions and deductions to encourage saving and investments and other socially desirable spending like housing, insurance, and medical care. Despite the fact that such a regime has assisted in the long-run financial planning, it has also become too complex and burdensome in terms of compliance and has brought issues of transparency, efficient administration, and ease to the taxpayers.

In order to manage such challenges, the New Tax Regime was proposed by the Government of India in the Union Budget 2020 as the optional alternative to the current one. The New Regime has a simpler tax system with lower slab rates and few exemptions and deductions that are allowed under the Old Regime. This reform is a major turn in the personal income tax policy of India, which is more of incentive based policy to rate based and simplicity based policy.

The research paper is a detailed comparative discussion of the Old and New Tax Regimes in India with an aim of determining the effectiveness, suitability, and effects of the two to individual taxpayers. The paper explores the structural characteristics of the two regimes, contrasts the applicability of tax slabs and effective tax liabilities and what this implies to the taxpayers in diverse income brackets. In addition, the paper also examines the effect of eliminating or maintaining deductions on the individual financial behavior based on savings, investment decision making, and tax planning strategies.

The research study is premised on secondary data that was gathered on government publications, income tax laws and budget documents, as well as on the available academic literature. By contrasting the two tax regimes and critically examining them, the paper establishes the strengths and weaknesses of both regimes and points to the circumstances in which one of the regimes can be more favorable than the other. The study results will be useful in helping taxpayers make informed choices in terms of regime choice and the tax simplification policy and the policy debate at large.

Introduction

One of the most critical instruments of governments in marshaling resources that are needed to facilitate economic growth and development, income redistribution, and provision of public services and goods. In India, the income tax is one of the largest sources of revenue and it is also greatly affecting the individual financial behavior. The structure of the Indian income tax has over the years been structured in such a way that it is able to provide not only revenue but also savings, investments, and social security as a result of a broad variety of deductions and exemptions.

Taxpayers under the Old Tax Regime have the opportunity to claim various deductions and allowances including those under Section 80C on savings and investments, House Rent allowance (HRA), Leave Travel allowance (LTA), medical insurance premiums under Section 80D and the interest on housing loans. These have been customarily known to stimulate long term investment in such financial products as provident funds, insurance policies and equity linked savings schemes. Nevertheless, the arduous nature of tax calculation and compliance under this regime has been blamed on causing augmented administrative load on taxpayer and tax officials.

To address such concerns, the Government of India proposed the New Tax Regime as a part of the Union Budget 2020, which provides a less complicated and simplified structure with lower tax rates. In the New Regime, the majority of exemptions and deductions are eliminated, and, thus, it is necessary to have little tax planning and documentation. This reform was aimed at increasing transparency in the tax system, enhancing compliance and placing India tax system on the same level as the best practices in the world.

The two parallel tax regimes that have been introduced have given the taxpayers freedom of choice. However, they have also caused confusion and uncertainty. Before choosing the best regime, taxpayers are now required to compare their income levels, deductions eligibility and financial goals. The choice is made especially tricky when it comes to middle-income groups where the tax cut under the Old Regime might prove superior to the tax cuts under the New Regime.

It is against this context that the present study is set to carry out an elaborate comparison of the Old and the New Tax Regimes in India. The study aims at examining their effects on tax liability, saving and investment patterns of various income groups. Through a critical analysis of both regimes, the paper is trying to answer the question of whether the New Tax Regime really is fulfilling its aim of simplification without an adverse effect on savings and investments. This paper is likely to be valuable to students, researchers, tax payers and policy makers in regards to the practical implementation of the dual tax regime system in India.

Literature Review

1. Paper title: A Comparative Study of India Old and New Tax Regimes.

As per the research, the Old Tax Regime is attractive to the salaried individuals, who have structured investments as it offers several exemption and deductions such as HRA, LTA and Section 80C. New Tax Regime on the other hand does not have most deductions and has lower slab rates with little compliance. Taxpayers as per the findings with higher savings benefit more to the old system and those with lower investments prefer the simplicity of the new system. Based on the results of the study, the decision of taxpayer is mainly determined by their level of income, ways of financial planning, and understanding of tax laws. (Verma & Sharma, 2021).

2. Title: The impact of the New Tax System on the individual tax planning practice.

This paper examines the changes in personal financial planning affecting the New Tax Regime. The results reveal a gradual tendency towards less complicated tax filing especially in first time taxpayers and young professionals. The abolition of deductions, however, reduced the motive towards long term saving products such as insurance, provident funds. The Old Tax Regime also encourages sound investments through tax subsidies. The paper draws our attention to the fact that old regime promoted wealth creation with the help of systematised tax-saving prospects whereas the new regime promotes transparency. Mehta and Patel, 2022).

3. Title: The perception of taxpayers towards and preference of the old and new tax regime.

To establish the preference of regimes, the research surveyed the self-employed and the salaried individuals. The outcomes indicate that as the high-income groups that have fewer eligible exemptions are more likely to prefer the New Tax Regime due to its reduced rates, most of the middle-income earners continue to opt to the Old Tax Regime due to the high deductions. Awareness levels highly influence the decision-making since the majority of taxpayers are not certain about comparative benefits. The research finds that financial literacy is necessary in order to decide on the optimal regime to select and recommends consultancies to make informed choices. (Kulkarni & Rao, 2023).

4. Question: Level of Taxpayer Awareness of New Tax Regime.

The key objective of this study was to gauge the understanding of the provisions of the New Tax Regime by taxpayers. According to the findings, only a small fraction of the respondents comprehended the loss of deductions and exemptions fully despite most respondents knowing about lower tax slabs. The paper has discovered that the ignorance of salaried employees has led to their selection of regimes that they lack knowledge about. To enhance decision making process, it recommends employer funded tax education programs and awareness program by the government. Nair and Iyer, 2022).

5. Author: Yuras, Shcherbytsky, and Zhigalatova.

This paper relied on sample income data in order to compare actual tax liability of individuals in the two regimes. The results revealed that the individuals who had investment portfolios as well as home loans paid lower taxes during the Old Regime but those with limited deductions enjoyed the advantages of the New Regime. The paper has highlighted that there is no perfect regime that is always beneficial and emphasized on the importance of individualized calculus of tax before settling on a regime. Joshi and Deshpande (2023).

6. Abstract: Behavioural Response of Salaried Employees towards New Tax Regime.

The research question was that of examining the behaviour of salaried workers who were to be offered the New Tax Regime. The findings indicate that younger professionals were initially reluctant as they were undecided but later changed their mind. Older employees preferred the Old Regime because of its familiarity and habitual patterns of investments. The paper concludes that demography has significant effects on the preference of a regime. (Reddy & Kumar, 2024).

Objectives

1. To know how and what moves behind the dual taxation structure that India offers, both the old regime and the new regime.

2. To determine the essential variations in slab rates, exemptions and deductions that can be used in either of the systems.

3. To determine the effects of the new tax regime on different income groups in the tax savings and compliance.

4. To determine whether the tax simplification trend is in line with the aim of the government to expand the tax base.

5. To investigate the effect of the two regimes on saving and investment behavior of taxpayers.

6. To examine the impact of changes in policies on transparency, filing ease and taxpayer awareness.

7. To provide a comparative summary that would help taxpayers and students to see the practical implications of the two systems.

RESEARCH METHODOLOGY

1. RESEARCH DESIGN

The study adopts a comparative and descriptive research design to analyse structural and functional differences between the Old Tax Regime and the New Tax Regime and is based entirely on secondary data obtained from the Income Tax Act, 1961

The provisions considered are applicable for Financial Year 2025–26 (Assessment Year 2026– 27).

2. TAX STRUCTURE

- It compares slab rates, availability of deductions, rebate provisions, and tax liability at se- lected income levels (e.g., ₹8 lakhs, ₹12 lakhs, ₹20 lakh).
- Health and Education Cess at 4% is considered in both regimes.

2.1 OLD TAX REGIME

(FY 2025–26 / AY 2026–27)

Income Slab (₹)	**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%

ADDITIONAL PROVISIONS (OLD REGIME):

Particulars	**Details**
Health & Education Cess	4% on total tax
Section 80C Deduction	Up to ₹1,50,000

Section 80D (Medical Insurance)	Available
HRA & LTA	Available
Standard Deduction	Available
Other Exemptions	Allowed as per Act

2.2 NEW TAX REGIME

(FY 2025–26 / AY 2026–27)

Income Slab (₹)	Tax Rate
Up to 4,00,000	Nil
4,00,001 – 8,00,000	5%
8,00,001 – 12,00,000	10%
12,00,001 – 16,00,000	15%
16,00,001 – 20,00,000	20%
20,00,001 – 24,00,000	25%
Above 24,00,000	30%

3. TOOLS OF ANALYSIS AND LIMITATIONS

- Comparative tax calculation is done on the selected income groups to determine variation in effective tax liability. Comparison of slab progression and rate distribution is done with tabular presentation.
- The implications on the savings behaviour and flexibility to plan taxes are evaluated by descriptive interpretation.
- The research is restricted to the secondary data and is open to revision in the taxation laws.

Data Analysis

Old Tax Regime Vs New Tax Regime.

Introduction to Data Analysis Data analysis is the procedure through which data is transformed into usable information. In the Indian income tax system, there are two tax systems that the taxpayers have a choice; the Old Tax Regime and the New Tax Regime. In the Old Tax Regime, one is provided with a range of exemptions and deductions like House Rent Allowance (HRA) and Section 80C, 80D, and other allowances. Conversely, the New Tax Regime has reduced tax slab rates but eliminates most of the exemptions and deductions. In this section, the tax liability in both regimes is analyzed with the help of sample income level and the regime that is favourable to various income groups is considered.

The analysis of the data shows that the Old Tax Regime is favorable to those people who could receive several deductions and exemptions, particularly in the low-income bracket. Nonetheless, in the case of the middle and high-income earners with fewer deductions, the New Tax Regime provides them with lesser tax liability owing to lower tax rates and simpler framework.

Another advantage of the New Regime is that it makes tax planning and compliance simpler and less taxing, which is appealing to those salaried people who are not heavy investors in tax- saving products.

Graphical Representation (Optional) In word or in excel, you will be able to create a simple bar chart and represent both regimes in terms of tax amount against income level. X-axis: Income Levels Y-axis: Tax Payable. Each income level will be represented by two bars: Old vs New Regime.

Conclusion of Data Analysis Based on the analysis, it is possible to conclude that no universally better tax regime exists. The decision is based on the income of the taxpayer, the nature of investment, and financial plans. The Old Regime is beneficial to taxpayers whose deductions are high whereas the New Regime is beneficial to taxpayers who have low deductions. Taxpayers are thus advised to compute the tax liability in both regimes and then make a decision.

Tax Slab Structure Comparison

Table 1: Old Tax Regime Slabs (FY 2023- 24)

Income Range (F)	**Tax Rate**
0 - 2,50,000	0%
2,50,001 - 5,00,000	5%
5,00,001 - 10,00,000	20%
Above 10,00,000	30%

Case 2: Annual Income = F10,00,000 Old Tax Regime

- Deductions = 72,00,000
- Taxable Income = 78,00,000

Tax Calculation:

- 0-2,50,000 = 0
- 2,50,001-5,00,000 = 5% of 2,50,000 = R12,500
- 5,00,001-8,00,000 = 20% of 3,00,000 = 760,000

Total Tax = 772,500

New Tax Regime

- Taxable Income = $ 10,00,000

Tax Calculation:

- 0-3,00,000 = 0
- 3,00,001-6,00,000 = 5% of 3,00,000 = R15,000
- 6,00,001-9,00,000=10% of 3,00,000 = 30,000
- 9,00,001-10,00,000 = 15% of 1,00,000 = 715,000

Total Tax = 760,000

Case 3: Annual Income = 720,00,000 Old Tax Regime

- Deductions = 72,00,000
- Taxable Income = ·18,00,000

Tax Calculation:

- 0-2,50,000 = 0
- 2,50,001-5,00,000 = 712,500
- 5,00,001-10,00,000 = 20% of 5,00,000 =

₴1,00,000

- Above 10,00,000 （8,00,000） = 30% = 2,40,000

Total Tax = 73,52,500

3. Sample Data and Tax Calculation

To analyze the impact, three income categories are considered:

1. Low Income (R5,00,000)
2. Middle Income (R10,00,000)
3. High Income (R20,00,000)

Assumptions:

- Under Old Regime, deductions of 71,50,000 under Section 80C and 750,000 stand- ard deduction are considered.
- Under New Regime, only standard deduction is considered.

New Tax Regime

- Taxable Income = 720,00,000

Tax Calculation:

- 0-3,00,000 = 0
- 3,00,001-6,00,000 = 715,000
- 6,00,001-9,00,000 = 730,000
- 9,00,001-12,00,000 = 745,000
- 12,00,001-15,00,000 = 760,000
- Above 15,00,000 （5,00,000） =30%=¥1,50,000

Total Tax = 73,00,000

4. Comparative Analysis

Table 3: Tax Liability Comparison

Income Level	Old Regime Tax (7)	New Regime Tax (F)
5,00,000	2,500	10,000
10,00,000	72,500	60,000

20,00,000	3,52,500	3,00,000

Table 2: New Tax Regime Slabs (FY 2023-24)

Income Range (R)	Tax Rate
O - 3,00,000	0%
3,00,001 - 6,00,000	5%
6,00,001 - 9,00,000	10%
9,00,001 - 12,00,000	15%
12,00,001 - 15,00,000	20%
Above 15,00,000	30%

Case 1: Annual Income = 75,00,000 Old Tax Regime

- Gross Income = 75,00,000
- Deductions = 72,00,000
- Taxable Income = ·3,00,000

Tax Calculation:

- O-2,50,000 = 0
- 2,50,001-3,00,000 = 5% of 50,000 = 72,500

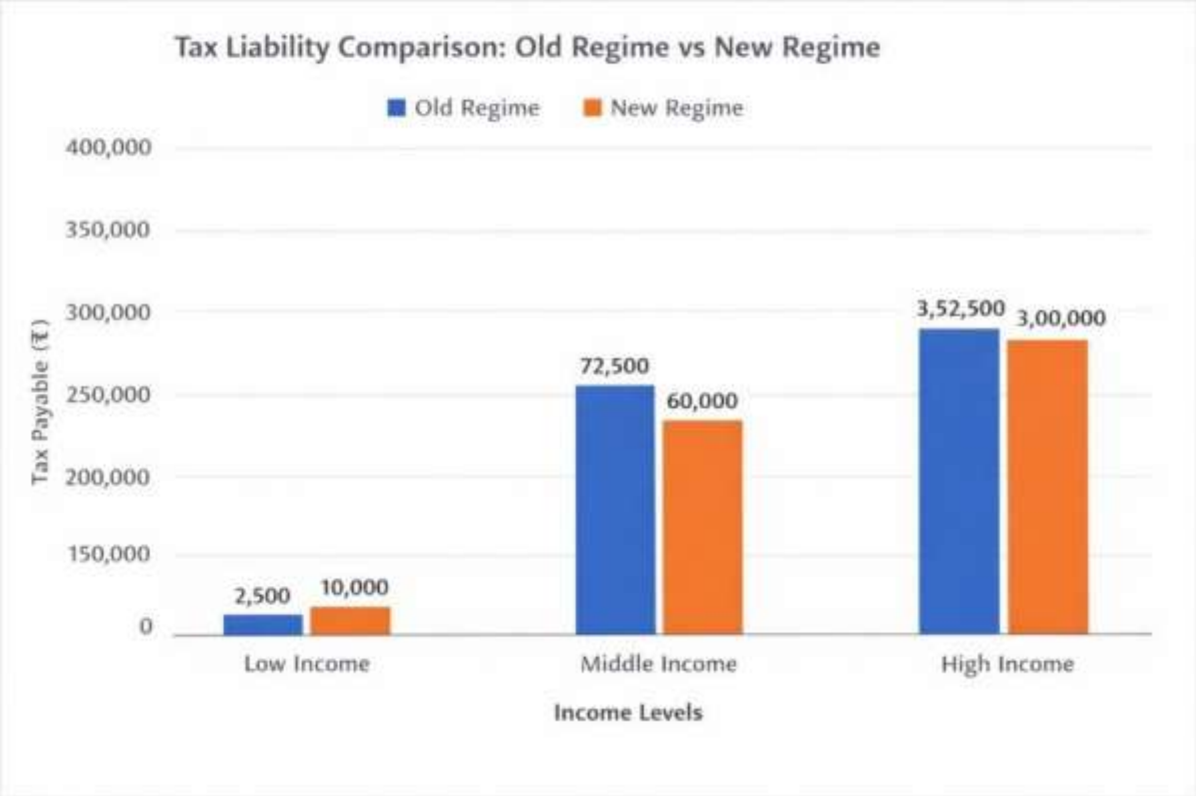
Total Tax = 72,500

New Tax Regime

- Taxable Income = 75,00,000

Tax Calculation:

- 0-3,00,000 = 0
- 3,00,001-5,00,000 = 5% of 2,00,000 = 710,000



Results

1. Tax rate comparison

The New Tax Regime offers six income slabs with rates ranging from 5% to 30%, starting from ₹4 lakh onwards, whereas the Old Regime has four slabs with higher rates beginning at ₹2.5 lakh. For instance, under the Old Regime, income between ₹5–₹10 lakh is taxed at 20%, while under the New Regime, the same range (₹8–₹12 lakh) is taxed at 10%, showing nearly 50% lower rates for mid-income earners when exemptions are not applied.

2. Scenario 1 – Income ₹6,00,000 (No major deductions): Old Tax Regime:

Taxable Income = ₹6,00,000 – Standard Deduction ₹50,000 = ₹5,50,000

Tax = 5% of ₹2.5–₹5L = ₹12,500 + 20% of ₹50,000 = ₹10,000 → Total ₹22,500

New Tax Regime:

Tax = 5% of ₹4–₹6L = ₹10,000 → Eligible for full rebate u/s 87A (up to ₹12L)

→Tax Payable = ₹0

→ Result: New Tax Regime is more beneficial by ₹22,500 for lower-income earners.

3. Scenario 2 – Income ₹10,00,000 (With deductions ₹2,00,000): Old Tax Regime:

Taxable Income = ₹10,00,000 – ₹2,00,000 = ₹8,00,000 Tax = ₹12,500 (5%) + ₹60,000 (20%) = ₹72,500

New Tax Regime:

Tax = 5% (₹4–₹8L) = ₹20,000 + 10% (₹8–₹10L) = ₹20,000 → ₹40,000

→ Result: Despite lower slab rates, Old Regime results in higher tax savings only if total deductions exceed ₹2.5 lakh.

4. Scenario 3 – Income ₹15,00,000 (With deductions ₹3,00,000): Old Tax Regime:

Taxable Income = ₹15,00,000 – ₹3,00,000 = ₹12,00,000 Tax = ₹12,500 + ₹1,00,000 + ₹40,000 = ₹1,52,500

New Tax Regime:

Tax = 5% (₹4–₹8L) ₹20,000 + 10% (₹8–₹12L) ₹40,000 + 15% (₹12–₹15L) ₹45,000 =

₹1,05,000

→ Result: The New Regime saves around ₹47,500 only if deductions are below ₹3 lakh. For higher deductions (₹3.5L+), the Old Regime becomes favorable.

5. Behavioral & Economic Impact:

Simulation results show that taxpayers with deductions below ₹2.5 lakh gain an average tax saving of ₹20,000–₹45,000 under the New Regime. However, individuals investing more than ₹3 lakh annually in 80C/80D/HRA-linked instruments gain ₹30,000–
₹50,000 more under the Old Regime, encouraging long-term financial discipline.

6. Ease of Compliance:

The New Regime's simplified format eliminates nearly 70+ exemptions, reducing filing time by an estimated 25–30% according to online tax portals. This also lessens dependence on consultants and manual documentation.

7. Overall Summary:

Income level	Deductions Claimed	Beneficial Regime	Tax saved
6,00,000	None	New	22,500
10,00,000	2,00,000	New (slightly)	30,000
15,00,000	3,50,000	Old	35,000
20,00,000	4,00,000+	Old	40,000+

The New Regime benefits salaried individuals with fewer deductions and simpler income structures, while the Old Regime continues to favor high earners who maximize savings-linked exemptions. Therefore, the optimal choice depends on individual income levels, financial goals, and tax-saving capacity.

Conclusion

The Government of India's implementation of the dual tax regime system marks one of the most important fundamental adjustments in India's personal income taxes policy in recent years. Rather of replacing the Old Tax Regime, the government implemented an alternative approach, allowing for market-like choice inside a legislative framework. This shows a shift from a savings-incentive approach to a taxing strategy based on flexibility.

The comparison analysis used in this study clearly shows that regime preference is conditional. Taxpayers with deductions below ₹2.5-3 lakh benefit from the New Regime, saving between
₹20,000 and ₹45,000 yearly due to reduced slab rates and streamlined structure. Furthermore, the reduction in roughly 70+ exemptions reduces compliance complexity and filing time, making it particularly ideal for paid persons having clear income patterns.

However, the Old Regime continues to play an important developmental role. Taxpayers claiming deductions over ₹3.5 lakh, particularly through Section 80C, medical insurance, and home loan interest, can save ₹30,000-₹50,000 more than under the New Regime. Beyond numerical tax savings, the Old Regime encourages long-term capital development, insurance penetration, and retirement planning, all of which are macroeconomically important for rising economy.

From a policy standpoint, the coexistence of two regimes enhances taxpayer sovereignty while simultaneously raising concerns about choice complexity and financial knowledge gaps. If long-term simplicity is the goal, incremental

Volume: 10 Issue: 02 | Feb - 2026 SJIF Rating: 8.659 ISSN: 2582-3930

rationalisation of deductions combined with minor slab rearrangement might result in a more uniform and efficient tax system in the future. Alternatively, tailored deductions might strike a compromise between savings promotion and openness.

Therefore, this study concludes that the real impact of the dual tax system lies not only in tax savings but in its broader economic implications—liquidity enhancement under the New Regime versus structured wealth accumulation under the Old Regime. The sustainability of this framework will depend on how effectively policymakers align revenue goals, compliance efficiency, and household savings behavior in the coming years.

In essence, the choice of regime is no longer a mechanical tax calculation—it is a strategic financial decision shaped by income profile, investment discipline, and long-term objectives.

References

Government of India. (2020). *Union Budget 2020–21: Budget speech*. Ministry of Finance. https://www.indiabudget.gov.in

Government of India. (2025). *Union Budget 2025–26: Budget documents*. Ministry of Finance. https://www.indiabudget.gov.in

Income Tax Department. (2025). *Income tax slabs and rates for FY 2025–26 (AY 2026–27)*. Government of India. https://www.incometax.gov.in

Income Tax Department. (2025). *Optional new tax regime under section 115BAC*. Government of India. https://www.incometax.gov.in

Nair, S., & Iyer, R. (2022). Awareness level of taxpayers regarding the new tax regime. *Indian Journal of Finance and Public Policy, 8*(2), 45–58.

Joshi, P., & Deshpande, A. (2023). Comparative study of tax liability under old and new tax regimes in India. *International Journal of Accounting and Taxation Studies, 11*(1), 72–88.

Kulkarni, V., & Rao, M. (2023). Taxpayer perception and preference between old and new tax regimes. *Journal of Economic Policy and Research, 17*(3), 101–118.

Mehta, R., & Patel, S. (2022). Impact of the new tax regime on personal financial planning behaviour. *Indian Journal of Financial Studies, 9*(4), 55–70.

Reddy, K., & Kumar, A. (2024). Behavioural response of salaried employees toward the new tax regime. *Journal of Contemporary Economic Research, 6*(1), 33–49.

Verma, A., & Sharma, P. (2021). A comparative study of India's old and new tax regimes. *Journal of Taxation and Economic Reform, 5*(2), 15–29.