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Impact of old and new tax regimes on Indian taxpayer's

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Abstract
The introduction of the New Tax Regime in India, announced in the Union Budget **2020-21,** marked a significant shift in the country's personal income tax structure. It offered taxpayers lower tax rates with minimal exemptions and deductions, in contrast to the Old Tax Regime, which followed a higher rate structure but provided numerous tax-saving incentives. This study examines the impact of both regimes on government revenue collection, analysing trends in direct tax receipts, compliance behaviour and taxpayer preferences since the implementation of the New Regime. Using secondary data from the Ministry of Finance, the Income Tax Department, and the Comptroller and Auditor General (CAG) reports, the research compares revenue growth patterns and assesses whether the simplified structure has met its intended objectives of broadening the tax base and increasing voluntary compliance. Preliminary findings suggest that while the New Tax Regime has simplified filing processes, its uptake remains moderate, and revenue outcomes are influenced by taxpayer awareness, demographic factors, and retention of deductions under the Old Regime. The study provides policy recommendations to balance taxpayer convenience with sustainable revenue growth for the government.

Keywords: Old tax regime, new tax regime, government revenue, direct taxes, tax compliance in India

Introduction
Taxation plays a pivotal role in financing the developmental and welfare objectives of any nation, and personal income tax remains a crucial component of India's direct tax revenue. The Indian tax system has undergone multiple reforms over the decades to enhance efficiency, improve compliance, and ensure equitable distribution of the tax burden. One of the most significant recent changes was the introduction of the New Tax Regime in the Union Budget 2020-21, aimed at simplifying the tax structure by offering lower tax rates without most exemptions and deductions. In contrast, the Old Tax Regime follows a relatively higher tax rate structure but allows taxpayers to claim various deductions and exemptions under provisions like Section 80C, 80D, and HRA benefits.

This dual-framework approach has given taxpayers the option to choose between the two regimes based on their income patterns, investment habits, and financial goals. From the government's perspective, this policy shift was designed not only to simplify compliance but also to potentially expand the tax base and strengthen revenue collection. However, the actual impact on government revenue depends on multiple factors, including taxpayer adoption rates, behavioural responses, and the economic climate.

This study explores how the coexistence of the Old and New Tax Regimes has influenced direct tax revenue trends in India, assessing whether the reform has achieved its intended objectives of simplicity and revenue stability. By examining data from the Ministry of Finance and other official sources, the research seeks to provide a comprehensive understanding of the policy's fiscal implications.

Literature Review
A literature review on "Impact of Old and New Tax Regimes on Government Revenue Collection in India" is a critical summary of past studies, reports, and policy documents related to how these two tax structures affect government revenue, taxpayer behaviour, and compliance, highlighting research gaps and guiding the present study.

Kumar & Sharma (2020) examined the structural differences between the Old Tax Regime (OTR) and the New Tax Regime (NTR), concluding that while NTR simplifies compliance, it may initially lead to reduced revenue due to loss of exemptions.

Ministry of Finance (2021), in its annual report on direct taxes, highlighted that the initial adoption rate of NTR was modest, with most taxpayers continuing under OTR due to significant deductions and exemptions available.

Agarwal (2021) [1] Analysed taxpayer behaviour post-NTR introduction and found that higher-income taxpayers benefited more under NTR, whereas middle-class taxpayers preferred OTR for its investment-linked tax benefits.

Rao & Singh (2022) conducted a microsimulation study using income tax return data, estimating that revenue collections under NTR would improve only if adoption rates exceeded 60% among salaried taxpayers.

PwC India Report (2022) compared revenue implications of OTR and NTR, noting that budgetary changes in 2021 and 2022 altered the projected fiscal outcomes significantly.

Patel & Iyer (2022) assessed awareness and perception among taxpayers, finding that limited understanding of slab changes under NTR hindered its acceptance, thereby reducing its revenue potential.

National Institute of Public Finance and Policy (NIPFP) (2023) concluded that while the NTR may broaden the tax base over time, short-term revenue effects are neutral to slightly negative.

Gupta (2023) used a survey-based approach and found that taxpayers with no housing loan or insurance deductions were more inclined towards NTR, leading to minimal impact on aggregate collections.

EY India (2024) reported that policy tweaks in Budget 2023-24, including rebate changes and standard deduction introduction in NTR, made it more competitive with OTR, potentially boosting adoption and revenue stability.

Sharma & Verma (2024) analysed revenue data from 2020-2024 and concluded that while NTR adoption is rising, OTR continues to dominate filings, and overall revenue growth is more influenced by economic recovery than regime choice.

Research objectives

1. To compare the Old and New Tax Regimes in terms of structure and features.
2. To study trends in government revenue before and after the New Tax Regime.
3. To find out how taxpayers choose between the two regimes.
4. To examine the effect of each regime on tax compliance.
5. To suggest ways to improve revenue collection under both regimes.

Research Methodology

This study adopts a descriptive and analytical research design to examine the impact of Old and New Tax Regimes on government revenue collection in India. The research is based on secondary data collected from official sources such as the Ministry of Finance, Income Tax Department reports, Union Budget documents, and publications by reputed research institutions. Data on direct tax receipts, adoption rates of the New Tax Regime, and revenue trends from 2018-19 to 2024-25 are compiled for analysis. Statistical tools such as percentage change, trend analysis, and comparative charts are used to identify patterns and differences in revenue performance. The study also reviews relevant literature to understand taxpayer behaviour, compliance, and policy implications.

Concept of old Tax Regime

The Old Tax Regime in India refers to the personal income tax system that existed before the introduction of the New Tax Regime in the Union Budget 2020-21. It follows a progressive tax slab structure with relatively higher tax rates but allows taxpayers to claim a wide range of exemptions and deductions under the Income Tax Act, 1961. Common provisions include deductions under Section 80C (investments in PPF, ELSS, LIC, etc.), Section 80D (health insurance premium), House Rent Allowance (HRA), Leave Travel Allowance (LTA), and home loan interest benefits. This regime encourages tax-saving investments and insurance purchases, linking tax relief to financial planning. Under the Old Tax Regime, taxpayers can reduce their taxable income substantially if they actively invest in eligible schemes or incur expenses covered under tax deduction rules. While it supports savings and long-term investment, critics argue that it is complex and compliance-heavy, requiring documentation and tax planning expertise.

Table 1: Tax Slabs rates on old tax regime for the financial year 2025-2026

Net Taxable Income	Tax Rate
Up to ₹ 250000	Nil
₹ 250000-₹ 500000	5% of amount exceeds ₹ 250000
₹ 500000-₹ 1000000	20% of amount exceeds ₹ 500000
Above ₹ 1000000	30% of amount exceeds ₹ 1000000

Source: Union Budget 2025

Note: Health and Higher Education Cess additional charged on above slabs @ 4% + Surcharged on based on level of Income.

Rebate U/S 87A has been applied for Individual whose income up to ₹ 500000 then rebate up to 12500 allowed.

Tax Liability Calculation

- Gross income: ₹ 12,00,000
- Deductions claimed (e.g., Sections 80C, 80D): ₹ 2,00,000
- Net taxable income: ₹ 10,00,000

Tax computation:

1. Up to ₹ 2,50,000-No tax
2. Next ₹ 2,50,000 (₹ 2,50,001-₹ 5,00,000) at 5% → Tax = ₹ 12,500
3. Next ₹ 5,00,000 (₹ 5,00,001-₹ 10,00,000) at 20% → Tax = ₹ 1,00,000

Total basic tax: ₹ 12,500 + ₹ 1,00,000 = ₹ 1,12,500
Tax liabilities = 112500 + 4% (H. & H.E.C.) = 117000

Concept of New Tax Regime

The New Tax Regime (Section 115BAC) introduced slabs many exemptions and deductions in favour of lower, streamlined slab rates. It also offers:

- Standard deduction of ₹75,000 for salaried taxpayers (FY2025-26).
- A fully refundable rebate under Section 87A of ₹60,000, effectively rendering income up to ₹12 lakhs tax-free.

- Zero tax for income up to ₹12 lakh, or ₹12.75 lakh including the standard deduction.

Table 2: L Slabs for New Tax Regime for financial year 2025-2026

Net Taxable Income (₹)	Tax Rate
Up to 4,00,000	Nil
4,00,001-8,00,000	5%
8,00,001-12,00,000	10%
12,00,001-16,00,000	15%
16,00,001-20,00,000	20%
20,00,001-24,00,000	25%
Above 24,00,000	30%

Calculation: ₹10 Lakh Income (New Regime)
Gross income: ₹10,00,000
Less standard deduction: ₹75,000 → Taxable income: ₹9,25,000

Tax computation

- 0% on first ₹4 L → ₹0
- 5% on next ₹4 L → ₹20,000
- 10% on remaining ₹1.25 L → ₹12,500
- Total tax: ₹32,500
- Add 4% cess: ₹1,300 → ₹33,800 total
- Full rebate ₹33,800 (since < ₹12 L) → Final tax: ₹0

Table 3: Comparative Study: Old vs. New Tax Regime (FY 2025-26) slabs comparison.

Old regime rate	New regime rates
Up to 2.5 Lakhs = Nil	Up to 4 Lakhs = Nil
₹ 2.5 L to 5 Lakhs = @ 5%	₹ 4 L to 8 Lakhs = @ 5%
₹ 5 L to 10 Lakhs = @ 20%	₹ 8 L to 12 Lakhs = @ 10%
Above ₹ 1000000 = @ 30%	₹ 12 L to 16 Lakhs = @ 15%
	₹ 16 L to 20 Lakhs = @ 20%
	₹ 20 L to 24 Lakhs = @ 25%
	Above ₹ 2400000 = @ 30%

Source: Union Budget 2025

Interpretation: Above Table No.-3. Seems that New Tax regime is more slabs with low tax rates so tax payers whose taxable income is more and No investment and saving then opted new tax regime rates because low tax rate but no any deduction or exemptions allowed. Old regime allows exemptions/deductions like 80C, 80D, HRA, etc.; New regime allows no such deductions, only the ₹75,000 standard deduction. Rebate limits differ: Old under 87A max ₹12,500 for income up to ₹500000; New regime raises it to ₹60,000 for up to ₹12 lakh income.

Example: ₹15 Lakh Income

Based on calculations from X individual taxpayers
Old Regime (after ₹50k standard deduction, no other exemptions):

Taxable income
₹14.5 lakh → Total tax: ~₹2,47,500 → Cess → ~₹2,57,400.

New Regime (after ₹75k deduction)
Taxable income: ₹14.25 L → Tax: ~₹93,750 → Cess → ~₹97,500.

Saving
Tax under New Regime is significantly lower (₹97,500 vs. ₹2,57,400).
Net saving for X Individual taxpayers rupees = 257400-97500 = 159900 (For opted New Tax regime)

Hence
New Regime simplifies tax filing with lower slabs and no exemptions but forfeits deductions.
Old Regime is beneficial if you maximize deductions (investments, HRA, insurance, etc.).
For middle-income taxpayers, especially salaried individuals with limited deductions, the New Regime is often more tax-efficient.

Conclusion

The comparison of the Old Tax Regime and the New Tax Regime for FY 2025-26 shows that each system benefits different types of taxpayers. The Old Tax Regime follows traditional slab rates with more exemptions and deductions (such as 80C, 80D, HRA), which can significantly reduce taxable income for those who make eligible investments and claim benefits. However, it has higher tax rates for middle-income earners and requires more paperwork. The New Tax Regime, on the other hand, offers lower tax rates and wider income slabs but removes most deductions, keeping only a ₹75,000 standard deduction for salaried taxpayers. A major change is the increased rebate under Section 87A, which makes income up to ₹12 lakh (₹12.75 lakh including standard deduction) tax-free. This simplifies filing and reduces taxes for individuals with fewer deductions, especially middle-income earners.
From examples, the New Regime often results in lower tax liability when deductions are limited, while the Old Regime may still be better for high savers with significant exemptions. In short, the choice depends on income structure and investment habits—those with minimal deductions benefit more from the New Regime, while heavy investors save more under the Old Regime.

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