



INTERNATIONAL RESEARCH JOURNAL OF HUMANITIES AND INTERDISCIPLINARY STUDIES

(Peer-reviewed, Refereed, Indexed & Open Access Journal)

DOI : 03.2021-11278686

ISSN : 2582-8568

IMPACT FACTOR : 8.031 (SJIF 2025)

A COMPARISON STUDY BETWEEN THE NEW AND OLD TAX REGIME IN INDIA

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DOI No. **03.2021-11278686**

DOI Link :: <https://doi-ds.org/doi/10.2025-18176319/IRJHIS2510020>

ABSTRACT:

With a focus on salaried individuals specifically, The Income Tax Act of 1961's old and new tax systems are thoroughly compared in this paper. The study's objectives are to study the variables influencing tax regime selection and evaluate the impact of that regime on salaried people's tax obligations, savings, and financial planning. A review of recent tax landscape changes, especially those included in the 2024 Budget, is given at the outset of the research. The study looks at the steps the government is taking to encourage people to switch to the new tax system while allowing them to keep their options open. To make the new regime more enticing, significant changes are highlighted, including raised tax rebate limits, modified tax slabs, and increased surcharge rates. Pros and cons of both tax regimes are thoroughly compared, with special attention paid to tax slabs, standard deductions, exemptions, and deductions, as well as HRA, other allowances, and the effects on investments and savings. The study concludes with a thorough comparison table that shows the differences between the old and new tax systems.

Keywords: Income Tax Act 1961, Old tax regime, New tax regime, salaried individuals, Budget 2024 Tax System.

INTRODUCTION:

Any modern society must have taxes because they provide the funding necessary for public infrastructure and other needs like government services. India's direct tax system has been based on the Income Tax Act of 1961 for more than 50 years. The tax structure has changed significantly as a result of its multiple modifications. The implementation of a new tax regime that provides taxpayers with an alternate method of determining their taxable income has been one of the most significant changes in recent years. For salaried people, who make up an important percentage of the nation's taxpayer population, this change in tax laws has brought up significant concerns. Significant changes to India's tax system have been brought about by the recent Budget for 2024, leaving people unsure

on whether to adopt the new tax system or stick with the previous one. The government has a clear goal: to make the transition to the new tax system easier while gradually phasing out the old one. The new regime will be the default option, although taxpayers will still have the option to choose the old regime. First introduced in the 2020 Budget, the New Tax Regime offered taxpayers more favorable tax rates and changes to the tax slabs. However, those who choose this new regime will lose a number of exemptions and deductions. The new regime's acceptance rate was rather low as a result of this restriction. To entice taxpayers to move to the new system, the government responded by making a number of significant modifications to the 2024 Budget. First, the tax refund maximum was increased by the government. The new tax system, income up to ₹7 lakhs was eligible for a complete tax rebate, instead of the ₹5 lakhs that was the before barrier. It follows that under the new tax regime, income tax will not apply to persons earning up to ₹7 lakhs. To further improve the agreement for taxpayers, the tax exemption level has been raised to ₹3 lakhs. The 2024 Budget established new tax slabs that give greater advantages rates than the previous system. The changes aim to simplify the tax structure for people and increase the attraction of the new system. Before the new tax system was put into place, taxpayers could take use of more than 70 exemptions and deductions under the old one. Among the most significant are the Leave Travel Allowance (LTA), Interest on Housing Loans, and the House Rent Allowance (HRA). Your taxable income may be considerably reduced by these exemptions and deductions, which will result in smaller tax liabilities.

REVIEW OF LITERATURE:

M Govind Rao & R Kavitha Rao (2005) The paper address issues of tax policy reform since 1990, it is observed that in many developing countries pressing fiscal imbalances was the issue. Therefore, tax policy reforms were important to create revenues along with aligning tax policy to change tax policy structure. It is also emphasized on globalization to minimize cost of tax system in different ways also focused on changing paradigm of tax policies and reforms such as, reform of central taxes, reform of direct taxes and Indirect taxes.

Dr. S N Aswale (2010) The paper deals with new direct and indirect taxes reforms also addressed issues of new direct tax code (NDTC). The results of the tax reforms show a satisfactory growth in both direct and indirect tax revenues. The researcher has also revealed new direct tax (NTDC) provide suitable and flexible along with fair rate of taxes every aspect of trades and industries in the country.

Priyadarshani J and Selladurai M (2018) The paper attempts historical scenario and tax structure in India. It is focused on GST features and impact on all sections of our economy as well as GST created single unified market for taxpayers and corporate sectors eventually benefits of our economy. They have also highlighted on central government and state governments CGST and SGST to maintain a similarity between the basic structures of the tax system in India.

Hemlata Tiwari and Shambhu Nath Singh (2018) Have focused on the Indirect taxes which major steps have taken to reform indirect taxes since 1st July 2017. The idea of GST is to bring uniformity in all goods and services prices in terms of transparency indirect tax structure concern. It is observed that GST helps enhance government revenue as well as infrastructure and economic growth of the country.

Jyoti Choudhary (2021) Studied tax system in India and current scenario of Indian tax structure of central and state government along with local authority taxes. It is explained about direct and indirect taxes including IGST, SGST and ICGST are levied by the central and state government of India.

Shevate Tejaswini and Pande Smita (2023) The alternative tax system suggested in this paper aims to encourage individuals to spend rather than save. It is observed that people of the country habitually towards saving and strive to increase their disposal income and living standards. Researchers has also highlighted on the budget 2020 about old and new tax regime. The new tax regime simplified the income tax law, also it found that, the individual taxpayers preference and awareness about two tax system help them taking decisions tax regime selections.

OBJECTIVES:

1. Determining and evaluating the elements that affect the tax system that salaried people choose.
2. To thoroughly analyses both the new and old tax structures under the Income Tax Act of 1961, with an emphasis on salaried people.
3. To evaluate the effects of selecting one tax system over another on a salaried person's wealth, financial planning, and tax liability.
4. Examine the changes made to the new tax structure in the 2024–2025 union budget.

METHODOLOGY:

Applying a descriptive methodology, this study draws mostly from secondary sources of data, Which includes the Income Tax Act of 1961 and the Finance Act of 2023. The literature on the old and new tax systems under the Income Tax Act of 1961 will be thoroughly reviewed, including books, articles, research papers, and reports.

SIGNIFICANCE:

This research holds significance for a diverse group of taxpayers. Salaried individuals, who are the primary taxpayers, will be educated on the possibilities and consequences of selecting between the current and new tax systems. The findings can be used by governments to better match the nation's economic objectives with tax legislation. Governments and taxpayers alike must comprehend the subtleties and ramifications of complex tax regimes. In order to assist their clients in making well-informed tax planning decisions, tax professionals and financial advisors can acquire

essential information. The existing corpus of research regarding Indian tax rules and their impact on people's financial security is expanded by this study.

Statement of the problem:

The government of India introduced a new tax regime in its Budget 2020. The new tax regime includes additional tax slabs and reduced tax rates. However, the taxpayer being assessed can avail the deductions and exemptions available under the previous tax regime. Hence, there is confusion as to which tax scheme will be beneficial for the taxpayers. The objective of this study is to provide an in-depth understanding of both the existing and the new tax regime.

Taxation System:

There are two types of taxes in India: direct taxes and indirect taxes. As we know, direct tax is income tax. It is the main source of funds for the government. According to the Income Tax Act 1961, all individuals who pay taxes are required to pay that tax. In Budget 2020, Indian Finance Minister Nirmala Sitharaman introduced a new tax system that gives taxpayers the option to choose between two tax systems. However, in the Union Budget 2024-2025, several changes have been made to the new tax structure. The Finance Minister's suggestions are ones that will help taxpayers.

NEW TAX REGIME:

In the country's Budget 2024, Union Finance Minister Nirmala Sitharaman has included several proposed changes in income tax. These amendments include both minor and major changes. Examples include changes in the structure of capital gains, removal of indexation benefit, adjustments in NPS, changes in standard deduction and adjustments in tax slab rates under the new tax regime. These rates will be applicable from the assessment year 2025-2026 after the Finance Bill is passed by Parliament.

The income tax slab applicable for FY 2023-24 (AY 2024-25)

Tax Slab Tax Rate

Tax Slab	Tax Rates in %
Up to Rs. 3 Lakh	NIL
Between 3,00,000 and 6,00,000	5
Between 6,00,000 and 9,00,000	10
Between 9,00,000 and 12,00,000	15
Between 12,00,000 and 15,00,000	20
Above Rs. 15,00,000	30

Sources: - Budget 2024-25

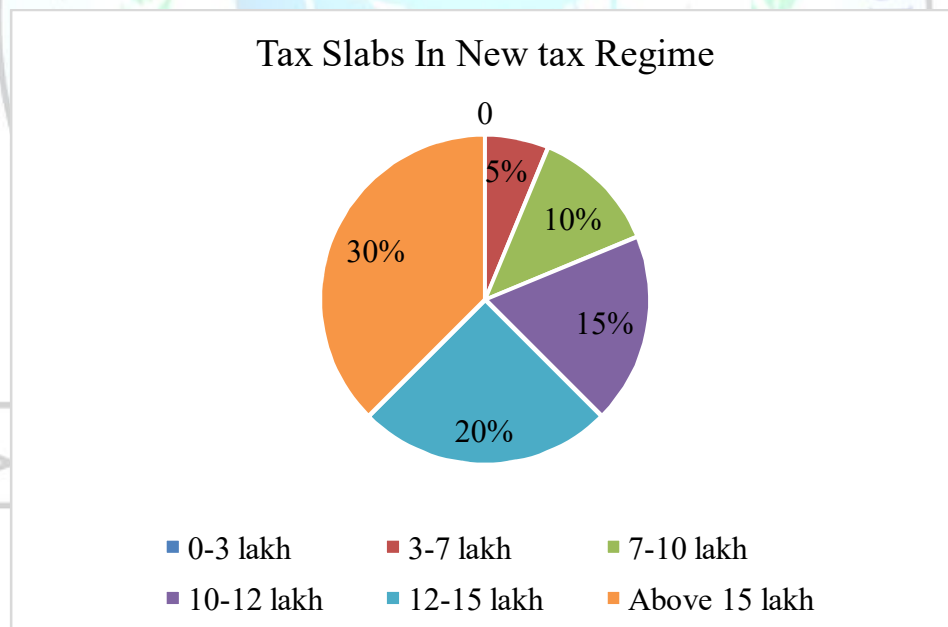
Given above chart are the changes that were announced in the new tax regime in budget 2023. For F.Y. 2023-24. Under the new tax regime, the basic exemption level was raised from Rs. 2.5 lakh to Rs. 3 lakh. The number of income tax slabs under the new regime reduced to five from six. Standard deduction of Rs.50000 introduced under the new tax regime for salaried and pensioner's family pensioners can also claim standard deduction of Rs.15000 under the new tax regime. Highest Surcharge rate is 25% under the new tax regime.

The Income Tax Slab Applicable For FY 2024-25 (AY 2025-26)

Tax Slab Tax Rate Changes for Budget 2024

Tax Slab	Tax Rates in %
Up to Rs. 3,00,000	0
Between 3,00,000 and 7,00,000	5
Between 7,00,000 and 10,00,000	10
Between 10, 00,000and 12,00,000	15
Between 12,00,000 and 15,00,000	20
Above Rs. 15,00,000	30

Sources: - <https://indiatimes.com/economictimes>



Source: - Union Budget 2024-25

The above-mentioned pie chart indicates that no one is required to pay taxes on incomes up to Rs. 3,00,000. Any individual with income between Rs. 3,00,001 and Rs. 7,00,000 must pay 5% tax. On income between Rs. 7,00,001 and Rs. 10,00,000, each person must pay 10% tax. People who earn between Rs. 10,00,001 and Rs. 12,00,000 are required to pay 15% tax. On income between Rs.

12,00,001 and Rs. 15,00,000, each person must pay 20% tax. Any individual with income over Rs. 15,00,000 must pay 30% tax.

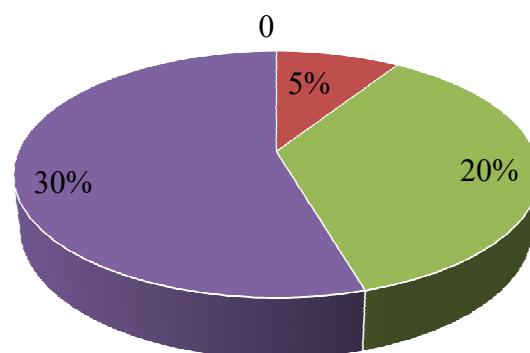
Benefits and Drawbacks of the New Tax System

Benefits	Drawbacks
1. According to the new tax system, the taxpayer has an exemption in tax liability up to Rs. 3 lakh.	1. No exemptions for 80GG or HRA.
3. The standard deduction is Rs. 75,000.	2. Chapter 6A (80C, 80D, etc.) does not allow deductions.
4. Up to Rs 50,000 in NPS is permitted.	3. No advantages of home loans.
2. The maximum rebate amount has been raised to Rs 7 lakhs.	4. No travel allowance for leave.

OLD TAX REGIME

The Tax Slab	Tax Rate in %
Up to Rs. 2,50,000	Nil
Between 2,50,001 and 5,00,000	5
Between 5,00,001 and 10,00,000	20
Above Rs. 10,00,001	30

Tax Slab and Tax Rate for Old tax regime



- Up to Rs.2,50,000
- From Rs. 2,50,000 to 5,00,000
- From Rs. 5,00,000 to 10,00,000
- Above Rs. 10 lakh

Source: - Income Tax Department

Interpretation:

There is no tax due on incomes up to Rs. 250,000. Every individual must pay 5% tax on income between Rs. 2,50,000 and Rs. 5,00,000. Every individual must pay 20% tax on income between Rs. 5,00,000 and Rs. 10,00,000. Every individual must pay 30% tax on income over Rs. 10 lakh.

Pors and cons of old tax regime.

Pors	Cons
1. Taxpayers could avail several deductions and exemptions under the previous regime, including Section 80C for investments and Section 80D for health insurance premiums. This significantly reduced taxable income.	1. The previous tax system had many deductions and exemptions, making it more difficult for taxpayers to understand and comply with tax laws.
2. Tax incentives on house loans can lower the total amount of taxes owed.	2. In the previous tax system, taxpayers would have had to pay a higher tax bill if they had not taken advantage of deductions, exemptions, and refunds.
3. Taxpayers are permitted to deduct certain costs from their taxes, including children's education costs, some medical expenses, charitable contributions, and treatment for select illnesses.	3. Taxpayers have limited ability to choose between the old and new regimes according to their objectives and financial situation.

COMPARISON BETWEEN THE OLD TAX REGIME AND THE NEW TAX REGIME

Old Tax Regime	New Tax Regime
Many slabs with higher rates. Tax rates are progressive, meaning they increase as income increases.	Multiple slabs with lower tax rates
Under Section 16 (ia), a standard deduction of Rs. 50,000	As per budget 2024, salaried taxpayers are eligible for standard deduction of Rs.75, 000
The old tax system provided extensive deductions and exemptions.	The New Tax system provided Limited deductions and exemptions

Under the previous tax system, a salaried taxpayer could deduct under Section 10(13A) the minimum amount of actual HRA received, rent paid over 10% of salary, and, depending on the situation, up to 40% to 50% of salary.	This HRA exemption is not given under the new tax regime.
In the old tax system Partially exempt from tax.	In new tax system partially Part of standard deduction.
Partially exempt with proof of travel.	Not a separate exemption

Conclusion:

There are differences in the effects on taxpayers between India's old and new tax regimes. People who want lower taxes and fewer paperwork will benefit from the new tax regime's lower tax rates and simplified structure, but there aren't many deductions available. On the other hand, the previous system, which had higher tax rates, offered a lot of exemptions and deductions, which favoured people with complicated financial circumstances. The new regime may be beneficial to middle-class workers, but it may result in a greater tax burden for high-income persons who previously profited from tax-saving investments. The new system affects sectors that depend on investments that save taxes and makes compliance easier, which could lead to an increase in discretionary income. Individual financial circumstances ultimately determine which regime is best, and possible legislative changes may be required to strike a balance between economic impact, simplicity, and justice.

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