A New Individual Direct Tax Regime in India.

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Abstract

The insertion of new Section 115BAC into the Income Tax Act, through the amendment brought in by Finance Act, 2020 has inserted into provision for adoption of new tax regime apart from the existing tax regime. It applies for the financial year starting from 2020-21. The new tax regime has been made optional and the tax payer has been given a choice to choose between the two tax regimes. The new tax regime has been restricted only to individuals and HUFs. The Government of India has justified the introduction of new tax regime as a very important step towards simplification of income tax calculations and further make it simple in understanding and ease in compliance. The new tax regime offers a lower rates of taxes with the increase in the number of slabs of income tax subject to the condition that the tax payer foregoes certain important deductions and exemptions which hitherto has been allowed under the existing tax regime. A tax payer has been given the option of choosing every year an appropriate tax regime as per his needs and requirements at the time of filing the return. However, this requires that the computation of tax liability is required to be done both under the existing regime and new tax regime to conclude as to which regime offers a better choice for the tax payers. In the New Tax Regime **: Budget : Financial year 2023-24, has been made more attractive to enable the tax payers to shift to the new tax regime more beneficially.** An attempt has been made in this paper to understand the tax liability under both the regimes.

Key words : New tax regime, existing tax regime, Tax slab, rates of tax, financial year, tax payers

1. Introduction :

A new personal income tax regime for individual taxpayers was introduced in Budget 2020.

The new tax regime has been brought to simplify the complicated tax provisions and make it is easier for the common man to understand his tax obligations.

Effective from FY 2020-21, taxpayers can choose between two income tax regimes - the existing/old tax regime and the new tax regime. By opting for the old tax regime, the taxpayer can continue to avail existing deductions and exemptions available as per the Income Tax Act, 1961 and the rules made thereunder.

In the new tax regime, the rates of tax applicable for the different slabs is less as compared to the old scheme of taxation but the catch here is that one cannot claim certain important deductions and exemptions as applicable under the old regime of taxation.

1. As per Union Budget, 2023, the Finance Minister has announced certain major changes which persuade the tax payers to follow the new tax regime instead of opting for old tax regime.

2. The benefit of standard deduction from salary was also extended under new tax regime.

3. The exemption of tax through the grant of tax rebate has been increased from 12,500 under section 87C to ₹ 25,000 under the new tax regime only. This benefit is not available under the old tax regime.

4. As a result of the above change, a tax payer having income upto ₹ 7,00,000, will have no tax liability. Whereas the rebate benefit under section 87C remains upto 12,500 for old tax regime, therefore those earnings not more than ₹ 5,00,000 need not have to pay tax under the old regime. However under the new tax regime the rebate is extended on an income upto ₹ 7,00,000 per annum. As a result those earning income upto ₹ 5,00,000 under old tax regime need not have to pay any tax , however under they will be liable for tax on income of ₹ 7,00,000 under old tax regime.

5. The new tax regime has been made as a default option which means that the tax payers who want to opt for the old tax regime will have to indicate their preference for old tax regime, otherwise by default they will be covered by new tax regime.

2. Discussions and Analysis :

In Union Budget 2020, Nirmala Sitharaman introduced a "simplified", optional regime with three new tax slabs. However, taxpayers can continue with the existing structure if that suits them more. Although the doing away of exemptions and deductions simplifies compliance, taxpayers who exploited deductions to the fullest may pay more tax under the new regime. The budget has tried to put more money in the hands of taxpayers by curtailing the incentives to save.

Indian tax system is based on progressive system of taxation. It means that with increasing income, increasing tax is attracted. Therefore, the slab system with different rate of taxes for different ranges of income are prescribed. The old regime prescribes three slabs of direct taxation where as the new tax regime prescribes seven slabs of taxations which is aimed at bringing more fairness in the tax system.

The following are applicable for the financial year 2021-22 and 22-23 :

Benefits which cannot be claimed : Here are a few of the 70 exemptions and deductions you won't see in the new regime- Section 80C investments, house rent allowance, home loan interest, leave travel allowance, medical insurance premium, standard deduction, savings account interest, education loan interest.

Benefits which can be claimed : Around 50 tax exemptions remain untouched, including- standard deduction on rent, agricultural income, income from life insurance, retrenchment compensation, VRS proceeds, leave encashment on retirement.

Surcharges on tax remain untouched. Taxpayers with income between Rs 50 lakh and Rs 1 crore continue to pay 10% surcharge, between Rs 1 crore and Rs 2 crore pay 15%, between Rs 2 crore and Rs 5 crore pay 25% and those with income over Rs 5 crore pay 37%. So those earning just below these limits will not benefit if they forego the exemptions and move to the new regime. Given below is the math to explain how the new regime will affect tax outgo of taxpayers at different income levels.

By bringing about changes in the new tax regime, the government is gradually trying to demolish the existence of the old tax regime. The Government is trying to bring in all measures to provide incentives to the tax payers to opt for new tax regime.

In the budget for the current year, it is announced that the new tax regime has been made default tax regime. However, the tax payer has been given an option to opt for old and new tax regime. Previously, old scheme was the default scheme and tax payer had the option to opt for new scheme.

As the Government shifts its stance towards the new tax regime, it would be important to understand the difference between the old tax regime and the new tax regime before we exercise a choice.

In Budget 2023-24, Union Minister of Finance, Nirmala Sitharaman announced major changes in personal income tax that not only brought in much needed relief to the salaried class but also clearly revealed that the new tax regime would now be the default one and old tax regime would merely be a choice.

According to experts, the government is planning to gradually move tax payers from the old tax regime to the new tax regime.

In the new tax regime, tax payers can now claim a standard deduction of Rs.50,000, they can opt for new slab rates (which are at a lower rate of tax) and also claim deduction under section 80CCD of the Income tax Act, 1961 towards contribution to the National Pension System made by the employer. According to Archit Gupta, founder and CEO of Clear tax portal : "the new tax regime allows tax payers to invest via savings in instruments of their choice. There is no tax benefit to invest via Section 80C. Essentially, tax payers will now have to become more adept at planning their financial goals and deciding which instruments to opt for. Whether these instruments offer tax deductions will now have to kept out of discussion. In the old tax regime, tax payers were driven to move their funds to certain instruments to claim tax relief."

It was in the financial year 2020-21, that the new tax regime was announced for reduced tax rates with no option for claiming exemptions and deductions. At the time of introduction, the new tax regime had seven different slabs. After three years of introduction, the government reduced both the slab count and the tax rates under the new tax regime in Budget 2023, as the new tax regime proved to be unpopular with tax payers.

At present, the new tax regime has six slabs, each having a lower rate of tax for income upto Rs.15 lakhs. Also, in the new tax regime, all the exemptions and deductions that tax payers used to get benefit in the old tax regime have been done away with.

"The new tax regime gives flexibility to taxpayers to invest their money as they prefer. In this case, there is no obligation to tax saving schemes and insurance plans, which may not be in alignment with their long term financial goals." Says Suneel Dasari, founder and CEO, EZtax, an online income tax filing portal.

Old Tax Regime : Under the old tax regime, the assesse can claim the deductions, exemptions and allowances with which they can properly plan and saves their taxes.

The deductions under the old tax regime are as follows :

a. Public Provident Fund, Equity linked savings scheme, employees' Provident Fund, life insurance premium, principal and interest component of home loan, health insurance premiums, investment in NPS, tuition fees for children and saving account interest.

The exemptions of allowances are as follows: house rent allowance, leave travel allowance, reimbursement for mobile and Internet, food coupons or vouchers, company leased car, standard deduction, uniform allowance and leave encashment.

Both the old and the new tax regime have their drawbacks and benefits. While the old tax regime has exemptions and deductions under numerous sections, the new tax regime gives more flexibility to people and simplifies the tax process.

Deductions and exemptions are available under the old tax regime and not under the new tax regime. (except the standard deduction for AY 23-24).

With the new tax regime, those earning up to Rs.3 lakh will pay nil tax, whereas, in the old regime, this was limited to income upto Rs.2.5 lakhs.

For those earning between Rs.3 lakhs and Rs.6 lakhs, the tax rate has remained unchanged at five per cent, making it more favourable. However, for higher income brackets, the tax rate has increased with those earning above Rs.15 lakhs, now paying 30 per cent as compared to the old regime.

The new tax regime presents a clear shift towards a more progressive approach, balancing the burdent of taxation fairly between different income groups. Says Rajiv Bajaj, chairman and managing director of Bajaj Capital.

According the Dasari, if you have deductions upto Rs.3.5 lakhs (Rs.1.5 under section 80C. home loan interest upto Rs.2,00,000) the new tax regime would be beneficial.

Having said that, if your investment is more than Rs.3.5 lakhs, the old regime is more beneficial. However, it all depends on the kind of income one has." Adds Dasari

Old Vs New Regimes : FY 2022-23

Old Regime			New Regime		
Old Tax slabs	Tax Rate	Remarks	New Tax slabs	Tax Rate	Remarks
₹ 0 to 2,50,000	0%		₹ 0 to ₹ 2,50,000	0%	
₹ 2,50,000 to 5,00,000	0%	If net taxable income is below ₹ 5,00,000.	₹ 2,50,000 to 5,00,000	0%	If the net taxable income is less than ₹ 5,00,000.
₹ 2,50,000 to 5,00,000	5%	If net taxable income is above ₹ 5,00,000	₹ 2,50,000 to 5,00,000	5%	If the net taxable income is above ₹ 5,00,000
₹ 5,00,000 to 10,00,000	20%		₹ 5,00,000 to 7,50,000	10%	
Above ₹ 10,00,000	30%		₹ 7,50,000 to 10,00,000	15%	
			₹ 10,00,000 to 12,50,000	20%	
			₹ 12,50,000 to 15,00,000	25%	
			Above ₹ 15,00,000	30%	

Old Vs New Regimes : FY 2023-24

Old Regime			New Regime		
Old Tax slabs	Tax Rate	Remarks	New Tax slabs	Tax Rate	Remarks
₹ 0 to 2,50,000	0%		₹ 0 to ₹ 3,00,000	0%	
₹ 2,50,000 to 5,00,000	0%	If net taxable income is below ₹ 5,00,000.	₹ 3,00,000 to 6,00,000	0%	If the net taxable income is less than ₹ 7,00,000.
₹ 2,50,000 to 5,00,000	5%	If net taxable income is above ₹ 5,00,000	₹ 3,00,000 to 6,00,000	5%	If the net taxable income is above ₹ 7,00,000
₹ 5,00,000 to 10,00,000	20%		₹ 6,00,000 to 7,00,000	0%	If the net taxable income is less than ₹ 7,00,000.
Above ₹ 10,00,000	30%		₹ 6,00,000 to 9,00,000	10%	If the net taxable income is above ₹ 7,00,000
			₹ 9,00,000 to 12,00,000	15%	
			₹ 12,00,000 to 15,00,000	20%	
			Above ₹ 15,00,000	30%	

Source : www.incometaxefiling.portal.gov.in

Case 1

Mr Arun is an employee of Pramod Enterprises Ltd and he is drawing salary break up as follows :

Basic Pay Rs.36,000 per month.

Dearness allowance Rs.14,000 per month.

Incentives and allowance Rs.25,000 per month.

He has availed an education loan for which he is paying interest of Rs.96,000 per year along with principal amount of Rs.1,44,000 per year.

He has taken a housing loan for Rs.40,00,000 for buying the house for which he is paying interest of Rs. 2,70,000 every year.

He has made savings and investment of Rs.1,50,000 as required under 80C of the Income Tax Act.

He wants to know his tax liability both under the old regime and new regime for the financial years 2022-23 and 2023-24 on the assumptions that no changes takes place in the next year to come.

Solution :

Particulars	FY 2021-22		FY 2023-24	
	Old Regime	New Regime	Old Regime	New Regime
Basic Pay Dearness allowances Incentives and allowances	4,32,000 1,68,000 3,00,000	4,32,000 1,68,000 3,00,000	4,32,000 1,68,000 3,00,000	4,32,000 1,68,000 3,00,000
Gross Salary Less : Standard Deduction	8,32,000 50,000	8,32,000 -	8,32,000 50,000	8,32,000 50,000
Income from Salary Income from House Property (Loss)	7,82,000 (2,00,000)	8,32,000 -	7,82,000 (2,00,000)	7,82,000 -
Gross Total Income Less: Deduction u/s 80C	5,82,000 1,50,000	8,32,000	5,82,000 1,50,000	7,82,000 -
Taxable Income	4,32,000	8,32,000	4,32,000	7,82,000
Tax liability : Nil upto Rs.2,50,000 5% from 2,50,000 to 5,00,000 10% on 5,00,000 to 7,50,000 15% on 82,000 Nil upto Rs.3,00,000 5% on Rs.3,00,000 to 6,00,000 10% on 1,82,000	Nil	 12,500 25,000 12,300	Nil	 Nil 15,000 18,200
Tax Add : Education Cess at 4%		49,800 1,992		33,200 1,328
Total Tax liability		51,792		34,528

2. Mr Ashok is an employee of a company drawing salary as detailed below :

Basic : Rs.35,000 per month

Dearness Allowance : Rs.20,000 per month.

Incentive for the year Rs.80,000.

Compute his tax liability for the financial years 22-23 and 23-24 on the assumption that he has no deductions or exemptions for the two years.

Particulars	FY 2021-22		FY 2023-24	
	Old Regime	New Regime	Old Regime	New Regime
Basic Pay Dearness Allowances Incentive	4,20,000 2,40,000 80,000	4,20,000 2,40,000 80,000	4,20,000 2,40,000 80,000	4,20,000 2,40,000 80,000
Gross Salary Less : Standard Deduction	7,40,000 50,000	7,40,000 -	7,40,000 50,000	7,40,000 50,000
Income from Salary	6,90,000	7,40,000	6,90,000	6,90,000
Tax Liability 5% from 2,50,000 to 5,00,000 20% from 5,00,000 to 7,50,000 (New) 10% on 2,40,000	 12,500 38,000	 12,500 24,000	 12,500 38,000	 Nil
Total Tax	50,500	36,500	50,500	Nil

3. Mr Kumar is an employee of a company. He given the following information regarding his income.

Basic Pay Rs. 50,000 per month,

Dearness allowance Rs.15,000 per month.

Particulars	FY 2021-22		FY 2023-24	
	Old Regime	New Regime	Old Regime	New Regime
Basic Pay Dearness allowance	6,00,000 1,80,000	6,00,000 1,80,000	6,00,000 1,80,000	6,00,000 1,80,000
Gross Salary Less : Standard Deduction	7,80,000 50,000	7,80,000 -	7,80,000 50,000	7,80,000 50,000
Income from salary	7,30,000	7,80,000	7,30,000	7,30,000
Tax liability : 5% from 2,50,000 to 5,00,000 20% on Rs.2,30,000 New : 5% from 2,50,000 to 5,00,000 10% from 5,00,000 to 7,50,000 15% on 30,000 Nil upto Rs.3,00,000 5% from 3,00,000 to 6,00,000 10% on 1,30,000	 12,500 46,000	 12,500 25,000 4,500	 12,500 46,000	 15,000 13,000
	58,500	42,000	58,500	28,000

Case 4 :

Mr Suresh is an employee of an organisation and he reports the following income during the year.: Basic : Rs.40,000 per month,

Dearness allowance of Rs.12,000 per month,

House rent allowance of Rs.15,000 per month. He stays in a rented house paying a rent of Rs.12,000 per month.

Incentive of Rs.1,20,000 for the year.

Computation of Taxable Income under old regime and new regime.

Particulars	FY 2021-22		FY 2023-24	
	Old Regime	New Regime	Old Regime	New Regime
Basic Pay	4,80,000	4,80,000	4,80,000	4,80,000
Dearness Allowances	1,44,000	1,44,000	1,44,000	1,44,000
House Rent Allowance (1,80,000- 60,000 exempted old)	1,20,000	1,80,000	1,20,000	1,80,000
Incentive	1,20,000	1,20,000	1,20,000	1,20,000
Gross Salary :	8,64,000	9,24,000	8,64,000	9,24,000
Less: Standard Deduction	50,000	-	50,000	50,000
Income from salary/GTI	8,14,000	9,24,000	8,14,000	8,74,000
Less: Deduction u/s 80C and 80D	1,75,000		1,75,000	
Taxable Income	6,39,000	9,24,000	6,39,000	8,74,000
Tax liability (including edu. Cess)	41,912	66,144	41,912	44,096

The assesse in the year 23-24 gets substantial relief in reduction of tax from Rs.66,144 to Rs.44,096, but does not get sufficient relief to attract him to switch to new regime from the old regime. He stands to gain (Rs.44,096-41,912)= Rs.2,184 by staying in the old regime.

But if he does not have investment and savings as under section 80C and 80 D, the position will be as follows :

Particulars	FY 2021-22		FY 2023-24	
	Old Regime	New Regime	Old Regime	New Regime
Basic Pay	4,80,000	4,80,000	4,80,000	4,80,000
Dearness Allowances	1,44,000	1,44,000	1,44,000	1,44,000
House Rent Allowance (1,80,000- 60,000 exempted old)	1,20,000	1,80,000	1,20,000	1,80,000
Incentive	1,20,000	1,20,000	1,20,000	1,20,000
Gross Salary :	8,64,000	9,24,000	8,64,000	9,24,000
Less: Standard Deduction	50,000	-	50,000	50,000
Income from salary/GTI/Total Income	8,14,000	9,24,000	8,14,000	8,74,000
Tax liability	78,312	66,144	78,312	44,096
The assesse stands to gain by following new regime for 23-24 in case he has no investments and savings u/s 80C and 80D. The old regime will be less attractive in case of no investments or savings.				

Case 5 :

Mr Ramesh an employee of a company, gives the following information regarding his income.

Consolidated Pay Rs.1,50,000 per month.

He has taken a housing loan for which he is paying EMI of Rs.40,000 per month. Interest on the above loan for the year works out to Rs.3,20,000 and principal repayment of Rs.1,60,000 during the year.

He has no other savings and investments.

Computation of Tax liability under old and new tax regime.

Particulars	FY 2021-22		FY 2023-24	
	Old Regime	New Regime	Old Regime	New Regime
Consolidated Salary Less : Standard Deduction	18,00,000 50,000	18,00,000 -	18,00,000 50,000	18,00,000 50,000
Income from Salary Loss from self-occupied house property	17,50,000 (2,00,000)	18,00,000 -	17,50,000 (2,00,000)	17,50,000 -
Gross Total Income Less: Principal repayment u/s 80C	15,50,000 1,50,000	18,00,000 -	15,50,000 1,50,000	17,50,000 -
Taxable Income	14,00,000	18,00,000	14,00,000	17,50,000
Tax Liability	2,41,800	2,49,600	2,41,800	2,34,000
The assesse is advised to opt for the new tax regime for 23-24, as his tax liability will be lesser by Rs.7,800. For the year 21-22 or 22-23, he would prefer to stay in the old regime as his tax liability will be lower by Rs.7,800. Therefore, the new tax regime becomes more attractive for the year 23-24, even though he has housing loan benefits eligible under old tax regime.				

4. Conclusions :

1. The new income tax regime is beneficial for people who do not have investments and savings under section 80 of the Income Tax Act.

2. The new income tax regime is not beneficial for those who have no housing loans or education loans, in which case the tax liability is likely to be higher in new regime. It is better for such assesses to opt for old regime.

3. As the new regime prescribes lower rate of taxes as applicable to seven income tax slabs. Therefore, anyone paying taxes without claiming tax exemptions and deductions can benefit from paying a lower rate of tax under the new tax regime.

4.An employee assesse drawing a salary upto Rs.62,500, can opt for new tax regime and avail tax rebate benefit of Rs.7,00,000 under section 87A without payment of any tax.

5. Once the salary income exceeds Rs.62,500, then the benefit of tax rebate is lost and he becomes liable for tax with basic exemption of Rs.3,00,000, followed by 5% tax on 3,00,000 to 6,00,000, followed by 10% tax from 6,00,000 to 9,00,000 , 15% from 9,00,000 to 12,00,000 and 20% from 12,00,000 to 15,00,000 and 30% above 15,00,000. Education cess at 4% is applicable on tax in all the cases whether new or old regime.

6. The new tax regime as applicable for the financial years 2021-22 and 2022-23 has been less attractive since in many cases it resulted in higher liability of income tax. Now the new tax regime as applicable for the financial year 2023-24 is made more beneficial and more attractive enabling the tax assesses to move gainfully to the new tax regime.

7.Standard deduction has been allowed for salaried employees and the tax slabs have been widened with lower rate of tax which are more favourable to many tax assesses. The above cases proof the above facts.

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