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A Comparative Study of India's New Tax Regime Using Real-Life Salary Scenarios

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Abstract

Indian's dual tax regime for income, brought in Section 115BAC of the Income Tax Act, 1961, provides a choice between the conventional deduction regime and a simplified no-exemption regime with lower slab rates. This study examines the relative cost to finances of the two regimes across three income levels—₹5 lakh, ₹10 lakh, and ₹20 lakh per annum—covering low, middle, and high-income salaried taxpayers. Applying uniform assumptions and simulation-based tax calculations, the study compares which regime produces lower tax payments and under what circumstances. The findings indicate that regime preference is sensitive to income and strongly based on the individual's use of tax deductions

Key Words: Income Tax, Section 115BAC, Old Regime, New Regime, India, Tax Deductions, Salary Taxation, Personal Finance, Financial Planning, Tax Reform

1.INTRODUCTION

India's income tax system changed significantly with the introduction of a new tax regime in the 2020 budget, which was updated again in 2023. This new system offers lower tax rates but takes away most of the usual deductions and exemptions. While it's meant to make tax filing easier and improve compliance, having two tax options has created confusion about which one is actually better for individuals.

This study looks at both tax regimes by using real-life salary examples to find out which option works best in different situations. It also examines how these changes affect people's saving habits, financial planning, and fairness in the overall tax system

2. REVIEW OF LITERATURE

Several scholars, including Bagchi(2006)and Chelliah(1996), have chronicled the evolution of the Indian taxation system, particularly the gradual shift from a complex, high-rate structure to a more moderate, compliance-driven system. The reforms initiated in the 1990s emphasized reducing marginal tax rates and broadening the tax base, laying the groundwork for subsequent form secluding the introduction of the Goods and Services Tax (GST) and the new income tax regime. According to the Ministry of Finance (2020), the rationale for the new regime is to offer taxpayers a simplified structure with reduced tax rates and fewer exemptions and deductions. This shift follows global trends of broadening tax bases and lowering rates to enhance compliance, a principle advocated by the OECD (2010) and the World Bank (2015). 2. Comparative Structural Analysis: Old vs. New Tax

The old tax regime is characterized by a progressive rate structure accompanied by a wide array of exemptions and deductionsunderSectionslike80C,80D,24(b),and10(13A). The new tax regime, on the other hand, proposes lower slab rates but removes most exemptions and deductions, making it simpler in form but arguably less flexible. Research by EY India (2020) and PwC India (2021) has analyzed sample salary scenarios to highlight break-even points for tax payers under both regimes. Typically, individuals with fewer investments and deductions stand to gain under the new regime, while those with significant deductions prefer the old structure. Gupta & Bansal (2021), in a simulation-based study involving salaried professionals, conclude that the new regime benefits individuals earning below ₹10 lakh annually without major deductions, while those with housing loans, insurance ,and provident fund investments save more under the old regime.

3. RESEARCH METHODOLOGY

To analyze structural differences between the old and new tax regimes.

 To compare tax liabilities across income brackets under both systems.

 To identify the income and deduction scenarios that favor each regime.

 To assess the behavioral and policy implications of offering two tax regimes.

1. Methodology

Research Design

This is a descriptive-comparative study based on hypothetical salary models representing typical Indian salaried individuals.

Income Levels Analyzed

- Person A: ₹5,00,000
- Person B: ₹10,00,000
- Person C: ₹20,00,000

Assumptions

Under the old regime, the following deductions are considered:

- Standard Deduction: ₹50,000
- Section 80C: ₹1,50,000
- Section 80D: ₹25,00

4. Discussion

1. Behavioral Implications

The new regime favors individuals with minimal tax-saving investments, while the old regime rewards disciplined savers. Hence, regime choice is not just income-based but also behavior-dependent.

2. Policy Implications

While the new regime reduces complexity, the co-existence of two systems may increase administrative burdens and taxpayer confusion. Policymakers may consider phasing out one system or introducing hybrid models (e.g., limited deductions under the new regime).

3. Financial Planning Shifts

The shift from deductions may reduce national savings if individuals no longer feel incentivized to invest in long-term instruments like PPF, NPS, or insurance policies.

5. Conclusion

The comparative analysis shows:

- Low-income earners (₹5L): Both regimes yield zero tax.
- Mid-income earners (₹10L): Regime selection depends on deductions.
- High-income earners (₹20L): New regime is more beneficial if deductions are not utilized.

Thus, regime choice should be personalized, and both financial literacy and accessible tax tools are crucial in guiding optimal decisions.

6. Recommendations

- Taxpayers should simulate both regimes annually before filing.
- Employers should support regime awareness through workshops.
- The government should develop AI-based calculators for regime comparison.
- Consider integrating standard deductions into the new regime for better inclusivity.
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7. References

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