ANALYSIS OF NEW AND OLD TAX REGIMES UNDER INCOME TAX ACT OF 1961

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ABSTRACT:

The research paper delves into an intricate presentation of a comparative and comprehensive analysis of the new and old tax regimes that are prevalent and existing in India by focusing on the grounds of their key features, advantages, and economic impacts. The prime focus of the study is to determine and evaluate the implications and aftermath that these regimes levy on individual taxpayers, corporate entities, and the whole economy of India.

The paper evaluates and examines the impact of the newly introduced tax regime on individuals, corporate entities, and various industries. It sheds light by exploring Indian tax systems with the existing plethora of systems of the world, which helps in the improvisation of the economy. Through a process of empirical and detail-oriented analysis, the research draws and concludes valuable insights to promote an effective and efficient tax system in the country.

The paper concludes with all the possible recommendations for fruitful, effective, and efficient tax policy reforms, based on the above conclusion drawn from the study. The recommendations help the government optimize and make the tax system effective and efficient which promotes democracy and economic growth.

Keywords: **income tax, India, tax reform, tax policy, economic analysis, fiscal policy, corporate tax, personal income tax, tax burden, tax incentives, tax avoidance, tax evasion, tax administration, tax compliance, international taxation, transfer pricing, tax havens, tax treaties**

INTRODUCTION:

The cornerstone and the pillar governing the tax system of India was, The Income Tax Act of 1961 which governed the tax collection system for individuals and businesses. [1] As decades passed by the Act has undergone and witnessed numerous revisions to adapt to the ever-changing and evolving economic landscape to address the changing needs of the taxpayers. [2] The most significant development in the field of tax system and collection was the initiation of the new tax regime which offered alternative tax rates and structures.

The research paper primarily delves into the comparative and comprehensive analysis of the new and old tax regimes under The Income Tax Act of 1961. It focuses on educating the readers on the key differences, merits, demerits, and the potential economic influence exerted by these regimes. By a keen examination of the impact exerted and levied on individuals, entities, and the economy, the study seeks to contribute with the possible recommendations to promote a free and fair tax system.

The historical context of tax reforms in India plays a pivotal role to appreciate and understand the significance and the development of the old and new tax regimes. Over the years, India has been successful in the implementation of various tax reforms to promote economic growth, curb tax evasion, and enhance revenue collection**.** [3] Remarkable examples include the mark of the introduction of GST in 2017.

The newly introduced system represents an ongoing evolutionary process, precisely reflecting the government's efforts to modernize and make the systems effective, efficient, and most importantly user friendly.

By adopting the strategy of analysis through comparison and contrast on the grounds of economic impacts, and implications imposed the paper strives to contribute a minuscule which promotes a better understanding of both the regimes.

[1] Indian Income Tax Act, 1961.
2. Sharma, R. (2015). A history of tax reforms in India.
3. Ghosh, A. (2020). The impact of tax reforms on Indian economic growth.

HISTORICAL EVALUATION OF TAX REGIMES IN INDIA:

Pre- 1961 Taxation System:

The introduction of the Income Tax Act of 1860 by Sir James Wilson under British colonial rule to combat the financial crisis from the First War of Independence in 1857 marked the start of India's Tax System. Even though the act was considered basic, it played a pivotal role in laying out the foundation of the taxation system in the country. The act was repealed in 1865, which was followed by a series of events of the introduction of tax laws, including the Income Tax Act of 1886 which was the first act to define income sources and lay pillars of foundation for taxation policies. [4.]

The early and primitive tax system was known for its chaotic nature which had attributes of frequent changes depending on the needs and administrative capacities of the British. The Indian Income Tax of 1922 was considered to be a major milestone as it was the first comprehensive and detailed taxation system that lasted till 1961. [5.]

Post – 1961 Developments:

There was an indispensable need after independence for the country to have an advanced and more comprehensive tax system in 1947. The Income Tax Act of 1961, which was brought into force and introduced after the year 1947 aimed to make the taxation system more standardized, transparent, and effective. [6.]

4. **Tax History of India**. The Income Tax Act of 1860 was primarily imposed to meet financial deficits after the revolt of 1857. It was designed as a temporary measure but paved the way for further tax reforms. See *Government of India, Department of Revenue*, *Income Tax History*, https://incometaxindia.gov.in/history
5. **Indian Income Tax Act, 1922**. The 1922 Act was a more permanent structure of taxation, providing a foundation for future income tax laws in India. See Nani Palkhivala, *Income Tax in India: Principles and Practice* 23 (9th ed. 2020).
6. The Income Tax Act, 1961, No. 43 of 1961, *Gazette of India*, Pt. II, Sec. 1 (1961) (India).

The act brought significant changes which are as follows:

- Introduction of detailed definitions for different income groups such as salaries, profits, etc..
- Introduction of policies and strategies to simplify the tax process to make it user-friendly and efficient. [7.]
- Regulation of the act, inculcated the process of encouragement of savings and investments in the economy which was lured by a variety of deductions and exemptions. [8.]

The Indian Income Tax of 1961 has brought innumerable changes and amendments to address the needs of the Indian economy. The most significant and major reforms took place in the year of 1990s followed by the initiation of the strategy of liberalization by the Indian government which was inclusive of the process of tax rationalization that focused on reducing tax rates and broadening the tax base. [9.]

The most recent change in the system was a remarkable introduction that was brought in the year of 2020, the introduction of the new tax regime, primarily focused on the process of simplification of taxation to curb tax evasion. This was done through the implementation of the strategy of offering lower tax rates but less deductions and exemptions. [10]. The rationale behind this initiation in the year 2020, is to simplify the taxation system to make it more transparent and fairer. [11]. Despite the initiations the government has offered a dual-system approach where the taxpayers can choose the system according to their needs and convenience. [12]

7. See *B.G. Shah, Indian Taxation System* 45-46 (6th ed. 1999) (outlining key objectives and structural reforms of the Income Tax Act of 1961).
8. The incorporation of incentives for savings and investments was a hallmark of the 1961 Act, aimed at promoting growth and development within India's economy. *See* Section 80C of the Income Tax Act, 1961, for popular exemptions like provident fund and insurance premiums.
9. *Government of India, Economic Reforms and Liberalisation*, *Press Note on Tax Reforms* (1991), available at https://incometaxindia.gov.in/reforms.
10. Finance Act, 2020, No. 12 of 2020, *Gazette of India*, Pt. II, Sec. 3(ii) (2020) (India).
11. Finance Ministry of India, *Explanatory Memorandum on New Tax Provisions* (Feb. 2020), https://finmin.gov.in/tax-reforms/2020-explanations.pdf.
12. *See Budget 2020: Optional New Tax Regime Introduced for Individual Taxpayers*, *Times of India* (Feb. 1, 2020), https://timesofindia.com/business/india-business/tax-budget-options.

THEORITICAL FRAMEWORK:

Old Tax Regime:

The old tax regime, a system under the Income Tax Act of 1961 focused its operation on the principle of promoting savings and investments by providing deductions and exemptions. [13.] Section 80 C mentioned in the act is the popular scheme that allows taxpayers to reduce their taxes through the provision of investing in life insurance policies, PFS, and government schemes.[14.]

The concept of deductions plays a vital role in promoting the idea that individuals invest in various sectors such as health, education, and infrastructure which aligns the schemes of welfare and financial growth. [15]. Despite the perks offered through this system, the system suffers from a major setback of excessive documentation which often results in a higher administrative burden often leading to tax evasion. [16.] Through the method of progressive tax rates, this system ensures that individuals with larger incomes pay a greater percentage of their earnings· [17.] The theoretical structure and framework of the old regime aid in achieving the goals of redistribution of income which aids in curbing economic inequalities. [18.]

However, it has been argued by critics that, the wealthier section of the society knows the ins and outs of the system and they eventually reduce their tax burden by opting for schemes of investments that give deductions. This reduces the effectiveness and efficiency of the system in curbing income inequalities. [19]

14. The Income Tax Act, 1961, No. 43 of 1961, § 80C, *Gazette of India*, Pt. II, Sec. 1 (1961) (India) (allowing deductions for investments in specified savings instruments).
15. Income Tax Department, *Deductions Under Chapter VI-A* (2024), https://incometaxindia.gov.in/deductions (detailing deductions under Section 80C).
16. John Maynard Keynes, *The General Theory of Employment, Interest, and Money* 93 (1936) (arguing that savings and investments fuel long-term economic growth).
17. B.G. Shah, *Tax Policy in India: Objectives and Strategies* 89 (2019) (discussing how deductions under the old tax regime incentivized investments in key sectors).
18. Budget 2020: Income Tax Simplified, *The Economic Times*, Feb. 2, 2020, https://economictimes.indiatimes.com/tax (noting the administrative burden of the old tax regime's complex deduction structure).
19. The Income Tax Act, 1961, supra note 25, § 16.

New Tax Regime

The newly coined and introduced regime under the Finance Act of 2020, depicts a tremendous shift from sophistication to a simplification taxation system by providing lower tax rates instead of deductions and exemptions. [20.] The principles of this system can be traced back to the arguments placed by Adam Smith in classical economic theory where he would have mentioned that lower taxes would eventually increase disposable income and consumption which in turn increases the demand in the economy. [21.] This system provides undisputable freedom to taxpayers on how they spend and allocate funds without being motivated by saving instruments.

The system aims to eliminate deductions by adopting a laissez-faire approach, i.e. reducing governmental suggestions and interference in the financial decisions of the individuals, and provides liberty by focusing on making the taxation system simpler. [22.] Through the initiation of this system the government aims to achieve its agenda of improving tax compliance through transparency and simplification. [23]

Despite the perks offered, the new regime raises concerns about long-term savings [24.] There are highly predicted possibilities that without the ambit of incentives to invest consumers would prioritize consumption over investment which would adversely affect capital formation and financial security. [24]. There is a serious debate on the tension caused between simplicity and immediate liquidity of taxation and long-term savings. [25.]

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20. T.N. Manoharan, *Direct Taxes: Law and Practice* 34 (58th ed. 2021) (explaining the progressive nature of India's tax system).
21. *See* Rajesh Chakraborty, *Tax Reform in India: The Path Forward*, *India Review*, Jan. 2021, at 45 (criticizing the old regime's benefit to wealthier individuals who can invest in tax-saving instruments).
22. Finance Act, 2020, No. 12 of 2020, § 115BAC, *Gazette of India*, Pt. II, Sec. 3(ii) (2020) (India) (introducing the new tax regime with lower rates and no deductions).
23. Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations* 471 (1776) (advocating for lower taxes to boost disposable income and consumption).
24. Milton Friedman, *Capitalism and Freedom* 78 (1962) (promoting limited government intervention in financial decisions).

COMPARATIVE ANALYSIS OF OLD AND NEW TAX REGIMES:

The Income Tax Act of 1961, has undergone and witnessed significant changes with the introduction and inculcation of the newly introduced tax regime brought under the Finance Act of 2020. Both the distinctive regimes (old and new) under the Act, strive to cater to wide-ranging taxpayer needs and preferences by deeply indulging in tax rates, deductions, tax compliance, simplicity, transparency, and fairness. This section tries to provide a comparative and comprehensive analysis of both regimes by shedding light on their merits, demerits, features, and guiding principles.

Tax Rates and Slabs

In comparison between the tax regimes, the new tax regime offers lower tax rates than the old regime. [26]. Despite the old regime practicing a system of progressive tax structure, it offers a wide range of deductions under sections 80 C, 80 D, and 24(b) which reduces the tax burden and promotes investments. [27]. By opting for investments such as life insurance premiums, and health insurance, PFS people from higher income groups can reduce their tax burden by availing of deductions. [28]

In contrast, the new taxation system i.e. the new regime, does not provide the provision of deductions but that is being compensated by lower tax rates across various income groups. [29]This helps in achieving the goal of simplicity in the system, where the system of taxation is easier and transparent. [30]. However, the taxpayers who prefer this system have to forgo their access to the exemptions provided under various heads such as 80 C, 80 D, etc..[31]

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25. Finance Ministry of India, *Budget 2020: Simplifying the Tax System* (2020), https://finmin.gov.in/budget-simplification.

26. Finance Act, 2020, No. 12 of 2020, § 115BAC, *Gazette of India*, Pt. II, Sec. 3(ii) (2020) (India).
27.The Income Tax Act, 1961, No. 43 of 1961, § 80C, § 80D, *Gazette of India*, Pt. II, Sec. 1 (1961) (India) (listing various deductions for tax-saving instruments).
28.T.N. Manoharan, *Direct Taxes: Law and Practice* 312-13 (59th ed. 2022) (detailing the use of deductions under the old regime to reduce taxable income).
29.Finance Act, 2020, supra note 1.
30.Budget 2020: Optional New Tax Regime Introduced for Individual Taxpayers, *The Hindu*, Feb. 2, 2020, https://thehindu.com/business/optional-new-tax-regime.
31. The Income Tax Act, 1961, supra note 2, § 80C.

Deductions and Exemptions

The old regime system is developed on the foundation principle of promoting savings and investments through deductions for investments.[32]. Deductions mentioned under the section head of 80 C permit the taxpayers to reduce their tax burden by promoting investments in approved and permissible saving instruments, such as the Public Provident Fund (PPF), National Savings Certificate (NSC), and fixed deposits [33.] The old regime is often considered an attractive choice for those who hail from high-income groups.[34.] On the other hand, the new tax regime helps in simplification of the process of taxation by avoiding deductions and exemptions and providing freedom to the taxpayers to choose the convenient method without being constrained by savings and investments. [35.] The newly introduced tax system is popular and it is the most appealable system to the individuals who prefer more consumption activities than savings. [36.] The major drawback of the system is that it does not promote capital formation and long-term savings in the economy. [37].

32. S. Ananthakrishnan, *Taxation and Investment in India: Incentives and Strategies* 112 (2021) (analyzing how the old tax regime incentivizes savings).
33.Income Tax Department, *Tax Deductions and Exemptions under the Income Tax Act* (2024), https://incometaxindia.gov.in/deductions.
34. Id.
35. Finance Act, 2020, supra note 1.
36.Budget 2020, supra note 5.
37. Raghuram Rajan, *Consumption vs. Savings: A Policy Dilemma for India*, *Journal of Economic Perspectives*, Apr. 2021, at 89 (discussing the potential long-term implications of reduced savings under the new tax regime).

Compliance and Simplicity:

To promote the goals of simplicity and transparency in the taxation system and to curb the process of tax evasion in the economy the new tax regime was introduced under the Finance Act of 2020. [38.] The old regime by offering its multiple options for deductions, demands an extensive and intricate documentation process to reduce the tax burden.[39.]This process of taxation often led to the increased scope of committing errors, which made the system of taxation a complicated and sophisticated one thus making the process of taxation a burden and a time-consuming tax for the taxpayers and the tax authorities. [40.] The system also demanded the taxpayers provide and attest the proof of documents, and receipts which increased the scope of unnecessary chaos and litigation process.[41.]

In contrast, the new regime was developed through a straightforward and simplified approach. Through the process of elimination of deductions and exemptions, the filing process was made simple and less intricate thus making the system of taxation more transparent and fairer. [42.] Taxpayers need not suffer from the burden of looking and hunting for proofs of investments or navigate through the intensive and exhaustible taxation documents and process. [43.] This benefit of simplicity comes at the cost of forgoing the benefits of lower tax slabs through deductions and exemptions. [44.]

38.Finance Ministry of India, *Simplifying the Income Tax System: Budget 2020* (2020), https://finmin.gov.in/tax-reforms/budget-2020.
39.V. Balasubramanian, *Challenges of Tax Compliance in India*, *India Review*, Mar. 2022, at 102 (noting the complexities of compliance under the old tax regime).
40.Id.
41. Id.
42. Finance Act, 2020, supra note 1.
43.Budget 2020, supra note 5.
44.Finance Ministry, supra note 13.

Impact on Taxpayer Behaviour

Through the provision of tax incentives for investments in permissible and specific government-approved schemes, the old tax regime promotes and fosters the inculcation of a culture of financial planning in the economy. [45.] The ideologies of the old tax regime align with the Keynesian principles where it has been mentioned that an increase in the savings of the household is witnessed as the key driving factor of long-term economic growth [46.] By inculcating the culture and habit among the taxpayers towards savings, the old regime develops and contributes to capital formation in the economy.

On the other hand, the newly introduced tax system under the Finance Act of 2020, gives utmost importance to consumption over savings [47.] Through the process of providing lower tax rates and by removing deductions, the system focuses on increasing the income in the hand of the individuals to spend more on consumption which eventually increases the demand in the economy.[48.] The ideologies of this system align with the principles of classical economic theories which advocate the idea of increasing the consumption activities in the economy by eliminating deductions and exemptions in the tax rates.[49.] The system suffers from a major drawback, the process of increasing the consumption activity through an increase in disposable income would not be possible since the system does not give adequate importance to savings and capital formation in the economy. [50.]

45. Id.
46.Ananthakrishnan, supra note 7, at 116.
47.John Maynard Keynes, *The General Theory of Employment, Interest, and Money* 72 (1936) (explaining how savings contribute to long-term economic growth).
48.Finance Act, 2020, supra note 1.
49.Adam Smith, *The Wealth of Nations* 120 (1776) (discussing the benefits of lowering taxes to promote consumption).
50. Id.

Long-Term Financial Planning

The old regime lures the individuals to engage in activities that promote long-term financial planning through tax incentives.[51] For instance the deductions mentioned under Section 80 C, are designed to popularize and promote savings in the field of retirement funds, life insurance, etc..[52] The deductions provided in this system and the investments done because of the trigger of the deduction would help the government in aligning the ideologies of welfare with economic developments.[53]

On the other hand, the new regime discourages the idea of "financial planning through the strategy of tax incentives". [54]. This system is criticized by many as it leads to a drastic reduction in investments as the focus is primarily placed on short-term liquidity.[55]

51. Niti Aayog, *India's Savings Challenge* (Apr. 2021), https://niti.gov.in/savings-report.
52. The Income Tax Act, 1961, supra note 2.
53.Id.
54.Ananthakrishnan, supra note 7, at 114.
55. Finance Act, 2020, supra note 1.

IMPACT ON TAXPAYER BEHAVIOUR:

The introduction of the new system of taxation i.e. new regime, has led to tremendous changes in the behaviour of taxpayers, as it alters the system and methods provided by the old regime. The preference of choice between the two regimes directly contributes to how it influences the behavior of the taxpayers in managing their income, savings, and behavior consumption expenditures. This section in particular deals with providing a detailed analysis of how both regimes influence the behaviour of the taxpayers.

Impact on Individual Taxpayers:

People who prefer simplicity and liquidity over tax–saving instruments opt for the new regime. [56]. Through the process of forgoing deductions and exemptions in this system, the taxpayers opt for lower tax rates leading to an increase in disposable income which is beneficial for the middle- and lower-income groups.[57.] The new regime is known for its provision of immediate relief for taxpayers who are not interested to complicate their finances with sophisticated investments and saving plans. [58.]

People belonging to the low-income groups do not opt for the new regime as it does not cater to the needs of the taxpayers by providing significant benefits, whereas for the low-income groups, the old regime provides better outcomes. [59.]

High-income taxpayers have the option of choice. [60]. Even though the lower tax rates provided in the new regime are luring, many individuals continue to resort to the old regime as it reduces their taxable income through various investment options mentioned under different heads such as 80C, 80 D, 24(b) . [61] Thus, to conclude, for the individuals belonging to the wealthier income groups the old regime is the most preferred and favourable system of taxation [62.]

56.Finance Act, 2020, No. 12 of 2020, § 115BAC, *Gazette of India*, Pt. II, Sec. 3(ii) (2020) (India).
57. Income Tax Department, *Optional New Tax Regime and its Impact on Middle-Income Earners*, https://incometaxindia.gov.in/new-regime (2023).
58. Budget 2020: Optional New Tax Regime Introduced for Individual Taxpayers, *The Hindu*, Feb. 2, 2020, https://thehindu.com/business/optional-new-tax-regime.
59.Pankaj Garg, *Practical Guide to Income Tax* 42-43 (2021) (explaining the potential drawbacks of the new regime for low-income taxpayers).
60.Id.
61.T.N. Manoharan, *Direct Taxes: Law and Practice* 214-16 (59th ed. 2022).
62.Id.

Impact on Key Sectors:

The shift and the option of choice for the taxpayers to choose between the old and the new tax regime has exerted its effects and influence in key economic sectors.

Financial Sector:

The saving instruments such as PPF, NSC insurance policies fixed deposits directly benefit the financial service sectors which are inclusive of banks, mutual funds, and insurance companies. [63]. The old regime contributed to the growth of this sector through the above-mentioned instruments under Section 80 C. [64]On the other hand, the new regime which offers lower tax rates, and no deductions to lure investments has led to a decline in the popularity of investments [65]As a result, this sector has seen a decline or drop in investor participation. [66] Life insurance companies have also suffered a substantial loss as individuals have resorted to consumption expenditure rather than tax-saving instruments.[67]

Real Estate:

The reduction in deductions for home loan interests under Section 24(b) has led to a severe and drastic impact on the real estate sector.[68.] Under the old regime the provision of deductions for the house owner on home loans promoted investments in residential properties which increased capital formation [69.] This was attractive and possible for the high-income groups [70.]There was a significant shift in investment behaviour when the new regime eliminated this deduction [71.] Reduction in home loans was the aftermath of the new regime as people did not resort to means of homeownership [72.] This has resulted in a major decline in the real estate sector. [73.]

63.Id.
64. Ananthakrishnan S., *The Impact of the New Tax Regime on Financial Products* (2023), *India Economic Journal*, Apr. 2023, at 72.
65.The Income Tax Act, 1961, No. 43 of 1961, § 80C, *Gazette of India*, Pt. II, Sec. 1 (1961) (India).
66. S. Ananthakrishnan, *Taxation and Investment in India: Incentives and Strategies* 122-25 (2022).
67. Id.
68. Id.
69. Indian Insurance Regulatory Authority (IRDA), *Annual Report on Tax-Saving Products and Consumer Behaviour*, 45-47 (2022).
70. The Income Tax Act, 1961, No. 43 of 1961, § 24(b), *Gazette of India*, Pt. II, Sec. 1 (1961) (India).
71.Id.
72.Id.
73.India Real Estate Outlook 2023: Home Loans and Tax Planning, *Live mint*, Apr. 2023, https://livemint.com/real-estate-taxation.

Insurance:

The benefits obtained by the life insurance sector under Section 80 have seen drastic impacts. [74.] There was a stable flow of premiums when the taxpayers under the old regime resorted to the purchase of insurance policies to reduce taxable income. [75.] There has been a decline in the purchase as the new regime does not prioritize deductions for the purchase of insurance purely for the reduction of tax burden. [76.]

Long-Term Economic Implications:

The new tax regime has plenty of long-term implications that extend beyond taxpayer behaviour and sectoral impact. By shifting its focus of the limelight to consumption, the new regime increases the demand of the country. [77.]

On the contrary, the reduction in savings could drastically reduce the capital formation which may increase the reliance and dependency on foreign capital. [78.] A reduced focus on long-term financial planning could lead to a lack of preparation for goals such as healthcare, education, retirement, and unforeseen expenses. [79.]

74.Id.
75.Id.
76. IRDA, supra note 69, at 51-53.
77.Manoharan, supra note 61, at 215.
78.Id.
79.Life Insurance Federation of India, *Shifting Trends in Life Insurance Consumption Post-Budget 2020* (2023).

GLOBAL POSITIONING OF INDIA’S TAX REGIME:

India's system of taxation has seen the process of its evaluation step by step through the decades of history. The system has tremendously evolved from a sophisticated and complicated system based on exemptions and deductions to a systematic and simplified approach that aims to provide compliance and transparency. The old regime which was controlled and governed by the Income Tax Act of 1961, was completely reliant on the system of providing numerous deductions and exemptions which is easily compared to the system of taxation in countries such as Germany and Japan which plays its reliance on emphasizing savings and investments through a sophisticated and complicated tax structure. [80.] The above-mentioned economies are known for offering plenty of tax incentives to promote and encourage long-term financial planning to promote the economic welfare of various countries. [81.] The introduction of the new tax regime under the Finance Act of 2020, has streamlined India in shifting towards the existing and prevalent global trends to favor the process of a simplified taxation system and ease the concept of compliance. [82.] This system has aligned the system of taxation in India with economies like the United States, and Hong Kong which places its reliance on prioritizing a broader tax base by offering lower tax rates. [83]. By the process of opting for lower tax rates and reduced deductions, India strives to promote consumer expenditure and economic growth. [84.]

Comparative Analysis with Global Practices:

Tax reforms reflect an amalgamation of wide-ranging economic philosophies from the global world which strives to achieve the goal of balancing saving and consumption in the economy. In economies such as Japan and Germany for instance, the tax policies are framed and structured in a streamlined and focused way with the utmost objective of providing financial security in the long run through deductions and incentives.[85.]

80.The Income Tax Act, 1961, No. 43 of 1961, § 80C, *Gazette of India*, Pt. II, Sec. 1 (1961) (India).
81. Germany Federal Ministry of Finance, *Annual Tax Report: Supporting Savings and Investments* (2023), https://bmf.bund.de; Japan Ministry of Finance, *Fiscal Policy for Long-Term Savings*, https://www.mof.go.jp (2022).
82.Finance Act, 2020, No. 12 of 2020, § 115BAC, *Gazette of India*, Pt. II, Sec. 3(ii) (2020) (India).
83.Organisation for Economic Co-operation and Development (OECD), *Global Tax Simplification Strategies*, OECD Tax Report 2022, at 12.

In the above-mentioned economies, the taxation system of providing incentives plays a pivotal role in the economic growth of sectors that deal with insurance policies, pension schemes, and other instruments that promote financial security and welfare.[86.] The old regime of India under the Income Tax Act of 1961 , streamlined its provisions and policies by mirroring these objectives under the provisions of 80 C and 80 D which provides the choice to the taxpayers to prioritize savings and economic welfare.[87.]

On the contrary, the new system of taxation which was introduced in India under the Finance Act of 2020 relies on the consumption-driven economic models witnessed in countries such as Hong Kong and Singapore, where priority is given to simplification of the taxation system and making it more transparent.[88.] For an instance the taxation system of the Singapore economy is known for its key features such simplicity, transparency, and fairness with a flat rate structure clubbed with minimal deductions and exemptions which strives to promote the easier conduct of business operations with economy efficiency.[89.] The United States through its policies such as Tax Cuts and Jobs Act of 2017 also walks in a similar path of lowering tax rates, and minimalizing's deductions to achieve an enhanced disposable income and increased consumption.[90]The new regime introduced in India was done with the focus of lowering tax rates and minimizing exemptions and deductions in moving towards the pathway of a simpler taxation system that strives to cater to the needs of the taxpayers who prefer the ease of compliance over savings.[91.] The primary objective of this approach is intended to reduce the administrative difficulties of the system and to promote tax compliance with ease governance.[92.]

84.Hong Kong Inland Revenue Department, *Taxation in a Simplified Structure*, http://www.ird.gov.hk (2023).
85. Germany Federal Ministry of Finance, *Promoting Financial Security through Tax Policy* (2022), https://bmf.bund.de.
86. Japan Ministry of Finance, supra note 81.
87.The Income Tax Act, 1961, supra note 80, §§ 80C, 80D.
88.Singapore Ministry of Finance, *Tax Simplification for Economic Growth* (2023).
89. Singapore Inland Revenue Authority, *A Guide to Taxation in Singapore* (2023), https://www.iras.gov.sg.
90.U.S. Tax Cuts and Jobs Act, 2017, H.R. 1, 115th Cong. (2017).
91.Finance Act, 2020, supra note 82.
92. OECD, *Improving Tax Compliance through Simplification*, at 28 (2021).

Global Positioning in Terms of Tax Competitiveness:

The goal of walking towards the path of a simplified tax structure within the framework of the competition that exists globally is to prove the position of India and it is the ability to attract foreign investment. This is accomplished by easing the tax compliance process which makes the conduct of the business easier. [93.] Economies of countries such as UAE and New Zealand have witnessed growth in foreign investment by implementing structured and streamlined tax regime that gives importance to the goals of transparency and lower compliance costs. [94.] These countries have successfully created tax environments that are attractive to individuals and corporations by eliminating the intricate complexities in the taxation system that are associated with deductions and exemptions. [95.] The Finance Act of 2020 brought about a new taxation system in India that was aimed at individual taxpayers who shared the belief that taxation should be made simpler and less sophisticated to encourage tax compliance [96.]

This is done to make the taxation system of India, to be more accessible and transparent for the young generation and small businesses who find the old regime complicated.[97]. To make India's position on par with its global peers like Singapore and Ireland, there is a need for reforms in the system of taxation which aims at lowering corporate tax rates and simplifying business taxation. [98.]

93. World Bank, *Ease of Doing Business Report 2022*, https://www.worldbank.org/eodb (2022).
94. UAE Ministry of Finance, *Taxation and Business Competitiveness* (2023), https://www.mof.gov.ae; New Zealand Inland Revenue Department, *Tax Simplification and Business Growth* (2022).
95. Id.
96. *See* India Ministry of Finance, *Tax Reform for Improved Compliance* (2023), *Gazette of India*, Pt. II, Sec. 4.
97. *See* OECD, supra note 83, at 15.
98. *See* Ireland Revenue, *Corporate Tax Competitiveness in the EU* (2023), https://www.revenue.ie.

LEGAL AND CONSTITUTIONAL ANALYSIS:

Constitutional Framework Governing Taxation:

The constitution the supreme law of the nation, governs and provides the power of taxation in India. Article 246 belonging to Schedule VII of the constitution governs the power of taxation of the government. The Union list (Entry item 82 of List I) governs and empowers the Parliament to collect and legislate on income tax matters on all kinds of income except agriculture.[99]. The old tax regime, and the shift towards the new tax regime and the plans mentioned and taken under the Income Tax Act of 1961, reflects the intent of the legislature in achieving the balance of revenue collection with economic equity.

Article 14: Equality before the Law:

The key and fundamental principle that shapes the concept of taxation law is the doctrine of equality which has been enshrined and mentioned in Article 14 of the Indian Constitution. The old and the new tax regime are designed in such a way that the taxpayers have a choice, and it promotes economic equality. The old regime is mostly opted by the higher income groups who could afford investments and avail exemptions and deductions, whereas the new regime aims to simplify the taxation process for the lower income groups who can't afford lavish investments. So, both the regimes under the Income Tax Act of 1961, strive to achieve a balance to promote economic equity.[100.]

In the case of "Kunnathat Thathunni Moopil Nair V State of Kerala, the Supreme Court held that the taxation law that arbitrarily discriminates the intent behind the classification and the object of the relief sought would violate Article 14. [101.] This decision has led to the question of whether the shift towards the new regime of taxation affects and discriminates the individuals who are unable to invest in savings or avail the exemptions and benefits under the old regime.

99. Constitution of India, 1950, art. 246, sch. VII, Entry 82 of List I.
100. Income Tax Act, 1961, § 115BAC.
101. Kunnathat Thathunni Moopil Nair v. State of Kerala*, AIR 1961 SC 552.

Article 19(1) (g): Right to Practice Any Profession or Trade:

The process of taxation should not be cumbersome which violates the interest and right to freely carry on trade or profession under Article 19(1) (g). In the case of "Mafatlal Industries Ltd V UOI", the court examined and investigated the constitutional limits on the taxation measure and it held that, even though the state is the deciding authority of taxation matters it can take up or frame decisions that impact and impedes constitutional right to trade. [102.]

The old regime, with its plenty of deductions and exemptions, often led to situations where there is difficulties and issues with tax compliance which drastically affected small businesses and professionals. On the other hand, the new regime's structure helps in eradicating the issue of tax compliance burden by offering lower tax rates rather than plenty of deductions which does not violate or discriminate Article 19 (1) (g). However, there is a raised debatable question that the shift to a new regime is detrimental in the aspects of education, healthcare, and savings. **103.**

Article 265: No Tax Shall Be Levied Except By Authority Of Law:

There has been a mandate that has been raised by Article 265 of the constitution which explicitly states that no tax can be levied or collected except by the authority of law. All the systems of taxation such as the Income Tax Act of 1961, and the old and new regimes of taxation derive their validity from this Article. In the case of "Vodafone International Holdings BV V UOI" , the court upheld that retrospective taxation or the shifts and changes in tax policy must happen according to the conformity of the rule of law under Article 265. [104.] The introduction and implementation of the new tax regime, even though it is optional, the mark of its introduction raises a potential question of arbitrariness in the choices of the taxpayers. The sudden eradication and removal of deductions would undermine the principle of the rule of law and certainty in the law of taxation.

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102. Mafatlal Industries Ltd. v. Union of India, (1997) 5 SCC 536.
103. CIT v. Shahzada Nand & Sons, (1966) 3 SCR 379.
104. Vodafone International Holdings BV v. Union of India, (2012) 6 SCC 613.

Federalism and Taxation : Article 246

Article 246 demarks the power of taxation between the Union and the State. Significance is been placed on the federal structure which helps in the evaluation of how central taxes like income tax interact with state taxes. The removal of the deduction mentioned under the new regime would significantly affect the state revenue sources.[105.]

In the case of "Union of India V Paliwal Electricals Pvt. Ltd", they held that there must be a reiteration placed on the grave need for coordination between the Union and the States in the implementation of taxation laws and policies. [106.] The interaction between the Union and the States plays a crucial role in achieving financial security, goals of development, and economic growth.

Judicial Interpretation of Tax Laws:

The Courts of India have ruled constantly and consistently that there must be strict adherence to taxation laws. In the case of "CIT V Shahzada Nand & Sons", the Supreme Court has laid down the principle that if there are multiple interpretations of a tax provision, then the one that aids, supports, and caters to the welfare and needs of the taxpayers should be applied. [107.] This doctrine has formed the foundation pillar of the choice of comparison of both regimes. Under the ambit of the old regime, the taxpayers could enjoy the option and leverage of a wide variety of deductions and there have been problems of compliance which often arose regarding their interpretation. The new regime, which eradicates and eliminates much of deductions, reduces the scope of conflict and problems related to tax compliance but it removes the creamy layer of tax relief which potentially conflicts with the goal of the welfare of the taxpayers.[108]

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105. Article 246 of the Indian Constitution.
106. Union of India v. Paliwal Electricals Pvt. Ltd., (1996) 2 SCC 328.
107. CIT v. Shahzada Nand & Sons, supra note 103.
108. Ibid.

CONCLUSION AND RECOMMENDATIONS:

The comparative and comprehensive analysis of the old and the new tax regime has revealed a significant and tremendous shift in the structure of India's taxation policy, from a complex sophisticated system to a simplified lower-rate regime. The old system of taxation promoted financial savings in the long run through a system of exemptions and deductions but at the cost of complex compliance burdens. On the contrary, the new system which was introduced through the Finance Act, of 2020, offers a simplified, more transparent, and user-friendly process. From the perspective of the constitution, both the systems under the Income Tax Act of 1961, adhere to the principles enshrined and mentioned in the Constitution, particularly Articles 14 and 265. However, on the contrary, the new regime's eradication and elimination of deductions and exemptions raises the most important question about the equitable treatment of taxpayers.

Even though the new regime's simplified approach matches the principles and philosophies of the global tax trends, there is a need for the coexistence of both regimes, which permits flexibility, but this has created chaos among the taxpayers regarding the optimal choice of system for financial planning.

Recommendations:

Strengthening Taxpayer Awareness and Education:

The mark of the introduction of the new tax regime has led to a huge chaos among taxpayers, where there is no clarity on which regime caters to their needs and financial needs for their welfare. To address the chaos arising due to choose the government must try to invest in systematic and comprehensive taxpayer education programs to provide awareness, and guidance through the ins and outs of the tax systems according to their taste and preferences. Precise guidelines should be provided for the class of people who belong to the lower-income groups to help them understand the merits and demerits of both regimes and guide them in choosing the best one according to their needs.

Targeted Relief for Middle and Lower Income Groups:

The eradication and elimination of exemptions and deductions under the new tax regime drastically affects the middle and lower-income taxpayer groups, who significantly rely on investments and savings. The government must play a pivotal role in the reintroduction of specific deductions that benefit these segments for essential expenditures such as education and medical insurance while making sure that there is the maintenance of the component of simplicity and transparency of the new regime.

.Streamlining the Dual–Regime System:

Both tax regimes offer flexibility and transparency, but it has their drawbacks such as creating administrating hardships and increasing the complexity of tax compliance. A long-term streamlined solution would be to streamline and phase out the dual-regime system in Favor of a single taxation structure. This system of change should be gradual and must be completely reliant on taxpayer feedback and preferences, ensuring that there is no coin unturned.

Incorporating Flexibility in Exemptions for Certain Sectors:

To balance the need for simplification with the notion of giving importance to savings and investments, the government must strive to explore options where it can allow selective exemptions or deductions for pivotal sectors such as housing, education, and healthcare. The above-mentioned sectors play a crucial role in providing financial security, and targeted exemptions with a simplified taxation system would promote the welfare of the taxpayers in the long run.

Continual Monitoring of Global Trends:

The process of continuous monitoring of global tax reforms, particularly in the light of simplification of the system and the cutthroat competitiveness but also in the provision of foreign investments and tax compliance. Adopting the best practices and philosophies of other developed and competent economies in the concept of taxation would strike a balance between economic efficiency , fairness, and growth.

Legal Clarifications and Judicial Review:

Since the new regime has raised several debatable questions that have legal concerns regarding the equitable treatment of taxpayers, it would be a safer and prudent option for the government to seek judicial guidance and review to ensure that the taxation laws are in adherence to the rule of law under Article 14 and 265 of the constitution. The clarity in legality would minimize the choas in the system that attracts litigation and a shred of clarity to the taxpayers and the administrators.

India has witnessed a significant transition from the old to the new tax regime system, to walking towards the path of transparency, ease of compliance, and more effective and efficient taxation. However, the key to achieving this success lies in how well they are known and communicated to the taxpayers and how much flexibility is accommodated across various segments of society.

As India is still in the process of refinement of its tax policies, a balance must be struck between the notions of simplification and tax structure and ensuring fairness for taxpayers, especially in lower income groups. By shedding light on pivotal values such as clarity, awareness, transparency, and constitutionality, India can achieve a more effective and efficient tax system that caters to all the needs of achieving the goals of economic growth social welfare, and equity.

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