

# A Comparative Study of The Old and New Income Tax Regimes in India: An Analytical Perspective

Priyanka L konnur

*Lecturer Department of PG studies in Commerce Koppal University Koppal*

**Abstract**—The introduction of the New Tax Regime under the Income-tax Act, 1961 represents a significant shift in India’s personal taxation system, aiming to simplify tax compliance by reducing tax rates and eliminating most exemptions and deductions. This paper undertakes a comparative analysis of the Old Tax Regime and the New Tax Regime with reference to their structural framework, applicable tax slabs, exemptions, deductions, and resultant tax liability for individual taxpayers. The study employs illustrative income-based scenarios to assess the relative tax burden under both regimes across different income levels. The findings indicate that the Old Tax Regime remains advantageous for taxpayers who avail substantial exemptions and deductions, whereas the New Tax Regime is more suitable for individuals with limited tax-saving investments and preference for simplified compliance. The study concludes that the effectiveness of each regime varies according to the taxpayer’s income composition and investment behaviour, and highlights the importance of informed regime selection for optimal tax planning.

**Index Terms**—Income Tax, Old Tax Regime, New Tax Regime, Tax Slabs, Deduction, Tax Planning

## I. INTRODUCTION

Taxation forms a crucial source of revenue for the Government of India and plays a significant role in economic development. Income tax, being a direct tax, is imposed on the income earned by individuals and other entities. Traditionally, the Indian income tax system followed a structure that allowed various deductions and exemptions to encourage savings, investments, and social welfare.

In the Union Budget 2020, the Government of India introduced an optional New Tax Regime with reduced slab rates but without most deductions and exemptions. The objective was to simplify the tax

structure, reduce complexity, and provide greater transparency. However, the continuation of the Old Tax Regime alongside the New Tax Regime has created a dilemma for taxpayers in choosing the most beneficial option.

This study seeks to analyze and compare the Old and New Tax Regimes to understand their implications on taxpayers and to identify which regime is more suitable for different income categories.

## II. OBJECTIVES OF THE STUDY

The objectives of the present study are:

1. To examine the features of the Old Tax Regime in India.
2. To analyze the structure of the New Tax Regime.
3. To compare tax slabs, deductions, and exemptions under both regimes.
4. To evaluate the impact of both regimes on different income groups.
5. To provide suggestions for effective tax planning.

## III. RESEARCH METHODOLOGY

The study is based on secondary data collected from:

- Income Tax Act, 1961
- Finance Acts and Union Budget documents
- CBDT notifications and circulars
- Journals, books, and government reports

The research adopts a doctrinal, analytical, and comparative approach. Comparative tables and descriptive analysis are used to evaluate differences between the Old and New Tax Regimes.

Old Tax Regime

Key Features of the Old Tax Regime

- Progressive Tax Rates: Higher income attracts higher tax rates.
- Multiple Deductions: Allows over 70 exemptions and deductions, including HRA, LTA, and Section 80C, allowing for substantial taxable income reduction.
- Investment Linked: Encourages savings and investments in specific instruments.
- Flexibility: Allows taxpayers to choose between the old and new regimes, though it is often considered more beneficial for high-income earners with high deductions.
- Standard Deduction: A standard deduction of ₹50,000 is available for salaried individuals.

#### Old Tax Regime Slab Rates (For Individuals Below 60 Years)

- Up to ₹2,50,000: Nil
- ₹2,50,001 to ₹5,00,000: 5%
- ₹5,00,001 to ₹10,00,000: 20%
- Above ₹10,00,000: 30%
- Note: For Senior Citizens (60-80), exemption limit is ₹3 lakh; for Super Senior Citizens (>80), it is ₹5 lakh.

#### Common Deductions and Exemptions

- Section 80C: Up to ₹1.5 lakh for PPF, ELSS, Life Insurance, EPF, etc..
- Section 80D: Health insurance premium (up to ₹25,000 for self/family, up to ₹50,000-₹1 lakh for senior citizens).
- Section 24(b): Interest on home loan (up to ₹2 lakh for self-occupied property).
- HRA/LTA: House Rent Allowance and Leave Travel Allowance exemptions.
- Section 80TTA/80TTB: Interest on savings account.

#### Limitations of the Old Tax Regime

- Complexity: Involves complex tax structure with numerous exemptions and deductions.
- Documentation: High compliance burden due to the need for proofs of investments and expenses.
- Limited Flexibility: Once investments are made, they cannot be changed easily during the financial year.

- Potential Higher Tax: Without sufficient deductions, the tax burden can be higher than the new regime.

#### Rebate

- A rebate under Section 87A is available if the taxable income is within the threshold limit, with a maximum rebate of ₹12,500.

#### New Tax Regime

##### Key Features of the New Tax Regime (FY 2025-26)

- Default Regime: It is the default option for individuals, HUF, AOP, BOI, and Artificial Juridical Persons.
- Reduced Slabs: The number of tax slabs has been reduced to five.
- Higher Exemption Limit: Basic exemption is now up to ₹4 lakh.
- Zero Tax Threshold: Due to the rebate under Section 87A, individuals with a taxable income up to ₹12 lakh will pay zero tax.
- Reduced Surcharge: Highest surcharge rate reduced from 37% to 25%.
- Simplified Compliance: Less paperwork, as many exemptions are removed.

#### Revised Tax Slabs (FY 2025-26/AY 2026-27)

The tax rates for the new regime are as follows:

- Up to ₹4 Lakh: Nil
- ₹4 Lakh - ₹8 Lakh: 5%
- ₹8 Lakh - ₹12 Lakh: 10%
- ₹12 Lakh - ₹16 Lakh: 15%
- ₹16 Lakh - ₹20 Lakh: 20%
- ₹20 Lakh - ₹24 Lakh: 25%
- Above ₹24 Lakh: 30%

#### Deductions and Exemptions Allowed

Only a few specific deductions are permitted under the new regime:

- Standard Deduction: ₹75,000 for salaried employees and pensioners.
- NPS Contribution: Employer's contribution to the National Pension System (Section 80CCD(2)) allowed up to 14% of basic salary.
- Family Pension Deduction: Deduction of ₹15,000 or 1/3rd of the pension, whichever is less.

- Interest on Home Loan (Let-out Property): Interest on borrowed capital for let-out property (Section 24) is allowed, but limited to the extent of rental income.

Limitations (Not Allowed)

Most popular deductions and exemptions are not available, including:

- Section 80C: Investments in PPF, ELSS, NSC, LIC, EPF, tuition fees, principal repayment on home loans.
- Section 80D: Medical insurance premiums.
- HRA (House Rent Allowance): Exemption for rent paid.
- LTA (Leave Travel Allowance):.
- Section 24(b): Interest on home loan for self-occupied property.
- Chapter VI-A Deductions: 80E (education loan), 80G (donations), 80TTA/TTB (interest on savings).

Tax Rebate (Section 87A)

- Rebate Amount: Increased to ₹60,000 for the new regime.
- Applicability: Taxable income up to ₹12 lakh allows a complete rebate, resulting in zero tax.

Note: 4% health and education cess is added to the tax liability in all cases.

IV. COMPARATIVE ANALYSIS OF OLD AND NEW TAX REGIMES

Comparison of Tax Slab Rates

Particulars	Old Tax Regime	New Tax Regime
Basic Exemption Limit	₹2,50,000	₹3,00,000
Slab Structure	Higher rates	Lower & progressive rates
Deductions (80C, 80D, HRA, etc.)	Allowed	Not allowed (mostly)
Standard Deduction	Allowed	Not allowed
Compliance Burden	High	Low
Tax Planning Scope	High	Limited

V. TAX LIABILITY CALCULATION – LOW INCOME GROUP

Assumed Annual Income: ₹5,00,000 (Salaried Individual)

Old Tax Regime

Particulars	Amount (₹)
Gross Total Income	5,00,000
Standard Deduction	(50,000)
Deduction u/s 80C	(1,50,000)
Taxable Income	3,00,000

Tax Calculation:

- Up to ₹2,50,000 – Nil
- ₹2,50,001 to ₹3,00,000 @5% = ₹2,500

Tax Payable = ₹2,500

(Rebate u/s 87A applicable → Tax Nil)

New Tax Regime

Particulars	Amount (₹)
Gross Total Income	5,00,000
Deductions	Nil
Taxable Income	5,00,000

Tax Calculation:

- Up to ₹3,00,000 – Nil
- ₹3,00,001 to ₹5,00,000 @5% = ₹10,000

Tax Payable = ₹10,000

(Rebate u/s 87A applicable → Tax Nil)

Inference: For low-income taxpayers, both regimes result in nil tax liability.

Tax Liability Calculation – Middle Income Group

Assumed Annual Income: ₹10,00,000

Old Tax Regime

Particulars	Amount (₹)
Gross Total Income	10,00,000
Standard Deduction	(50,000)
Deduction u/s 80C	(1,50,000)
Deduction u/s 80D	(25,000)
Taxable Income	7,75,000

**Tax Calculation:**

- Up to ₹2,50,000 – Nil
- ₹2,50,001–₹5,00,000 @5% = ₹12,500
- ₹5,00,001–₹7,75,000 @20% = ₹55,000

Total Tax = ₹67,500

Add Cess @4% = ₹2,700

Total Tax Payable = ₹70,200

**New Tax Regime**

Particulars	Amount (₹)
Gross Total Income	10,00,000
Deductions	Nil
Taxable Income	10,00,000

**Tax Calculation:**

- Up to ₹3,00,000 – Nil
- ₹3,00,001–₹6,00,000 @5% = ₹15,000
- ₹6,00,001–₹9,00,000 @10% = ₹30,000
- ₹9,00,001–₹10,00,000 @15% = ₹15,000

Total Tax = ₹60,000

Add Cess @4% = ₹2,400

Total Tax Payable = ₹62,400

Inference: For middle-income earners with deductions, the old regime results in higher tax savings.

**Tax Liability Calculation – High Income Group**

Assumed Annual Income: ₹15,00,000

**Old Tax Regime**

Particulars	Amount (₹)
Gross Total Income	15,00,000
Standard Deduction	(50,000)
Deductions (80C, 80D, Housing Loan Interest etc.)	(2,50,000)
Taxable Income	12,00,000

**Tax Calculation:**

- Up to ₹2,50,000 – Nil
- ₹2,50,001–₹5,00,000 @5% = ₹12,500
- ₹5,00,001–₹10,00,000 @20% = ₹1,00,000
- ₹10,00,001–₹12,00,000 @30% = ₹60,000

Total Tax = ₹1,72,500

Add Cess @4% = ₹6,900

Total Tax Payable = ₹1,79,400

**New Tax Regime**

Particulars	Amount (₹)
Gross Total Income	15,00,000
Deductions	Nil
Taxable Income	15,00,000

**Tax Calculation:**

- Up to ₹3,00,000 – Nil
- ₹3,00,001–₹6,00,000 @5% = ₹15,000
- ₹6,00,001–₹9,00,000 @10% = ₹30,000
- ₹9,00,001–₹12,00,000 @15% = ₹45,000
- ₹12,00,001–₹15,00,000 @20% = ₹60,000

Total Tax = ₹1,50,000

Add Cess @4% = ₹6,000

Total Tax Payable = ₹1,56,000

Inference: Despite higher income, new regime may be beneficial when deductions are limited.

**Overall Comparative Summary**

Income Level	Better Regime	Reason
Low Income	Both	Rebate benefit
Middle Income	Old Regime	Higher deductions
High Income	Depends	Based on deductions

**VI. FINDINGS (BASED ON COMPARATIVE CALCULATIONS)**

1. The comparative tax calculations indicate that for low-income earners (up to ₹5,00,000), both the Old and New Tax Regimes result in nil tax liability due to the availability of rebate under Section 87A.
2. For the middle-income group (₹10,00,000), taxpayers who avail deductions under Sections 80C and 80D benefit more under the Old Tax Regime, as the effective tax liability is lower when compared to the New Tax Regime.
3. The analysis reveals that the New Tax Regime becomes advantageous for middle- and high-income taxpayers who do not make significant

tax-saving investments or claim major exemptions.

4. Salaried individuals with housing loans, insurance premiums, and investment-linked deductions experience greater tax efficiency under the Old Tax Regime.
5. The New Tax Regime reduces the compliance burden and documentation requirements, making it suitable for taxpayers seeking simplicity over tax optimization.
6. The effectiveness of either tax regime is not uniform across income levels, as the final tax burden largely depends on the taxpayer's eligibility for deductions and exemptions.

- [3] 3. Income-tax Act, 1961, Government of India, as amended from time to time.
- [4] 4. Finance Act, 2020, Government of India (Introduction of New Tax Regime – Section 115BAC).5. Finance Act, 2023, Government of India (Amendments to Section 115BAC).
- [5] Central Board of Direct Taxes (CBDT), Circulars and Notifications relating to Income Tax Rates and Regimes, Government of India

## VII. CONCLUSION

The present study examined the Old and New Tax Regimes in India through a detailed comparative analysis supported by numerical tax calculations. The findings clearly demonstrate that neither regime can be considered universally superior. For taxpayers in the low-income category, both regimes provide similar outcomes due to rebate provisions. However, for middle-income earners who actively utilize deductions and exemptions, the Old Tax Regime continues to offer substantial tax advantages. Conversely, the New Tax Regime proves beneficial for taxpayers with limited deductions and a preference for a simplified tax structure.

The study concludes that the choice between the Old and New Tax Regimes should be based on an individual's income composition, investment behavior, and long-term financial planning objectives. Policymakers may consider introducing limited deductions within the New Tax Regime to enhance its attractiveness without compromising simplicity. Overall, informed decision-making and awareness are essential to ensure optimal tax efficiency under the dual tax regime system in India.

## REFERENCES

- [1] 1. Singhania, V. K., & Singhania, K. Direct Taxes – Law and Practice. Taxmann Publications, New Delhi.
- [2] 2. Ahuja, G. K., & Gupta, R. Systematic Approach to Income Tax. Bharat Law House, New Delhi.