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Old Vs. New Tax Regime - Comparative Study From The Perspective Of A Salaried Employee

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ABSTRACT

In order to simplify taxes, our taxation policies get revised every year. In budget it was decided to give new optional tax system to individual as well as HUF assesses. New direct tax regime has been introduced u/s 115BAC from financial year 2020-21 and comes with reduced income tax slab rates and the removal of rebates and exemptions. The new tax regime is also called as Optional tax regime because Government has not abolished old tax regime rather given option to choose the tax regime i.e. either Old or New. This paper aims to study the comparison of new income tax system with old tax system in India and evaluate the benefit analysis on the basis of comparison between the two systems. The study is purely based on secondary data. Various figures are obtained from the literature, journal publications and websites. Thereafter this paper discusses advantages and disadvantages of two systems and explains the possible challenges and opportunities that taxpayers will face in taking the decisions regarding selection of one tax regime between two.

Keywords: Income Tax, New Taxation system, Exemptions, Deductions

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INTRODUCTION

An easy and simple taxation system facilitates no chance for tax evasion and along that also brings prosperity to a country's economy because tax is the foremost source of income for the government at centre, state and municipal level. The development of any country's economy largely depends on the tax structure it has adopted. In budget 2020 the finance minister of India Hon'ble Nirmala Sitaraman announced a new Direct Tax regime to provide significant relief to taxpayers and making tax regulation simpler. The introduction of this regime is believed to decrease dependence on tax consultants for taxpayers as taxpayers will be able to handle the filling of taxes on their own. Every individual has the decision either to go on with old duty system or to pick the new expense framework. The reason behind introducing the system is that there was demand from most taxpayers from long to reduce the tax rates on existing slabs but this new tax system came up with one glitch that one cannot take the benefit of all the deductions and exemptions which is available under old Tax regime. According to rules, citizen needs to make his/her decision for selecting both of duty systems during the hour of filling of return.

Research Methodology: The data for the present paper has been collected from various government sites, newspaper articles, ICAI journal, websites, and through attending workshops & seminars of tax experts. On the basis of data and information collected, the calculations and analysis made by the researcher have been presented in tabular form.

Objectives of the study: The main objective of present study is to compare the old and new income tax regimes.

Analysis and interpretation:**1. Income Tax Slabs**

The new direct tax regime offers seven lower income tax slabs. Therefore, anyone paying taxes without claiming any tax deductions can benefit from paying a lower rate of tax.

Table-1: Incometaxslabratesfornewandoldtaxationregime

| TotalIncome(Rs) | OldRegime | NewRegime |
|-----------------|-----------|-----------|
| Upto2.5lakh | Nil | Nil |
| 2.5to5lakh | 5% | 5% |
| 5to7.5lakh | 20% | 10% |
| 7.5to10lakh | 20% | 15% |
| 10to12.5lakh | 30% | 20% |
| 12.5to15lakh | 30% | 25% |
| Above15lakh | 30% | 30% |

Source:

Interpretation:

As we can see in table 1 , In old tax regime, Income is taxable at four slab rates –0%, 5%, 20% and 30%. However, New tax regime is taxable at seven slab rates - 0%, 5%,10%,15%, 20%,25% and 30%. Though the number of tax slabs vary , the lowest and the highest tax rates are similar in two regimes.

2. Deductions**Table-2:** EXEMPTIONS & DEDUCTIONS NOT AVAILABLE IN NEW TAX REGIME

1. Leave travel allowance (LTA) exemption which is currently available to salaried employees twice in a block of four years u/s 10(5)
2. House rent allowance (HRA) normally paid to salaried individuals as part of salary u/s 10(13A)
3. Standard deduction of Rs 50,000 currently available to salaried tax payers and pensioners
4. Deduction available under section 80TTA/80TTB will not be available to the taxpayers.
5. Deduction for entertainment allowance (for government employees) and employment/professional tax as contained in section 16.
6. Special Allowances except traveling, transfer, conveyance (for official) and transport allowance (for blind, deaf, dumb or handicapped).
7. Allowance to MPs/MLAs u/s 10(17).
8. Minor Child Exemption u/s 10(32).
9. Special Economic Zone u/s 10AA
10. Exemption of perks (free food and non alcoholic beverage)

11. Tax benefit on interest paid on housing loan taken for a self-occupied or vacant house property:
Interest paid on housing loan for such a property could be claimed as a deduction from income from house property which resulted in a loss from house property (as the property was self/occupied or vacant). This loss could be set off against salary income thereby reducing the individuals' taxable income and net tax liability. This comes under section 24
12. Investment allowance in case of backward areas
13. Deduction of Rs 15000 allowed from family pension under clause (ia) of section 57
14. All deductions under chapter VIA (like section 80C, 80CCC, 80CCD, 80D, 80DD, 80DDB, 80E, 80EE, 80EEA, 80EEB, 80G, 80GG, 80GGA, 80GGC, 80IA, 80-IAB, 80-IAC, 80-IB, 80-IBA, etc) will not be claimable by those opting for the new tax regime.

Interpretation:

In new tax regime an individual has reduced tax slab rates but there are no exemptions & deductions available. However, in old tax system they can avail all exemptions & deductions. Income Tax Act provides over 70+ exemptions & deductions to taxpayers with which they can reduce their tax liability. There are various allowances included in salary like leave travel allowance, house rent allowance for which deductions are available to reduce taxable income. Tax-saving investment deductions under Chapter VI-A (80C, 80D, 80E, 80CCC, 80CCD, 80DD, 80DDB, 80EE, 80EEA, 80EEB, 80G, 80GG, 80GGA, 80GGC, 80IA, 80-IAB, 80-IAC, 80-IB, 80-IBA, etc.) (except, deduction under Section 80CCD (2))

3. Relative tax position of a salaried individual taxpayers: Old regime vs. New regime

TABLE - 3

TAX LIABILITY ASSUMING NO DEDUCTIONS AND EXEMPTIONS

| Annual Income Rs. | New Tax Regime | | Old Tax Regime | | Difference OLD TAX REGIME – NEW TAX REGIME (Rs.) |
|----------------------|----------------|------------------------|----------------|------------------------|--|
| | Tax rates % | Tax liability (Rs.) | Tax rates % | Tax liability (Rs.) | |
| 2,50,000 | - | - | - | - | - |
| 5,00,000 | 5 | - | 5 | - | - |
| 6,00,000 | 5;10 | 22,500 | 5;20 | 32,500 | 10,000 |

| | | | | | |
|-------------|------------------|-----------|---------|-----------|--------|
| 7,50,000 | 5;10 | 37,500 | 5;20 | 62,500 | 25,000 |
| 9,00,000 | 5;10;15 | 60,000 | 5;20 | 92,500 | 32,500 |
| 10,00,000 | 5;10;15 | 75,000 | 5;20 | 1,12,500 | 37,500 |
| 12,00,000 | 5;10;15;20 | 1,15,000 | 5;20;30 | 1,72,500 | 57,500 |
| 12,50,000 | 5;10;15;20 | 1,25,000 | 5;20;30 | 1,87,500 | 62,500 |
| 14,00,000 | 5;10;15;20;25 | 1,62,500 | 5;20;30 | 2,32,500 | 70,000 |
| 15,00,000 | 5;10;15;20;25 | 1,87,500 | 5;20;30 | 2,62,500 | 75,000 |
| 18,00,000 | 5;10;15;20;25;30 | 2,77,500 | 5;20;30 | 3,52,500 | 75,000 |
| 20,00,000 | 5;10;15;20;25;30 | 3,37,500 | 5;20;30 | 4,12,500 | 75,000 |
| 30,00,000 | 5;10;15;20;25;30 | 6,37,500 | 5;20;30 | 7,12,500 | 75,000 |
| 50,00,000 | 5;10;15;20;25;30 | 12,37,500 | 5;20;30 | 13,12,500 | 75,000 |
| 70,00,000 | 5;10;15;20;25;30 | 18,37,500 | 5;20;30 | 19,12,500 | 75,000 |
| 1,00,00,000 | 5;10;15;20;25;30 | 27,37,500 | 5;20;30 | 28,12,500 | 75,000 |

Source: Observed and calculated by researcher

Interpretation: In Table 3 it can be analyzed that tax liability under old tax system is more than tax liability in new tax system if an individual is claiming no deduction. Up to an income level of Rs. 5 lakhs, the difference is nil but afterwards up to income of Rs. 15 lakhs, the difference increases gradually to Rs. 75,000 and the gets stable.

TABLE – 4

TAX LIABILITY ASSUMING STANDARD DEDUCTION RS. 50,000 AND 80C DEDUCTION RS. 1,50,000= TOTAL RS. 2,00,000

| Income before Deductions/E exemptions (Rs.) | New Tax Regime (No deductions or exemptions available) | | Old Tax Regime ((deductions or exemptions available) | | | Difference OLD TAX REGIME – NEW TAX REGIME (Rs.) |
|---|--|---------------------|--|-------------|---------------------|--|
| | Tax rates % | Tax liability (Rs.) | Income after deduction s/exempti ons(Rs.) | Tax rates % | Tax liability (Rs.) | |
| 2,50,000 | - | - | 50,000 | - | - | |
| 5,00,000 | 5 | - | 3,00,000 | 5 | - | |
| 6,00,000 | 5;10 | 22,500 | 4,00,000 | 5 | - | -25,000 |
| 7,50,000 | 5;10 | 37,500 | 5,50,00 | 5;20 | 22,500 | -7,500 |
| 9,00,000 | 5;10;15 | 60,000 | 7,00,000 | 5;20 | 52,500 | -42,500 |
| 10,00,000 | 5;10;15 | 75,000 | 8,00,000 | 5;20 | 32,500 | -2,500 |
| 12,00,000 | 5;10;15;20 | 1,15,000 | 10,00,000 | 5;20 | 1,12,500 | 2,500 |
| 12,50,000 | 5;10;15;20 | 1,25,000 | 10,50,000 | 5;20;30 | 1,27,500 | 10,000 |
| 14,00,000 | 5;10;15;20;25 | 1,62,500 | 12,00,000 | 5;20;30 | 1,72,500 | 15,000 |
| 15,00,000 | 5;10;15;20;25 | 1,87,500 | 13,00,000 | 5;20;30 | 2,02,500 | 15,000 |
| 18,00,000 | 5;10;15;20;25;30 | 2,77,500 | 16,00,000 | 5;20;30 | 2,92,500 | 15,000 |
| 20,00,000 | 5;10;15;20;25;30 | 3,37,500 | 18,00,000 | 5;20;30 | 3,52,500 | 15,000 |
| 30,00,000 | 5;10;15;20;25;30 | 6,37,500 | 28,00,000 | 5;20;30 | 6,52,500 | 15,000 |

| | | | | | | |
|-------------|------------------|-----------|-----------|---------|------------|--------|
| 50,00,000 | 5;10;15;20;25;30 | 12,37,500 | 48,00,000 | 5;20;30 | 12,52,,500 | 15,000 |
| 70,00,000 | 5;10;15;20;25;30 | 18,37,500 | 68,00,000 | 5;20;30 | 18,52,500 | 15,000 |
| 1,00,00,000 | 5;10;15;20;25;30 | 27,37,500 | 98,00,000 | 5;20;30 | 27,52,500 | 15,000 |

Source: Observed and calculated by researcher

Interpretation: In Table 4, it can be analyzed that with standard deduction of Rs.50,000 and 80C deductions of Rs.1,50,000, tax liability under old tax system is favorable up to annual income of Rs.10,00,000. Therefore, an individual whose gross total income is upto 10,00,000 , would be saving taxes under old tax regime. But for income levels of Rs. 12,00,000 or more, the new tax regimes again results in lower tax liability of an amount up to Rs. 15,000.

TABLE - 5

TAX LIABILITY ASSUMING STANDARD DEDUCTION RS. 50,000 ; 80C DEDUCTION RS. 1,50,000 AND INTEREST ON HOUSING LOAN TOTAL RS. 4,00,000

| Income (Rs.) | New Tax Regime | | Old Tax Regime ((deductions or exemptions available) | | | Difference |
|--------------|----------------|---------------------|--|-------------|---------------------|---------------------------------------|
| Income (Rs.) | Tax Rates % | Tax Liability (Rs.) | Income after deductions/ exemptions (Rs.) | Tax Rates % | Tax Liability (Rs.) | OLD TAX REGIME – NEW TAX REGIME (Rs.) |
| 2,50,000 | - | - | - | - | - | |
| 5,00,000 | 5 | - | 1,00,000 | - | - | |
| 6,00,000 | 5;10 | 22,500 | 2,00,000 | - | - | -22,500 |
| 7,50,000 | 5;10 | 37,500 | 3,50,00 | - | - | -37,500 |
| 9,00,000 | 5;10;15 | 60,000 | 5,00,000 | 5 | - | -60,000 |
| 10,00,000 | 5;10;15 | 75,000 | 6,00,000 | 5;20 | 32,500 | -42,500 |
| 12,00,000 | 5;10;15;20 | 1,15,000 | 8,00,000 | 5;20 | 72,500 | -42,500 |
| 12,50,000 | 5;10;15;20 | 1,25,000 | 8,50,000 | 5;20 | 82,500 | -42,500 |
| 14,00,000 | 5;10;15;20;25 | 1,62,500 | 10,00,000 | 5;20 | 1,12,500 | -50,000 |

| | | | | | | |
|-------------|------------------|-----------|-----------|---------|-----------|---------|
| 15,00,000 | 5;10;15;20;25 | 1,87,500 | 11,00,000 | 5;20;30 | 1,42,500 | -45,000 |
| 18,00,000 | 5;10;15;20;25;30 | 2,77,500 | 14,00,000 | 5;20;30 | 2,32,500 | -45,000 |
| 20,00,000 | 5;10;15;20;25;30 | 3,37,500 | 16,00,000 | 5;20;30 | 2,92,500 | -45,000 |
| 30,00,000 | 5;10;15;20;25;30 | 6,37,500 | 26,00,000 | 5;20;30 | 5,92,500 | -45,000 |
| 50,00,000 | 5;10;15;20;25;30 | 12,37,500 | 46,00,000 | 5;20;30 | 11,92,500 | -45,000 |
| 52,00,000 | 5;10;15;20;25;30 | 12,97,500 | 48,00,000 | 5;20;30 | 12,52,500 | -45,000 |
| 54,00,000 | 5;10;15;20;25;30 | 13,57,500 | 50,00,000 | 5;20;30 | 13,12,500 | -45,000 |
| 1,00,00,000 | 5;10;15;20;25;30 | 27,37,500 | 96,00,000 | 5;20;30 | 26,92,500 | -45,000 |

Source: Observed and calculated by researcher

INTERPRETATION

In Table 5, it can be analyzed that tax liability under old regime is favorable at all income levels if total deductions claimed by an individual exceeds 4,00,000. The tax saving under the old tax regime ranges from Rs.22,500 to Rs. 60,000.

Findings and suggestions:

- In old tax regime, Income is taxable at four slab rates –0%, 5%, 20% and 30%. However, New tax regime is taxable at seven slab rates - 0%, 5%,10%,15%, 20%,25% and 30%.
 - Tax liability under old tax system is more than tax liability in new tax system to the tune of Rs.75,000 if an individual is claiming no deduction.
 - With standard deduction of 50,000 and 80C deductions of 1,50,000, an individual whose gross total income is upto 10,00,000 , would be saving taxes under old tax regime.
 - Tax liability under old regime is favorable if total deductions claimed by an individual exceeds 4,00,000.
 - If an individual is in a habit of saving in various tax saving instruments , then he/she can reduce the tax liability under old tax regime. However, those who never invest in tax saving instruments, they can reduce their tax liability by switching to new tax regime.
 - New Tax regime came up with numerous advantages to individuals such as they are no longer required to lock-in their funds for longer period to save taxes and they are notrequired to go for complex compliances and calculations because this regime is simple as it includes no deductions and exemptions. But this regime came up with a very big disadvantage that individuals are not able to claim any benefit of exemptions of allowances and deductions that are not even dependent on investments like children allowance.
 - Old tax sytem on the other hand teaches the regular savings habits to individual. This savings can be beneficial for any type of future uncertainties. However, deductions on savings can be claimed only when investments are made in the specified financial instruments with a lock in period for three-five years. Also, to claim these deductions, individuals have to maintain all the proofs and documents related to the deduction and exemption availed under old taxation regime. Therefore, it will make old tax regime complex.
- Therefore, both tax systems have its own pros and cons and there is no specific explanation to choose one option. New tax system is offering more rates but old tax rates are offering buckets of deductions and exemptions.

Conclusion

New optional tax system comes up with simplified tax slabs but no deductions and old tax system is offering various deductions and exemptions but is complex to understand. Government makes it optional so that an individual before selecting to switch to new tax regime or to continue with the old tax should do their own calculations under both systems and select the system which creates less tax liability. It is therefore recommended to do a comparative analysis and evaluation under both the tax regimes before individual proceeds to file taxes. It can be concluded that if an individual is in a habit of saving in various tax saving instruments, then he/she can reduce the tax liability under old tax regime. However, those who never invest in tax saving instruments, they can reduce their tax liability by switching to new tax regime. If deductions to be claimed are more than 4 lakhs, then an individual will be benefitted under old tax regime. However, it is advised to choose system in beginning of the year because a salaried employee has to communicate his decision in advance to employer so that TDS returns are filed accordingly.

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