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A COMPARATIVE STUDY OF INCOME TAX REGIME: NEW VS OLD

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Abstract

Our Renowned Finance Minister Nirmala Sitharaman had announced New Tax Regime in Union Budget 2020. Union Budget 2020 announced "New Tax Regime" under section 115BAC providing an alternative to Individuals and HUF tax-payers to pay income-tax at new lower tax rates. This "New Tax Regime" is valid from financial year 2020-21. It means one can pay income-tax under this new system from assessment year 2021-22. The tax rates under the new tax regime are lower than the current tax regime, So the Government was anticipating most of the tax-payers to select "New Tax Regime" for paying tax. This anticipation does not become a fact as new tax regime got very low response. It forced change in tax slabs in the "New Tax Regime". In the Union Budget 2023, finance minister Nirmala Sitharaman announced amendments in the "New Tax Regime" to attract tax-payers. In a first view it looks like that the amended new tax regime is beneficial for Individuals and HUF tax-payers, but it is not as simple as it looks. The tax-payer will not have the benefit of some deductions, exemptions and set offs under the new tax regime. Therefore, selection of tax regime needs some calculations. It will guide the tax-payer regarding the burden of tax inboth tax regimes, which will help the tax payer in selection of beneficiary tax regime.

Keywords: *Tax Regime, Tax- Payer, Tax-Rates, Deductions, Exemptions, Set offs.*

INTRODUCTION

A salaried tax-payer can select the new tax regime at the commencement of financial yearand inform the employer. The employee cannot change the selection during the financial year. Still the selection can be changed at the time of filing the return. In case the employee does not select the new tax regime at the commencement of financial year, the employer will deduct tax at source under the current tax regime. It means that a salaried tax-payer canopt-in and opt-out every financial year regarding new tax regime. This liberty gives flexibilityin selection of tax regime.

A non- salaried tax-payer does not have to inform anyone at the commencement of financial year. He\she has to select the new tax regime at the time of filing the return. However, a non-salaried tax-payer cannot opt-in and opt-out every financial year regarding new tax regime. Once a non- salaried tax-payer opt-out of the new tax regime, he\she cannot opt-in again for the current tax regime in future.

If the tax-payer proposes to select the new tax regime, he\she has to hand over "From 10IE"to the income-tax department.

Tax- rates:

The tax rates under the current tax regime are mentioned below.

Income	Tax Rates
Up to Rs. 2.5 Lacs	0
Income From Rs.2.5 lacs to Rs. 5 lacs	5%
Income From Rs. 5 lacs to Rs. 10 lacs	20%
Income Above Rs.10 lacs	30%

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Income	Tax Rates
Up to Rs. 2.5 Lacs	0
Income From Rs.2.5 lacs to Rs. 5 lacs	5%

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Income From Rs. 5 lacs to Rs. 7.5 lacs	10%
Income From Rs.7.5 lacs to Rs. 10 lacs	15%
Income From Rs.10 lacs to Rs. 12.5 lacs	20%
Income From Rs.12.5 lacs to Rs. 15 lacs	25%
Income Above Rs.15 lacs	30%

The tax rates under the amended new tax regime are mentioned below.

Income	Tax Rates
Up to Rs. 3 Lacs	0
Income From Rs.3 lacs to Rs. 6 lacs	5%
Income From Rs. 6 lacs to Rs. 9 lacs	10%
Income From Rs. 9 lacs to Rs. 12 lacs	15%
Income From Rs.12 lacs to Rs. 15 lacs	20%
Income Above Rs.15 lacs	30%

Further, the finance minister announced that under the amended new tax regime the rebate forincome tax has been increased to Rs. 7 lakhs from the earlier limit of Rs, 5 lakhs under the old tax regime and the new tax regime. The second major amendment is regarding standard deduction and deduction from family pension. A standard deduction of Rs. 50,000 anddeduction up to Rs. 15,000, is currently allowed only under the old tax regime, which is now available under the new tax regime also.

Deductions, exemptions and set offs not available under new tax regime: Apart from the change in tax rates, in new tax regime some deductions, exemptions and setoffs are not available. The tax-payer cannot claim the following deductions, exemptions and set offs under the new tax regime which are available in current tax regime.

1. Professional Tax
2. House Rent Allowance
3. Entertainment Allowance
4. Other Official and Personal Allowances
5. Leave Travel Concession
6. Interest on housing loan
7. Education Loan Interest
8. Allowances for income of minor
9. Medical Insurance Premium
10. Savings Account Bank Interest for Rs.10, 000
11. Deduction in respect of certain incomes other than specified under Section 80JJAA, 80CCD (2) and deduction under section 80LA for Unit located in IFSC
12. Allowances to MPs and MLAs
13. Deduction for donation made to approved scientific research association, university, college or other institutes for doing scientific research which may or may not be related to business
14. Deduction for donation made to university, college, or other institution for doing researchin social science or statistical research
15. Deduction for donation made for or expenditure on scientific research
16. Additional depreciation in respect of new plant and machinery
17. Deduction for units established in Special Economic Zones (SEZ)
18. Deduction for investment in new plant and machinery in notified backward areas
19. Deduction in respect of tea, coffee or rubber business
20. Deduction in respect of business consisting of prospecting or extraction or production of petroleum or natural gas in India
21. Deduction for payment made to an Indian company for doing scientific research which may or may not be related to business
22. Deduction in respect of capital expenditure incurred in respect of certain specified businesses, i.e., cold chain facility, warehousing facility, etc.
23. Deduction for expenditure on agriculture extension project
24. Deduction available under section 80 C

Deductions, exemptions and set offs available under new tax regime:
The tax-payer can claim the following deductions, exemptions and set offs under the new taxregime which are available in current tax regime.

1. Standard deduction
2. Deduction from family pension
3. Deduction for contribution made to Agnivir Corpus Fund
4. Deduction under section 80CCD (2) for employer's contribution to employee's NotifiedPension System

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account
5. Transport allowance in case of a specially-abled person
6. Conveyance allowance to meet the conveyance expenditure incurred as part of theemployment
7. Deduction for employment of new employees under section 80JJAA
8. Depreciation under section 32 of the Income-tax act except additional depreciation
9. Any allowance granted to meet the cost of travel on tour or on transfer
10. Any allowance, whether, granted on tour or for the period of journey in connection with transfer, to meet the ordinary daily charges incurred by an employee on account of absence from his normal place of duty
11. Any allowance granted to meet the expenditure incurred on conveyance in performanceof duties of an office or employment of profit. However, if free conveyance is provided by the employer, the exemption will not be available
12. Transport allowance granted to an employee, who is blind or deaf and dumb or orthopedically handicapped with disability of lower extremities, to meet his expenditure for the purpose of commuting between the place of his residence and the place of his duty. However, this exemption shall be limited to Rs. 3,200 per month

Selection of Tax-Regime:

In Union Budget 2023, amended new tax regime has been made default tax paying regime from assessment year 2024-25, it means that the tax payer who wants to opt for old tax regime, has to select the option of old tax regime.

Following analysis helps us to make comparison between current tax regime and amended new tax regime under different situations.

(A) If no deduction is available new tax regime is always advantageous.

(B) If only standard deduction is available for Rs. 50,000, new tax regime is always advantageous.

(C) Further calculation reveals that if Gross Total Income is Rs. 12,50,000 and total deductions allowable for Rs. 3,62,500 the tax-payer has to pay equal tax of Rs. 90,000 in bothtax regime. If Gross Total Income is Rs. 15,50,000 and total deductions allowable forRs. 4,25,000 the tax-payer has to pay equal tax of Rs. 1,50,000 in both tax regime.

Above discussion discloses that selection of tax regime is a case sensitive matter which depends on Gross Total Income and amount of deductions claimed by the tax payer. Therefore, one has to do the exercise of calculating tax liability under both tax regimes every time.

Advantages of New Tax Regime:
1. The New Tax Regime is favourable for people with low investments. It offers five lower tax slabs. Anyone paying taxes without claiming exemptions under the Current Tax Regime can get advantage from paying a lower upfront rate of tax.
2. Under the New Tax Regime income tax structure is much easier for taxpayers.
3. The New Tax Regime is an optional scheme so it offers the flexibility to taxpayers to choose a different tax regime as per their requirement.

Disadvantages of New Tax Regime:
1. The New Tax Regime can potentially lower household savings as many people will stop from investing in tax-free schemes due to exclusion of 70 common exemptions. Despite an upfront reduction in the tax rate, it will affect long term savings of an individual.
2. The New Tax Regime can potentially discourage investments in the real estate sector. Exclusion of deduction regarding interest on housing loan and principal amount of housing loan can stop investments in real estate sector.
3. The New Tax Regime may reduce business of life insurance companies as deduction regarding life insurance premium under section 80 C is excluded.

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