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ANALYSIS ON OLD AND NEW TAX REGIME UNDER INCOME TAX ACT, 1961

ABSTRACT

This paper presents a comparative analysis of the **Old Tax Regime** and the **New Tax Regime** under the **Income Tax Act, 1961**, with a focus on the implications as of 2024. The Old Regime, offering higher tax rates alongside a wide array of deductions and exemptions (such as under **Section 80C** for investments), encourages long-term savings and investments. In contrast, the New Regime introduced through **Section 115 BAC** simplifies the tax system with **lower tax rates** and fewer deductions, aiming to increase taxpayer compliance and disposable income. The research examines the key features, benefits, and drawbacks of both the regimes, focusing on tax rates, deductions, exemptions, and compliance requirements to follow the dual system.

The research examines the legal impact of the New Regime is significant, particularly in the area of tax planning and compliance. While the simplified structure reduces tax litigation related to deductions and exemptions, it also introduces potential disputes over the choice between regimes, especially for individuals with business income who face restrictions on reverting to the Old Regime once they opt for the New. This raises questions on its long term impacts on the economic growth in the country with the aspects of savings and investments and followed expenditure in a future aspect .

Keywords: New tax regime, old tax regime, Constitution, Equality, Tax rates, Deduction, Exemption.

INTRODUCTION

The Income Tax Act, 1961, serves as the cornerstone of India's taxation system, providing the framework for personal and corporate income tax. As of 2024, the introduction of the New Tax Regime through Section 115 BAC represents a significant shift in tax policy, offering taxpayers an alternative to the traditional Old Tax Regime. This dual regime system allows individuals to choose between two distinct approaches to tax computation—one that emphasizes lower tax rates with minimal deductions and another that retains higher tax rates with a range of exemptions and deductions.

The Old Tax Regime has been a long standing fixture, incentivizing savings and investments through provisions such as **Section 80C** (which offers deductions for specified investments and expenditures), House Rent Allowance (HRA), and deductions for health insurance premiums under **Section 80D**. This regime has traditionally supported long-term financial planning, contributing to household savings and sectoral growth in insurance, real estate, and mutual funds.

The Introduction of New Tax regime under Finance Act, 2023 was the outcome of the significant amendment of Income Tax Act, 1961. In India, individuals are required to pay income tax according to the tax slab their income falls within. These slabs delineate various income ranges, each associated with a specific tax rate, which escalates as income rises. The New Regime shifts the focus from savings-driven behavior to consumption-driven behavior. While it stimulates consumer spending, especially for taxpayers without substantial deductions, it risks reducing overall household savings, which could have long-term impacts on financial security. Additionally, sectors that rely on tax incentives, such as insurance, real estate, and provident funds, may see a decline in investment under the New Regime.

RESEARCH OBJECTIVES:

1) To critically analyze the old and new regimes of tax introduced under income tax act, 1961, with a focus on the dual system being effective and an impact on taxpayer preferences as of 2024.

2) To analyze the extent of societal impact due to dual regimes and effects of a significant shift in tax policies introduced in the budget of 2024 under income tax act, 1961

3) To access the long term impact on investments and spendings due to changes in the taxation system

RESEARCH QUESTIONS:

1) How do the tax rates, exemptions, and deductions differ between the old and new tax regimes introduced under the Income Tax Act of 1961?

2) What are the factors influencing taxpayers' decisions to opt for either the old or new tax regimes in 2024 and What percentage of taxpayers have opted for the new tax regime, and what factors determine their adoption or resistance to the shift?

3) What is the impact of the new tax regime on government revenue collection compared to the old regime since its introduction?

4) How do the old and new tax regimes impact different income groups in terms of tax burden and economic equity?

5) How have the old and new tax regimes influenced the savings and investment patterns of individual taxpayers?

HISTORICAL BACKGROUND AND EVOLUTIONS:

Before independence, India's taxation laws were largely shaped by British colonial policies, designed to maximize revenue extraction for the colonial administration. Major systems included the **Zamindari, Ryotwari,** and **Mahalwari** systems, through which land revenue was collected, often placing a heavy burden on farmers. The introduction of the [1]**Income Tax Act of 1860** marked the beginning of formal income taxation in India. Additionally, oppressive taxes such as the **Salt Tax** disproportionately affected the poor, while **customs** and **excise duties** were imposed to control trade, favoring British economic interests. Local taxes on property and professions, along with various commercial taxes, further contributed to the financial strain on the Indian populace. These exploitative taxation policies resulted in widespread impoverishment, economic disparity, and were a driving force behind nationalist movements for independence. After gaining freedom, India reformed these colonial taxation systems to better suit its socio-economic needs.

The enactment of the [2]Direct Taxes Enquiry Committee in 1958 marked a new era in the history of taxation in this country. On the recommendations of this committee, the government set up three study groups to work out the broad outlines of these measures of fiscal rebuilding. One of these groups was entrusted with the task of reviewing the existing system of direct taxation and suggesting changes and improvements where and when necessary. After obtaining the assistance and cooperation of experts from various fields of fiscal knowledge and research, the group has completed a comprehensive study of the Indian taxation system and formulated proposals. While making exhaustive studies of the fundamental questions of tax policy, administration, and method of taxation, the group has closely examined the effects of the changes it has recommended or suggested.

The ultimate objective of the group proposing a system of taxation in the country should be to build a just, efficient, and humane society where every individual will identify his mission with the real progress of the nation without losing his sense of economic and social freedom. The proposed system of direct taxation is a significant advance over the existing one. It meets more fully the requirements of justice and equity. The present embargo about the maintenance of the

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[1] Income Tax Act, 1961, Act No. 43 of 1961

[2] Direct tax enquiry committee

institutional character of the Direct Taxation Enquiry structure of the economy has been removed. The proposed system permits fiscal requirements and special economic incentives to have some play without in any way frustrating principles of justice and fairness.

Data Collection and Research technique

This research article makes use of a descriptive and analytical research technique. All of the data used in this paper came from other sources. Sources from secondary data include official documents, books, journals, articles, and newspapers.

The System of Taxes

In India, taxes play a crucial role in funding government activities. There are two primary types of taxes: direct taxes and indirect taxes. One kind of direct tax that is well-known is income tax. Income tax is a well-known form of direct taxation. It serves as the government's main source of revenue. Under the Income Tax Act of 1961, all eligible taxpayers—individuals, businesses, and other entities—are obligated to pay income tax. This tax is based on an individual's or entity's income, and the rates vary depending on income levels. In the [3]2020 budget, India's finance minister introduced a new tax system. This system offered taxpayers a choice between two different approaches. The first choice was the existing system with deductions and exemptions. And the second choice was a simplified system without most deductions but with lower tax rates. Taxpayers could opt for the system that best suited their financial situation. As recent improvements in the 2023-2024 union budget, the Minister of Finance proposed certain enhancements to the new tax structure. These improvements aimed to benefit taxpayers by making the system more efficient and taxpayer-friendly.

THE OLD TAX REGIME

The Old Tax Regime in India is structured to provide relief to taxpayers through various deductions, exemptions, and allowances. The goal is to reduce the taxable income by allowing

[3] Ministry of Finance, Government of India, "Budget 2020-21: Speech of Nirmala Sitharaman, Minister of Finance," February 1, 2020.

taxpayers to invest in or spend on specific areas that qualify for these tax benefits. Some of the key features are:

1. Comprehensive Deductions under Section 80C

The old tax regime in India was structured to relief taxpayers. It offered different deductions, exemptions and allowances. The main aim was to cut down taxable income while allowing taxpayers to invest or spend on certain areas for benefits. This detailed explanation breaks down the key features.Comprehensive Deductions under [4]Section 80C was prominent under Section 80C. Section 80C is widely utilized among individuals for claiming deductions to lower taxable income. Under this section, taxpayers claimed deductions for various investments and payments in financial instruments. Investments included life insurance policies, Provident Fund contributions and fixed deposits in banks. More so, this section capped the total deduction amount at a specific limit which changes occasionally over the years based on budget announcements. Apart from that, there were other sections offering distinct advantages as well. For instance, Section 80D catered specifically to medical insurance premiums paid by individuals and families. This provided additional cushioning against heavy medical expenses that may arise unexpectedly or due to emergent situations. In addition other useful exemptions existed like house rent allowance under certain conditions which helped taxpayers who rented their homes even if they owned property in another location perhaps . These allowed some measure of flexibility yet seemed complicated depending on state laws. However not everything ran smoothly, especially during economic fluctuations uncertainty crept into maintaining these systems effectively . Taxpayers often struggled understanding intricate details leading many seeking professional advice just to navigate through submission processes and ensure compliance with regulations which changed frequently hence added complexity .Therefore impact continued influence whether positive or negative resulted directly correlated back into individual financial stability overall performance of the economy too While supporting needs it often felt restrictive at times likewise creating burden ultimately legacy left remains an integral part shaping reforms moving forward throughout future taxation policies .

[4] Income Tax Act, 1961, Sections 80C, 10(13A), and 80D pg 330-345

2. House Rent Allowance (HRA)

The maximum deduction allowed reached ₹1.5 lakh per financial year. This amount provided some flexibility for individuals looking to lower their taxable income. Various investments and expenses qualified for deductions under this section. First, the Public Provident Fund (PPF) stood as a viable option. Contributions made to PPF accounts eligible for deductions. Life insurance premiums also came into play. Premiums paid on life insurance policies covering the taxpayer, spouse, or children were eligible too. Further, National Savings Certificates (NSC) qualifying investments. Investments made in NSCs allowed taxpayers to claim deductions. More so, Equity Linked Savings Schemes (ELSS) offered another path for investors. ELSS involved specific mutual funds that had a lock-in period of three years to qualify for tax benefits. Therefore, these options showcased ways how individuals could navigate through deductions elegantly while optimizing their finances throughout the fiscal landscape of India during recent years.

[5]3. Standard Deduction

Home Loan Principal Repayment fell under Section 80C[6]. This section provided important deductions for taxpayers. It allowed individuals to reduce their taxable income through several eligible expenses. Moreover, the Sukanya Samriddhi Yojana became a popular choice for those with a girl child. Contributions to this scheme were also eligible for deduction. Easy way to save for future education or marriage. Further, additional eligible expenses included tuition fees for children's education. Contributions towards employee provident funds. Fixed deposit schemes of five years or more offered decent returns and tax benefits as well. House Rent Allowance (HRA) had a significant benefit in the lives of many salaried individuals who live in rented accommodation. This benefit helped ease the financial burden significantly. Also, tenants could claim HRA and criteria that varied based on location and salary levels. In summary, these provisions provided crucial support to those managing finances amidst various obligations. The

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[5] Income Tax Act, 1961, Section 80C; Public Provident Fund Act, 1968.
- Income Tax Act, 1961, Section 80C; Insurance Regulatory and Development Authority of India (IRDAI) Regulations, 2021.

[6] Section 80C - income tax act 1961 pg 330

benefits highlighted people's efforts towards securing their financial future effectively while navigating through India's complex tax system over the years.

4. Hindu undivided family

The Hindu Undivided Family (HUF), a unique tax entity under the Income Tax Act of 1961[7] It has shown a tendency to favor the old tax regime over the new one introduced in the Union Budget 2020. This preference stems from the various deductions and exemptions available under the old regime, which often prove more beneficial for HUFs. The old system allows for deductions under sections 80C, 80D, and others, which can significantly reduce the taxable income of the HUF. Moreover, the concept of HUF itself is deeply rooted in traditional Hindu law and aligns more closely with the older tax structure. The new tax regime, while offering lower tax rates, eliminates most deductions and exemptions, which may not be as advantageous for many HUFs, especially those with substantial investments or medical expenses. This reactionary stance reflects the HUF's attempt to maximize tax benefits while maintaining their traditional family structure. However, the choice between the old and new regimes remains complex, depending on the specific financial situation of each HUF, and requires careful consideration of factors such as income levels, investment patterns, and family size.

5. Health and Education Cess

The Health and Education Cess[8] is an additional charge levied on the income tax calculated. The cess is applied at the rate of 4% and is used to fund government initiatives in the healthcare and education sectors.

Tax Slabs Under the Old Tax Regime

Income (Rs)	**Rates (%)**
Upto 2.5 lakhs	Nil
2.5 - 5 lakhs	5%

[7] Income tax act 1961
[8] Income Tax Department, Government of India, "Income Tax Slabs" (As updated for Assessment Year 2024-25).

5 - 10 lakhs	20%
Above 10 lakhs	30%

In addition, Section 87A provides a tax rebate for individuals earning up to ₹5 lakh, effectively reducing their tax liability to zero.

Analysis of Deductions and Exemptions

The old tax regime in India is designed in such a manner that it seeks to encourage savings and investments, thereby encouraging other types of expenditure also through provisions like deduction and exemptions. An analysis of those deductions and exemptions reveals that these have been structured in a manner that will provide incentives for personal financial discipline and align personal financial planning with national economic goals. Here's the segregation in more detail:

<u>1. Encouraging Savings and Investment through Sec 80C</u>

Section 80C of the Old Tax Regime is the most substantial deduction for taxpayers. Under it, one can claim deductions up to ₹1.5 lakh on investments or specific expenditures. It is one of the fulcrums on which the entire regime rests, encouraging long-term savings and investments.[9] The main components include:

<u>Public Provident Fund (PPF)</u>: A long-term savings plan with a minimum lock-in of 15 years so that it is conducive for savings for retirement. The interest income generated is exempted from tax and the contribution is also allowed as deduction.

<u>Life Insurance Premiums:</u> In case of life insurance, premiums paid are allowable under section 80C, thereby motivating an individual to safeguard their family's financial affairs. Life insurance goes one step forward by promoting long-term financial planning.

[9] Income Tax Act, 1961, Section 80C; National Savings Certificates (VIII Issue) Rules, 2019.

Equity Linked Savings Scheme (ELSS): This provides market-linked returns and offers tax-saving benefits under Section 80C but this comes with a lock-in period of 3 years, nudging people to invest in the equity market in proportion to personal wealth creation and economic growth.

National Savings Certificate (NSC) and Fixed Deposits (FDs): It is not risky; hence, this is preferred by risk-averse investors, and it will build the habit of saving.

Principal Repayment of a Home Loan: Section 80C allows a deduction on repayment of the principal amount of a home loan, which thus pushes investment towards real estate and residence, both key growth drivers.

Insurance Premiums on Health: Section 80D

Apart from Section 80C, the Old Regime also provides for deduction on health insurance premium under Section 80D. The section aims at health security by encouraging a person to take health insurance of his own and his family members. The limits for the above deduction are as follows:

₹25,000 of premium paid for self, spouse and children

₹25,000 additional amount and ₹50,000 if parent is a senior citizen for payment of health insurance premiums for parents.

This provision helps the government's overarching purpose of easing pressure off public health care facilities by helping the population opt for private health insurance coverage, thereby attaining improved health and financial protection.

2. Loans for Higher Education: Section 80E

Apart from the above-mentioned allowances, most of the personal expendable incomes are accrued on a tax-free basis. Under Section 80E, interest paid on loans for higher education is allowed as deduction[10]. This shall be applicable in respect of loans taken by an assessee for his own higher education, for his spouse's higher education, or for his children's higher education. As a condition, it does not have an absolute limit in terms of the amount allowable, and the deduction would be

[10] Ministry of Finance, Government of India, "Report of the Task Force on Direct Taxes," 2019.

restricted only to the interest component of loan repayment and further shall be available only for eight years from the year of repayment of the loan.

This provision finds a perfect fit into the government's objectives of making access to higher education more streamlined by reducing the financial burden on families. It persuades taxpayers to invest in education, an essential function of long-term human capital development.

3. National Pension Scheme: NPS Section 80CCD

Contributions to the NPS are also eligible for deductions under the Old Tax Regime. The NPS is an Indian Pension Scheme launched by the Indian Government[11]. The NPS has tax benefits through two subsections:

Section 80CCD (1): Deductions up to 10% of salary, for employees; and up to 10% of gross total income, for individuals having no salary, provided that the deduction does not exceed ₹1.5 lakh as allowed under Section 80C.

Section 80CCD(1B): One more relief for the NPS contributor is that, over and above the deduction of ₹1.5 lakh under section 80C, an individual can get an additional deduction of up to ₹50,000 in respect of his contribution to the NPS. In this manner, an individual can save ₹2 lakh during a year by putting all his money in retirement funds.

The NPS encourages savings for retirement in a structured and disciplined manner, integrating personal financial goals with the goal of the government to ease the pressure on the public pension systems by encouraging private savings toward post-retirement needs.

4. Contributions: Section 80G

In section 80G, donations to qualified charitable organizations and relief funds are also allowed a deduction, although the amount for the type of institution varies between 100% to 50% in respect of the donated amount. Such institutions include:

Charitable trust approved by the government

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[11] National Pension Scheme: NPS Section 80CCD & 80G

National reliefs like the PM's National Relief Fund.

Scientific research or rural development endowment.

It motivates people to participate in welfare and social activities thus consolidating the efforts of the people towards the achievement of goals of the government to take care of public welfare, public health, and education.

5. Tax Advantage on Home Loan- Section 24

In addition to the deduction available under Section 80C for the principal repayment of home loans, Section 24 of the Income Tax Act provides that if the house is self-occupied, there is a deduction of up to ₹2 lakh on the interest paid for a home loan. If the house is rented out, then the entire interest paid can be deducted.

[12]This provision incites home ownership and the real estate sector, which has a big multiplier effect on the economy through job creation, demand for materials, and consumption of related sectors[13].

6. Alignment with Objectives of Government

The Old Tax Regime deductions and exemptions are not a way to reduce merely personal tax liabilities. They symbolize more pervasive mainstreaming with the economic and social policies of the government concerned. The Old Regime upholds the following goals:

Building and Enhancing Savings: Through deductions under PPF, life insurance, NSC, and NPS, the government advises people to save and secure their future so as to lead a financially sound life and remain less dependent on the state fund and social security.

Health Insurance: Sect 80D achieves the social objective of securing individual private health insurance and thereby away from the burden from the individual and public health.

Investment in human resource capital: With section 80E, the deduction of interest payment on education loans will encourage education and quality workforce available would lead to the

[12] National Council of Applied Economic Research (NCAER), "Impact of Investments in the Housing Sector on GDP and Employment in the Indian Economy," 2014

[13] Income Tax Act, 1961, Section 24(b); as amended by Finance Act, 2019

development of the country's economy. *Encouraging Philanthropy and Charity*: Section 80G encourages the contributors to causes towards social good by tethering personal charitable contributions to the overall national welfare goals.

Criticism of the Old Tax Regime

The Old Tax Regime in India, an arrangement replete with a myriad of deductions and exemptions, faced criticism on various grounds-for example, the tax system was considered unnecessarily complex, benefited the rich to an unwarranted extent, and encouraged tax avoidance. Some of the key criticisms have been explained in detail as follows:

1. Complexity of Filing Returns

Major Criticisms in the Old Tax Regime: Rather complicated, mainly because of the wide documentation needed to claim the deductions. A taxpayer keeps all his investments, expenses, and donations in different heads for maximum deduction. Deductions possible under the Old Regime are many and various, including the ones under 80C, 80D, 80E, 80G, and 24, which include investment, insurance, donations, education loan, and home loan, respectively. However, this makes for a very scattered system, which needs to be monitored and documented diligently.

For instance, One has to keep records of receipts for investment in Public Provident Fund (PPF), National Savings Certificates (NSC), or Equity-Linked Savings Schemes (ELSS).

Receipts for health insurance premium and home loan interest paid are properly documented and claimed

Claims for HRA are supported by an attested rent agreement with a landlord along with proof of payment.

This cumbersome process of collection and preservation, therefore, becomes too heavy a burden for salaried individuals, making tax filing problematic and time-consuming as well. Most taxpayers require the assistance of tax professionals, thereby increasing compliance cost. Because such a documentation-heavy process often discourages people from taking proper advantage of the various available deductions, there occurs under-utility of tax benefits.

2. Not Useful for the Poor Classes

The Old System of Taxation has much more advantage to the high-income class than other classes. Even the low-income group may not be better-off by this system. For example, the Section 80C benefits can be availed of to a maximum of only ₹1.5 lakh. For an income group earning less than this amount, it might not be possible to invest money, say in PPF, life insurance, or ELSS, just to be able to claim the full deduction.

Here's why the Old Regime could be inefficient for low-income groups :

Limited investment capability: Not many of these individuals would have any savings left after spending on rent, groceries, healthcare, and utilities. Thus, little or no amount is left for investments in tax-saving instruments, like life insurance premiums, NSC, or mutual funds under the ELSS category. They thus cannot avail of any benefit under Section 80C or other investment-related deductions, thereby losing any possible tax savings.

Flat Standard Deduction: The Old Regime provides an element of standard deduction at ₹50,000. This means everybody-high-income earners and low-income earners-get an equal benefit from the standard deduction.

Lesser Need for Deductions: Quite a few low-income people do not earn enough to fall into the higher tax brackets. Even after claiming the deductions, the tax savings may not be too high, therefore. For such a person, tax-saving schemes become less relevant because his immediate concern would be the financial requirement.

Facilitating Tax Evasion

The Old Tax Regime has also been criticized for its inadvertent encouragement of tax avoidance due to its reliance on deductions and exemptions. It mainly fosters saving and investment but allows the lots of deductions it avails easily upon misuse by provisions and create tax loopholes. Some of the ways this happens are listed below:

Manipulation of Investment Patterns: High-income earners are those with disposable income worth crores. They can play around with their patterns of investments to reduce tax liabilities. For instance, they would primarily invest in these tax-saving schemes such as life insurance, ELSS, or

PPF- just to save on taxes. In a way, now a person is not investing in those instruments for proper financial planning or even for tackling risk but as a tax-saving measure. This takes away from the idea of long-term fiscal security, then breeds an element of short-term, tax-centered mentality.

HRA Manipulation: HRA is grossly misused by salaried employees. Some inflate the amount of rent being claimed on receipts or collude with landlords and take a higher amount than actually being paid. This helps them cut down taxable income and avoid a portion of their tax liability. This is how some practices go astray and directly help in tax avoidance.

Undocumented Cash Transactions: Some individuals might donate cash to certain organizations for deductions under specific sections, such as donations under Section 80G. This enables them to claim higher deductions than the amount of cash donated. Similarly, in cases of medical expenses or other costs upon which relief is given under specific sections, there can be misuse if receipts are fabricated or exaggerated.

Tax shelters: Here, those wealthy individuals might also utilize tax shelters. These are financial instruments or even transactions which lawfully assist these people to minimize their tax liabilities. This might put them as over-investing in tools such as life insurance policies, or perhaps some charitable donations in order to maximize deductions when, for example, such investments do not align with their actual financial needs.

Where the Old Regime gives many incentives for all kinds of financial activity to be manipulated easily, a tax system breeds into existence in which some taxpayers reduce their tax burden disproportionately by aggressive use of tax planning, thus causing the fairness of such a tax system to erode and inequity to creep in between different income groups.

4. Encouragement of Short-Term, Tax-Focused Behavior

Another implicit weakness of the Old Tax Regime is that it compels taxpayers to prioritize the immediate savings on tax rather than solid long-term planning of their finances. A lot of the last minute investment and purchases are usually made around year-end so that they can be claimed in a less careful consideration of whether such an action makes good broader financial sense.

For example:

People may buy life insurance products primarily for the tax benefit, even if the product does not contribute toward their long-term financial goals.

ELSS or NSC is chosen in a rush in one go, without adequate consideration of risk profiles or financial objectives for the primary reason that they save taxes.

This type of behavior distorts financial decisions because taxpayers make suboptimal financial choices merely to pay fewer taxes and not for increasing their wealth or financial security.

The Old Tax Regime, though helpful for many, contains several limitations. The system is complex, which acts as a barrier for many taxpayers as they require heavy documentation and complicated arithmetic. At the same time, it raises an issue of a fair relief for poor individuals, for the regime is highly skewed to benefit high-income individuals with the wherewithal to invest in tax-saving instruments. Third, the reliance of this regime on deductions leaves a window open for potential tax avoidance, and one will find aggressive tax planning and manipulation. These criticisms led to the introduction of the New Tax Regime, looking forward to simplifying the tax system by providing comparatively less tax rates without deductions on the taxpayers for filling their IT-return and hence meeting a few lacunas on the backdrop of the Old Regime. However, the Old Regime is still an option for those who can fully take advantage of this facility only on their truthful disciplined financial planning and documentation.

THE NEW TAX REGIME

Introduced by India's Finance Minister Nirmala Sitharaman in the Union Budget of 2020[14]The New Tax Regime forms a seamless paradigm shift in the tax policy of the country. It is a measure designed on the route to simplicity - to give taxpayers a simple and hassle-free choice through reduction of income tax rate and abolition of almost all deductions and exemptions which have hitherto complicated the tax returns. Here's an elaborated analysis of the New Tax Regime and its aims:

1. Simplification Objective

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[14] Income Tax Department, Government of India, "Income Tax Slabs" (As updated for Assessment Year 2024-25).

The very purpose of the New Tax Regime is to make tax filing a simplified process. In the Old Tax Regime, there were numerous deductions and exemptions under different sections, including Section 80C, 80D, and 24 that demanded a cumbersome amount of paperwork, calculations, and not to mention professional advice at more than one instance in many cases.

No deduction, lower tax rate:

There is no deduction or exemption in the New Regime and it does not seek carry forward of any deduction when one has an option to opt for it. While one would require a significant reduction in taxable income through various deductions and exemptions under the Old Regime, the New Regime offers a lower rate of tax across slabs of income without requiring one to file claims for the deduction. Indeed, a taxpayer who does not wish to go through the rigmarole of investing in tax saving instruments or maintaining records can opt for the New Regime and pay a reduced rate of tax directly.

Lesser Dependence on Deductions and Exemptions

It is but one of the primary reasons the New Tax Regime addresses an area that has led to dependence by taxpayers on deductions and exemptions. Quite often, taxpayers invested more as a means of saving taxes than meeting their financial goals or meeting liquidity needs in the Old Regime. The multitude of deductions made it inaccessible to those who could not afford investment in tax-saving instruments.

No Compulsory Investments:

Since most of the deductions and exemptions have been withdrawn, the New Regime has given the taxpayers a liberal right to decide on their investment according to their choice rather than restricting them in certain types of investment for tax saving. For example, in the Old Regime, many people had to invest a large sum in PPF, NSC, or Life Insurance Policies just for the sake of claiming Section 80C, which would freeze that money for years. The New Regime puts taxpayers out of such dilemmas because they do not require such deductions.

Lower Tax Rates on Different Income Slabs

The New Tax Regime introduces a new set of tax slabs with reduced tax rates. This in itself brings instant relief to the taxpayers, especially middle-class taxpayers.

Tax slabs under new tax regime

[15]Introduced in 2021

Income (Rs)	**Rate (%)**
Upto 2.5 lakhs	Nil
2.5 - 5 lakhs	5 %
5 - 7.5 lakhs	10%
7.5 - 10 lakhs	15%
10 - 12.5 lakhs	20%
12.5 - 15 lakhs	25%
Above 15 lakhs	30%

Changes made in new tax regime (union budget 2023-2024)

Income (Rs)	**Rate (%)**
Upto 3 lakhs	Nil
3 - 6 lakhs	5%

[15] Income Tax Act, 1961 new regime slabs, Section 24(b); as amended by Finance Act, 2019

6 - 9 lakhs	10%
9 - 12 lakhs	15%
12 - 15 lakhs	20%
Above 15 lakhs	30%

These low rates are taxed to provide instant tax relief, especially among middle-class taxpayers between ₹5 lakh and ₹10 lakh on the income scale. The new tax rates at 10% and 15% are even more favorable since they are much lower than 20% in the Old Regime for the same slabs, and may be attractive for those whose tax liability would not save in the Old Regime under deductions.

Relief to Middle-Class Taxpayer

The New Regime specifically focuses on the middle-class taxpayers who, if they did not invest heavily in tax-saving instruments, often found the Old Regime much less beneficial. Most middle-class taxpayers, because of the financial crunch, failed to make maximum utilization of any of the exemptions under sections such as 80C, 80D health insurance, or 24 home loan interest.

Comparison of Taxpayer Profiles: Who Benefits under the New Regime?

However, the New Tax Regime is more favorable for some taxpayer types and not very well suited for others. Now, let's compare taxpayer profiles and who may benefit from each regime:

Beneficiaries of the New Tax Regime:

Young professionals who are just starting their careers and do not have significant investments in tax-saving instruments will thus have lower tax rates without any deductions.

Renters with no home loan, who cannot avail of the home loan interest deduction under Section 24, are going to be perfectly happy with the New Regime.

Low to middle-income earners not majorly investing in instruments covered under 80C or health insurance would find that the New Regime is less complicated and cost-effective.

Criticism of the New Tax Regime

The New Tax Regime has certainly made the tax filing process easier and reduced the tax for some, but by no means is it free of criticism:

Lack of incentives to save: the old tax system with deductions under 80C and other sections always encouraged long-term savings and investments in instruments such as PPF, NSC, or NPS. This could bring a disincentive to saving for the future and investing in instruments that may have an impact on personal security in the medium to long term.

Not always helpful for high-income earners: High-income earners maximizing deductions under Old Regime may find the tax burden is higher today, despite lower tax rates under New Regime than it was under Old Regime because they may pay higher taxes due to the loss of certain deductions.

Lack of Flexibility: The New Regime offers simplification, but with a cost. It requires choices to be made at the beginning of the financial year. Once these choices are made, it cannot be changed later on. Such a situation may prove detrimental for persons whose financial scenarios change mid-year.

The New Tax Regime introduced in 2020 is a small step to making India's complex tax structure simple. This brings an alternative option for the Old Regime, offering lower rates on tax, with most deductions and exemptions scrapped. The New Regime would particularly come in handy to middle-class taxpayers, as well as young professionals in more productive years, who may not have the capacity or need to invest in tax-saving instruments. However, this system may not be the best option for high-income earner clients or those with significant investments in tax-saving schemes since the loss of income from deductions may dilute potential savings due to lower tax rates.

Allowing taxpayers to choose the system which best suits their financial situation introduces a degree of flexibility in tax planning as well as encouraging an even simpler and more transparent system.

ANALYSIS ON A PERSPECTIVE METHODOLOGY

For our research on taxation and analysis on the regimes , it was crucial to take a first hand perspective of a professional who understands and has faced the implications and its practicality from the forefront.

Here's an analysis on the dual regimes under the Income Tax Act, 1961 from a Chartered Accountant's perspective:

1. *Key Differences:*

- Structure: The old regime has multiple tax slabs with various deductions and exemptions. The new regime has more slabs but fewer deductions.
- Tax Rates: The new regime generally offers lower tax rates, especially for middle-income groups but in larger perspective when it comes to practicality the deduction as whole brings down change in the calculation to a point where its very similar to one another
- Deductions: The old regime allows for numerous deductions (80C, 80D, HRA, etc.). The new regime eliminates most deductions but retains a few like an employer's NPS contribution.

2. *Benefits and Disadvantages:*

Old Regime:

Benefits:

- Allows for tax planning through various deductions and exemptions
- Can result in lower taxes for those who fully utilize deductions
- Familiar system for taxpayers and practitioners
- Hindu undivided families usually prefer this regime due to its numerous deductions and exemption policies.

Disadvantages:

- Complex, requiring more record-keeping and documentation
- Higher tax rates compared to the new regime

New Regime:

Benefits:

- Simpler structure with fewer complications
- Lower tax rates for many income brackets
- Less paperwork and easier compliance

Disadvantages:

- Loss of tax-saving incentives through investments and insurance
- May result in higher taxes for those with significant deductions according to the tax slabs.

3. *Tax Audit Requirements:*

Old Regime:

- Mandatory for businesses with turnover exceeding Rs. 1 crore (Rs. 5 crore if cash transactions are less than 5% of total receipts/payments)
- Required for professionals with gross receipts exceeding Rs. 50 lakhs

New Regime:

- Tax audit requirements remain largely unchanged
- Focus may shift towards ensuring correct reporting of income without deductions
- Deducts workload due its simpler deduction technique

4. *Taxpayer Preferences:*

- Salaried individuals with fewer investments may prefer the new regime
- Business owners and those with significant deductions often prefer the old regime
- Choice depends on individual circumstances, requiring case-by-case analysis

5. *Legal and Constitutional Implications:*

- The coexistence of two tax systems raises questions about equity and fairness but overall it gives options for both regimes therefore it has less impact on taxpayers rights rather it gives them freedom to choose whichever regimes they prefer.
- Potential challenges to the constitutional validity of a dual system, though courts have generally upheld tax reforms
- Concerns about the impact on savings and investment behavior, which may affect economic growth as a long term impact

6. *Recommendations and Thoughts on Dual System:*

- Conduct a thorough analysis for each client to determine the most beneficial regime
- Advise clients on long-term implications, not just immediate tax savings
- Stay updated on amendments and clarifications issued by the tax department
- Consider the impact on overall financial planning, not just tax liability
- Advocate for further simplification and rationalization of both regimes
- Looking forward to having certain amendments on income tax act 1961 with updated trends and uniformity to its approach.

7. *New Trends in Dual System:*

- Increasing digitalization of tax compliance and assessment which brings questions on a lack of mechanism and infrastructure for the government
- Greater emphasis on data analytics for tax planning and audits
- Potential move towards a single, simplified regime in the future
- Growing importance of international tax considerations (e.g., BEPS, digital taxation)
- Increased focus on tax transparency and global information exchange

CONCLUSION

The introduction of the new tax regime alongside the existing old regime marks a significant shift in India's income tax landscape. This dual system reflects the government's attempt to balance simplification with the preservation of investment incentives. The introduction of the new tax regime in 2020 and its subsequent modifications up to 2024 represent a significant shift in India's income tax. This research paper has conducted an in-depth analysis of both the new and old tax regimes under the Income Tax Act, 1961, as they stand in 2024. Our findings reveal several key insights:

1. Simplification vs. Deductions: The new tax regime offers a simplified structure with lower tax rates but removes many deductions and exemptions. This approach aims to reduce complexity and compliance burden for taxpayers. In contrast, the old regime retains higher tax rates but allows for various deductions, potentially benefiting those who can maximize these allowances.
2. Impact on Different Income Groups: Our analysis shows that the benefits of each regime vary significantly across income brackets. Lower and middle-income groups may find the new regime more advantageous due to lower effective tax rates, while high-income earners might still benefit from the old regime's deductions.
3. Behavioral Economics: The new regime's design aligns with principles of behavioral economics, potentially encouraging savings and investments through means other than tax incentives. This shift may have long-term implications for personal finance management and the financial products industry.
4. Economic Implications: The coexistence of both regimes provides flexibility but also introduces complexity in fiscal policy management. The government's revenue projections and policy effectiveness will need careful monitoring and potential adjustments.
5. Future Outlook: As India's economy evolves, further refinements to both regimes are likely. The gradual phasing out of the old regime remains a possibility, which could significantly impact tax planning strategies for individuals and businesses alike.Our study also calls out for new amendments in Income tax Act 1961 for it to become applicable to recent trends in investment and spending standards.

At last, while the new tax regime offers simplification and potentially lower tax burdens for some, its long-term impact on savings, investments, and overall economic growth remains to be seen. The success of this dual system will depend on its ability to adapt to changing economic conditions, taxpayer preferences, and global tax trends. As India continues to evolve its tax policy, striking the right balance between simplicity, fairness, and economic stimulation will be crucial for the country's fiscal health and economic development.This research underscores the need for continued financial literacy efforts, as well as the importance of adaptive tax policies that can respond to changing economic conditions while maintaining a balance between simplicity, equity, and economic growth stimulation.

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