

New Income Tax Reform: Basic Understanding and Awareness of an Individual

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Abstract

This research examines the comparative aspects and implications of India's old and new tax regimes with focus on the recent reform i.e. New Income Tax Bill 2025. The New Income Tax Bill 2025 marks a significant change in India's taxation system. This study aims to compare the key features of the old and new tax regimes, evaluate the changes proposed in the 2025 bill, and assess public awareness and satisfaction with the current tax system. A mixed method approach was employed, combining a review of key tax provisions and a primary survey conducted through a structured questionnaire. Information was gathered from various respondents which contain different types of professions. The study concludes that although the government's efforts to simplify taxation are commendable, greater charity and targeted outreach are essential to enhance taxpayer satisfaction and compliance, and effective communication and education are essential to ensure wider acceptance and informed decision-making among taxpayers.

Keywords: Taxation System, Tax Regimes, Current Tax System, Structured Questionnaire, Taxpayer .

Introduction

In a dynamic economic environment, tax policies significantly influence the financial behaviour of individuals and businesses. Over the years, India's income tax system has undergone several reforms aimed at promoting simplification, transparency, and expanding the tax base. One of the most recent and significant developments is the New Income Tax Act, 2025, which seeks to streamline provisions, reduce complexity, and improve compliance. This Act builds on the optional New Tax Regime introduced in 2020, which allowed taxpayers to choose between the exemption-based Old Regime and a simplified structure with lower rates but limited deductions.

The New Income Tax Act, 2025 proposes a unified framework intended to replace the coexisting regimes and bring greater standardization to the taxation system. However, the effectiveness of such reforms depends on taxpayers' awareness, understanding, and acceptance. Given the technical nature of tax legislation, limited financial literacy often leads to confusion, misinterpretation, and even non-compliance. Despite government efforts to disseminate information, many individuals remain inadequately informed about the implications of the new system.

Against this backdrop, the present study aims to assess the awareness, comprehension, and perceptions of individual taxpayers regarding the New Act. It further seeks to provide a comparative analysis of the Old Regime, New Regime (2020), and Proposed Regime (2025) with respect to tax slabs,

exemptions, deductions, and perceived benefits. By analysing primary data collected through a structured questionnaire, the research and highlights knowledge gaps. Ultimately, the study offers recommendations for policymakers and financial institutions to strengthen taxpayer education, enhance compliance and promote informed financial decision-making.

New Income Tax Act 2025

The New Income Tax Act, 2025 received Presidential assent on 21st August 2025. Envisioned as a replacement for the complex Income Tax Act of 1961, the legislation is designed to streamline tax provisions, eliminate obsolete sections, and align the framework with contemporary technological advancements and the changing economic environment. The Act is scheduled to come into effect from 1st April 2026.

Key Updates

The Income Tax Act, 2025, comprising 23 chapters, 536 sections, and 16 schedules across more than 600 pages, has been framed with the objective of simplifying tax laws while ensuring comprehensive coverage. The new legislation is designed to enhance compliance, reduce ambiguity, and minimize disputes between taxpayers and the revenue authorities. Despite its extensive provisions, the Act is written in a more concise and accessible manner, making it easier for both taxpayers and tax officials to interpret and apply.

Major Changes Introduced

- **Ease of Compliance**

The Act introduces a more structured and technology-driven compliance framework. By streamlining administrative processes and adopting modern compliance tools, it aims to reduce procedural burdens for both taxpayers and authorities.

- **Concept of Tax Year**

The Act replaces the traditional distinction between the Financial Year and the Assessment Year with a single concept called the Tax Year, defined as the twelve-month period commencing on 1st April. This change is intended to reduce confusion and simplify tax administration.

- **Broader Definition of Virtual Digital Assets (VDAs)**

The scope of Virtual Digital Assets has been expanded to include crypto-assets, non-fungible tokens (NFTs), and other digital assets as may be notified by the government, ensuring that taxation keeps pace with emerging digital economies.

- **Access to Electronic Data in Search Cases**

Acknowledging the growing significance of digital transactions and asset holdings, the Act empowers tax authorities to access virtual spaces during search operations. Assesseees are required to provide access and necessary assistance to search officers, which may include data from social media accounts, email servers, cloud storage, and trading/investment platforms.

- **Undisclosed Income**

The definition of undisclosed income has been expanded to include income derived from Virtual Digital Assets, strengthening the regulatory framework for digital transactions.

- **Reforms in Tax Recovery and Appeals**

The Act introduces improved mechanisms for tax recovery and appeal processes, ensuring greater efficiency and transparency in dispute resolution.

- **Dispute Resolution Panel (DRP) Enhancements**

The provision allowing an assessee to approach the Dispute Resolution Panel (DRP) in cases involving non-residents, foreign companies, and transfer pricing continues under the new Act. However, the panel is now required to issue directions explicitly outlining the points of determination, decisions taken, and the reasoning behind them, thereby promoting clarity and accountability.

- **Simplified Drafting and Reduced Content**

Although the new Act contains more sections than the 1961 Act, it is significantly shorter in terms of overall content and word count. The drafting has been simplified, making the law more straightforward and easier to comprehend.

Objectives of the Study

- To assess the level of awareness and understanding among individual taxpayers regarding the provisions of the New Income Tax Act, 2025.
- To conduct a comparative analysis of the Old Tax Regime, the New Tax Regime (2020), and the Proposed Regime (2025) and examine public perceptions and preferences with respect to the different tax regimes currently available.
- To recommend strategies for enhancing taxpayer education and communication, thereby ensuring a smoother transition to the new system and enabling individuals to make informed financial decisions.

Research Methodology

Research Design

This study employs a descriptive and analytical research design to examine individual taxpayers' awareness, understanding, and perceptions of the New Income Tax Act, 2025. A comparative framework is also applied to analyse differences between the Old Tax Regime, the New Tax Regime introduced in 2020, and the Proposed Regime under the 2025 Act. Beyond assessing awareness levels, the study aims to contribute to basic tax literacy and evaluate the broader impact of tax reforms on individuals' financial planning and decision-making.

Data Collection Methods

Primary Data: Primary data was gathered through a structured questionnaire, carefully designed to capture taxpayers' awareness of the different regimes, their understanding of key provisions under the New Act, preferences among regimes and the perceived impact on tax liability and financial behaviour. The questionnaire incorporated both closed-ended questions (Likert-scale and multiple-choice formats) for quantitative insights and open-ended questions for qualitative perspectives.

Secondary Data: Secondary information was obtained from reliable sources including:

- Official publications and legislative documents related to the Income Tax Act, 2025
- Government portals such as the Income Tax Department and the Ministry of Finance
- Circulars and budget documents issued by the Central Board of Direct Taxes (CBDT)
- Relevant policy reports, news articles, and scholarly journal publications on tax reforms.

Sampling Method

A non-probability convenience sampling technique was adopted to collect responses from a diverse group of individual taxpayers. The sample comprised salaried employees, self-employed professionals, students, and retirees, representing a cross-section of taxpayer categories.

New Income Tax Slabs for Financial Year 2025-26 (Assessment Year 2026-27)

Income Tax Slabs for Financial Year 2025-26 (Assessment Year 2026-27)	Income Tax Rates for Financial Year 2025-26 (Assessment Year 2026-27)
Up to Rs. 4 lakh	Nil
Rs. 4 lakh to Rs. 8 lakh	5%
Rs. 8 lakh to Rs. 12 lakh	10%
Rs. 12 lakh to Rs. 16 lakh	15%
Rs. 16 lakh to Rs. 20 lakh	20%
Rs. 20 lakh to Rs. 24 lakh	25%
Above Rs. 24 lakh	30%

Comparison between Old Tax Regime and New Tax Regime

A detailed comparison of old and new tax regime tax slabs, rates, and surcharge for FY 2025-26 is tabulated below:

For individuals aged less than 60 years and Non-Residents

Old Tax Regime				New Tax Regime u/s 115BAC			
Income Tax Slab	Income Tax Rate	Tax calculation	Surcharge	Income Tax Slabs for FY 2025-26 (AY 2026-27)	Income Tax Rates for FY 2025-26 (AY 2026-27)	Tax calculation	Surcharge
Rs. 0 to Rs. 2,50,000	Nil	Nil	Nil	Up to Rs. 4 Lacs	Nil	Nil	Nil
Rs. 2,50,001 - Rs. 5 lacs	5%	5% above Rs. 2,50,000	Nil	Rs. 4 Lacs to Rs. 8 Lacs	5%	5% of income above Rs. 4 Lacs	Nil
Rs. 5 lacs - Rs. 10 lacs	20%	Rs. 12,500 + 20% above Rs. 5 Lacs	Nil	Rs. 8 Lacs to Rs. 12 Lacs	10%	Rs.20,000+ 10% of income above Rs. 4 Lacs	Nil
Rs. 10 lacs - Rs. 50 lacs	30%	Rs. 1,12,500 + 30% above Rs. 10 Lacs	Nil	Rs. 12 Lacs to Rs. 16 Lacs	15%	Rs. 60,000 + 15% of income above Rs. 8 Lacs	Nil
Rs. 50 Lacs- Rs. 1 crore	30%	Rs. 1,12,500 + 30% above Rs. 10 Lacs	10%	Rs. 16 Lacs to Rs. 20 Lacs	20%	Rs. 1,20,000 + 20% of income above Rs. 16 Lacs	Nil
Rs. 1 crore- Rs. 2 crore	30%	Rs. 1,12,500 + 30% above Rs. 10 Lacs	15%	Rs. 20 Lacs to Rs. 24 Lacs	25%	Rs. 2 Lacs + 25% of the income above Rs. 10 Lacs	Nil
Rs. 2 crore- Rs. 5 crore	30%	Rs. 1,12,500 + 30% above Rs. 10 Lacs	25%	Above Rs. 24 Lacs	30%	Rs. 3 Lacs + 30% of income above Rs. 24 Lacs	Nil
Above Rs. 5 crores	30%	Rs. 1,12,500 + 30% above Rs. 10 Lacs	37%	Rs. 24 Lacs- Rs. 50 Lacs	30%	Rs. 3 Lacs + 30% of income above Rs. 24 Lacs	Nil
				Rs. 50 Lacs- Rs. 1 crore	30%	Rs. 3 Lacs + 30% of income above Rs. 24 Lacs	10%
				Rs. 1 crore- Rs. 2 crores	30%	Rs. 3 Lacs + 30% of income above Rs. 24 Lacs	15%
				Above Rs. Rs. 2 crores	30%	Rs. 3 Lacs + 30% of income above Rs. 24 Lacs	25%

Basis of Difference	Old Tax Regime	New Tax Regime
Deductions and Exemptions	The old tax regime provides a wide range of deductions and exemptions, such as House Rent Allowance (HRA) and investment-based deductions under Section 80C of the Income Tax Act.	The new tax regime offers minimal deductions and exemptions, thereby simplifying the tax structure.
Taxpayer Benefits	The old regime incentivizes tax savings through structured investment planning, thereby fostering long-term financial security and retirement preparedness.	The new regime is designed to benefit middle-income taxpayers by offering lower tax rates without requiring complex tax planning.
Default Status	The old regime is not the default tax system; however, taxpayers can opt for it by exercising the appropriate choice while filing returns.	The new regime has been designated as the default tax structure, automatically applicable unless the taxpayer opts out.
Standard deduction	A standard deduction of ₹50,000 is available to salaried individuals.	Salaried individuals are entitled to a higher standard deduction of ₹75,000 under this regime.
Rebate	A maximum rebate of ₹12,500 is available under Section 87A.	For the Financial Year 2025–26, the maximum rebate is ₹60,000, while for FY 2024–25, it stands at ₹25,000.

Findings

The analysis of the questionnaire responses (1000 respondents) reveals several significant insights into taxpayers' awareness, perceptions, and attitudes towards the Income Tax Act, 2025.

- **Awareness and Understanding**

Approximately 880 respondents (88%) were aware of the new Act, while 120 (12%) were either unaware or unsure. Among those aware, 600 (60%) reported a moderate to good understanding, 250 (25%) admitted to limited understanding, and 150 (15%) indicated no clear understanding.

- **Perceived Objectives of the Reform**

750 respondents (75%) viewed simplification of tax laws as the primary goal. 620 (62%) emphasized expansion of exemption limits, 540 (54%) highlighted digital-first faceless assessments, and 480 (48%) pointed to reduction in the number of tax sections.

- **Preference for Tax Regime**

550 respondents (55%) preferred the new regime, citing simplicity and revised slabs. 350 (35%) preferred the old regime due to familiarity and deductions. 100 (10%) were undecided or had no preference.

- **Clarity and Thresholds**

700 respondents (70%) considered the revised thresholds favorable. 650 (65%) found the slab system simpler, while 200 (20%) perceived it as slightly complex.

- **Shift to Unified Tax Year**

680 respondents (68%) were aware of the shift to a unified "Tax Year," while 320 (32%) were not.

- **Perception of Digital Assessments**

720 respondents (72%) regarded faceless, digital-first assessments as beneficial, with 400 (40%) considering them highly advantageous.

- **Reasons for Regime Choice**

Among those switching to the new regime, 600 (60%) cited higher exemption thresholds and 500 (50%) highlighted simplified compliance. Those continuing with the old regime reported reliance on deductions (400; 40%) and familiarity (350; 35%) as major reasons.

- **Confidence in Transparency**

550 respondents (55%) were somewhat confident in the clarity of the new tax language, while 300 (30%) expressed strong confidence. A minority (150; 15%) expressed skepticism.

- **Suggestions for Improvement**

Respondents recommended uniform tax slabs, simplified legal terminology, and a single-window digital portal.

Several also stressed the importance of awareness campaigns to increase public understanding.

The findings indicate that the new Income Tax Act, 2025, is broadly welcomed for its simplification, revised exemption thresholds, and digital-first approach. However, a significant section of taxpayers continues to rely on the old regime due to familiarity and deductions. While confidence in transparency is relatively high, respondents emphasized the need for clearer communication, user-friendly digital systems, and extensive awareness drives to ensure smoother implementation.

Suggestions

Drawing on the findings of the study, several actionable suggestions are proposed to enhance taxpayer awareness, simplify compliance, and ensure the smooth implementation of the New Income Tax Act, 2025:

- **Enhanced Taxpayer Education and Awareness Campaigns**

Although overall awareness of the new Act is relatively high (80%), comprehension remains limited, with only 30% of respondents reporting strong understanding. The government, in collaboration with financial institutions and academic bodies, should design targeted awareness initiatives through workshops, webinars, social media outreach, and simplified explanatory booklets in multiple regional languages.

- **Simplified and User-Friendly Guidelines**

Tax provisions should be communicated in clear and accessible language, minimizing technical jargon. Taxpayers would benefit from step-by-step explanatory notes, flowcharts, and FAQs designed to clarify new provisions. Comparative illustrations of liabilities under the Old Regime, the New Regime (2020), and the Proposed Regime (2025) should also be provided to support informed decision-making.

- **Strengthening Digital Infrastructure and Accessibility**

While the majority of respondents view faceless assessments positively, concerns remain among digitally less literate groups. To bridge this gap, the government should ensure robust helpdesks, toll-free helplines, and in-person assistance counters, thereby making the digital transition more inclusive.

- **Improving Communication on Procedural Safeguards**

Findings show that 40% of respondents are unaware of safeguards such as timely TDS refunds and the requirement for notices before official action. Proactive communication through clear circulars, SMS/email notifications, and public announcements can significantly enhance awareness of taxpayer rights.

- **Customized Support for Diverse Taxpayer Groups**

Awareness and preferences vary across different taxpayer segments, including salaried employees, self-employed professionals, students, and retirees. The government should develop tailored awareness materials and targeted outreach for groups such as small businesses and first-time filers to reduce compliance disparities.

- **Incorporation of Tax Literacy in Educational Curricula**

Introducing basic tax literacy modules at the school and college levels would build early awareness among future taxpayers. Partnerships with universities and professional institutes can strengthen long-term capacity building and foster a culture of compliance.

- **Continuous Feedback and Evaluation Mechanism**

To ensure effective implementation, taxpayers should be encouraged to share feedback on the functioning of the new Act. Establishing regular surveys, grievance-redressal platforms, and monitoring

mechanisms will help policymakers identify challenges, refine provisions, and respond to evolving taxpayer needs.

Limitations of the Study

- **Limited Generalizability**

The study employs a non-probability convenience sampling method, which may not accurately represent the broader population of Indian taxpayers. As such, the results may be skewed toward specific demographic groups (e.g., urban, educated, salaried individuals).

- **Limited Sample Size**

Due to time and resource constraints, the sample size may be limited, reducing the statistical power of the study and limiting the depth of subgroup analysis.

- **Dynamic Nature of Tax Laws**

As the Income Tax Act, 2025 is newly introduced, its final structure and implementation details may evolve. Any subsequent amendments made after data collection are not reflected in this study, affecting the long-term relevance of the findings.

- **Subjective Understanding**

The study evaluates perceived awareness and understanding rather than objectively testing tax knowledge. Respondents may believe they understand the tax regimes while actually holding misconceptions.

- **Scope Restriction**

The research is limited to individual taxpayers and does not include other entities such as businesses, HUFs (Hindu Undivided Families), or non-resident individuals, which could offer a broader perspective on the tax reforms.

- **Limited Depth on Financial Impact**

While the study explores perceived impact, it does not include detailed quantitative financial modelling to precisely compare tax liabilities across regimes for varied income scenarios.

Conclusion

The research indicates that the Income Tax Act, 2025, is widely regarded as a forward-looking reform designed to simplify compliance, enhance transparency, and provide greater tax relief to the middle class. A large proportion of respondents demonstrated awareness of the new provisions, with many appreciating the streamlined structure and the expanded exemption limits. The shift toward faceless, digital-first assessments has also been positively received, as it is expected to reduce bureaucratic barriers and promote fairness in the tax process. At the same time, the study reveals that while awareness is relatively strong, the depth of understanding among taxpayers remains moderate, with a considerable number still preferring the familiarity of the old regime. Issues such as limited clarity in provisions, restricted access to deductions, and the need for more widespread taxpayer education highlight that the reform, though progressive, requires clearer communication and smooth implementation to achieve its objectives. Overall, the new tax legislation is perceived as a constructive step toward building a transparent and citizen-oriented taxation system. Its long-term success, however, will depend on continuous awareness initiatives, the simplification of technical language, and the provision of robust digital support to enable taxpayers to adapt with confidence.

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