

A Strategic Analysis of the New Tax Regime: Benefits and Drawbacks for Individual Taxpayers

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Citation: Saini, S. & Panwar, H. (2026). A Strategic Analysis of the New Tax Regime: Benefits and Drawbacks for Individual Taxpayers. *Inspira-Journal of Commerce, Economics & Computer Science (JCECS)*, 12(02), 1–14.

Abstract

The Indian taxation system has undergone several reforms aimed at improving transparency, compliance, and administrative efficiency. One of the major reforms was the introduction of the New Tax Regime (NTR) under Section 115BAC through the Finance Act 2020. The new regime offers reduced tax rates but eliminates many exemptions and deductions available under the Old Tax Regime (OTR). This study evaluates the comparative benefits and limitations of both regimes for individual taxpayers. The research is based on secondary data from government publications, academic literature, and tax policy documents. The findings suggest that the New Tax Regime is advantageous for individuals with minimal deductions and simple salary structures, whereas the Old Tax Regime continues to benefit taxpayers who utilize tax-saving investments and deductions. The study provides insights that can help individuals make informed decisions regarding their tax planning strategies.

Keywords: Income Tax, New Tax Regime, Old Tax Regime, Tax Planning, Section 115BAC, India.

Introduction

Income Tax is a Direct and Progressive tax which is imposed on income. In India, Two types of taxes viz. (i) Direct Taxes (ii) Indirect Taxes are charged. Direct Tax is such a tax the incidence and impact of which is borne by the assessee himself while indirect tax is tax the incidence and impact of it is borne by the customer. In the direct taxes income tax is the main tax while in the indirect tax goods and services tax is the main tax.

In India, income tax was first time imposed by Sir James Wilson of the British Government in 1860 but detailed act in this regard was formerly introduced in 1886.

The Income Tax procedure in India can be classified in the following three steps:

- Computation of Taxable Income
- Computation of the Amount of Tax
- Tax Recovery and Administration

To understand the above steps of income tax procedure in India

It is essential to understand the following acts, rules, finance act, explanations and notifications:

- Income Tax Act, 1961, The income tax Act, 1961 was made applicable to whole of India from April 1, 1962. This Act contains 298 Sections, Several Sub Sections and 14 Schedules. Amendments are made in the Act from time to time. Every year while presenting the finance Budget, Some Sections and Sub Sections are generally amended.
- Income Tax Rules, 1962: Income Tax rules supplement the income tax act; they describe detailed rules, forms proforma and classifications to various sections of the Act. The income Tax Rules are amended from time to time.
- Government Notifications: The Finance Ministry of Government of India issue notifications regarding various aspects of Income Tax E.g. Approval of provident fund institutions, calculation of capital gains. For the purpose of calculating income tax, information contained in the notifications has to be kept in mind.
- Finance Act (Annual): Every year the finance minister to Government of India presents Finance Act or Budget in the Parliament. Through this Finance Act, necessary amendments are made in the Income Tax Act.
- Circulars and clarifications of the Central Board of Direct Taxes: On Certain disputed matters or on such matters where there is doubt or difference of opinion, the Central Board of Direct Taxes may issue circulars and clarifications. The income tax department is bound to follow the direction given in such circulars and clarifications.
- Court Decisions: If there is dispute between an assessee and income tax department, then in such a situation, the matter can be referred to the High Court, Supreme Court. The Income Tax Department will have to follow the decisions given by court.

Heads of Income

According to Income Tax Act (Section 14) the income received from various sources have been classified under the following 5 heads of income:

- Income From Salaries
- Income from House Property
- Income from Business or Profession
- Capital Gain
- Income from Other Sources

Gross Total Income

Gross total income implies the total income computed of all the five heads of income in accordance with the Section 14 of the Income Tax Act, before making any deductions under section 80C to 80U.

Total Income

As per Section 2 (45) of the Income Tax Act, total incomes means the balance of gross total income left after deducting all deductions there from under section 80C to 80 U

Income from Salaries

The amount received by an employee from his employer as consideration for the service rendered by him for the employer is known as salaries. The consideration or remuneration is received by an employee in the form of:

- Wages, overtime payment
- Any annuity or Pension
- Any Gratuity
- Any fee, commission, bonus
- Any perquisites or facilities
- Profits in lieu of Salary
- Advance salary

- Leave encashment
- Annual accretion to the balance of Recognised Provident Fund
- Contribution made by Government to the New Pension Scheme.
- Pension from employer
- Compensation because of terms of employment or termination from employment.
- Compensation for voluntary retirement.
- Arrear of salary which were not charged to tax earlier
- Interest free loan from employer
- Gifts from employer.
- The contribution made by the Central Government in the previous year, to the Agniveer Corpus Fund account of an individual enjoyed in the Agnipath Scheme. (Section 80CCH) (w.e.f. 1-4-2023)

The employer may be the Government, a local authority, a corporation, a company, a firm, an institution or an individual. The remuneration received from all types of employer is taxed under the head "Income from Salaries".

Income from House Property

Following types of income are always taxable in this head though apparently it looks income of other heads:

- **Income from house situated outside India:** If any house is situated outside India then also rental income from such house will be taxable in this head. It will be taxable for a person if he is ordinarily resident in India. In case of not ordinarily resident and non- resident such income will not be taxable.

Income from such house property is taxable in the same manner as it was situated in India. If there is any negative income from such house it can also be set off as if it was Indian income.

- **Composite rent from house property:** When an assessee has also let out some assets with the house then there may be two situations as under:
 - **When rent from house and other assets can be separated:** If both types of income can be bifurcated then rent from house property will be taxable as income from house property and income from other facilities will be taxable as income from other sources.
 - **When rent includes cost of facilities related to house:** When house owner has provided some facilities for proper use of house such as electricity, water, lift, watchman etc. then value of such facilities will be estimated and value of such facilities will be deducted out of composite rent and balance will be taxable in the head income from house property. Rent of other facilities will be taxable in the head income from other sources after deducting expenses for such facilities.

Exception: When Composite Rent from House and Other Facilities is Determined—When rent cannot be separated as above, total rent received from both types of asset is known as composite rent. For example ,if a person has let out a cinema hall with projector and furniture then total rent will be treated as composite rent. Likewise ,an assessee can let out his factory with machine. Income of such composite rent will be taxable in the head income from other sources or income from business.

Income from Business and Profession

Income from business and profession is an important head of income because government is receiving maximum revenue from it. This third head of income includes income from business, profession, vocation and speculation.

Scope of Income from Business and Profession

Nature of income from speculation and gambling is somewhat different from income of business and profession so it is discussed later.

There are various forms of business and profession which are discussed as follows:

- **Income from Business:** In a broader sense all activities for livelihood are included in the term business but in the Income Tax Act, 1961 it is used in a special reference. According to Sub-Section 13 of Section 2, business includes any trade, commerce or manufacture or any adventure or concern in the nature of trade, commerce or manufacture. **[Sec. 2(13)]**

In this definition four terms are used which are explained as follows:

- **Commerce:** There are two parts of commerce—trade and trade related activities which include banking, insurance, communication and transport facilities.
- **Trade:** It is a part of commerce which means purchase and sale of goods for profit.
- **Manufacturing:** It means an activity where raw material is converted into finished goods with the use of some labour or power or both.
- **Adventure:** The term adventure includes all business activities **but** from income tax point of view it means income from a single transaction in the nature of business. So, even if there is a single transaction of goods purchased and sold at profit, income from such transactions will be taxable as income from business and profession.
- **Profession:** It means the activity where high educational qualification is required with the intelligence and talent. For example, the work of doctor, engineer and chartered accountant is known as profession. In the Income Tax Act, 1961 the term profession is not defined but the scope of profession is wide enough, because u/s 2(36) it is mentioned that 'Profession includes vocation'. **[Sec. 2(36)]**
 - **Vocation :** It includes those activities where more experience and efficiency is required whatever the educational level may be. For example, it includes the work of carpenter, goldsmith, washer man etc. The work of singer, musician, author, sportsman, dancer etc. is also included in the term vocation. As mentioned above the term profession includes vocation also.

Income from Speculation and Gambling

- **Income from Speculation:** According to explanation u/s 2(28), if a person is doing speculation in a business manner then income from speculation will be taxable as business income. It should be noted that income from speculation is shown separately from other incomes so that the provision of Section 72 can be applied in an effective manner. According to this Section the loss from speculation can be adjusted with speculation income only and it cannot be adjusted with any other business though business losses can be very well adjusted with the speculation income as explained in Chapter 11 of this book.

It is important to understand the meaning of speculation which is as follows:

"Speculative transaction means a transaction in which a contract for the purchase or sale of any commodity, including stock and shares is periodically or ultimately settled otherwise than by actual delivery or transfer of the commodity or scripts." **[Sec. 43(5)]**

- **Income from Gambling:** There is a big difference between the income from gambling and income from speculation. Gambling depends upon chance and there is no involvement of business skill as in the case of speculation. For example, income from playing cards, horse race, lottery etc. are treated as income from gambling. Income from gambling will not be taxable in the head 'income from business and profession'; rather it will be taxable in the head 'income from other sources'
- **General Provisions Related to Income from Business and Profession** There are some specific provisions related to each type of income. Specific provisions regarding income from business and profession are as follows:
- **Systems of Accounting:** In any business profit shown as per the Profit and Loss Account depends upon the system of accounting followed by the assessee. There are two important systems of accounting as follows:

- **Mercantile System:** In this system accounts are maintained in such a way that Profit and Loss Account shows that profit which relates to a financial year, received in cash or not. This is also known as accrual system of accounting.

While computing income on the basis of mercantile system, four adjustments are made, viz. adjustment for outstanding expenses, prepaid expenses, adjustment for advance income and adjustment for accrued income. In this respect it must be remembered that in mercantile system also certain types of expenses are allowed only if they are paid within the stipulated period u/s 43B which is explained later on in this chapter.

- **Cash System:** As it is clear from its name, in this system only those incomes are taxable which are received in cash and only those expenses are allowed which are paid in cash. In other words, it can be said that in the cash system those four types of adjustments are not required which are needed in the case of mercantile system.

In this system, receipt and payment account is the main basis of ascertaining profits of business and profession. All incomes which are received in the previous year are taxable income of the previous year whether it belongs to next year or earlier years.

This method is mostly adopted by the professionals like doctors, engineers, chartered accountants, advocates etc. because in this system income is taxable only if it is received.

Certain expenses are not paid in cash but are still allowed in this system for example bad debts, depreciation and loss of stock due to theft or fire.

Taxable Income from Business and Profession

In Sections 28 to 41 of Income Tax Act, 1961 many types of income are mentioned which are taxable in the head 'Income from Business and Profession'. But, it is not possible to prepare a final list of incomes taxable in this head. Any income treated as business income in common parlance is treated as business income. Mainly it includes following items:

- **Income from Sale of Goods:** When a person has purchased any goods for resale, then sale proceeds will be treated as income and cost of goods will be allowed as expenses, difference will be profit.
- **Income from Commission, Discount and Brokerage:** Agents are selling goods on behalf of their principal and they are getting commission, brokerage etc. as a remuneration for their services. Such remuneration is treated as income from business and profession.
- **Income of Service Providing Concerns:** Many concerns are not selling their product but they are selling services e.g. Cinema, Hotel, School, Hospital etc. Such receipt is treated as income from business.
- **Professional Income:** Doctors, Engineers, Chartered Accountants and Management Consultants are charging fee for their consultancy and such fee is treated as income from profession.
- **Compensation Received:** If any person has received any compensation due to some changes in contract, terms of termination of contract of the agency, modification of the terms and conditions relating thereto or due to nationalisation of business then amount received or receivable is treated as income from business and profession. It should be noted that such receipts are of capital nature according to accounting principles but according to the provisions mentioned u/s 28(ii), it is treated as business income. [Sec. 28(ii)1]
- **Profit on Sale of Import License:** If assessee is entitled to import certain raw material or machines to promote export then if permitted he can transfer or sell his import licence to another person. Profits on sale of import licence derived as such is treated as income from business and profession. [Sec. 28(iii)(a)]
- **Cash Subsidy:** Cash assistance (by whatever name called) received or receivable by any person against exports under any scheme of the Government of India is treated as income from business. [Sec. 28(iii)(b)]

- **Non-monetary Income will also be Taxable as Business Income:** The value of any benefit or perquisite, whether convertible into money or not, arising from business or the exercise of a profession is a taxable income from business and profession. **[Sec. 28(iv)]**

For example, if a patient gifts T.V. to doctor in place of his fee or in addition to his fee due to his professional relationship then the cost of this T.V. will be treated as income in the hand of doctor. However, if such T.V. was gifted due to personal relationship then it will not be treated as income if it is not more than 50,000. Likewise, if any assessee has received any car, travel assistance or any other gift from company as a reward for completing targets then value of such perquisites will be treated as income of assessee. **[Sec. 56(2)(vii)1**

- **Salary, Bonus and Interest to Partners from a Firm:** If any salary, bonus, commission or interest is received by a partner from his firm then it is treated as income in the hand of partners to the extent it is allowed as expenses to the firm as mentioned u/s 40(b) of the Income Tax Act, 1961.

Provided that where any interest, salary, bonus, commission or remuneration, by whatever name called, or any part thereof has not been allowed as deduction under clause (b) of Section 40, the income under this clause shall be adjusted to the extent of the amount not so allowed as deduction. **[Sec. 28(v)]**

- **Receipts in Nature of Non-compete Fee :** Any sum, whether received or receivable in cash or kind, under following types of agreement will be treated as income from business and profession:
 - Not carrying out any activity in relation to any business of assessee.
 - Not sharing any know-how, patent, copyright, trademark, licence, franchise or any other business or commercial right of similar nature or information or technique likely to assist in the manufacture or processing of goods or provisions for services. **[Sec. 28(va)]**

It is a capital receipt from accounting viewpoint but it is a taxable as revenue income from business and profession due to clear provision in the Act. But if such amount is received on account of transfer of the right to manufacture, produce or process any article or thing or right to carry on any business, which is chargeable under the head 'Capital Gain' then it will not be treated as income from business and profession.

- **Non-Complete Fee received by Professionals :** This clause (va) of Section 28 of the Act has been amended to bring the non-compete fee received/receivable (which are recurring in nature) in relation to not carrying out any profession, within the scope of Section 28 of the Act i.e. the charging Section of profits and gains of business or profession.

Further, the Bill has also amended the proviso given under the above clause (va) to clarify that receipts for transfer of right to carry on any profession, which are chargeable to tax under the head 'Capital gains', would not be taxable as profits and gains of business or profession.

- **Receipts from Keyman Insurance Policy :** 'Any sum received under a Keyman insurance policy including the sum allocated by way of bonus on such policy', is a taxable income **[Sec.28(vi)]**
- **Profits from Speculation Business:** Income from speculation business will be taxable in this head. Its meaning has been explained earlier.
- **Income from Illegal Business:** There is no difference between legal and illegal income for purpose of Income tax and illegal income is taxed just like any legal income. In fact person engaged in illegal activity will not show his income but in case he is caught of doing so, then in addition to all penalty and prosecution, income tax on illegal income will also be recovered from him.

If such was not decided, illegal activity would have been shown at a premium because a person doing illegal activity will not pay tax and a person doing legal activity will pay the tax and there will be an inclination towards illegal income. (*Mann v. Nash*)

- **Expenses Allowed Earlier will be Taxable if Received Later :** If there is any expenses which was allowed as deduction in the earlier years and later on it is received back then it will be

treated as a taxable income of the recipients. If business is received in succession then it will also be taxable for the successor in business. **[Sec. 41(1)]**

- **Income due to Fluctuation in Foreign Exchange Rate:** If there is any income due to fluctuation in foreign exchange rate in any trade transaction between India and any other country then it will be treated as operating income. For example less amount is paid for import of goods due to fluctuation in foreign exchange rate or more amount is received for export of goods.

Income from Capital Gain

Taxable Short-term Capital Gain

If any exemptions are available under the Income Tax Act on such calculated capital gain, then after deducting such exemptions, one can get the taxable amount of capital gain. To ascertain the amount of capital gain, the following amounts are required:

- Sale consideration.
- Cost of acquisition of capital asset
- Expenses of transfer.
- Indexed cost of acquisition of long-term capital asset.
- Indexed cost of improvement long-term capital asset.
- Exemptions available under Section 54 of Income Tax Act.

Sale Consideration

Any amount received or receivable on the transfer of asset is termed as sale consideration. Here it is not compulsory that sale consideration must be equal to market price. The consideration may be in money term. The consideration may be in installments.

In case of immovable property the selling value is different from the stamp duty value then actual sale value or stamp duty value, whichever is higher will be treated as sale consideration of immovable property.

If stamp duty value does not exceed 110% of the consideration received then the actual sale consideration received or receivable will be treated as sale consideration. But, when stamp duty value is more than 110% of actual sale consideration then the stamp duty value will be treated as sale consideration for the purpose of computation of capital gain. Similarly when any person receives any immovable property from any person for a consideration, the stamp duty value of such property as exceed such consideration, if the amount of such excess is more than higher of the following:

- Amount of ₹ 50,000.
 - Amount equal to 10% of the consideration
- Then such excess shall be chargeable under the head Income from Other Sources.

Computation of Long-term Capital Gain

Long-term Capital Gain

Sale consideration

Less:

- Indexed cost of acquisition of asset
- Indexed cost of improvement of asset
- Transfer expenses

Long-term capital gain

- **Computation of Indexed cost of Acquisition:**

Indexed Cost of Acquisition

As discussed earlier, the indexed cost of asset and indexed cost of improvement will be deducted from the sale consideration for the purpose of calculation of long-term capital gain. Here,

indexed cost of asset means **"an amount which bears to the cost of asset of acquisition the same proportion of Cost Inflation Index for the year in which the asset is transferred bears the Cost Inflation Index for the first year which the asset was held by the assessee or for the year beginning on the first day of April, 2001, whichever is later.**

If any asset is purchased earlier to 1.4.2001 than at first fair market value as on 1.4.2001 will be determined then only indexed cost will be calculated. It can be calculated as follows:

Indexed cost of acquisition X Cost Inflation Index of the year in which asset was transferred

Cost Inflation Index of the year in which asset was purchased or 100 (if purchased before 1.4.2001)

An assessee may acquire asset himself or may acquire from other person free of cost by way of methods mentioned in the Section 49(1) such as gift, will etc. In these cases the indexed cost will be calculated as follows:

- **When asset is acquired by assessee himself—**In this case asset may be acquired before or after 1.4.2001 so indexed cost of asset will be as follows:

- **If asset was acquired on or after 1.4.2001 :**

Cost of acquisition x CII of the year of transfer

CII of the year of acquisition

- **If asset was acquired before 1.4.2001 :**

Cost of acquisition or fair market value whichever is more x CII of the year CII of the year 2001-02 i.e. 100

Income from other Sources

"Income from Other Sources" is the residual head of income. Any income not specifically taxable under other heads (like Salary, House Property, Business/Profession, or Capital Gains) is taxed under this head. **Section 56(1):** Income of every kind which is not excluded from the total income under this Act shall be chargeable to income-tax under the head "Income from Other Sources" if it is not chargeable to income-tax under any of the heads specified in Section 14.

Examples of Income Taxable under This Head

- Dividends (other than those exempt under Section 10(34))
- Interest on securities
- Winnings from lotteries, crossword puzzles, horse races, card games, etc.
- Gifts (in cash or kind) exceeding ₹50,000 (Section 56(2)(x))
- Rent from letting of plant, machinery, or furniture
- Family pension received by legal heirs
- Income from sub-letting of house property
- Interest on bank deposits, post office savings, etc.
- Commission or remuneration received by the assessee who is not a professional or an employee

Specific Incomes – Detailed Explanation

- **Dividend Income**
 - Taxable in the hands of shareholders.
 - Dividend from a domestic company is taxable as per applicable slab rates (post abolition of DDT from April 2020).
- **Interest on Securities**
 - Includes debentures, government securities, bonds, etc.
 - Gross interest is taxable (before TDS).
 - Accrual basis – even if not received.

- **Winnings from Lotteries, etc.**
 - Taxed @ 30% flat rate + surcharge + cess.
 - No deduction allowed for expenses or losses.
 - TDS @ 30% u/s 194B.
- **Gifts (Section 56(2)(x))**
 - If the total value exceeds ₹50,000 in a year, the entire amount is taxable.
 - Applies to:
 - Cash gifts
 - Movable properties (e.g., jewellery, shares)
 - Immovable properties (land/building)
 - **Exceptions:**
 - Received from relatives
 - On the occasion of marriage
 - Under a will or inheritance
 - From local authority or trust
- **Letting of Machinery, Plant, Furniture**
 - If not part of business, income is taxable under this head.
 - If building is also let with it and inseparable, then the entire income is taxed under "Other Sources".
- **Family Pension**
 - Deduction: Lower of ₹15,000 or 1/3rd of such pension.

Allowable Deductions (Section 57)

- Commission/remuneration for realising dividend/interest
- Deduction for family pension: 1/3rd of pension or ₹15,000, whichever is less.
- Depreciation on assets used to earn income.
- Repairs/insurance if plant/machinery/furniture is let out.
- Interest expense incurred to earn income.

Tax Treatment

Income Source	Tax Rate	Deduction Available?
Lottery, betting, etc.	30% + cess	No
Gift above ₹50,000 (non-relative)	Slab rate	No
Dividend	Slab rate	Yes
Interest on securities	Slab rate	Yes
Letting of machinery/furniture	Slab rate	Yes
Family pension	Slab rate	Limited

Set off and Carry forward of Losses

- **Set off from other sources under the same head:**
 Except the following losses, other losses can be set off against the other income of the same head:
 - Long term capital loss can be set off only against long term capital gains.
 - Speculation business losses can be set off against the profits from speculation business only.
 - Loss of any specified business mentioned in Section 35 AD can be set off against profits of such businesses only.

- Loss from horse and horse race can be set off against the profits of horse and horse race.
- Losses of lottery, cross-word puzzles, gambling and betting cannot be set off against any income.
- Loss from an exempted source of income cannot be set off against any taxable income.
- Short-term capital loss on sale of shares, debentures, units etc. if sold within 3 months of record date (9 months in case of units).
- **Set off of loss of one head of income against the income from other heads**—except the following losses, the loss under one head can be set off against the income of other heads-
 - Above (1) Losses.
 - 'Capital Loss cannot be set off against the income from any other head.
 - Business or Profession Loss cannot be set off against the, income from 'Salaries'.
 - Loss from house property set off against any other head of income shall be restricted to ₹ 2,00,000 for any assessment year.
- **Carry forward and set off of losses**—The following rules apply regarding carry forward and set off of losses-

Loss	Methods of Set off	Time Limit
Loss from House property	Only against income from house property upto loss of ₹ 2,00,000	8 Years
Business Losses	Against any Income from Business or Profession	8 Years
Speculation Losses	Speculation Profits only	4 Years
Loss of business mentioned in Section 35AD	Only against profits of such businesses	No time limit
Short term Capital loss	Only from capital gains (short and long)	8 Years
Long term Capital loss	Only against long term capital gains	8 Years
Loss of horse and horse races	Only against Income from horse and horse races	4 Years
Loss of firm	Firm itself will set off	As per rules.
Unabsorbed Depreciation	Any income	No time limit

New Tax Regime

Mainly following provisions are applicable in new tax regime:

- There will be no negative income from self-occupied house due to payment of interest. Therefore, income of self-occupied house will be always nil.
- Loss from let out house property can-not be set off from the other any heads of income under the New Tax Regime. But such loss (maximum ₹2,00,000) can be carried forward and can be set off according to the provisions of Section 71(B). In other words it can be set off from income from house property upto next 8 assessment years.
- The total income shall be computed without set off of any carry forward loss or depreciation for any earlier assessment year, if such loss or depreciation is attributable to any of the following deductions :
- Deduction available to SEZ unit under Section 10AA.
- Additional depreciation under Section 32(1)(iia) to an assessee engaged in the business or manufacture of any article or a thing or generation, transmission or distribution of power.
- Investment allowance of 15% if new plant and machinery is installed in notified backward areas in certain States as per Section 32AD.
- Deduction under Section 33AB to an assessee engaged in the business of growing or manufacturing of Tea/Coffee/Rubber.
- Deduction under Section 33ABA on account of deposit in Site Restoration Fund.

- Deduction in respect of payment made to certain association/institutions for scientific research [Section 35(1)(ii)] or payment made to a company to be used for scientific research [Section 35(1)(iia)] or payment made to certain institutions for research in social sciences or a University or an Indian Institute of Technology [Section 35(2AA)].
- Deduction under Section 35AD in respect of expenditure on specified business.
- Deduction under Section 35CCC in respect of expenditure on agriculture extension project.

The Indian government introduced the **New Tax Regime (NTR)** in Budget 2020 as a simplified, lower-tax alternative to the **Old Tax Regime (OTR)**. Over time, the NTR has been made more attractive by increasing tax slabs, reducing rates, and introducing standard deductions. However, the absence of most deductions and exemptions under NTR creates a dilemma for salaried individuals. This study provides a strategic comparison of both regimes, helping taxpayers make an informed choice based on their financial circumstances.

The NTR aims to simplify tax filing by eliminating complex deductions, while the OTR allows taxpayers to reduce taxable income through investments and exemptions. This synopsis evaluates:

- **Key features** of both regimes.
- **Comparative tax liability** for different income brackets.
- **Strategic scenarios** favoring each regime.
- **Long-term financial implications** for salaried individuals.

Review of Literature

Several scholars and policymakers have examined the evolution of the Indian tax system and the impact of tax reforms on economic behavior.

Purohit (2015) emphasized that the traditional tax regime encouraged long-term financial discipline by providing deductions for investments such as provident funds, insurance premiums, and other savings instruments.

Aggarwal (2021) analyzed the structure of the New Tax Regime and argued that it simplifies the tax filing process by removing the requirement for documentation related to deductions and exemptions. The study concluded that the new regime is particularly beneficial for young professionals who may not have significant tax-saving investments.

Mishra (2023) conducted a comparative study of tax liabilities under both regimes and found that individuals who maximize deductions under Section 80C, health insurance premiums under Section 80D, and housing loan interest benefit more from the Old Tax Regime.

Similarly, Jain and Mehra (2022) explored behavioral factors influencing taxpayers' choices and observed that younger taxpayers often prefer the New Tax Regime due to its simplicity, even if the financial benefit is marginal.

Government policy documents and economic surveys also highlight that the New Tax Regime was introduced as an optional alternative rather than a replacement for the existing system. This allows taxpayers to choose the regime that best aligns with their financial situation.

Objectives of the Study

The main objectives of this study are:

- To compare tax liabilities under the Old Tax Regime and the New Tax Regime.
- To analyze the impact of removing deductions and exemptions in the New Tax Regime.
- To identify income groups that benefit more from each regime.
- To examine the implications of the New Tax Regime on financial planning and savings behavior.
- To provide insights that can assist taxpayers and policymakers in understanding the effectiveness of the tax reform.

Research Hypothesis

Null Hypotheses (H₀)

- H₀₁:** The New Tax Regime does not significantly reduce tax liability compared to the Old Tax Regime.
- H₀₂:** There is no significant difference in disposable income between the two tax regimes.
- H₀₃:** The removal of exemptions and deductions does not influence taxpayer preference for a particular regime.

Alternative Hypotheses (H₁)

- H₁₁:** The New Tax Regime reduces tax liability for individuals with minimal deductions.
- H₁₂:** The New Tax Regime increases disposable income for taxpayers with simple income structures.
- H₁₃:** The absence of deductions influences taxpayer preferences when selecting a tax regime.

Research Methodology

Research methodology refers to the systematic approach used to collect and analyze data for achieving the objectives of the study.

Research Design

The study adopts a **descriptive and analytical research design**, focusing on the comparison between the Old and New Tax Regimes.

Data Collection

The study relies primarily on **secondary data sources**, including:

- Income Tax Department notifications
- Union Budget documents (2020–2024)
- Reports of the Reserve Bank of India
- Academic journals and research publications
- Government policy documents

Where required, primary data through surveys or interviews may also be considered to examine taxpayer preferences.

Data Analysis and Comparative Tax Calculation

To analyze the effectiveness of both tax regimes, tax liability calculations were performed for different income levels.

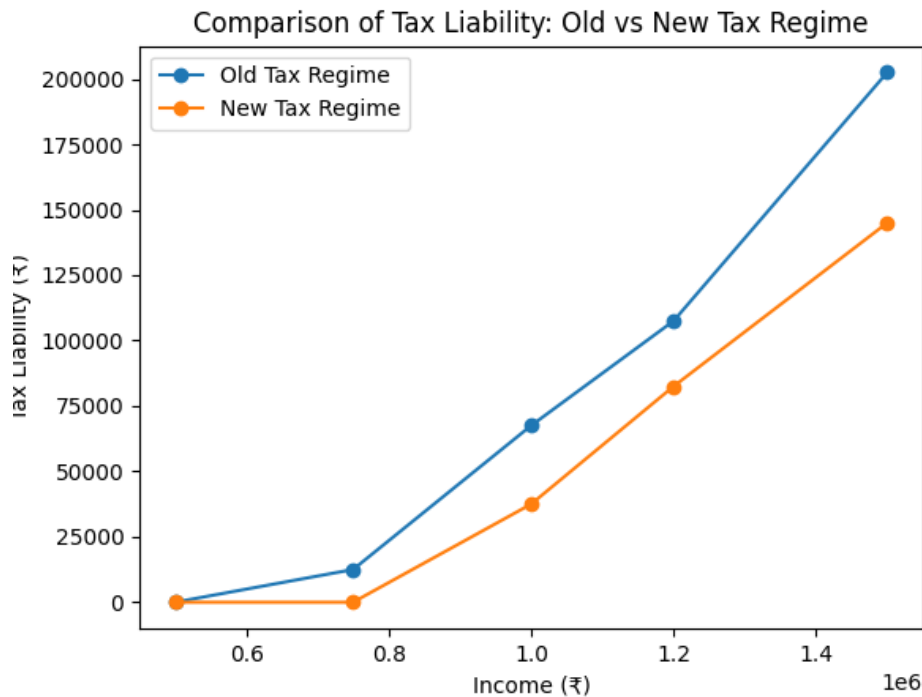
Assumptions

Old Tax Regime deductions:

- Section 80C – ₹1,50,000
 - Health Insurance (80D) – ₹25,000
 - Standard Deduction – ₹50,000
- Total deductions assumed = ₹2,25,000.

Comparative Tax Liability

Income	Tax under Old Regime	Tax under New Regime
₹5,00,000	Nil	Nil
₹7,50,000	₹12,500	Nil
₹10,00,000	₹67,500	₹37,500
₹12,00,000	₹1,07,500	₹82,500
₹15,00,000	₹2,02,500	₹1,45,000



Interpretation

The analysis indicates that individuals who do not claim major deductions benefit more under the New Tax Regime due to lower tax rates. However, individuals who maximize deductions may find the Old Tax Regime more advantageous.

Findings and Discussion

The study highlights several important findings:

- The New Tax Regime benefits taxpayers who do not invest heavily in tax-saving instruments.
- The Old Tax Regime remains suitable for individuals with home loans, insurance premiums, and other deductions.
- Young professionals and new taxpayers often prefer the simplicity of the New Tax Regime.
- The removal of deductions in the New Tax Regime may reduce incentives for long-term savings.
- The presence of two regimes provides flexibility but may increase decision complexity for taxpayers.

Scope and Limitations

Scope

The study focuses on comparing the structural features and tax liabilities of the Old and New Tax Regimes for individual taxpayers.

Limitations

- The analysis mainly considers salaried individuals.
- Future budget changes may alter tax provisions.
- The study assumes full utilization of deductions in the Old Tax Regime.
- Behavioral aspects influencing taxpayer choices are not explored in depth.

Conclusion

The introduction of the New Tax Regime represents an important step toward simplifying India's taxation framework. By offering lower tax rates and fewer compliance requirements, the new system aims to make tax filing easier for individuals with straightforward income structures.

However, the removal of deductions and exemptions creates a trade-off between simplicity and tax-saving opportunities. Taxpayers who invest significantly in tax-saving instruments may continue to benefit from the Old Tax Regime.

Therefore, the choice between the two regimes should be based on an individual's income level, investment habits, and financial goals. Policymakers should also monitor the long-term impact of the New Tax Regime on national savings and investment behavior.

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