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Old vs. New Tax Regime in India: An Empirical Analysis of Tax Liability and Regime Preferences among Salaried Taxpayers

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Abstract-- Two types of income tax regimes are offered by the income tax department of India in the recent years. They are categorized into the new and the old tax regime. At times an individual faces confusion and lack of knowledge to choose between the appropriate regime for calculating the income tax liability. The traditional old regime accompanies a wide range of exemptions and deductions along with a higher tax rate as compared to the new regime with comparatively low tax rates and lesser deductions and exemptions.

This study examines various income levels and tax liability by using both regimes to find out the ideal regime preference in each scenario. Five cases are used in this study for empirical analysis for the purpose of tax planning. The impact of income level, standard deduction, house rent allowance, interest on home loan and exemptions under section 80C, 80D, 80E, 80CCD are taken into consideration. An individual taxpayer with substantial number of deductions and exemptions may gain significant benefits by opting the old regime, whereas with limited deductions and exemptions amount, the new tax regime with revised and wider slab rates will prove to be more beneficial. The findings of the study give a better understanding of tax planning decisions under different income categories and provide useful insights for policy makers, financial planners and tax experts.

***Keywords*--Old Tax Regime, New Tax Regime, Tax Liability, Tax Planning, Tax Deductions, Tax Exemptions**

I. Introduction

Income tax is a direct form of tax charged on the income earned by the assessee. India's personal income tax has gone through many notable changes in the last few years. The launch of the new regime was a major decision which was introduced in year 2020-21. The government has kept both the old and new tax regimes so far. New regime is comparatively simpler than the old regime. The traditional old regime accompanies a wide range of exemptions and deductions along with a higher tax rate as compared to the new regime with comparatively low tax rates and lesser deductions and exemptions.

The option of both the regimes gives the taxpayer an opportunity to choose the best option. The aim of the taxpayer is to minimize the tax liability. The exemptions and deductions can lower the tax liability to a greater extent.

The impact of income level, standard deduction, house rent allowance, interest on home loan and exemptions under section 80C, 80D, 80E, 80CCD are taken into consideration for the study. An individual taxpayer with substantial number of deductions and exemptions may gain significant benefits by opting the old regime, whereas through limited deductions and exemptions amount, the new tax regime with revised and wider slab rates will prove to be more beneficial. The challenge is the choice of the best regime to minimize the taxes of the assessee. The study also considers the impact of the right investments to minimize the taxes.

II. Objectives Of The Study

- To empirically compare the "new and the old tax regimes" with respect to tax payable and regime preferences among salaried taxpayers with the help of five empirical cases.
- To Compare and analyze the tax liability of the taxpayers under both the regimes.
- To examine the impact of income levels on tax liability under both regimes.
- To analyze the impact of major deductions and exemptions, including 80C, 80D, 80E, 80CCD, HRA, and home-loan interest.
- To identify the approximate break-even levels of deductions at which the relative tax burden under the two regimes changes.

III. Research Gap

To bridge the research gap, the empirical work will try to find out the following:

- Actual tax-liability comparison across different income levels.
- The effect of specific deductions and exemptions.
- Break-even analysis between the two regimes.
- Taxpayer awareness and understanding.
- Factors influencing regime preference among salaried taxpayers.

The study attempts to address this gap by combining quantitative tax computation with empirical analysis of the salaried taxpayers' preferences.

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IV. Research Questions

- To what extent is there a significant variation in the amount of tax payable under both regimes?
- How does income level affect the relative tax liability under the two regimes?
- To what extent do deductions and exemptions influence regime preference?

V. Hypothesis Of The Study

For empirical analysis, the hypothesis used in the study:

Hypothesis 1

H_{01}: There is no considerable difference in tax liability between the "old and new tax regimes" among salaried taxpayers.

H_{11}: There is a considerable difference in tax liability between the "old and new tax regimes" among salaried taxpayers.

Hypothesis 2

H_{02}: Income level has no significant relationship with taxpayers' inclination for the "old vs the new tax regime".

H_{12}: Income level has a significant relationship with taxpayers' inclination for the "old vs the new tax regime".

Hypothesis 3

H_{03}: The level of eligible deductions and exemptions has no significant influence on taxpayers' preference for the old regime.

H_{13}: The level of eligible deductions and exemptions has a significant influence on taxpayers' preference for the old regime.

VI. Deductions And Exemptions Allowed Under The Old Tax Regime

The Old Tax Regime covers the following deductions and exemptions, which are not available in the new tax regime.

1. *House Rent Allowance:* An allowance given to the employee to compensate for the rental charges of the house. HRA is not exempt in the new tax regime.
2. *Leave Travel Concession/Allowance:* It is given for travelling within India for personal use. The travel expenses of the employee and his family are borne by the employer. It is provided two times in a block of four years. The journey can be performed by airways, railways or roadways.
3. *Deductions:*

   Section 80C: It is allowed up to ₹1,50,000. The eligible investment for 80C includes PPF, PF, Life Insurance Premium, tax saver FD, Post office saving Scheme, Sukanya Samrddhi Yojana etc.

   Section 80D: It is allowed for the medical insurance premium of the employee, his spouse, dependent children and parents.

   Section 80CCD (1): It is allowed for the individual contribution to National pension scheme also known as NPS. It is allowed up to ₹1,50,000.

   Section 80CCD (1B): This section is for an additional contribution by an individual in the NPS allowed up to ₹50,000.

   Section 80E: It is a deduction for an individual assessee given on the interest amount given for education loan for the purpose of higher education. The education loan deduction is allowed for the employee, spouse and children of the employee. 100% of the interest amount is allowed as deduction only under the old tax regime.

4. Interest on capital borrowed for house property: Section 24(b)

This section is related to house property. It pertains to the loan or capital borrowed for house property purposes. The interest paid on the loan/capital borrowed component is deducted. A deduction of maximum ₹2,00,000 or ₹30,000 is allowed dependent on certain conditions. It is permissible for the old regime only in case of a self-occupied house.

VII. Deductions And Exemptions Allowed Under Both The Tax Regimes

1. Standard Deduction: Section 16(ia)

Standard deduction is allowed under both regimes. The amount of this deduction differs. ₹75,000 is allowed under the new whereas ₹50,000 is allowed under the old as deduction

2. Deduction under Section 80CCD (2)

It is the contribution made by the employer towards the NPS for the employee. It is allowed up to 14% of Salary for both government and non-government employees under the new regime. Salary here includes the basic salary and the dearness allowance. Under the old tax regimes, the percentage allowed for employees is 10% for non-government and 14% for government ones.

Comparison of both regimes

The table shows the basic difference between the two regimes:

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Table: I

Basis of comparison	**"Old tax regime"**	**"New tax regime"**
Tax rates	High	Low
Standard deduction Amount	₹ 50,000	₹ 75,000
Basic Exemption Limit	₹ 2,50,000	₹ 4,00,000
80 C deduction of ₹1,50,000	Available	Not available
80 D deduction of medical insurance premium	Available	Not available
80E, deduction of education loan interest	Available	Not available
Interest on capital borrowed for house property: Section 24(b) for a self-occupied house	Available	Not available
HRA exemption	Available	Not available
LTC/LTA	Available	Not available
Section 80CCD (1B)	Available	Not available
No tax liability on taxable income after using rebate	₹ 5,00,000	₹ 12,00,000

Income Tax Slabs: Old vs. New Tax Regime

The tax rates under both the regimes are given under the table for comparative analysis:

Table: II

Old tax regime		**New tax regime**	
Income	Tax rate	Income	Tax rate
Up to ₹2,50,000	Nil	Up to ₹4,00,000	Nil
₹2,50,000 - ₹5,00,000	5%	₹4,00,000 - ₹8,00,000	5%
₹5,00,000 - ₹10,00,000	20%	₹8,00,000 - ₹12,00,000	10%
Above ₹10,00,000	30%	₹12,00,000 - ₹16,00,000	15 %
		₹16,00,000 - ₹20,00,000	20%
		₹20,00,000 - ₹24,00,000	25%
		Above ₹24,00,000	30%

Source: incometax.gov.in/

VIII. Case Studies

Case 1.

Salary/income = ₹55,00,000, Age below 60 years, 80C = ₹1,50,000, 80D is ₹30,000, 80E is ₹40,000. FY 2025-26 / AY 2026-27

Applying New Tax Regime

80C, 80D and 80E cannot be claimed under the new regime.

Gross salary amount: ₹55 lakhs - ₹75,000 (standard deduction) =Net Taxable Income of ₹54.25 lakhs.

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Slab	Tax
₹0–₹4L	₹0
₹4–₹8L @ 5%	₹20,000
₹8–₹12L @ 10%	₹40,000
₹12–₹16L @ 15%	₹60,000
₹16–₹20L @ 20%	₹80,000
₹20–₹24L @ 25%	₹1,00,000
Above ₹24L: ₹30.25 lakhs 30%	₹9,07,500
Income tax	₹12,07,500
Surcharge @ 10%	₹1,20,750
Health & Education Cess 4%	₹53,130
Total tax	**₹13,81,380**

Source: Estimated by author

Applying Old Tax Regime

Gross Salary: ₹55 Lakhs – fifty thousand (Standard deduction) - 1.5 Lakhs (80C) – thirty thousand (80 D) - forty thousand (80E) = ₹52.3 lakhs (Taxable income)

Tax calculation:

Income	Tax
₹0–₹2.5L	₹0
₹2.5–₹5L @ 5%	₹12,500
₹5–₹10L @ 20%	₹1,00,000
Above ₹10L: ₹42.30L@ 30%	**Slab Rate**
Income tax	₹13,81,500
Surcharge @ 10%	₹1,38,150
Health & Education Cess @ 4%	₹60,786
Total tax	**₹15,80,436**

Source: estimated by author

The income range of ₹50,00,000 - ₹1,00,00,000 attracts a 10% surcharge in both regimes, plus 4% Cess.

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Comparison

	Old Regime	New Regime
Gross salary	₹55,00,000	₹55,00,000
Standard deduction	₹50,000	₹75,000
Other deductions	₹2,20,000	Nil
Taxable income	₹52,30,000	₹54,25,000
Tax + surcharge + cess	₹15,80,436	₹13,81,380
New regime saving		**₹1,99,056**

Source: estimated by author

Recommendation

The New Tax Regime is better by approximately ₹1,99,056 in the form of tax savings.

Case 2.

Salary/income = ₹15,00,000 including Basic salary of ₹10,00,000, Age below 60, Employer NPS = ₹10,000/month = ₹1,20,000/year, Employee NPS = ₹10,000/month = ₹1,20,000/year, 80C = ₹1,50,000, Rent = ₹35,000/month in Delhi, HRA received = ₹40,000/month. No other income.

Applying New Tax Regime

Under the new regime, HRA exemption and Section 80C deductions are not available. The standard deduction is ₹75,000, and eligible employer NPS contributions can be deducted up to the applicable limit.

Taxable income

Particulars	Amount
Gross salary	₹15,00,000
Less: Standard deduction	−₹75,000
Less: Employer NPS deduction	−₹1,20,000
Taxable income	₹13,05,000

Source: estimated by author

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Tax payable

Tax calculation	**Amount**
Tax on ₹4 lakh–₹8 lakh at 5%	₹20,000
Tax on ₹8 lakh–₹12 lakh at 10%	₹40,000
Tax on ₹12 lakh–₹13.05 lakh at 15%	₹15,750
Income tax before cess	₹75,750
Health and education cess at 4%	₹3,030
Total tax	**₹78,780**

Source: estimated by author

Applying Old Tax Regime

HRA exemption calculation

For rented accommodation in Delhi, the exemption is the lowest of the following amounts:

HRA calculation	**Amount**
Actual HRA received	₹4,80,000
Rent paid − 10% of basic salary	₹3,20,000
50% of basic salary	₹5,00,000
HRA exemption	₹3,20,000

Source: estimated by author

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Taxable income

Particulars	**Amount**
Gross salary	₹15,00,000
Less: HRA exemption	−₹3,20,000
Less: Standard deduction	−₹50,000
Less: Employer NPS deduction	−₹1,20,000
Less: Section 80C deduction	−₹1,50,000
Less: Additional employee NPS deduction under 80CCD(1B)	−₹50,000
Taxable income	₹8,10,000

Source: estimated by author

Source: estimated by author

The ₹50,000 employee NPS deduction is additional to the ₹1.5 lakh under Section 80C limit.

Tax payable

Tax calculation	**Amount**
Tax on ₹2.5 lakh–₹5 lakh at 5%	₹12,500
Tax on ₹5 lakh–₹8.1 lakh at 20%	₹62,000
Income tax before cess	₹74,500
Health and education cess at 4%	₹2,980
Total tax	₹77,480

Source: estimated by author

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Comparison of the two regimes in Case 2.

	New Regime	Old Regime
Gross salary	₹15,00,000	₹15,00,000
Taxable income	₹13,05,000	₹8,10,000
Tax + surcharge + cess	₹78,780	₹77,480
Old regime saving		**₹1,300**

Source: estimated by author

Recommendation

The old tax regime is better by approximately ₹1,300 in the form of tax savings.

CASE 3.

Gross salary: ₹25 lakhs including basic salary of ₹10.00,000, Employer NPS: ₹1lakh, Employee NPS: ₹1 lakh, 80C: ₹1.5 lakhs, 80D: twenty-five thousand, 80E: twenty-thousand, Home-loan interest on self-occupied house: ₹2 lakhs, HRA: ₹ 6 lakhs, and Rent: ₹4.8 lakhs in Delhi.

Applying New Tax Regime

Particulars	Amount
Gross salary	₹25,00,000
Less: Standard deduction	−₹75,000
Taxable income	₹24,25,000

Source: estimated by author

HRA exemption, employee NPS deductions, 80C, 80D, 80E and home-loan interest are not available.

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Tax Calculation

Particulars	**Tax**
₹4 lakh–₹8 lakh at 5%	₹20,000
₹8 lakh–₹12 lakh at 10%	₹40,000
₹12 lakh–₹16 lakh at 15%	₹60,000
₹16 lakh–₹20 lakh at 20%	₹80,000
₹20 lakh–₹24 lakh at 25%	₹1,00,000
₹24 lakh–₹24.25 lakh at 30%	₹7,500
Income tax before cess	₹3,07,500
Health and education cess (4%)	₹12,300
Total tax	**₹3,19,800**

Source: estimated by author

Applying Old Tax Regime

HRA exemption calculation:

Particulars	**Amount**
Actual HRA received	₹6,00,000
Rent paid minus 10% of basic salary (₹4.8L − ₹1L)	₹3,80,000
50% of basic salary (Delhi metro)	₹5,00,000
HRA exemption: lowest of the above	₹3,80,000

Source: estimated by author

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Particulars	Amount
Gross salary	₹25,00,000
Less: HRA exemption	−₹3,80,000
Less: Standard deduction	−₹50,000
Less: Employer NPS deduction	−₹1,00,000
Less: Section 80C	−₹1,50,000
Less: Additional employee NPS deduction under 80CCD(1B)	−₹50,000
Less: Section 80D	−₹25,000
Less: Section 80E	−₹20,000
Less: Home-loan interest	−₹2,00,000
Taxable income	₹15,25,000

Source: estimated by author

Tax Calculation

Particulars	Tax
Tax on income up to ₹10 lakh	₹1,12,500
Tax on ₹10 lakh–₹15.25 lakh	₹1,57,500
Income tax before cess	₹2,70,000
Health and education cess (4%)	₹10,800
Total tax	**₹2,80,800**

Source: estimated by author

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Comparison of the two regimes in Case 3.

	New Regime	Old Regime
Gross salary	25,00,000	₹25,00,000
Taxable income	₹24,25,000	₹15,25,000
Total tax	₹3,19,800	₹2,80,800

Source: estimated by author

Recommendation

The old tax regime is better by approximately ₹39,000 in the form of tax savings.

CASE 4.

Basic salary	₹60,00,000
HRA	₹10,00,000
Employer NPS	₹5,40,000
Employee NPS	₹5,40,000
80C	₹1,50,000
80D	₹25,000
80E	₹50,000
Home-loan interest	₹2,00,000
Rent paid in Delhi	₹6,00,000

HRA exemption calculation

Particulars	Amount
Actual HRA received	₹10,00,000
Rent paid minus 10% of basic salary (₹6L − ₹6L)	₹0
50% of basic salary (Delhi metro)	₹30,00,000
HRA exemption: lowest of the above	₹0

Source: estimated by author

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Comparison of the two regimes in Case 4.

Particulars	New regime	Old regime
Package	₹75,40,000	₹75,40,000
Standard deduction	₹75,000	₹50,000
Employer NPS deduction	₹5,40,000	₹5,40,000
Other eligible deductions	Nil	₹4,25,000
Taxable income	₹69,25,000	₹65,25,000
Tax before surcharge and cess	₹16,57,500	₹17,70,000
Surcharge (10%)	₹1,65,750	₹1,77,000
Cess (4%)	₹72,930	₹77,880
Total tax	₹18,96,180	₹20,24,880

Source: estimated by author

The old regime deductions include 80C, 80CCD(1B), 80D, 80E, and home-loan interest. The amounts are 1,50000; 50,000; 25,000; 50,000 and 2,00,000. HRA exemption is nil because rent paid equals 10% of basic salary.

Recommendation

The new tax regime is better by approximately ₹1,28,700 in the form of tax savings.

CASE V

Basic salary	₹9,20,000
HRA	₹10,000 pm
Employer NPS	₹70,000
Employee NPS	₹70,000
80C	₹1,50,000
80D	₹50,000
80E	₹70,000
Home-loan interest	₹2,00,000
Rent paid in Delhi	₹ 8,000 pm

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Comparison of the two regimes in Case 5.

Particulars	New regime	Old regime
Basic salary	₹9,20,000	₹9,20,000
HRA	₹1,20,000	₹1,20,000
Employer NPS	₹70,000	₹70,000
Gross package	₹11,10,000	₹11,10,000
Standard deduction	₹75,000	₹50,000
Employer NPS deduction	₹70,000	₹70,000
HRA exemption	Nil	₹4,000
Other eligible deductions, including home-loan interest	Nil	₹4,75,000
Estimated taxable income	₹9,65,000	₹5,11,000
Tax liability	**₹0**	**₹13,728**

Source: estimated by author

For the old regime, the ₹4,75,000 in other deductions considers ₹1.5 lakh under Section 80C, ₹50,000 additional employee NPS deduction, ₹50,000 under Section 80D, ₹70,000 under Section 80E, and ₹2 lakh home-loan interest.

Under the new regime, the taxable income is below ₹12 lakh and gives the benefit of 87A rebate which makes the tax liability as ₹0.

Recommendation:

The new regime is better, with an estimated annual tax saving of around ₹13,728.

IX. Results

Hypothesis 1

In all the five cases discussed in this study, it has been noticed that the tax liability amount was different in both the regimes. The difference was quite significant to differentiate the two. The first hypothesis of this study was:

H_{01}: There is no considerable difference in tax liability between the old and new tax regimes among salaried taxpayers.

H_{11}: There is a considerable difference in tax liability between the old and new tax regimes among salaried taxpayers.

The result rejected the null hypothesis, and the alternate hypothesis is accepted. It depicts a considerable difference between the tax liability under the old and new regimes.

Hypothesis 2

Five different levels of incomes are used in the study, ranging from ₹ 9,20,000 to ₹ 60,00,000. In all the five income categories, the preference of the income taxpayer differs based on different income levels. In three cases (Case 1, Case 4, and Case 5) with income of ₹ 55,00,000; and ₹ 60,00,000; and ₹ 9,20,000 the new regime is preferred. In the other two cases (Case 2 and Case 3) with income of ₹15,00,000; and ₹ 25,00,000; the old one is optimum and preferred. The second hypothesis of this study was:

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H_{02}: Income level has no significant relationship with taxpayers' inclination for the old vs new tax regime.

H_{12}: Income level has a significant relationship with taxpayers' inclination for the old vs new tax regime.

The result rejected the null hypothesis, and the alternate hypothesis is accepted. The study witnessed a significant relationship with taxpayers' inclination for the old and the new tax regime.

Hypothesis 3

It has been observed that the quantum of exemptions and deductions impacts the tax liability amount to a greater extent. With a high amount of exemptions and deductions, the old regime is giving a lower tax liability as compared to new regime. HRA, 80C, 80D, 80E, housing loan etc. have significant impact on lowering the tax liability under the old regime. The third and the last hypothesis of this study was:

H_{03}: The level of eligible deductions and exemptions has no significant influence on taxpayers' preference for the old regime.

H_{13}: The level of eligible deductions and exemptions has a significant influence on taxpayers' preference for the old regime.

The result rejected the null hypothesis, and the alternate hypothesis is accepted.

The level of eligible deductions and exemptions has a significant influence on taxpayers' preference for the old tax regime as per the results shown in the empirical part.

X. Conclusion

From the analysis part, one can conclude that an individual taxpayer with substantial number of deductions and exemptions may gain significant benefits by opting the old regime, whereas with limited deductions and exemptions amount, the new tax regime with revised and wider slab rates will prove to be more beneficial. The findings of the study give a better understanding of tax planning decisions under different income categories and provide useful insights for policy makers, financial planners and tax experts for tax management.

The new regime is usually better for a person who do not wish to take the benefit of HRA, Interest on home loan and various deductions like 80C, 80 D, 80 E etc. The person has relatively straightforward salary income and wishes to opt for lower tax rates and simpler calculations.

The old regime can be better in case of large amount deductions, such as 80 C, HRA, Home loan interest, 80 D, 80 E and other eligible deductions.

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