The New Tax Regime in India: An Analysis of Its Effect on Salaried Individuals' Income Tax Liability in Pune City

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Abstract

This study examines the impact of India's New Tax Regime on salaried individuals in Pune City. The 2025 Union Budget restructured the tax framework, making the new regime the default and offering simplified slab rates while removing most exemptions. The study compares tax liabilities under both regimes, assessing their effects on disposable income, financial behaviour, and investment patterns. A descriptive-analytical, quantitative approach was used, combining survey responses with secondary data. Findings reveal that while the new regime benefits individuals with limited deductions through higher exemptions and lower rates, the old regime remains advantageous for those claiming housing, insurance, or investment deductions. The study concludes that the New Regime offers simplicity but may discourage long-term savings, suggesting a hybrid approach for balanced financial planning.

Keywords: Tax Regime, Income Tax, Pune City, Disposable Income, Investment Behavior, Financial Planning.

1. Introduction

Taxation plays a crucial role not only in revenue collection but also in influencing individuals' financial behaviour, savings, and investment decisions. In India, salaried taxpayers constitute a significant proportion of the tax base, and the 2025 Union Budget introduced key reforms to simplify compliance through the New Tax Regime under Section 115BAC. This paper analyses the New Tax Regime's effect on salaried individuals' income tax liability in Pune City, a growing economic hub with a diverse workforce. The research compares the old and new tax systems, evaluates their effect on disposable income and savings, and assesses how taxpayers perceive fairness and simplicity within the reformed structure. These changes raise crucial questions: Who truly benefits or loses from this reform? Is the "tax relief" mostly symbolic, or does it translate into meaningful gains for the middle class? For higher earners with significant deductions, does the new regime sometimes impose a heavier burden than the old one? Moreover, how do factors like Pune's cost of living, housing patterns, and salary structure influence the net impact?

In this paper, we will quantitatively analyse how the new tax slabs and rebate thresholds alter the income tax liability of salaried individuals in Pune, comparing the post-Budget 2025 outcomes under the new regime with the old regime. Furthermore, the study will incorporate a qualitative perspective by exploring taxpayers' awareness, preferences, and perceptions of fairness and transparency. Through these twin lenses of numbers and lived experiences, the research aims to offer a grounded assessment of whether the New Tax Regime, as reshaped by the 2025 Budget and the pending Income Tax Act, 2025, succeeds in its promise of simplicity and relief, or whether hidden trade-offs remain.

In sum, this investigation is about how reforms translate into tangible benefits (or losses) for everyday salaried people in a real city and whether the new structure helps taxpayers as much as it promises.

2. Literature Review

Multiple studies between 2023 and 2025 have explored the comparative effects of the old and new tax regimes. Patil and Gharat (2025) found that individuals with deductions exceeding ₹3 lakh benefited from the old regime. Gonal and Matapathi (2025) emphasized the new regime's simplicity but noted its limited advantage for those with rental and investment deductions. Priya (2025) highlighted how the old system encourages disciplined savings. Dalmia and Mishra (2025) compared salary brackets and confirmed that low-deduction earners gain under the new regime, while others save more through exemptions. Kiran Kumar et al. (2025) and Rao et al. (2025) agreed that the old system supports structured investments. Recent publications in the Economic Journal (2025) and EPRA Journals (2024) further showed that simplicity under the new regime expands participation but reduces savings motivation. Collectively, literature suggests that the new regime benefits convenience-seekers, while the old regime continues to reward long-term planners.

Tax Regime Comparison FY 2025-26 India Feature	**Old Tax Regime**	**New Tax Regime (Sec 115 BAC)**
Deduction/Exemption	15-20 Deduction/Exemption	3-4 Deduction/Exemption
Standard Deduction	Rs.50,000(Salaried)	Rs. 75,000 (salaried/pensioners)
Highest Slab Rate	30% above Rs. 10 Lakh	30% above Rs. 24 Lakh
Rebate	Up to Rs. 12,500	Up to Rs.60,000 (income = Rs.12 Lakh)
Default Regime	Must Opt-in	Applied by Default
Tax Planning	Preferably for high Deductions	Preferably for lower deductions

3. Research Problem

The new regime aims to simplify compliance and reduce tax complexity by eliminating most deductions. However, this structural change raises concerns regarding its actual impact on disposable income, financial discipline, and long-term savings habits. For many middle-class salaried individuals, deductions under the old regime remain essential to reduce tax liability and encourage systematic investment.

4. Objectives of the Study

- To compare the old and new tax regimes in terms of tax liability.
- To assess the impact of the new regime on individual disposable income.
- To analyse how both regimes affect investment behaviour and savings patterns.

Sr. No.	Objectives	Justification	Questions
1	To compare the old and new tax regimes in terms of tax liability	This objective is essential as it helps identify which tax regime is more beneficial and also which tax regime results in lower or higher tax burden for salaried individual	Q1, Q2, Q3, Q4, Q5, Q6, Q7
2	To assess the impact of the new regime on individual disposable income	The new tax regime offers different slab rates, fewer deductions, net taxable income and shows how much income remains after applying tax provisions	Q3, Q10, Q15
3	To analyse how the old and the new tax regime affects investment	Under the new tax regime, various investment deductions, including life insurance corporation (LIC), Public Provident Fund (PPF), and	Q2, Q11, Q12, Q13, Q14,

QUESTIONNAIRE:

https://forms.gle/puHnwaNweRe3LNwk9

5. Hypothesis

H_0: There is a significant difference in tax liability between the old and new tax regimes for salaried individuals in India for FY 2025–26.

H_1: There is no significant difference in tax liability between the old and new tax regimes for salaried individuals in India for FY 2025–26.

6. Research Methodology

The study adopts a descriptive-analytical and quantitative design, supported by qualitative insights. Primary data were collected through structured questionnaires distributed to salaried individuals in Pune, complemented by interviews with HR professionals and tax advisors. A stratified sampling method ensured representation across income groups from below ₹4 lakh to above ₹20 lakh. Secondary data were sourced from government portals, budget circulars, and tax policy studies. Responses were processed using spreadsheet-based tax calculators to compute liabilities under both regimes. Ethical standards were upheld, ensuring voluntary participation and confidentiality.

7. Data Analysis and Interpretation

Survey data reveal that most respondents fall within the ₹5 lakh–₹15 lakh income range and demonstrate moderate to high tax awareness. While younger professionals prefer the New Tax Regime for simplicity, middle-income groups with deductions such as HRA, 80C, and 80D continue to choose the Old Regime. Respondents acknowledged that the New Regime offers convenience but may not ensure fairness across income brackets. The removal of deductions reduced motivation to invest in long-term schemes, potentially impacting future financial stability. Findings confirm that taxation directly shapes saving habits and financial planning.

The overall findings of the study provide a clear insight into the mindset and behavioural patterns of salaried individuals in Pune regarding the choice between the Old and New Tax Regimes. The demographic spread of respondents covered different age groups, job experience levels, and employment sectors, which strengthens the reliability and representativeness of the data. The responses indicate a fair level of understanding about tax structures and suggest that regime selection is not random but influenced by individual financial circumstances.

A majority of respondents acknowledge having basic to good awareness of differences between the two regimes, showing the positive impact of digitalisation, employee awareness initiatives, and simplified communication on taxation in India. However, the presence of respondents with limited understanding suggests that taxpayers still struggle to evaluate the actual financial impact, especially when comparing tax liability with and without deductions. This gap between awareness and comprehension implies that many taxpayers rely on assumptions or popular opinion while making tax decisions.

The preference patterns show that the New Tax Regime is favoured for its simplicity, minimal documentation, and transparency, particularly among those who either do not invest much or lack sufficient deductions to benefit from the Old Regime. Younger employees and early-career professionals are observed to be the primary adopters of the New Regime, signalling a trend where convenience is prioritised over long-term tax planning. In contrast, individuals with home loans, insurance policies, and strong savings habits continue to prefer the Old Regime for the financial advantages it provides through deductions and exemptions.

The survey also reflects mixed experiences regarding fairness and satisfaction with disposable income. Even though the New Tax Regime aims to reduce tax burden for many low-to middle-income taxpayers, some respondents still believe the structure does not achieve equitable distribution across income levels. Rising cost of living, inflation, and financial responsibilities may be influencing this dissatisfaction, especially for respondents who feel their take-home income remains insufficient despite tax reforms.

A highly significant insight from the data is that taxation strongly influences savings behaviour. The Old Regime has traditionally encouraged taxpayers to invest in secure financial instruments, whereas the New Regime risks shifting salaried individuals away from disciplined long-term savings. This behavioral shift could have implications not just at the individual level but also for the broader economy, particularly regarding capital market participation and long- term household financial stability.

Overall, the data presents a balanced picture: taxpayers appreciate simpler compliance but are not willing to compromise on financial planning benefits. Most respondents favour the idea of a **hybrid or modified tax system** that maintains ease of filing while continuing to promote essential long-term saving habits, especially for the middle-income group.

8. Findings and Discussion

The research indicates that taxpayer preferences are influenced by income level, financial literacy, and deduction eligibility. The Old Regime supports disciplined investment behaviour and higher long-term savings, while the New Regime promotes ease of filing. Awareness gaps persist, with some taxpayers choosing regimes without full understanding of implications. Results suggest the need for financial education and possibly a hybrid model combining simplicity with limited key deductions.

9. Conclusion

The New Tax Regime introduced in 2025 represents a progressive effort toward simplification but does not fully replace the advantages of the Old Regime. It benefits individuals with fewer deductions but may reduce savings motivation among middle-income groups. A balanced, flexible structure integrating ease of compliance with essential deductions could better serve taxpayers' diverse needs. Enhanced financial literacy and policy refinement are recommended to ensure fairness, inclusivity, and stability in India's taxation system.

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