

COMPARATIVE STUDY OF NEW INCOME TAX SYSTEM WITH OLD TAX SYSTEM

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ABSTRACT

Finance Minister Nirmala Sitharaman introduced a new income tax regime for the first time while presenting the Budget 2020 with lower rate on income (u/s 115 BAC of the Income Tax Act 1961). This paper aims to analyze the individual taxpayer preference between the Old Tax Regime and New Tax Regime and evaluate the benefit analysis on the basis of comparison between the two systems. After examining various situations, it is evident that both tax systems have their advantages and disadvantages. The taxpayer opting for concessional rates in the New Tax Regime is a good option for the individuals who have just started their work and have a lower income and also good for the individual who does not have much savings. Old tax regime inculcates the practice of investing in an individual for reducing tax burden. The study confides that tax saving would be nethermost in New system of taxation Regime. This paper highlights the awareness and understanding of taxpayers towards the new tax regime.

INTRODUCTION

The Union Government, in an effort to simplify the direct tax, introduced New tax Regime in the Budget of 2020-21. the New Income Tax regime is an Optional. The taxpayer has an option to either choose a New Tax regime or continue with the Old tax regime. If you are an employee, then the option is to be chosen at the starting of the year and can be changed next year. However, in the case of business or profession, the option to choose New Tax regime is available only in a lifetime. Under New Tax regime, the person whose income is less than ₹7 lakhs need not invest anything to claim exemptions and the entire income would be tax-free irrespective of the quantum of investment made by such an individual. This will result in giving more consumption power to the middle-class income group as they could spend the entire amount of income without bothering too much about investment schemes to take the benefit of exemptions. Union Budget 2023 has made the New Tax Regime attractive by providing taxpayers with an opportunity to claim some deductions. The new tax regime has six tax slabs, each having a lower rate on income up to Rs. 15 lakhs. New income tax regime is beneficial for people who make low investments. Most salaried taxpayers are paying rent or repaying housing loan, contributing towards provident fund (PF) or NPS, paying medical insurance premiums, and have interest income from the savings bank account. However, multiple exemptions and deductions are not available due to the varying income slabs and tax rates for the assessee opting to New Tax Regime. Hence it appears that the new tax regime is not very popular and very few individual taxpayers have opted for it in the past two years.

OBJECTIVES

1. To peruse the alternative tax regime.
2. To Create awareness amongst the tax payers an option to either choose a New Tax regime or continue with the Old tax regime
3. To study the possible challenges and opportunities that taxpayers will face in taking the decisions regarding selection of one tax regime between two.

LIMITATIONS OF THE STUDY

1. Data is collected with the help of questionnaire as it lacks detailed insight of the problems.
2. Sample size taken for the study is 100 respondents which basically not large in numbers
3. The perception of individual differs from one another so which may result in lacking accuracy in data.
4. Conclusions and suggestions are given strictly based on responses and self-analysis.

RESEARCH METHODOLOGY

Primary data collection method was considered. The primary data was collected through a questionnaire designed for the study. The data and information collected is classified, tabulated and processed and its findings are presented in a systematic manner.

SAMPLING PLAN

Targeted Population: Individual Taxpayers.

Sampling Method: Convenience sampling.

Sample Size: 100

DATA COLLECTION AND ANALYSIS

The goal of analysis is to summarize the collected data in such a way that they provide answer to the questions that triggered the research.

Table 1: Occupation wise distribution of respondents:

Occupation	No of Respondents opting for	
	New tax Regime	Old tax Regime
Salaried	25	30
Professional	10	15
Retired	10	10
Total	45	55

Interpretation: Majority of the respondents were salaried employees.

Table 2: Level of Income wise distribution of respondents:

Level of Income	New tax Regime	Old tax Regime
Below 2,50,000	10	5
2,50,000-5,00,000	12	7
5,00,000-10,00,000	23	8
10,00,000-15,00,000	5	10
More than 15,00,000	5	15
Total	55	45

Interpretation: Majority of the respondents belong to the lower- and middle-income group.

Table 3: Have you compared your tax liability under the old tax regime and the new tax regime?

Response	No. of Respondents	% of Total Respondents
Yes	95	95.00%
No	5	5.00%
Total	100	100.00%

Interpretation: respondents are actively engaged in tax planning and are interested in optimizing their tax liability.

Table 4: Which Tax regime you had selected in the previous assessment year while filing the Income Tax Return?

Option selected	No. of Respondents	% of Total Respondents
New tax Regime	35	35.00 %
Old tax regime	65	65.00 %
Total	100	100.00%

Interpretation: Respondents strongly believe that old system of tax will be followed as a result of exclusion of exemption from new tax system

Table 5: Did you consult a tax professional before choosing between the old tax regime and the new tax regime?

Response	No. of Respondents	% of Total Respondents
Yes	75	75%
No	20	20%

Not Filing	5	5%
Total	100	100.00%

Interpretation: Respondents have taken a proactive approach towards tax planning and are interested in optimizing their tax liability.

Table 6: Are you aware of the exemptions and deductions available under the old tax regime & New Tax Regime?

Response	No. of Respondents	% of Total Respondents
Yes	85	85%
No	15	15%
Total	100	100.00%

Interpretation: Respondents have knowledge of the tax provisions and can make informed decisions while choosing between the old and new tax regimes.

Table 7: Have you considered the impact of the new tax regime on your investments, such as ELSS, PPF, or FDs.?

Response	No. of Respondents	% of Total Respondents
Yes	70	70%
No	30	30%
Total	100	100.00%

Interpretation: Individuals get to invest in their preferred investment schemes and get a benefit of deduction while paying taxes under Old Tax regime.

Table 8: Are you satisfied with the tax-saving options available under the new tax regime?

Response	No. of Respondents	% of Total Respondents
Yes	10	10%
No	90	90%
Total	100	100.00%

Interpretation: Respondents do not find the new tax regime effective in promoting tax compliance and reducing the tax burden on taxpayers.

Table 9: Do you think the new tax regime is more beneficial for taxpayers compared to the old tax regime?

Response	No. of Respondents	% of Total Respondents
Yes	40	40%
No	60	60%
Total	100	100.00%

Interpretation: Respondents do not find the new tax regime effective in promoting tax compliance and reducing the tax burden on taxpayers.

Table 10: Will the new tax regime result in a reduction in tax evasion?

Response	No. of Respondents	% of Total Respondents
Yes	95	95%
No	5	5%
Total	100	100.00%

Interpretation: Respondents believe that the new tax regime can potentially lead to a decrease in tax evasion.

FINDINGS & INTERPRETATIONS

In new tax system government has reduce the tax rates but there is no exemptions & deductions are available. However, in old tax system we can avail all exemptions & deductions. Income Tax Act 1961, provides over 70+ exemptions & deductions to taxpayers with which they can reduce their tax.

FINDINGS

- The majority of respondents (95%) have compared their tax liability under the old and new tax regimes, indicating that they are actively engaged in tax planning and interested in optimizing their tax liability.
- The majority of respondents (65%) have selected the old tax regime in the previous assessment year, indicating a preference for the old system of tax.
- A significant proportion of respondents (75%) have consulted a tax professional before choosing between the old and new tax regimes, indicating a proactive approach towards tax planning.
- The majority of respondents (85%) are aware of the exemptions and deductions available under the old and new tax regimes, indicating knowledge of tax provisions.
- A majority of respondents (90%) are not satisfied with the tax-saving options available under the new tax regime, indicating that the new tax regime is not effective in promoting tax compliance and reducing the tax burden on taxpayers.
- A majority of respondents (60%) do not find the new tax regime more beneficial for taxpayers compared to the old tax regime, indicating a preference for the old system of tax.
- The majority of respondents (95%) believe that the new tax regime can potentially lead to a reduction in tax evasion.

SUGGESTIONS

- There is a need for the government to re-look into the tax-saving options available under the new tax regime and make them more attractive for taxpayers.
- The government needs to create more awareness among taxpayers about the exemptions and deductions available under the new tax regime to make an informed decision while choosing between the old and new tax regimes.
- The government needs to consider the feedback from taxpayers regarding the new tax regime and make necessary changes to ensure that it promotes tax compliance and reduces the tax burden on taxpayers.

CONCLUSIONS

As per the Receipt budget 2023-24 issued by the Department of Finance, claim of deduction for investment in certain instruments as per section 80C of the Income Tax Act, 1961 for Financial year 2020-21 by individual assessee accounted for Rs. 73,397.58 crores. The taxpayer opting for concessional rates in the New Tax Regime is a good option for the individuals who have just started their work and have a lower income and also good for the individual who does not have much savings. Each tax regime has its own plus and minus points. The old system increases and supports to develop a habit of regular saving in an individual for future.

Based on the findings from the questionnaire, it can be concluded that taxpayers are actively engaged in tax planning and are interested in optimizing their tax liability. However, the majority of respondents have chosen to stick with the old tax regime, indicating a lack of confidence in the new tax system. Although respondents have knowledge of the tax provisions, they are not satisfied with the tax-saving options available under the new regime. The study suggests that taxpayers need to be educated about the potential benefits of the new tax regime to make informed decisions. Moreover, the findings indicate that the new tax regime can potentially lead to a decrease in tax evasion.

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